

Dassault Systèmes SE ENXTPA:DSY

FQ4 2021 Earnings Call Transcripts

Thursday, February 03, 2022 9:00 AM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.28	0.29	▲ 3.57	0.23	0.95	0.95	● 0.00	1.01
Revenue (mm)	1354.10	1367.90	▲ 1.02	1285.12	4850.40	4861.70	▲ 0.23	5375.55

Currency: EUR

Consensus as of Feb-03-2022 11:48 AM GMT

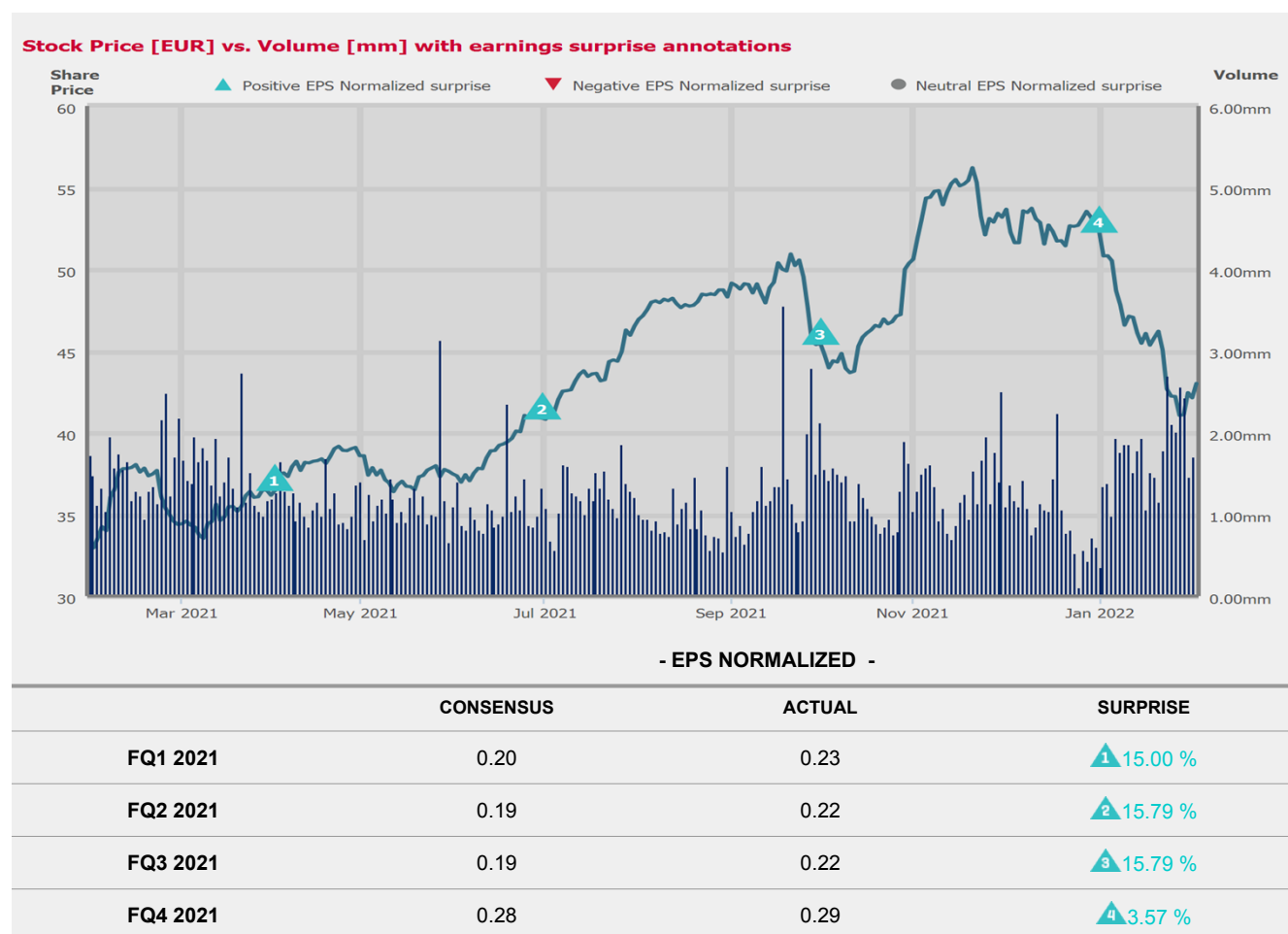


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Call Participants

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Dassault Systèmes 2021 Q4 and Full Year Earnings Presentation. [Operator Instructions] After the speaker presentation, there will be a question-and-answer session. [Operator Instructions]

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

François-José Bordonado
Vice-President of Investor Relations

Thank you, Roberto. Good morning, everyone. This is Francois Bordonado speaking, Dassault Systemes Investor Relations. From the company, we have Bernard Charles, our Vice Chairman and Chief Executive Officer; Pascal Daloz, Chief Operations Officer; and Rouven Bergmann, Chief Financial Officer. I would like to welcome you to Dassault Systemes Fourth Quarter and Full Year 2021 webcast presentation. At the end of the presentation, we'll take questions from participants. Later today, we will also hold a conference call.

Dassault Systèmes results are prepared in accordance with IFRS. Most of the financial figures in this conference call are presented on a non-IFRS basis with revenue growth rate 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 appendix.

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 and 2021 half year annual report.

I will now hand over to Bernard Charles.

Bernard S. Charles
Vice Chairman & CEO

Thank you, François-José. Good morning to -- or good afternoon to everyone. It's always a special moment to be reporting to you the full year and also providing guidance for the subsequent year 2022. So it's even more important moment for Dassault Systèmes with the expansion on the strengthening of the executive team, and I will cover that.

But let's start on the 2021 highlights. We are very pleased with the achievement of 2021. The revenue was up 11%, as you have seen it. Operating margin is significantly up also at 34.3%, and resulting in an EPS, up 26% with a great dynamic, a strong dynamic for 3DEXPERIENCE, the platform, plus 15%. And also, the cloud dynamic, we are pleased with it, up 23%. So all the elements put together, I think, established a strong base for sustainable growth. And I think it has to be put in perspective of what happened in 2019, 2020, 2021 and also perspective about our plan for 2024. So we will cover those topics.

