S&P Global
Market Intelligence

Dassault Systèmes SE ENXTPA:DSY

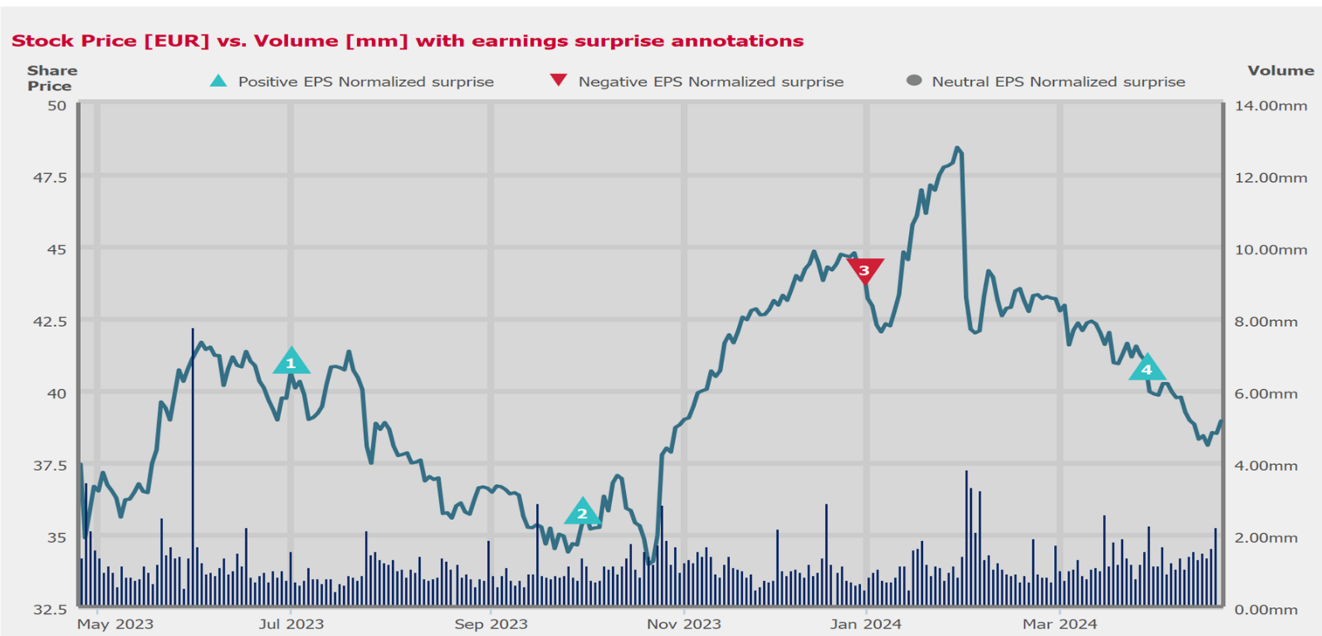
FQ1 2024 Earnings Call Transcripts

Thursday, April 25, 2024 8:00 AM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.29	0.30	▲3.45	0.31	1.30	NA
Revenue (mm)	1515.82	1499.70	▼(1.06 %)	1557.98	6411.11	NA

Currency: EUR
Consensus as of Apr-25-2024 1:24 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2023	0.27	0.28	▲1 3.70 %
FQ3 2023	0.27	0.28	▲2 3.70 %
FQ4 2023	0.37	0.36	▼3 (2.70 %)
FQ1 2024	0.29	0.30	▲4 3.45 %

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Call Participants

EXECUTIVES

Beatrix Martinez
Vice President of Investor Relations

Pascal Daloz
CEO & Director

Rouven Bergmann
CFO & Executive VP

ANALYSTS

Balajee Tirupati
Citigroup Inc. Exchange Research

Ben Castillo-Bernaus
BNP Paribas Exane, Research Division

Charles Brennan
Jefferies LLC, Research Division

Frederic Emile Alfred Boulan
BofA Securities, Research Division

Gianmarco Paolo Conti
Deutsche Bank AG, Research Division

Laurent Daure
Kepler Cheuvreux, Research Division

Michael Briest
UBS Investment Bank, Research Division

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

Nicolas David
ODDO BHF Corporate & Markets, Research Division

Toby Ogg
JPMorgan Chase & Co, Research Division

Presentation

Beatrix Martinez
Vice President of Investor Relations

Good morning, everyone. I'm Beatrix Martinez, Dassault Systèmes VP, Investor Relations. From the company, we have Pascal Daloz, CEO; and Rouven Bergmann, CFO. Thank you for joining our First Quarter 2024 Conference Call with Pascal Daloz, Chief Executive Officer; and Rouven Bergmann, Chief Financial Officer, here in London.

