S&P Global
Market Intelligence

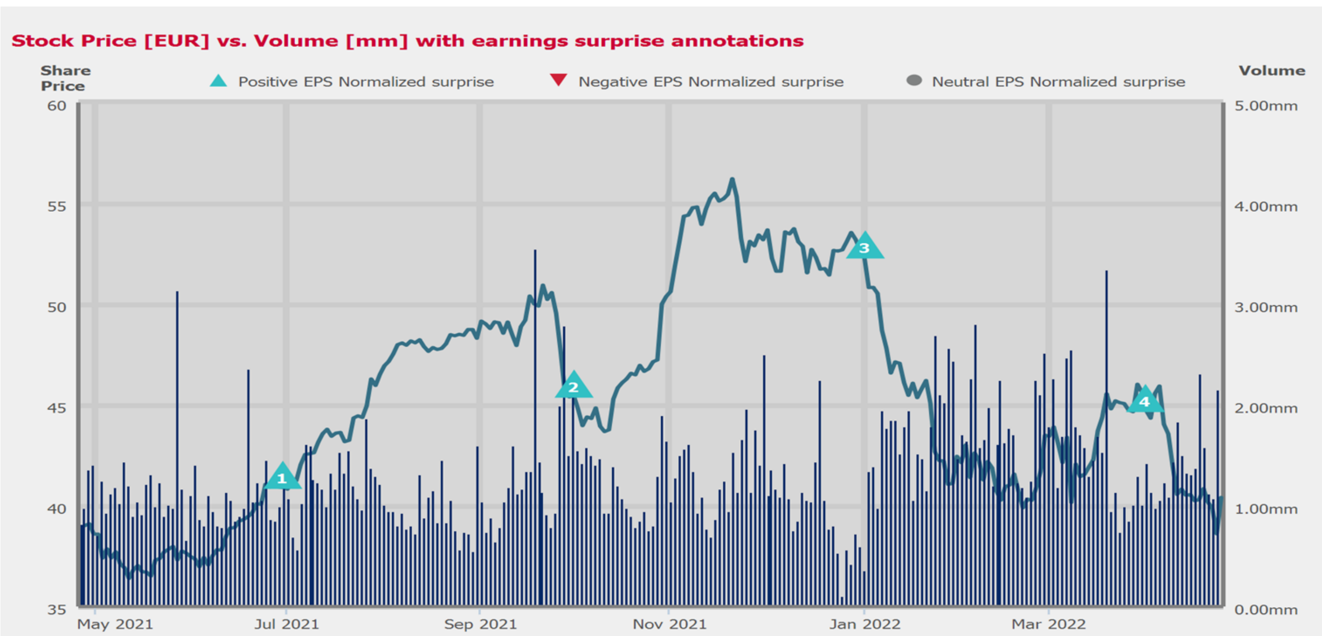
Dassault Systèmes SE ENXTPA:DSY
FQ1 2022 Earnings Call Transcripts

Wednesday, April 27, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.24	0.27	▲12.50	0.24	1.02	NA
Revenue (mm)	1298.56	1324.60	▲2.01	1310.32	5369.86	NA

Currency: EUR
Consensus as of Apr-27-2022 1:30 PM GMT



- EPS NORMALIZED -

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

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Call Participants

EXECUTIVES

Bernard S. Charles
Vice Chairman & CEO

François-José Bordonado
Vice-President of Investor Relations

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COO & Director

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James Arthur Goodman
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Jay Vleeschhouwer
Griffin Securities, Inc., Research Division

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Deutsche Bank AG, Research Division

Presentation

Operator

Good day, and thank you for standing by. Welcome to Dassault Systèmes '22 Q1 Earnings Call. [Operator Instructions]

Please be advised that today's conference is being recorded, Wednesday, the 27th of April 2022. [Operator Instructions]

I'd now like to hand the conference over to your speaker today, François Bordonado. Please go ahead.

François-José Bordonado
Vice-President of Investor Relations

Thank you, Heidi. Thank you for joining us on our first quarter 2022 earnings conference call with Bernard Charlès, Vice Chairman and CEO; Pascal Daloz, Chief Operating Officer; and Rouven Bergmann, Chief Financial Officer.

As you know, Dassault Système 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 rate in constant currencies unless otherwise noted.

Some of our comments on this call contain forward-looking statements that could differ materially from actual results. Please refer to today's press release and the Risk Factors section of our 2021 Universal Registration Document. All earnings materials are available on our website, and these prepared remarks will be available shortly after this call.

I would like now to introduce Bernard Charlès.

Bernard S. Charles
Vice Chairman & CEO

Thank you, François-José. Good morning and good afternoon to all of you and thank you for joining us. It's truly a pleasure to be with you in person today.

We delivered a good start to the year with broad-based growth across regions, product lines and sectors despite the complex geopolitical and macroeconomic backdrop.

For the first quarter 2022, the total revenue grew 8% with both licenses and subscription revenue up double digits, and this follows a high 2021 comparison base. Earning per share increased 20% driven by operating leverage, thanks to our strong business model. Our strategic growth drivers performed well. 3DExperience and cloud revenue both increased 21%. Our platform on cloud have been critical for enabling resiliency and for helping clients to scale rapidly, both the new entrants and the incumbents transforming. For 2022, we have increased our EPS objective to 9% to 11% growth driven by our improved operating performance.

It's clear from our results this quarter the team we have established is executing very well on capitalizing on our sustainable growth drivers. The investment we have made in innovation are paying off for our clients across all sectors of the economy. Pascal and Rouven will discuss our operating and financial performance in more detail soon.

Now I'd like to share some perspective on our strategy on the business environment.