We are walking the talk. I think if you look at what we said and what's happening, I believe that the positioning of the company that we formulated almost 10 years ago, to say the economy is going towards an experience economy. The value is in the usage and the experience more than in the product itself. I think it's substantiated almost in every sector we serve today. And there are so many examples that we see, and I will illustrate a few of them. The second topic that you have seen is the -- creating a new reach by looking at the economy from the manufacturing sector, everything which is produced, the life science diversification and also the infrastructure. And finally, the intrinsic evolution of each of those sectors, at the center of which is the challenge of making the economy more sustainable. I think we are connecting those dots at Dassault Systèmes, with the Virtual Twin experience and the capacity to systematically use virtual twins to imagine, create, produce and life cycle things.

And I would like to insist on that point because we are indeed creating virtual works, which are not fake. It's the reality or the 2B reality. We see it everywhere in mobility, in space, aerospace, new equipment, industrial equipment, autonomous system, in the way we build and construct things. So indeed, virtual world extend and improves the real world for us. It's far beyond a Metaverse. It's the improvement of the real world, and this is where we have a unique positioning. And we

are building experiences that we deliver to clients in 3 of those sectors of the economy. We are building experiences to design an airplane, produce an airplane, life cycle an airplane, for precision medicine, for construction methods to have a more sustainable world in cities. And all this is centered on the human side as an actor, as a citizen, an actor or worker, as a citizen, as a passion, precision medicine. And this is what is represented in the way we are approaching those industries.

And clearly, today, I must say that we are becoming the de facto industry standard in many of those industry segments that you know we are positioned. But we are also expanding the reach of what we do from engineering, manufacturing to really sustainability and supply chain. We represent IFWE, the same IFWE Loop, which is how do you create value, how do you produce this value, how you create experience and you deliver experiences to clients, citizens? So in some way, our clients are driving us to expand our platform and software usage to reach their own consumers. That's why the Virtual Twin experience is really a significant differentiation to understand and build the what, to define how you make it, just an experience of a bioreactor is an important differentiator for companies as it is for manufacturing companies or virtual twin experience for health practices is also a significant differentiation.

So there is no need for us to use Metaverse. We use virtual twin experience because it says what it does. Here is a video that illustrates in the life science sector, that idea.

[Presentation]

Bernard S. Charles
Vice Chairman & CEO

We continue to focus to be game changer in every sectors we serve. And when we -- you are big game changers, I think you create long-term sustainable growth, but you also are constrained with the speed at which each market transforms themselves. So this balance between the speed of market transformation, the game-changing aspect of what we bring is really becoming visible in manufacturing industries, life science and health care and infrastructure. We believe that this is exactly why Dassault Systèmes is using science and technology to really serve a more sustainable world.

I would like to take a few examples, which are quite interesting because they illustrate well connecting the dots. We are deploying the 3DEXPERIENCE platform by performed to an extent ByMe at -- on the cloud at IKEA. At IKEA, the most important thing is to be inclusive to the consumers when they want to buy, for example, a kitchen. Clearly, what we have noticed is the incredible fast adoption of basically a Virtual Twin experience in an omnichannel 3D-based approach to connect the coworkers of IKEA, about 10,000 of them in many countries -- in 53 countries, 83 languages and connecting them with consumers. I think people never thought Dassault systems could reach consumers that way. And we are taking it very seriously, as we are for precision medicine or as we are for the way we are going to help build new cities.

So in a few months only, we reached more than 1 million users, and I think it will be multiple millions of users who are connected with their coworkers to get what they need. This is a good illustration about how powerful the Virtual Twin experience can help change the relationship between the consumer and the provider of the product and services associated with it. And more to be seen in this area because as you will see later on, the dynamic with Centric PLM serving consumer companies, basically, is also extremely strong and was stellar. I think Pascal, if I remember well, about 80% growth last year. So we see vibrant dynamic in this area.

Another example is, of course, in the production environment. The Virtual Twin used for design, production and optimization and supply chain is also a game changer. It goes far beyond 3D adoption. It's really the systematic approach to a virtual world to improve what actually happened in the real one. Pirelli is an excellent example of that. And we deliver not the toolkit, we deliver experience, ready to use to do the job they have to do. We call them industry solutions on industry processes.

Another example is the adoption of the 3DEXPERIENCE platform by Perrigo, 130 years as a company providing products for consumers and very differentiating. Then they are using the platform to do what we -- the experience that we call license to cure, perfect formulation, perfect package. And you -- we all know that this sector is going through a massive transformation to justify that they are becoming sustainable in terms of the products they use on which they are recycled. So that's a concrete illustration of the platform phenomenon.

I just used those because some of those are coming. And of course, you may notice that we are strengthening beautifully, I'm so proud about that, the executive team of Dassault Systèmes. Pascal has been doing -- Pascal Daloz has been doing an amazing job as both CFO at first. I want to remind everyone that before he was leading all the brands for Dassault

Systèmes, did the strategy before. So 20 years of experience, understands well the company and expanding his role to really connect the dots of everything we do with a new generation of executives around him. They are in place, they are very, very talented. And welcome to Rouven. I'm so pleased that you are here, Rouven, with us around the table, which shows that we can significant acquisition and promote great talents to be driving the future of Dassault Systèmes, which will give an incredible possibility for Pascal Daloz to continue to develop as Chief Operating Officer, the performance of the company and developing this new reach that we need to have. Because the potential that we have built with our new ambition is very high.

So in conclusion, from my part, what I would like to say is that many of the talented people are joining us because they love our purpose, harmonizing [indiscernible]. Customers are taking us seriously on sustainability because they know we can help them build the next-generation portfolio. And this is what they are doing now for the next 5 or 10 years across all sectors of the industry. So I think that the human dimension, the social dimension of what Dassault Systèmes is doing is a serious value and needs to be taken into account because I believe this is where Virtual Twin experience can make the difference.

With that, I give the floor to Pascal.

Pascal Daloz
COO, CFO & Director

Thank you, Bernard. Hello, everyone. I hope you are doing well, and thank you for joining us today. So speaking about the performance, Bernard, let's turn on our financial results. I think the strong business momentum we experienced through the year continued in the fourth quarter, resulting in performance well aligned with our guidance.

So starting with fourth quarter top line year-over-year comparisons. What could we say? First one, total revenue grew 10% to EUR 1.370 billion, above our 7% to 9% range. The software revenue also grew 10% and all organically, that's very important to remind. Licenses and other revenue rose 15% to EUR 348 million, well above the guidance and back to 2019s level, which is also a very important point to notice. Subscription and support revenue increased 8%, driven by high double-digit subscription growth, reflecting strong Medidata, obviously, contributions but also the 3DEXPERIENCE performance and also more and more product line like ENOVIA, which is more and more used and consumed through a subscription model. Recurring revenue represents today 72% of the total software revenue. Zooming on the services revenue, was up 10%. And I think we achieved services growth margin of an amazing 27.1%, substantially better than -- compared to last year. And I think it's the result of all the efforts we made to improve the efficiency during the pandemic period. We are at a point where by now, to fulfill all the new projects we signed this year, we probably need to increase significantly the capacity and continue to develop the ecosystem to make it happen.

From a profitability standpoint, the fourth quarter, we delivered a strong operating margin 36.8%, well in line with our guidance of 36.4% when you take into account the currency and FX impact. And the EPS grew 17% to EUR 0.29, compared to our guidance of EUR 0.27 to EUR 0.28.

Now turning to our software revenue performance by geography. The Americas grew 7% during the fourth quarter, driven by a solid subscription growth. In 2021, the region benefited from a strong performance in High Tech, Transportation & Mobility, Life Sciences. And you have to remind that now, Americas represent 38% of the total software revenue of Dassault Systèmes. So clearly, between the geo, we are relatively well balanced, and it was up 13% for the full year. Europe increased 10%, thanks to the strong resiliency through all the regions. And in 2021, Transportation & Mobility, Industrial Equipment grew double digits also. And now Europe represents almost the same size in Americas in term of contribution, so 37% of the total software revenue, up 10% for the full year. Asia, finally, rose 12%, driven by market expansion. That's to be noticed also because you remember in Asia, we were really focusing on the core industry. And more and more, we expand outside of the boundary of the auto and aerospace. And it's particularly true in Japan, India and Southeast of Asia. During the fourth quarter, China grew 10% on the back of a strong base comparison compared to last year, remember, and 19% over the full year, which is an amazing performance. In 2021, Asia represents 25% of the software revenue, up 12%.

Now let's zoom on the product line performance. And we're going to start with Industrial Innovation software first. So the revenue rose 8% to EUR 682.3 million, driven specifically by SIMULIA and DELMIA, which has double-digit growth, thanks in part to large clients and customer wins. As I was saying, ENOVIA showed a strong subscription growth and CATIA reached back the '19 level, which is also an important point because we -- with CATIA, we are back on our trajectory. In Life Sciences, software revenue reached EUR 245.1 million, an increase of 9% for this quarter.

Medidata grew 15% on the back again of a strong comparison base. But we continue to see good momentum across Medidata portfolio, so including Medidata Rave, Medidata AI, Medidata Patient Cloud as well as across end markets, including, obviously, the pharmaceutical and the biological companies, but also more and more the research -- the contract research organization and the medical devices as well. We also saw a high double-digit growth in attach rate against this quarter, which is extremely important because you remember, it was one of the bets at the time of the acquisition of Medidata.

From a product line perspective, the strong Medidata performance was partially offset by a lower-than-expected BIOVIA revenue. This was driven by the delay of 2 large renewals. And we expect to sign both renewals during the first half, so temporary impact. There was also a strong baseline effect with software revenue up 39% in Q4 last year, if you remember. We are about 1 year into the Life Science engagement model. If you remember a year ago, we decided to gather all the teams together under the leadership of the Medidata management team and Michael Pray, who is leading this is doing an outstanding job. And when you look at, we made significant progress and our deal with the Perrigo deal, Bernard showed is a great example, because it's not only focusing on the clinical trial per se, but more and more to the rest of the portfolio we are bringing.

So we are about -- we are confident in our strategy to provide life science industry with end-to-end solution that connects, obviously, ideations, development, manufacturing and commercialization, almost the same way we did in other industries such as aerospace decades ago. And we believe this is a differentiated capability in the marketplace.

Moving now to the Mainstream Innovation software. Revenue rose 14% to EUR 312.2 million. SOLIDWORKS delivered strong results with software revenue growth high single digits, and we continue to see good adoption of our 3DEXPERIENCE WORKS family cloud-based solutions during this period, specifically with most of the new logos we are winning and starting with these product lines. And this is also extremely true in Asia. Centric PLM is performing extremely well with high double-digit growth revenue. And if we zoom on Centric PLM, I think they are executing extremely well against this quarter, reaching for the full year the milestone of 550 clients, representing more than 4,500 brands, which is amazing, and all with a high level of customer satisfaction. And in terms of diversification, you can see we started focusing on the fashion brands, and to a certain extent, the outdoors and lifestyles. And more and more, we see a good uptake in food and beverage, cosmetics and personal care and other segments such as also consumer electronics and consumer goods.

Bernard S. Charles
Vice Chairman & CEO

Congratulations to Chris Groves' and his team.

Pascal Daloz
COO, CFO & Director

Yes. Now a few words about the growth drivers. Because delivering numbers is good, but relying on the growth drivers is even better. And now you can see that for the 2021, the 3DEXPERIENCE revenue rose 15%, driven by strong subscription growth. And it's now representing 30% of the total software revenue, an increase of 2 points compared to last year. Zooming on the cloud, the cloud revenue increased 23%, driven by obviously the continuous trends in Life Sciences and 3DEXPERIENCE. But the cloud is -- now accounts for 20% of the total software revenue, up 2 points versus last year.

All clients across all sectors are transforming rapidly. They are turning to Dassault Systèmes, to us, to help them to adopt the new models, accelerated innovation and brand sustainability imperatives, putting consumer patient citizen at the center of the experience. And our strategy is really to enable them, to help them this transformation with more and more cloud-native applications. Our cloud extension to existing on-prem investment when they started a decade ago to adopt our solutions, that's what the 3DEXPERIENCE platform is allowing us to do. So there is not one single path, there are multiple paths for the customers to adopt this kind of solution.