The world economy and society are transforming at an unprecedented pace. With science-based virtual twin experience, we are playing a critical role in this transformation, empowering our clients to solve their greatest challenges from resiliency to sustainability. By combining a multi-scale multi-physics approach with embedded analytics and real-world evidence, virtual twin experiences are a catalyst for sustainable innovation to imagine, create, test new materials, new processes, new solutions and new usages.

We have recently introduced the Life Cycle Assessment Solution on the 3DEXPERIENCE platform to transform the sustainable innovation process. Combining virtual twin technology and life cycle assessment capabilities offers new ways to establish sustainability requirements early on and measure the sustainability of decisions before actually implementing them.

You may remember our science-based targets for greenhouse gas emissions reductions were approved by the Science-Based Targets initiative last July 2021. It's clear from that perspective we walk the talk. This new solution is a major advancement towards our purpose to harmonize product, nature and life. By leveraging the virtual worlds to elevate and improve the real world, together we can drive meaningful progress towards a more sustainable and harmonious future.

Our next frontier will be to make the power of virtual twin experiences accessible to everyone on the planet to make these virtual twin experiences mainstream. I've talked about strategy to see the implication. Let me now share a couple of proof points.

Today, I want to focus on Life Sciences. Our teams are delivering incredible innovation and execution to advance clinical trials on new treatments for patients. Virtualization and AI are changing the game, MEDIDATA Synthetic Control Arm, SCA, leverages AI, our unique data assets, on over 28,000 clinical trials. With SCA, we can virtualize the patient for the clinical trial control arm, the third arm of the clinical trial. This accelerates innovation, reduces cost and, most importantly, fosters a more compassionate approach.

For some disease, it's very difficult to recruit and maintain a control group. MEDIDATA Synthetic Control Arm can enable these trials to move forward and advanced treatments. Our recent announcement with Celsion and Plus Therapeutics highlight the potential of these true revolutionary innovations. Of course, we work in conjunction with FDA to provide these unmatched capabilities and ultimately achieve better outcomes for patients.

Another groundbreaking innovation is BIOVIA's Generative Therapeutics Design. By combining AI, chemistry and structure-based modeling, we can accelerate drug discovery with virtual creation, testing and selection of novel candidates. We are delivering on a promise to bring new science and new opportunities to increase the pipeline of potential therapeutics.

Gilead has selected BIOVIA's technology to advance its discovery of new drugs and its commitment to a patient-first approach to medicines. Innovation is about progress. Ultimately, all progress is humans. With these technologies, we are extending our handprint, having a real positive impact on society, improving people's lives.

And now I will hand the presentation over to Pascal to continue the discussion.

Pascal Daloz
COO & Director

Thank you, Bernard. Hello, everyone. It's a pleasure to be with you today.

As Bernard said, all progress is humans, and relationships are essential in driving and realizing the value of innovations. This underpins our strategy across all the sectors of the economy.

Remember, our objective is to be the trusted partner to support our clients, both incumbent and new entrants, with a game-changing innovation and to maintain our relationship over the long time for a reason. And of course, we have made many historical examples, but let's look at some of the current proof points we have.

Starting with contract research organizations. Today, having supported more than 28,000 clinical trials globally, MEDIDATA is a trusted partner of the top CROs, including ICON, LabCorp, Parexel, IQVIA and many, many others. Our world-leading technology are the industry standard not only to support but also to operate and execute clinical trials across all the different phases. The larger CROs are standardizing on MEDIDATA Rave as it's the only integrated platform that combines AI, patient engagement and clinical data management and this at scale.

The value we provide to our CRO partners is a competitive advantage in their ability to help sponsor, deliver drugs to market faster and much more efficiently and ultimately advancing our collective mission.

Another example also in the Life Sciences is Boehringer Ingelheim. We have been building a long-standing relationship of trust with Boehringer over the last decade. So it's a pleasure to announce that Boehringer Ingelheim has renewed and broadened what we do with them, expanding from MEDIDATA Rave to MEDIDATA AI and MEDIDATA Patient Cloud to accelerate the decentralized clinical trial. Our partnership has enabled Boehringer Ingelheim to double the number of image studied each year since 2018. And it also supports ongoing trial with thousands of patients and hundreds of global sites. We look forward to continuing to support Boehringer missions through the next decades.

Turning now to the manufacturing sector. To deliver sustainable product experiences, consumer company need an integrated approach to product development, one that includes modeling for rapid formulations. And keep in mind that many of those companies, they have to reformulate their entire product portfolio in the coming years to be compliant with new regulations like [HICH] and manufacturing and -- for manufacturing and sustainability. To manage this tremendous complexity, it requires our science-based 3DEXPERIENCE platform with its multi-scale and multi-physics approach.

We are seeing significant momentum in the consumer packaged goods industry and much more specifically in health and beauty because after having L'Oréal, L'Occitane, now we are proud to announce that Shiseido has decided to go with us to extend its leadership position and meet rising demand. The company is producing over 100 million SKU annually and introducing new product experience daily. So we are pleased to support Shiseido initiative with our manufacturing solutions, including Perfect Production and 3DEXPERIENCE, to streamline manufacturing across Asia, Europe, U.S. to increase resiliency, boost productivity and accelerate product launches.

In Infrastructure & Cities, energy is at the core of the current resiliency and sustainability challenges. We are seeing new entrants bringing truly disruptive innovation, similarly to what we saw play out in Transportation & Mobility and also much more recently in aerospace. These newcomers are adopting our technology on 3DEXPERIENCE platform and on the cloud. To advance sustainability, NAAREA a start-ups, is developing nuclear reactors that are small, modular and utilize industrial ways to produce energy. To support its ambitions, the company has selected virtual twin experience and 3DEXPERIENCE and also the cloud for design, simulation and validation with the end-to-end traceability. We are looking forward to following NAAREA progress and (sic) [as] it makes nuclear energy safer, more reliable and sustainable.