Now a few words on the operating margin. So we delivered a strong operating margin of 36.8%. This was well aligned with our guidance of [indiscernible] when taking into account the currency impact of 40 basis points and also the 30 basis points coming from higher revenue contributions.

A few words on the headcount. I think in terms of headcount, we are well aligned with our objective. We saw a strong hiring activity in Q4 and lower attrition. Overall, headcount grew 4% and 6%, specifically for research and development.

Given our track record of innovation and our mission-driven culture, I think we are confident in our ability to continue to attract and retain top talent over the mid, long term. And this is again one of our priorities for 2022.

EPS. The diluted EPS grew 17% to EUR 0.29 when compared to our guidance of EUR 0.27 to EUR 0.28 which is EUR 0.01 more and reaching for the full year at EUR 0.95. This has been driven, obviously, by the top line performance but also the strong operating leverage we had this year. And this is well reflected into the cash flow and the balance sheet.

Turning to the cash flow. The fiscal year 2021 cash flow from operation was 30% year-over-year to reach EUR 1.613 billion, which is converting almost 1/3 of the revenue to operating cash flow. The cash amounts a little bit less than EUR 3 billion, EUR 2.980 billion, an increase of EUR 831 million versus last year and an increase of EUR 204 million in 2020, just to have a base of comparison.

Our net financial debt position on December 31, 2021 decreased by EUR 1.152 billion to less than EUR 1 billion to EUR 890 million compared to -- against the EUR 2 billion we had in December last year. This put us a year ahead compared to our initial schedule on our deleveraging objectives. So I think this is against an outstanding performance and the proof that we can continue to make large deals -- large transformation deals without compromising the business model and the ability of the company to continue to invest.

Introductions now to Rouven, because I think to discuss the '22 objective, I'm very pleased to introduce Rouven as our new Chief Financial Officer. And as Bernard mentioned, Rouven has played a vital role in integrating Medidata. It's a real pleasure working together in a successful partnerships. So Rouven, you have the floor.

Rouven Bergmann

Thank you, Pascal. And before I start walking through the 2022 financial objectives, I want to say that I'm really excited and thrilled to be here today with you in this new role. And I really enjoyed the opportunity to meet with some of you already over the course of the last 2 years and learned from many colleagues at Dassault Systèmes, in particular, you, Pascal, since the acquisition of Medidata, which, as you know, we've completed about 2 years ago -- a little bit more than 2 years ago. Now after the successful integration, I'm really looking forward to getting to know all of you and the broader investment community during this year, and I know we will have lots of opportunities to do so.

So with that, let me turn to the full year 2022 financial objectives. We expect the broad-based dynamics we experienced in the fourth quarter and 2022 to continue into 2022. We are focused on driving durable long-term growth. Our growth drivers are well established, as highlighted already by Bernard and Pascal. First, we are enhancing our leadership positions across our major brands. Second, we are accelerating the momentum with 3DEXPERIENCE and industry solution experiences, winning new customers and expanding significantly within the installed base. Third, we are focused on delivering new experiences and value with cloud. We will continue the momentum of Medidata and Medidata Patient Cloud, but we will also expand the user base with the 3DEXPERIENCE WORKS family in the mainstream market and deliver new value at scale with large enterprise partnerships like what you saw at Renault or Bouygues Construction.

Now with that in mind, we are targeting for full year 2022 total revenue growth of 9% to 10% and software revenue growth in the same range. Now when thinking about our software revenue growth, please keep in mind that last year, we had a very strong year of license growth at 23% year-on-year, which brought us back slightly ahead of 2019 levels. Now for this year, we expect to continue healthy double-digit growth at around 10% -- of up to 12%, which reflects strong demand within our installed base. And this trend is more in line with what we saw in Q4 of 2021. Now we anticipate recurring software revenue to increase by 9% to 9.5%, an acceleration of 100 to 150 basis points versus last year, driven by continued momentum and subscription growth with cloud and solid improvement also in support revenue, which is also resulting from the very good license growth we experienced throughout 2021. Services revenue is projected to grow between 8% to 9%, reflecting the increased activity levels of delivering innovation to our clients across all segments with solid margin performance.

Now from a profitability perspective, this past year, we demonstrated the long-term scalability inherent to our business model. And as we said throughout 2021, we plan to accelerate investments into our business and reengage in activities which were impeded by the pandemic. Accelerating the growth in our workforce, of course, in line with our long-term and midterm plan, is our top priority. As such, we anticipate the non-IFRS operating margin to be in the range of 32.7% and 33.1%. Again, this is consistent with our prior communication.

Now let me continue with our proposed objectives for EPS. We expect non-IFRS earnings per share to grow between 3% to 6%, reaching EUR 1 at the high end. The EPS guidance assumes a tax rate in line with 2021 levels of about 23.2%. Our financial objectives assume euro to U.S. dollar conversion of about \$1.17.

I will provide now some additional color on what to expect for Q1. As you are aware, our business has some level of seasonality, and we expect to see growth rates progressing throughout the year. We expect Q1 total revenue growth of 7% to 9%, with software revenue increasing in the same range and service revenue up 5% to 7%, driven by continued broad-based momentum across our geos. We expect the operating margin at a range of 32.3% to 33% with an EPS growth of 3% to 7% versus last year.

Now as you heard from all of us during this call, we're confident in the long-term opportunity ahead and look forward to keeping you apprised as we progress throughout the year. And with this, I'd like to hand the call back to Pascal.

Pascal Daloz

COO, CFO & Director

Just a few words to conclude. I think Bernard said it, but the stage is set for the future growth, when you think about it. Our long-term strategic vision has been validated and it's paying off now. The investment we made 10 years ago to develop the experience economy, whatever we are talking about the platform, the Virtual Twin experiences, our industry solution and the cloud are a durable competitive advantage. In parallel, I think we are also helping our clients to transform to a sustainable economy, and it's becoming a real opportunity to deepen and expand our partnership with many of our customers. So if you combine the two, I think we have a strong secular driver underpinning the growth across almost the 3 major sectors of the economy we want to serve.