As you can see, the investment we made a decade ago are paying off for our clients and are testimony to the value we bring to our relationships.

Now I want to turn to our first quarter 2022 results.

Revenue growth was broad based across geographies product lines and sectors, demonstrating the diversification we have achieved in our addressable market as well as the quality of our execution.

Starting with our geo. In the first quarter, the software revenue increased by 7% in Americas to reach 40% of the software revenue. This was driven by a strong performance in Life Sciences and aerospace. In Europe, Europe increased 6% to 35% of the software revenue despite our suspension of operation in Russia. We saw a good resilience throughout the regions, and France and Southern of Europe grew double digits, led by aerospace and Industrial Equipment. Asia Pacific rose 13% to 25% of the software revenue driven by an acceleration in Japan, Korea and India and a good momentum which continues to be very high in China, with China growing at 20% during the quarter on a strong comparison basis.

Now let's zoom on the product line performance for the first quarter of 2022.

Industrial Innovation software revenue rose 5% to EUR 654.4 million, representing 54% of the software revenue. CATIA demonstrated a very strong performance driven by double-digit license and subscription growth and punctuated by cyber systems, showing the strength of these differentiated offerings. ENOVIA also reported high double-digit growth in both license and subscription software revenue.

In Life Sciences, revenue grew 13% in the first quarter to EUR 254 million and representing 21% of the software revenue. MEDIDATA delivered a strong performance, growing double digits again this quarter, and MEDIDATA continued to experience very good momentum across its product portfolio, including MEDIDATA Rave, MEDIDATA AI and MEDIDATA Patient Cloud, as well as the across end markets, including pharmaceutical and biotechno companies and contract research organization. BIOVIA also performed well, achieving a double-digit growth during the period.

Moving to Mainstream Innovation, software revenue increased 12% and to EUR 297.2 million, representing 25% of the software revenue. SOLIDWORKS continued to perform well, growing double digits and on the back of a strong comparison base of 18% growth in Q1 last year. Our 3DEXPERIENCE WORKS family, the cloud-based solutions, are also showing good adoption during this period. And CENTRIC PLM delivered another quarter of high double-digit growth as well as gain in diversification in food and beverage.

As you can see, our growth was broad based across product lines and brands. And both CATIA and SOLIDWORKS have demonstrated a strong momentum and performed extremely well.

So in -- I just want to remind you that in the design market, we are ranked first and at more than twice of the size of the second player. Every year, we gain a remarkable 0.5% market share, and we achieve this by converting 2D to 3D users, displacing 3D competitors and expanding our footprint in our large installed base. We therefore ask the financial analysts who are reusing the industry analyst report without checking the figure it contained to take a critical approach before spreading wrong information. This critical approach would have been revealed significant inconsistencies, in particular with one of our competitors' reported figures.

Now turning to our strategic growth drivers. And again, these are year-to-year growth in constant currency.

In the first quarter of 2022, we continued to see a very good 3DEXPERIENCE momentum with revenue increasing 21% driven by subscription growth. and 3DEXPERIENCE now account for 30% of the total software revenue, an increase of 5 points relatively -- relative to last year.

Cloud revenue also raised 21% driven by continued strength in Life Sciences and 3DEXPERIENCE. Cloud now accounts for 21% of our software revenue, up 2 points versus last year.

3DEXPERIENCE and cloud are critical for enabling resiliency and helping our clients to scale rapidly and against both the new entrants and the incumbents transforming. As you can see from our results, our growth drivers are well balanced and durable.

And I think now I will hand over the presentation to Rouven to discuss revenue, profitability and our 2022 objectives. Rouven, the floor is yours.

Rouven Bergmann
CFO & Executive VP

Thank you, Pascal. Hello, everyone. It's a pleasure to be with you on this call today.

I'm very pleased with our first quarter 2022 performance. Clearly, we are off to a good start. We delivered strong revenue growth, well aligned with our Q1 objectives, and we did this on the back of a relatively high 2021 comparison base.

From a profitability perspective, we outperformed while, at the same time, we continued to make strategic investments in our business and achieved our ambitious hiring targets. EPS are up a strong 20% for the quarter at EUR 0.27. These results clearly highlight the resiliency and the momentum of our business model. And we achieved these results despite the negative impact from discontinuing our business in Russia with EUR 5 million in lower revenue and EUR 2.5 million of additional expenses to cover litigation risk when compared to our Q1 objectives.

Now let's look at our Q1 year-over-year comparisons for revenue. And the growth rates that I will be highlighting here are all in constant currency and non-IFRS.

Total revenue grew 8% to EUR 1.32 billion. Software revenue also grew 8%, including the impact of Russia, as I mentioned earlier. Licenses and other revenue rose 10% to EUR 235 million and against a strong comparison base of 25% growth in the first quarter of 2021. Subscription and support revenue increased 8% to EUR 971 million driven by double-digit subscription growth, reflecting strong MEDIDATA and 3DEXPERIENCE performance as well as a strengthening in our support revenue, as expected. Services revenue was up a strong 9%, and we achieved service revenue -- services gross margins at 16%, substantially better than last year, which was 12%, thanks to the efforts we made to improve our utilization.

Now let's zoom in on our Q1 operating margins and EPS.

We delivered a strong operating margin of 35%, outperforming our target of 32.7% by 230 basis points at the midpoint and on a year-over-year basis increasing 117 basis points. This was driven by lower discretionary spend such as travel, marketing and event activity, which were lower than planned due to continued travel restrictions in certain parts of the world. Also, we saw good improvement in operating performance.

The impact of discontinuing our business in Russia was offset by the revenue upside and a marginal favorable currency impact on the operating margin level. At the same time, we are well aligned with our hiring objectives. Total headcount grew 7% and -- year-over-year. And within the R&D function, we are actually up 9% year-over-year.