In addition, we are convinced we have the right leadership team in place to execute against the tremendous opportunity before us. And last but not least, our commitment to clients drive our strategy, and thanks to them for their continued trust, is making also a difference. So -- and finally, I think Rouven and I are, I would say, impatient. We'll be back on the road and to see you face-to-face of, obviously, in the next coming weeks, if not months.

So I think it's time for the Q&A. Bernard, Rouven and I will now be happy to take your questions.

Bernard S. Charles

Vice Chairman & CEO

Thank you. Roberto, let's ask questions.

Question and Answer

Operator

[Operator Instructions] We have the first question from the line of Stacy Pollard from JPMorgan. .

Stacy Elizabeth Pollard

JPMorgan Chase & Co, Research Division

Two questions from me. First of all, maybe Pascal and Rouven, what are the factors influencing margins, whether you hit the top end or the bottom end of that range? So for example, how has your hiring been? I know your headcount was up 4%. It seems like you might need to do more there. And then to what degree is wage inflation sort of a factor? So that's question one.

And the second one, a bit more strategic. Bernard, you already discussed in your opening remarks, but how do you think about the opportunity in the Metaverse? And is the consumer state something you could target directly? Like is there an opportunity there? Or is it mainly that you'll sort of interact at the consumer level via the corporate customer?

François-José Bordonado

Vice-President of Investor Relations

Thank you. So Stacy, Pascal -- or maybe Rouven should go.

Rouven Bergmann

Thank you, Stacy, for the question. Yes, for 2022, of course, we are back on track as it relates to the ability to hire and grow. Q4, we already were able to prove that. The attrition is starting to come down. In Q4, the hiring level was very healthy. And I think if we look now into 2022, we have -- we are expecting to grow by quarter-over-quarter between 300 and 400 net per quarter. That means we are probably going to hire about 1,000 to 1,200, 1,300 people per quarter. So that is factored into our guidance and financial objectives. We also are -- because we started to see that traction in the second half of the year, we carry over this effect into 2022. We have factored this in that as well.

From an inflation standpoint, yes, we are -- we've adjusted our compensation on average, around 5%. And I think this is the industry norm right now, and it's the right thing to do for our employees. And if you put this all together, of course, when we talk about margin, we also have to talk about the top line. We are confident in the 9% to 10%. We see the acceleration in subscription at very healthy margin levels. So I think we are well positioned with regards to the margin, which the margin, by the way, when you look at it at 33%, that's back at the level of where we were 2019. And I think that's the level where we believe is a very healthy margin level that gives us the flexibility to do the right level of investment to take advantage of the secular growth drivers that Bernard and Pascal talked about. And I think that's our job to ensure that we find the right balance. And I think in 2022 objectives, that's what we've reflected.

Bernard S. Charles

Vice Chairman & CEO

Regarding the second question, Stacy, about the topic of Metaverse. We think that, like, by the way, what Tim Cook has been saying at Apple on that same question, it's about virtual reality. It's about, for us, about virtual twin experience. This is what we've been doing for 40 years, creating the first digital 3D airplane, cars, now almost everything. I believe that the great trend to have new devices, what I call, 3D mobile devices to make 3D basic across the society is acting and accelerating. And the part we will play in terms of opportunities for growth is to help our clients reach their whole consumers. This is why this morning, I used the incredible showcase of IKEA. It's one example, but in our daily life, we see how many things we want to buy or we are -- desirable to have in our homes, in our life. And it's very difficult sometimes if you don't see the real thing to understand, will it fit under the window? Will it fit in your house, whatever. It's the case very often. It's a question of relationship between you and your life and the things you see on the screen in the virtual world. This alignment is coming fast. We are proving it with IKEA and many other situations. I call this the 3D omnichannel approach to really connect with humans.

Same is happening in the medical sector. If you do surgery on the virtual part experience, scale and reality is important if you want to prepare, first, to educate the patient, to know what the physician are going to do. So it's a huge set of

opportunities for us, Stacy, and we are playing it. And we call it Virtual Twin experience of the 2B or [indiscernible]. And I think people understand it very well and our customers love it.

Operator

We have the next question from Michael Briest from UBS.

Michael Briest

UBS Investment Bank, Research Division

A couple from me. Just in terms of Medidata, I mean, tough comps in Q4, so I appreciate the slowdown. But could you talk about the expected growth you see this year for Medidata? And then on the cloud, I think, Pascal, a year ago, you said it was 17% of 2020 revenues and it's 18% today, not bad news. But if it's 17%, it means all of the recurring revenue growth was coming from cloud. So can you talk a little bit about the dynamics of the sort of shift from support into cloud, how much of that's occurring? And I guess in order to get to 33% of revenues in 4 years' time, if it grew 2 points rather than 3 points last year, you have to accelerate. So what sort of trajectory, and maybe, Rouven, this is for you, would you expect cloud to be this year in terms of proportion of sales? And is it quite a linear progression? Or will it accelerate in the outer years?

Pascal Daloz

COO, CFO & Director

Okay. So Rouven, maybe you can take the first one on Medidata. Happy to [indiscernible].

Rouven Bergmann

Thank you, Michael, for the question. It's a good opportunity to highlight the performance of Medidata. In fact, we see the sector -- the life sciences sector operating at a very, very high level. We see -- saw the activity and investment level from a macro perspective, of course, very favorable. The pandemic has really changed the status quo of this industry because, I think, I wanted to point back to what Bernard said before, where it's really hard to find the right timing in terms of -- when the right time is when the industry transform, you have to be ready to take advantage of that. And I think Medidata is a fantastic example where we were investing really ahead of time for many years. And with the change of the pandemic to the landscape in terms of decentralizing clinical trials, in terms of the importance of AI and data analytics to simulate and advance evidence generation, Medidata was really ready to take that -- take advantage of this opportunity.