We also saw diluted EPS above the high end of our guidance, growing a strong 20% or approximately EUR 0.035 to EUR 0.27 compared to our guidance of the range of EUR 0.23 to EUR 0.24. This was driven by strong operating performance, as mentioned earlier, contributing EUR 0.02 to the overall performance. In addition, FX contributed EUR 0.8 and lower taxes, EUR 0.7.

Just one comment regarding the tax rate. The lower rate in the first quarter 2022 is mainly the result of a higher FDII tax deduction in the United States resulting from the new requirement effective January 1, 2022, to fully capitalize R&D expenditures for tax purposes. At the time when we issued the guidance, we -- it was assumed that capitalization requirements would be canceled for the year.

Now turning to cash flow and the balance sheet items.

Cash and cash equivalent equivalents totaled EUR 3,009,000,000 compared to EUR 2,979,000,000 at the end of last year, an increase of EUR 29 million.

Our net financial debt at March 31, 2022, so by the end of Q1 2022, decreased by EUR 257 million to a negative EUR 632 million compared to a negative EUR 889 million at December 31, 2021. This puts us well ahead of the schedule of our deleveraging objective.

And I'm sure in this context, you noted that our cash and operating performance is reflected in the improvement of our Standard & Poor's credit rating from a single A- to a single A, as it has been announced yesterday evening.

Now let me provide some additional color on what is driving our cash position this quarter.

First, cash from operations was EUR 630 million, which is slightly down versus last year in part driven by onetime items and the timing of changes in working capital. Second, we continued to repay our debt, loan repayments of EUR 232 million. Third, cash from operations was used for treasury stock repurchases of EUR 328 million. This comprises our long-term incentive plan for 2022 as well as our shareholder participation plan. This number is higher than last year as we took advantage of market fluctuations and purchased our shares at a relative discount in Q1. Also, I want to remind you that our policy regarding equity compensation is unchanged, specifically 5% of our revenue as share-based compensation expense.

So now let's focus on cash from operations, EUR 630 million, representing a slight decrease of 2% year-over-year. Now I want to remind you that this compares to a 40% increase last year, so resulting in a higher comparison base this quarter.

What are the major drivers of the slight decline this year? First, we saw a lower decrease in trade receivables resulting from higher billings at the end of the quarter despite strong collections of our Q4 receivables. The trade balance is up, reflecting strong business growth in Q1. Regarding the impact on cash, we expect to catch up, and this trend will reverse in the coming quarters.

Second, accrued compensation. The decrease in accrued compensation was much higher year-over-year due to the strong business results in 2021 that drove higher bonus payments in the first quarter of 2022.

And third, we received a onetime withholding tax reimbursement in the first quarter of 2021, resulting in a higher unfavorable comparison base when we look at our first quarter results.

Now let's turn to our fiscal 2022 objective.

First, total revenue. We are reaffirming our total revenue growth rate objective of 9% to 10% in constant currency but to a slightly higher absolute range of EUR 5.355 billion to EUR 5.405 billion, incorporating an update to the U.S. dollar rate from initially $1.17 to now $1.15 for the remainder of 2022. This adjustment to our currency assumption, along with the first quarter FX benefit, has a EUR 67 million impact on our total revenue objective. In addition, we are reflecting the impact of Russia, which is negative EUR 21 million for the year-end revenue, as well as incorporating our Q1 overperformance. So with the FX adjustment, we are more than compensating the loss of revenue from discontinuing our business in Russia.

Second, let me turn to the operating margin. We are increasing our full year objective to the range of 33.4% to 33.7%, a raise of approximately 65 basis points at the midpoint. This increase mainly reflects our strong operating leverage and lower travel and marketing expenses in the first half. And importantly, it also reflects continued execution against our ambitious hiring targets throughout the rest of the year. We are more than offsetting the negative impact of Russia.

Third, turning now to the EPS. We are raising our 2022 diluted EPS objective up to 9% to 11% growth, as reported, reaching EUR 1.04 to EUR 1.06. This compares to previously 3% to 6% growth, reaching EUR 0.98 to EUR 1 previously. The FX benefit of EUR 0.014 almost offsets, again, the negative impact from Russia. In addition, we are capturing Q1 overperformance as well as reflecting the change in tax rates for the first quarter only. This results in a full year tax rate of 22.5% compared to 23.2% previously.

As it relates to the revenue components reflected in our updated total revenue objective, we are targeting software revenue growth of 9% to 10%, licenses and software revenue growth of 10% to 12% and recurring revenue growth of approximately 9%. Service revenue is targeted at the range of 8% to 10%, all at constant currency.

So before closing, let me also briefly share our objectives for the second quarter.

Total revenue growth is expected to be in the range of 9% to 11% with license revenue in the range of 14% to 19%, recurring revenue of 8% to 9% and services revenue of 9% to 11% at constant currency. Operating margin of 31.7% to 32.4% and diluted EPS growth of 11% to 16% -- to 24 -- to a range of EUR 0.24 to EUR 0.25.

Now for additional information and to review what we've discussed, I'll refer to today's earnings presentation.

Now in conclusion, for the full year 2022, we reiterate our objectives for total and software revenue to grow 9% to 10% ex FX, and we confidently raise our EPS target to reach now a 9% to 11% growth. We expect a solid second quarter, and we look forward to keeping you appraised of our progress throughout the rest of the year.

And now I'll hand the call back over to Pascal.

Pascal Daloz
COO & Director

Thank you, Rouven. Just a few words to conclude this call, so -- and to summarize what we said.

So first, the world is transforming at an unprecedented pace and sustainability and resiliency are paramount. From a sustainability perspective, it is clear that we walk the talk. Our new Life Cycle Assessment Solution is yet another proof point. In term of resiliency, our clients face a number of challenges, from raw materials to workforce, supply chain and inflation.