So I'm saying this, Michael, because those trends are here to stay, right? They are not temporary because we were just elevated by a pandemic. Those trends are here to stay. In 2021, the growth was, of course, elevated because when you compare it to 2020, we had some softness in the first half of the year of 2020. And we saw that clearly reflected in this very strong growth in the first 2 to 3 quarters of 2021. In the fourth quarter, Medidata grew 15% plus, so it was more than 15%, but I think very strong because on a very -- on a comparability of a very strong Q4 of 2021 as well. And how has -- why am I saying this? So bookings levels, we're almost at record level. Our backlog continues to grow at very healthy double-digit growth to support the 13% to 15% growth range that we have set as our target. And so I think Q4 is a good representation of what we expect in 2022 in terms of Medidata's growth. So the 13% to 15% growth range is that what we are targeting. Of course, now at a business that's almost at \$1 billion in revenue where you have a certain baseline effect as well. So you really have to factor that in into the growth calculation.

From a growth driver standpoint, Medidata continues to grow through the expansion into Patient Cloud and data analytics and AI, which continues to drive a broad-based portfolio, supporting the growth objective. So with that.

Pascal Daloz

COO, CFO & Director

Okay. So the second question you asked, Michael, was related to the cloud. As I was telling you, it's 2 points, 200 basis points more in the mix of the total software revenue this year, so 20% compared to 18% last year. If you look at the different contributors, right now, Medidata is by far the largest contributor to the cloud dynamic, around -- a little bit around 80%. 20% is coming from the rest, the rest being specifically ENOVIA, CATIA and, to a certain extent, SIMULIA as well. Where we see the mix in terms of the different contributors going for the next few years, it will be much more balanced. So I do expect Medidata, in the objective I gave, to be 1/3 of the revenue in 2025 to be around 60% -- 60%, 65%, which basically means the rest will grow faster. And the rest will be specifically ENOVIA where we see more and more the customer adopted the subscriptions and the cloud model for them because it's very suitable for the collaborative

environment and is giving the flexibility with the name user approach we have generalized. SIMULIA because the computing power is also something, giving the ability to have those kind of solutions, being affordable for also the mainstream and the mid-sized market. So we see traction along this way. And the WORKS family is also benefiting of this. And last but not least, the new generation of SOLIDWORKS is definitively, I mean, very suitable for the cloud approach because it's a way, obviously, to get access to the feature and the functionality, but it's a way to connect with easily with the rest of the portfolio we have. And that's the most important right now.

And the second thing is the 3DEXPERIENCE platform is becoming the cornerstone also for the mainstream market. And the only way to make it affordable is also through the cloud. So if you combine all those elements, you will be -- you will land with the mix, which is the one I just described. So from 80% to Medidata contributions to 60%, 65%. The rest will be all the product line I just described.

Michael Briest

UBS Investment Bank, Research Division

But how would you expect to add about 300 basis points a year? Or will it be more back-end loaded than that?

Pascal Daloz

COO, CFO & Director

No. I mean, it's -- Bernard said in an elegant way, he said you could have the solution. There is one thing you are not mattering is the market adoption. So the mainstream is probably something we could control because it's much more push than a pull. But when you are talking about large customers, take the example of Renault, I mean, you need a lot of point to be connected and aligned before to have a large company like Renault to take the decision to move 100% to the cloud. So all the large customers we have a 10-year road map, all of them. So the problem is not anymore a road map. But none of them we shipped over the night. And that's the reason why you could accept that from 1 year to another one, you could have some volatility, I would say, in terms of the contributions because the whys -- I mean, it would have been -- if we would have been able to give you with precise numbers when the customer will migrate means we are in full control of their decision process, which is not fully the case.

Operator

We have the next question from Mohammed Moawalla from Goldman Sachs. .

Mohammed Essaji Moawalla

Goldman Sachs Group, Inc., Research Division

I had a couple from my end as well. Firstly, Bernard, obviously, we're hearing IT spending and the broader environment is very robust. We're also seeing kind of larger, more kind of strategic engagements happening across the different sort of segments within software. I'm just curious from your vantage point, as we're kind of now coming out of the pandemic, we saw the Renault deal, but how do you see sort of some of these bigger strategic engagement discussions developing? And how should we see that sort of coming through in terms of your business and not just on the kind of the core automotive or transportation mobility and side but also in life sciences? If you could comment on that and how you expect those sort of sales cycles to develop.

Second question, obviously, I think you alluded to this, Pascal, that the balance sheet has kind of delevered ahead of your expectations. And you're looking to continue to diversify. So can you remind us again in terms of kind of your kind of approach on M&A? What are the kind of particular verticals that are perhaps a part today in making the strategic news of -- given where different industries are digitizing? So have you -- is your thinking there kind of changed to accelerate the process?

Bernard S. Charles

Vice Chairman & CEO

More on the first item, which is clearly for our existing base, the arbitration towards going to experiences, as Pascal just said it, very clear in their customer road map. It's not anymore a question of should we do it. It's about how do we stage it. It's very clear on, I think, it's creating, I think, a strong visibility for us. The second thing that it has as an effect related to your question is it's creating a new reach. For example, at Renault, but I could also mention other clients like Airbus or even Boeing now with their massive transformation going on. The platform is becoming a platform used for costing, supply. So not only engineering, but manufacturing engineering, optimization of the plant, evaluation of the product in

operation. We mentioned Schindler a few months ago where we really are really evaluating the introduction of the platform to support the world installed base of elevators on escalators. So that, a world of reach that was not possible without the platform, are now becoming available. So we are very cautious to put the pie up for growth. Dassault Systèmes is a system. We put the pilots for growth first and then we build on them. And so that's what is happening. So we are very confident on -- I have to tell you, the mood with the customers to really embrace the platform phenomenon is very strong. And we -- I remind that we mentioned Toyota in the past, Bouygues. We mentioned Renault now. We mentioned Boeing at some point in time. We mentioned Airbus. I mentioned Schindler. I could take a lot -- a long list of those clients and say, this move is on and we will not stop.

Pascal Daloz*COO, CFO & Director*

Regarding the balance sheet situation. So you're right, Mo, we will be fully deleveraged somewhere H1 this year 2022, which gives us room to maneuver. The M&A policy has always been the same. We have the bolt-on. So it's an ongoing flow of acquisition we do for almost -- on the road between EUR 100 million and EUR 300 million per year. And then you have -- because I think this is your question, the big move we can do. So we have big move. We could consider in all the 3 sectors of the economy at parity, I mean, in terms of where do we want to focus? If you continue to put pressure on the tech sectors, maybe some of them will become affordable for us. So that's probably the only good news of the situation right now. But do not expect that I will disclose our thinking process during this call. You have to wait a little bit.

Bernard S. Charles*Vice Chairman & CEO*

On the dynamics, I forgot to ask to answer the question on you specifically said also on life science, connecting the dots. Let me be clear on that. We use Perrigo on purpose, and we have many other customers where they were Medidata only. And now they are seeing the value of bioreactors, so Virtual Twin for bioreactors. They are seeing the value on the front end in research with BIOVIA on what we call ONE lab, which is an excellent showcase about how we connect research, lab, clinical trial and bioreactor. So the showcases are there. And in fact, it's a discovery for this industry, as Rouven said. That sector was more document-based than fully virtualization-based and is discovering the virtualization as opposed to just digitizing basic documents. So it's a very -- and we need to calibrate how fast we go because we want to make them successful.

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

Rouven, just as we think about sort of the Q1 guidance, the cost simply from the kind of tough comparisons? Or is there because -- I think on the recurring side, the comp is not as tough. So just can you help us kind of understand the thinking around the kind of recurring guidance you've given at least the bottom comp, what kind of portion is that?

Rouven Bergmann

I think, Mo, the simple answer is we are growing progressively throughout the year. We are forecasting 100 to 150 basis points improvement in recurring revenue, certainly driven by accelerated growth in the subscription line but also in recovery of support because -- as a result of the very strong performance in licenses in 2021. And we just want to gradually progress into the year. And I think we've -- it's a good and prudent way to structure the full year outlook. And so there -- that's the summary. There's no systematic headwind for Q1. It's simply -- we are progressing from a very solid Q4 where we were in recurring revenue at the low end of our range, targeting acceleration in recurring revenue in 2022. And we are progressively doing that through Q1 and the rest of the year.

Operator

The next question from James Goodman from Barclays. .

James Arthur Goodman*Barclays Bank PLC, Research Division*

Maybe we can pick up on 3DEXPERIENCE to begin with. And could you quantify -- and apologies if I missed it, but the performance there on the license side this quarter? Maybe just provide some broader context around the 3DEXPERIENCE adoption. It just looked like sort of slowed a little bit in terms of year-on-year growth in the fourth quarter despite the overall license performance. So just wondering what the puts and takes there are.

And then more broadly, could you perhaps make some commentary around the behaviors you're seeing from your customers in different industries as it relates to the supply chain constraints, so broadly impacting parts of your customer base at the moment. I'm thinking about the opportunities it provides a data, the necessity to sort of accelerate certain adoption of your solutions. But also whether there's been any timing impact from a financial perspective just as a consequence of some of the challenges those businesses are facing.

Pascal Daloz

COO, CFO & Director

Rouven, you want to take the first one? But before to do this, I want to make one comment. Be careful not to look at only the license for 3DEXPERIENCE platform because we are more and more subscriptions coming from 3DEXPERIENCE. So if you are looking for an early indicators in terms of the momentum, you need to combine the 2. Rouven, would answer to the question.

Rouven Bergmann

Yes. And I think we mentioned it before that for 3DEXPERIENCE, we saw very strong momentum in the fourth quarter in the subscription line and overall very, very strong growth in 2022 with very healthy growth rates in total. So when we look at Q4, you mentioned maybe some slowdown, if I correctly understood your question. I think Q4 was -- we were ahead of our consensus, our own objectives that we set. Q4, also, you have to factor in the year-over-year comparison. I think Q4 of 2020 was the first real benchmark for us in 2021. And I think compared to that, we've shown very, very good durable growth. I also want to highlight the fact that the growth was broad-based, right? If you look across the geos, if you look into Asia, for example, 12% growth, China, very, very strong growth. But also the resilience in Europe and core markets, transportation, mobility, industrial equipment. So it's really coming from the core industries and the core pillars of the company. So Q4 was good.

Bernard S. Charles

Vice Chairman & CEO

On the supply chain side, it's a very interesting and challenging situation for many industries. I see 3 factors. I meet a lot of customers, thanks to Pascal. He's really running the operations. So I have time to spend time with clients, and I love to do that. I see 3 factors and many of them are not well understood by many observers in the economy. One of them is related to the effect of sustainability, is reframing the value chain. Of course, the very first which everyone talks about is the availability of components, on those kind of things. And the second factor is related to the logistics. The third factor is related to the transformation of the supply chain to value chain. Let me comment on the 3 of them.

Of course, on the availability of certain resources of components or materials, I think it's opening the eyes of many, many companies to better master the decision process of how they work with those suppliers. Up to now, it was purely cost-driven. For years, in the last 15 years, I've been following this industry and transforming it for 40 years, I can tell you, and I have a very precise data on it. Now it's moving from a cost to a more reliability, trust and proximity. The second thing related to the supply chain is the reshaping of who plays in the value chain because when you create new product portfolio which are more sustainable, you change formulation for cosmetics, you change materials for manufacturing. And this is going to accelerate. This is why we have a platform which is absolutely unique because we do those kind of simulation, the what if. Believe me, this is not the next 2 years. This is for the next 20 years that it will drive the growth of what we do. And finally, on the logistics thing. Yes, there was the congestion related to a slowdown and now comeback. But I think there is a deeper problem, which is when people are going to start to seriously report ESG and the cost of logistics, they will change their mind about proximity. And we talked about near-shoring in the past for engineering. It has happened in Europe, for example. But we will see a new proximity in terms of production because the ESG factor on the sustainable reporting for companies is going to enforce to not optimize on cost, but optimize on other criteria. That's, in short, where we are playing and why the platform is unique to solve it.

Operator

Next question from Charles Brennan from Jefferies. The next question from Amit Harchandani from Citi. .

Amit B. Harchandani

Citigroup Inc. Exchange Research

Amit Harchandani from Citi. Two questions, if I may. My first question goes back to the performance in licenses and other. And if you could please help us better understand the underlying drivers of the guidance for 2022 in terms of any particular product lines that you would call out sectors or the underlying strength of 3DEXPERIENCE adoption. So that would be the first question.