With the investment we have made a decade ago, clearly we are uniquely positioned to help our clients to solve those challenges and to adopt new business model, increase agility, scale and embrace sustainability. This has created durable competitive advantages across all the sectors of the economy.

So in conclusion, we had a solid start to the year, giving us confidence to raise our full year EPS target and putting us at a good trajectory to achieve our near- and long-term objectives.

Finally, we will be hosting our Capital Market Day on June 16, and we look forward seeing you -- all of you in person in Paris.
So now I think it's time for Bernard and Rouven to take your questions. Thank you.

Question and Answer

Operator

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

James Arthur Goodman
Barclays Bank PLC, Research Division

On BIOVIA, I recall that last quarter you talked about some multiyear renewals, I think, slipping. Just curious, when were they signed in this period? And did that help the double-digit growth there? And can you say something about the materiality of the deals and the underlying performance or what we should expect for the rest of the year in BIOVIA?

And secondly, on Industrial Innovation, encouraging performance in both CATIA and ENOVIA this period. I can't help but wonder if there's anything worth calling out from your side on SIMULIA or DELMIA in terms of the rest of the performance of that unit.

Pascal Daloz
COO & Director

Rouven, you want me to start?

Rouven Bergmann
CFO & Executive VP

If you like, Pascal.

Pascal Daloz
COO & Director

Okay so let's say a few words about BIOVIA. So you're right last time that we communicated to you that we have not been able to renew on time one of the large deal for BIOVIA. It has been done, in fact, the few weeks after the beginning of the quarter. It's -- by the way, it's a large contract with a European company. When I say large, it's not EUR 10 million, it's a few millions anyway.

What has been -- what we can notice on BIOVIA is the fact that the subscription is growing double digits. And you'll remember one of the things we have to do with BIOVIA is to transition the license model to subscriptions, and I think we are on the right path and it's really happening and taking off.

But more broadly speaking, I think in Life Sciences, it's not only MEDIDATA and BIOVIA, but we see more and more large projects which are much more PLM centric, if you want, leveraging the rest of what we do, whatever (sic) [whether] it's SIMULIA or DELMIA or ENOVIA for the life cycle management. And we have a significant, sizable deal in our pipelines between now and the rest of the year.

So I think the trajectory for Life Sciences is really solid. And it's not only the performance of MEDIDATA, it's really everything we do. And I should, to a certain extent, congratulate the team we have put in place under the leadership of Michael Pray who is coming from MEDIDATA and is driving the sales force for the entire sector, I think. He's doing a great job to make this happen.

Related to the Industrial Innovation sector, yes, you're right to notice that ENOVIA and CATIA are performing well both from a license and subscription standpoint, which is echoing what I'm saying, guys, that be careful when you do the statistics to measure the market share. You have to take into account the track record.

Now related to DELMIA and SIMULIA. DELMIA had a good quarter. SIMULIA, the growth was much more modest. But I want you to keep in mind that last year, we grew significantly with DELMIA -- with, sorry, SIMULIA because we signed two large deals in the auto sector and we have a real big comparison effect. So -- but we are pretty confident on the trajectory for SIMULIA for the rest of the year.

Operator

Your next question comes from the line of Frederic Boulan from Bank of America.

Frederic Emile Alfred Boulan
BofA Securities, Research Division

To stay on the topic of cloud, if you can give us an update on proportion of revenues or clients which are on, a, subscription versus license; and b, cloud outside of MEDIDATA. You touched on that transition happening at SIMULIA, but if you can give us an update on the other lines of products, whether that's from a takeup appetite from clients but also takeup you're seeing. In that context, if we can come back on the license guidance for Q2, which is quite strong. So how do we reconcile those two dynamics?

And then second, an update on M&A priorities. Any views you have around public versus private valuations, whether you think it's an appropriate time. Considering that discrepancy that may still be around, is it a hurdle for you to press ahead? And what are the priorities? I mean you called out this morning, I think, delivery on the infrastructure side as usual, I would say. But if you can just give us an update on what you think are the most attractive opportunities for you.

Bernard S. Charles
Vice Chairman & CEO

Okay. So Frederic, thanks for the questions. I'll start with the first one around the cloud momentum and also how to reconcile the license guidance for the second quarter.

So overall, as Pascal mentioned, 21% growth for cloud. Cloud represents now 21% of our total software revenue. And the growth drivers on our cloud business, of course MEDIDATA's performance stands out. But the -- if I look at the portfolio in total, we had also very good performance and strong growth across multiple parts of our portfolio.

For -- 3DEXPERIENCE is growing fast in the cloud. Certainly, we have a lot of newcomers that are adopting the cloud first, using 3DEXPERIENCE at different levels of scale but also incumbents that are transitioning from on-premise to the cloud with large projects.

And we see overall, the momentum for our subscription and recurring has accelerated through these growth drivers. But also, we mentioned SIMULIA before. SIMULIA is a subscription business. It's consumption based that's driving lots of subscription growth and part of it also in the cloud.

So that's to me the summary of the growth drivers that really is underpinning the 21% cloud growth that we have. And I think we can go faster from there as well in the future.

And of course, the mainstream market remains our large opportunity. This is SOLIDWORKS' installed base to -- not only transition to SOLIDWORKS but expand the usage in the SOLIDWORKS ultimately.

As it relates to our license objectives for the quarter -- and also, like the first quarter, I'll remind you we license 10% of subscription, also growing double digit. So we are continuing with this trend into the second quarter.

We have a very good visibility into our second quarter pipeline, which is shaping since the beginning of this year. It's broad based as we saw the contribution. As Pascal walked through the various growth drivers, it was a -- it's a pod-based momentum across various industries and product segments that's supporting our Q2 license outlook. So that's the situation.

Frederic Emile Alfred Boulan
BofA Securities, Research Division

CENTRIC PLM is also contributing?

Bernard S. Charles
Vice Chairman & CEO

Yes. CENTRIC PLM? Yes.

Related to the M&A question, Frederic, the M&A is part of our model, right? And it's not because we were leveraged that we did -- we stopped completing the M&A. We were continuing to do some modest movements, I would say, but nevertheless critical for the future.

The thing you want -- I want you to keep in mind, we are purpose driven. And that's how we are guiding our M&A investigation. It's not to fill the gap from a quarter to another one or to establish a footprint without taking the benefit of the rest of what we do.

So why I'm saying this? Because you're right, I mean, by being close to be fully delevered -- deleveraged, sorry, and given the market momentum in term of valuations, this is giving probably good conditions to consider transformational moves. But it's not enough to have this market condition. You also need to have a vision, you also need to have a strategy and you need also to have a team willing to join and do it with you. It's taking time, so do not expect me to share the M&A priorities during this call. But I think we are working constantly to make it happen.

And the only thing I could say is we have opportunity to expand in all the three sectors of the economy. Always, you are mentioning infrastructure and construction. It's definitively not the only one we consider to make a significant move because we are far from covering everything we can do for all the industry we are serving. So that's what I can say at this stage.

Operator

Your next question comes from the line of Jay Vleeschhouwer from Griffin Securities.

François-José Bordonado
Vice-President of Investor Relations

Hello, Jay. Jay?

Operator

Your line is...

Jay Vleeschhouwer
Griffin Securities, Inc., Research Division

Regarding the -- hello, sorry about that. Sorry. You referred earlier in your remarks to your ambitious hiring plans for 2022. This is a subject, of course, you've spoken of in earlier calls. So two questions there. It's interesting to observe that over a period of many years, your sales openings and R&D openings have been often very similar. But recently, there's been a particularly large uptrend in your sales openings as compared to R&D, so maybe you could talk about your thinking in terms of this rather large increase in your sales openings in the last few months.

And then similarly, when we look at it by the product or functional area, there have been some recent increases in your ambitions to hire in DELMIA, SIMULIA and cloud generally. So maybe you could comment on all of that.

Pascal Daloz
COO & Director

You want me to start, Rouven?

Rouven Bergmann
CFO & Executive VP

Yes, please.

Pascal Daloz
COO & Director

So Jay, I think I know the way you compute the numbers is because you are looking all the research we are publishing on our website. But be careful. Why so? Because if you look at the numbers, the total headcount increased by 7%. And in research and development, we increased by 9%. So there is a piece you are not seeing because the way we hire people is not by doing search, it's by doing computations between the people. And it's not visible from you.

Rouven Bergmann
CFO & Executive VP

Yes.

Pascal Daloz
COO & Director

And that's...

Jay Vleeschhouwer
Griffin Securities, Inc., Research Division

Referrals, right?

Pascal Daloz
COO & Director

The referrals.

Rouven Bergmann
CFO & Executive VP

Yes.

Pascal Daloz
COO & Director

That's usually the way we hire most of the research and development people.

So I would not draw these conclusions. If I -- if -- the balance between sales and, I would say, the field in general compared to the research and development is relatively the same than what we used to do in the past.

The second question is related to DELMIA and SIMULIA. Yes, you're right, I think specifically in the United States, we see more and more traction for these specialized brand sales, I would say. And we need to reinforce the expertise we have not because we do not have it, it's because we need to have it at scale. And in all the industry we serve, which is, again, something which is important, generally speaking we have a good footprint for the aerospace and the auto sectors and Industrial Equipment. But now we are serving more and more...

Rouven Bergmann
CFO & Executive VP

The bioreactor.

Pascal Daloz
COO & Director

Yes, and the pharma and the biotechnology, the consumer goods and consumer packaged goods industry, and we need to reinforce these capabilities. So you are right to mention that it's an area where we are looking for people. But again, much more in North America than in the rest of the world.

Jay Vleeschhouwer
Griffin Securities, Inc., Research Division

Okay. Duly noted. Secondly, with regard to segment profitability, once upon a time, the -- you used to disclose the operating margin for the CATIA and SOLIDWORKS business. And I know that was many years ago, but presumably, given the scale of those businesses, that each of those is still an over 40% operating margin business.

And the question then is, what are you seeing or what are you anticipating in terms of the profitability of other businesses, particularly something like in ENOVIA where historically, PLM profitability has often lagged substantially the profitability of the CAD business?

Pascal Daloz
COO & Director

Okay, I will start. And again, feel free to add what you want, Rouven and Bernard.

ENOVIA is at -- the standard for the group. So another way to see it, you take our operating margin and you can make the assumption that ENOVIA is aligned with it.

The real improvement is coming from MEDIDATA from a brand standpoint. You'll remember when we acquired MEDIDATA, the operating margin was relatively low compared to the rest of the product line. And the team did an outstanding job to not only accelerate the growth, diversifying in many different product line outside of Rave, patient -- MEDIDATA Patient Cloud, and MEDIDATA, yes, is a proof point of this. But also, they had improved significantly the operational efficiency. The plan was to improve by 200 basis points per year. And to a certain extent, we are overachieving this plan in the last 2 years.

Rouven Bergmann
CFO & Executive VP

Yes.

Jay Vleeschhouwer
Griffin Securities, Inc., Research Division

Okay. And then to finish up, I'd like to ask about two recent so conferences. One, 3DEXPERIENCE World and then the conference in New Orleans a couple of weeks ago.

So at 3DEXPERIENCE World, the company gave its annual priorities and objectives to the resellers, which is always interesting. And one of the objectives for this year was double-digit growth. And the question is, is that still your thinking, that you can have double-digit growth with the SOLIDWORKS business this year? And do you think that you might perhaps exceed the expectation that 3DExperience WORKS specifically would be less than 10% of the businesses? In other words, could you -- could 3DX WORKS perhaps do even better and become more than 1/10 of the WORKS business?