The second question goes back to the topic of 3D EXPERIENCE more broadly. You've talked about it being 30% in -- of software in 2021. The objective is 2/3 by 2025. Could you help us understand how we should think about the trajectory over the medium term and as it may, break down between licenses and recurring revenue?

Pascal Daloz
COO, CFO & Director

Thank you. So Rouven, you take the first one, and I will take the second one.

Rouven Bergmann

Sure. So thank you for the question. We have -- as you -- as discussed, for the license, we are projecting 10% to 12% revenue growth -- license revenue growth year-over-year. It compares to 15% in Q4 of last year. So what are the drivers? So we have seen very durable performance of our major brands, of our major solutions of the platform, certainly if you look at into the -- into our core markets of Industrial Innovation, which is back to 2019 levels. And you know we have a lot of our installed base that is constantly with very strong renewal rates, where we constantly expand our footprint in our core offerings. I think that's where the majority of the license revenue in Industrial Innovation continues to come from. And I mentioned that in my prepared remarks, it's because of our very strong installed base. So our license model is very well established, and we see that to continue while we are increasing our recurring revenue by 100 to 150 basis points in 2022.

If you look into the Life Sciences sector, maybe to give you some color there. With the Life Sciences engagement that we've created 2 years ago, we talked about this, Pascal mentioned it. We are in a transition to accelerate the subscription revenue growth across the brands outside of Medidata, which is already fully subscription. And if you look into our mainstream market, of course, SOLIDWORKS has a strong installed base of licenses. But as well, with our focus on 3DEXPERIENCE and the SOLIDWORKS family, we are progressively moving towards a subscription and cloud model. But nevertheless, I think the 10% to 12% of license growth is on a very strong foundation for 2022.

Pascal Daloz
COO, CFO & Director

Okay. So related to the 3DEXPERIENCE platform momentum and the KPI which I shared with you at the Capital Markets Day almost 3 years ago. You have to remind something, when I did it, it was only on 1 sector of the economy, which was largely the manufacturing sectors. So now we are expanding into 2 new sector economy, which is life sciences and infrastructure, where the penetration rate of the 3DEXPERIENCE platform is low. And if combined, it represents more than 30% of the total revenue of Dassault Systèmes. So if you want to compute my number, you should keep in mind that when I gave to you 2/3 was really related to the manufacturing sector first, point number one.

Point number two, if you look at all the industry within the manufacturing sectors, it's relatively simple. The core industry, namely auto, transportation and mobility, aerospace and defense, industrial equipment, the penetration rate is between 40% to 50%. If you look at the others, it's much more close to 20%, which is, for you, a way to understand where the levers are coming from. So that's basically, if you want to modelize and to follow this KPI in a proper way, the way you should look at it and how you should input your model in order to assess if we walk the talk.

Operator

We have the next question from Frederic Boulan from Bank of America.

Frederic Emile Alfred Boulan
BofA Securities, Research Division

Two questions from my side. First of all, on the Life Science segment, if you can spend a moment talking about your positioning in the value chain. And is there any specific segment that you think could be interesting to develop further? And then on the infrastructure and cities segment, if you can discuss a little bit the traction you're having here, and if you think there is some need to develop either the product or the distribution capabilities, either organically or nonorganically.

Bernard S. Charles
Vice Chairman & CEO

Thank you, Frederic. On the positioning on the value chain for Life Science, I think we are demonstrating that the Medidata enterprise solution can be massively expanded to become a platform for distributed clinical trial. I think that's a big step because it points out on the fact that one day we want to really have an infrastructure for patient journey. It's a good preparation for that.

The second, in the value chain, if I take your question exactly with the value chain, there is no doubt that this industry is far suboptimized when it comes to production. It's far from what has been done in -- I think if a rich company is not optimizing at all their infrastructure for production for bioreactors, on new production infrastructure. And so there is a lot to play there. They are far from using the lean TPS of -- Toyota Production System. It's unknown to them. The reviews of equipment is very low. The agility to ramp up is far from being what it should be. I don't want to be negative and insulting our potential customers, but we understand what production is about. The certification process is document-based. This would never happen anymore for an airplane. So that's on the value chain from producing things. If you think about personalized medicine, there is another phenomenon. We will have units -- smaller units producing smaller body quantity of very specific therapeutics. I think this is what more than has in mind, and the industry is not ready for that.

On the front end, if I go now backward on the research, there is a lot to be done on the -- not only looking on price, we focus on that, but on the research lab on the unification of lab discipline, which is related to cooperation. Most of the companies in the pharma sector has massively fragmented R&D, most of them. It's isolated R&D PC. They don't talk to each other. We see that now with 3DEXPERIENCE One lab, we are connecting the dots that never were connected before. And not to speak about the lab work itself, which by the way, if you go and visit, you would see that most of them are reentering data for lab. So a lot of things to be done in value chain. Of course, the companies are challenged. All of them are challenged on new therapeutics, new research. And maybe this is why this discipline of connecting and creating digital pipeline is not there. But I think we are revealing to them now, with Dassault Systèmes, with the new reach that we can do a lot more. So I think it's not a negative comment to say that they are several decades behind in other sectors and that we can make the difference going forward on the back -- this is on the value chain.

Pascal Daloz
COO, CFO & Director

Infrastructure, you want to say?

Bernard S. Charles
Vice Chairman & CEO

Infrastructure briefly, we continue -- first of all, we continue to make showcases. As Pascal said, the way we're expanding just on Bouygues with all new projects with new players involved on the same platform, is just impressive. We need more of that. That's our challenge. And to your remark about is it a question of portfolio or is it a question of reach on capacity, I would admit that we need to find ways to expand on the capacity because what we have offered up to now is working, giving results. Conducting the transformation and capacity to reach is probably a weak point for Dassault Systèmes to date.

Thank you very much. Pascal, Rouven. Thank you very much. I feel very comfortable. You are a great leadership. It's great news for me. Have to spend more time with customers, and this is what I love on technology and science, too. So with all of that, hopefully, see you soon and enjoy your day. We will continue to walk the talk and be one of the best reliable company to deliver on what we said.

Operator

That concludes the conference for today. .

François-José Bordonado
Vice-President of Investor Relations

Thank you, guys.

Operator

Thank you for participating. You may all disconnect. .

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