Pascal Daloz
COO & Director

So I will start with the first part of the question, and maybe, Bernard, if you could answer to the second one.

Bernard S. Charles
Vice Chairman & CEO

Yes.

Pascal Daloz
COO & Director

So yes, the plan is to grow double digit for the SOLIDWORKS business at large. So it's not only the SOLIDWORKS desktop, it's basically the entire family of SOLIDWORKS. And we have demonstrated Q1 that we were on track to make it happen.

This growth, by the way, in Q1 for the mainstream market is really broad based across all the geos, and it's broad-based also from an industry standpoint. Where we are seeing an acceleration is really in the Industrial Equipment, where we see more and more investment in many parts of the region of the world. And SOLIDWORKS is really the first brand benefiting from these large investments happening.

Bernard S. Charles
Vice Chairman & CEO

The 3DEXPERIENCE WORKS family is aimed at paying the platform phenomenon around not only the SOLIDWORKS users to expand, as you mentioned previously in the previous question, with simulation, for example project management, program management or even DELMIAWORKS for -- which, by the way, is getting traction. It was a small -- very small business when we bought it, if you remember IQMS, Jay. And we are now learning how to grow the partners to sell it. Now it's not what we want it to be, but the potential is there. And many of the companies doing plastic injection and so on are adopting DELMIAWORKS to do the ERP side of the functionality, the MES -- including MES, of course but also ERP in certain countries, with simply ERP. And we don't, unfortunately, support all standards yet and all countries, languages and standards, but we are improving it. So we still -- this was a good move, and it will continue. So on the ERP side, simple ERP, for small companies, analysis and simulation project management.

The intent is also, Jay, to leverage the 3DEXPERIENCE WORKS to provide native SOLIDWORKS, cloud-based browser-based functionality. So no desktop but really mobile. And this is getting attention because it's really about truly mobility. Not visual mobility for visualization, but mobility for design. And the traction that we have with 3DByMe, what we call 3DByMe, which is platform based, cloud based, browser based, is a good sign as well as the maker offer. The maker offer is getting traction. And the numbers grow slowly because it's about less than [100] per year, right? But it's getting traction on the number of users and also the adoption in terms of ease of the experience to adopt this mobility aspect. So that's important for the future.

Jay Vleeschhouwer
Griffin Securities, Inc., Research Division

Okay. By the way, if my high school algebra still works, it looks as though you did about 19,000 new SOLIDWORKS commercial seats in Q1, which, if that's right, that would have been, I think, a Q1 record for new SOLIDWORKS seats.

In any case, just to finish up on the New Orleans conference, it was very interesting to hear DS management highlight model-based systems engineering as one of your "big initiatives." And then also, you seem to be coming to market now with generative design capabilities that you had first spoken of about 3 years ago. So maybe you could talk about what you think the impact might be of one or both of those in terms of driving the Industrial Innovation business.

Pascal Daloz
COO & Director

Yes. Well, for -- generative design was widely adopted years ago, 15 years ago or 20 years ago, in the CATIA world. All the advanced CATIA users are already doing generative design at scale. If you take the big companies, those are -- this is why CATIA is winning everywhere in aerospace, on automotive.

So -- but making it mainstream, as you noticed, Jay, is a different game because it has to be simplified. But yes, you're right, it's the tendency to go generative because this creates AI-based design guidelines for the users.

On the cyber system, we call it cyber system at large, not cybersecurity but cyber system, we believe this is so core because most of the new little equipments are becoming integration between software, electronics and mechanical systems: home equipment, med tech and many others. And more and more certification processes are required to guarantee integrity.

And I will not go through the market structure, but, as you know, it has been very fragmented up to now. You had the software development on one side, the tech development on the electronic board on one side, and then the mechanical side, but there is no holistic integration of the total. Of course, for very smart, advanced system like [GRONS], this is what we do. But those are for very specialized customers. But we think this will become mainstream. So 3DEXPERIENCE cyber system, core for the future.

Operator

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

Amit B. Harchandani
Citigroup Inc., Research Division

Amit Harchandani from Citi. Two questions, if I may. My first question is on the topic of deal sizes. There sometimes tends to be a perception that larger deal sizes are more at risk when macro begins to worsen. So I wanted to get your perspective on how do the deal sizes in your business look today versus history because the rising talk of digital transformation tends to also point to more end-to-end deals? So curious to understand, how are you seeing deal sizes evolve across different segments, different industries as you shift to the cloud? And to what extent would you see them as being at risk if the macroeconomic backdrop continues to worsen? So that would be my first question.

My second question goes to the topic of operating margin. You had a solid operational performance, as you indicated, in Q1. And I was curious to better understand some of the underlying drivers. Was it sales efficiencies, cross-selling, up-selling, simply better mix? And why does your guidance seem to suggest that not all of this strength in Q1 is going to carry over, over the remaining 3 quarters? I appreciate some of the costs are coming back, but maybe you might benefit from better prices as well. So keen to understand the operational strength in Q1. And how much of it is sustainable into the coming quarters?

Bernard S. Charles
Vice Chairman & CEO

Okay. I will start with the deal size this time. It's a question requesting probably to spend the rest of the call. But nevertheless, I was checking real time. If you compare the pipeline for 2020 to 2021, we have exactly the same mix in term of large deals compared to last year after [indiscernible]. So there is no discrepancy between the natural trend we are seeing.

Do we consider those deals at risk or not? I will say no. Why so? Because we are -- again, we are extremely diversified from an industry standpoint. We're extremely diversified from a geo standpoint. And also, the vast majority of the large deals we have are coming from long-standing customers we have. So they started their transformation a few years ago, and now they are just saying they are making it happen.

So the only thing that could happen sometime is one of them being postponed from 1 quarter to another one. But I do not consider I'm seeing the risk improving given the situations at the macro level right now.

Rouven Bergmann
CFO & Executive VP

Okay. And let me touch on the -- your question around the operating margin.

Yes, there is some -- part of the operating margin improvement is discretionary spend, simply lower spend as compared to our plan simply because there are still parts of the world where there's much less business travel. Some of our events, we talked about SOLIDWORKS user conference, for example. We did it as a hybrid virtual event versus initially it was planned as an on-site event.

So you have these types of savings, which, I would say, account for about 60% of the margin improvement that we have shown in the first quarter. The remaining part is -- really is coming from an improved service margin. I mentioned this in my outline. We are improving the service margin by almost 400 basis points, that has an impact. As well as MEDIDATA, which Pascal referred to earlier. The team did an excellent job in improving the margin while continuing to invest and build the organization to drive the future growth. And the margin contribution from that business is exceeding our initial plans. And some of it is recurring because the mix of resources certainly in the R&D function with the ability to recruit in India in our development center really has a profound impact on the margin profile of MEDIDATA. Positive impact, yes, of course.

So that's what I would say. So about -- as I said, to summarize, 60% is discretionary items and 40% is in operating improvement. Now for the -- if you look at it from an entire -- for the year, in our 60 basis points margin improvement that we are updating our objectives for, that reflects the overperformance from Q1. We stick to our plan that we outlined at the beginning of the year for the quarters Q2 to Q4, and that includes the hiring objectives that we set. We hired -- we grew the headcount 7% for the total company, as we said. It's about 450 people in the quarter, net growth. And that plan is continuing, and it's baked into the numbers. I hope that gives you some additional color.

Operator

Your final question comes from the line of Johannes Schaller from Deutsche Bank.

Johannes Schaller
Deutsche Bank AG, Research Division

I mean on the headcount cost side, hiring is obviously one driver. And the other is, I guess, like-for-like wage inflation. I think if you talk to larger software peers, it feels like that. The expectation for like-for-like wage inflation has definitely gone up over the last 3 or 6 months. And maybe even at some of your counterparts, there's a bit of a shift towards cash-based and away from share-based compensation given where software share prices are right now.

I think -- can you maybe quantify for us what you expect in terms of like-for-like wage inflation for this year and then maybe then also going into next year for your workforce? That would be helpful.

And then as a second point, I think you alluded to some price increases for some of your products. Can you maybe help us understand that a bit better, how big the impact of that would be in the second half of the year?

Rouven Bergmann
CFO & Executive VP

Sorry, I -- can you repeat the second question quickly, Johannes? Sorry, I was...

Johannes Schaller
Deutsche Bank AG, Research Division

Sorry, the second question was just on price increases. I think you alluded to...

Pascal Daloz
COO & Director

Oh, I thought you said product. Thank you, Johannes. Okay.

Johannes Schaller
Deutsche Bank AG, Research Division

Yes.

Rouven Bergmann
CFO & Executive VP

So I start with the -- your point around the wage inflation and like-for-like.

So we have factored in an average of 5% wage increase for the year across our workforce. I think the way you also have to conceptualize and think is that in order to manage the inflation overall from a cost standpoint, it's also a question of the mix of resources and our hiring strategy. I referred, for example, to MEDIDATA, where we are successfully offshoring resources in parts of the world where we have better access to talent. That improves overall the mix of resource that gives us flexibility. Those things you also have to factor in as we make structural improvements, right, to the overall mix.

Nevertheless, of course we are, as everyone else, competing for the best talent in the market. And therefore, we'll -- we made this adjustment. But I think we have an attractive proposition.

From the perspective of inflation and how it is reflected into our pricing, the way we are -- we've instrumentalized or we've operationalized the price adjustment with -- through our reseller and partner business, we are -- for our SOLIDWORKS partners, for example, we have successfully implemented price adjustments in our CPI -- for all -- for renewable contracts, we have CPI clauses that adjust for pricing based on consumer price index. So we are protected here.

But I think the key part of what's aligned with our strategy is at the end, when we have an opportunity to do transformation, we are selling value, and that gives us an opportunity to price for value. And then we are discussing not inflationary price increases, we are discussing price for value, which -- that's our strategy. And that's what we really -- what ultimately is driving our growth forward within our installed base and in new customer wins.

Johannes Schaller
Deutsche Bank AG, Research Division

Is there a way to put a number to the kind of value increase or price increases? And maybe combine that factor, how much that is driving of -- your growth for this year?

Pascal Daloz
COO & Director

The price increase is usually not exceeding the inflation, right...

Rouven Bergmann
CFO & Executive VP

Yes.

Pascal Daloz
COO & Director

Because it's difficult to reflect more than that. And again, for the vast majority, it's happening in the middle of the year. So you take the inflation globally, you divide by 2, and you have a good sense of what we are talking about.

With that, I would like to thank you -- everyone. It was great for us to be in London with a -- on a face-to-face this morning, and it's really a good come-back together. We're looking for -- to see many of you in June.

Rouven Bergmann
CFO & Executive VP

Capital Markets Day? Capital Market Day?

Pascal Daloz
COO & Director

Capital Markets Day. And in the meantime, of course we'll be pleased to continue to address your questions. Thank you very much. Enjoy your day and have a great weekend coming soon. Goodbye.

Rouven Bergmann
CFO & Executive VP

Goodbye.

Pascal Daloz
COO & Director

Thanks, everybody.

Rouven Bergmann
CFO & Executive VP

Bye-bye. Thank you.

Pascal Daloz
COO & Director

[Foreign Language]

Operator
That does conclude our conference for today. Thank you for participating. You may all disconnect.