At the end of the presentation, we will take questions from participants in the room and on the call. 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 presentation are presented on a non-IFRS basis with revenue growth rates in constant currencies, unless otherwise stated.

For an understanding of the differences between the IFRS and the non-IFRS, please see the reconciliation tables included in our press release. Some of the comments we will make during today's presentation will contain forward-looking statements that could differ materially from actual results. Please refer to today's press release and the Risk Factors section in our 2023 Document Universal, published on March 18, 2024. I will now hand over to Pascal.

Pascal Daloz
CEO & Director

Thank you, Beatrix. Good morning, good afternoon to all of you. Always a pleasure to be physically here with you in London. So let's start with the first quarter results.

So first of all, software revenue rose 7%, driven by 3DEXPERIENCE platform, up 29%. I think we delivered an operating margin of 31.1%, slightly over-performing our profitability objectives, thanks to the disciplined cost management, and Rouven will come back on this. And as a result, our EPS was strong, up 12% at constant currency.

The takeaway is, in this first quarter, our 3DEXPERIENCE platform businesses, in fact, delivered very strong results. You have seen it, [plus 29%], with a significant number of top industry leaders in the manufacturing on board on our platform. And I was speaking with some of you just before, we are at the point where it was just before the COVID, where people now start to consider the platform from end-to-end. And that's really -- it's really visible in everything we do in the manufacturing space.

Looking ahead, I think we have a strong 3DEXPERIENCE pipeline. In Life Sciences, we are definitively devoted to replicate our success in other industry, provided this end-to-end platform. And this transformation lays, I think, the foundation for the sustainable new source of growth. And on the short term, we believe and we anticipate MEDIDATA to be back to growth in the second half of this year.

So therefore, if you combine all the good visibility we have on the pipeline with the 3DEXPERIENCE platform businesses, in conjunction with the MEDIDATA outlook, we are confirming our guidance for the full year. Now let's move to some strategy and vision updates.

We are stepping up in the generative economy, and it's our next step in our journey. And this generative economy goes far beyond to really extend the virtual twin to the living organisms. It's about learning from life. It's about adopting a net positive way of living, which is, you remember, it's -- we want to give the ability for the industry to give back to the planet and the society at least as much as what they take to do the manufacturing, to do the trading, to do the usage of the products. We call it the eco-bill, the same way we have the bill of materials in the past.

To do this, you need a much more holistic view of the entire life cycle because you need to measure at the end, the impacts you are creating on the planet. And to give you certain examples, that's what we do in the transportation and mobility. It's not only the passenger, it's not only the vehicles, but you have to take into consideration the building the city, the air qualities. And at the end, it's an entire systems you have to represent.

It's also true for the Life Sciences. When we look at the concept, you know it's not only the body, but it's also the result of an organic process. And the combination of the 2 is extremely difficult to master. So this is the reason why we came with this idea of the 3DS universe. Because for us, the universe is really a way to combine different virtual twin together and connect the real and the virtual at the same time.

It's very differentiating compared to many of our competitors. It's not fake. It's not a side. It's really a way to connect the 2 together. And that's the reason why you have this V plus R. And by the way, universes mean how to unify the virtual and the real for the society and the environment. That's what universe is about.

And you remember last quarter, I showcased an example for you, which was Biogen. Why Biogen was an interesting one because if you remember, it's a leading American biotech company and specialize in the horological disease. And what they were doing, they were connecting 2 virtual twins. One was the patient brace and the spinal columns, and the other one was the drug. And why so? Because it was a way to determine the optimized way to inject the drugs for special patients. So this is really how we are creating the connections between the 2.

Now moving forward, I think this holistic approach I was referring to is made possible because our 3DEXPERIENCE platform is also a data science platform. And the way we express it, it's a way to connect the models from the science with the data coming from the experiences, which is unique on the markets because none of our competitors can do the same at the same time. And we already have an impressive use cases -- list of use cases.

For example, in our Space and Defense, they are using this ability to mix the 2 to improve the viability and the availability on the critical assets. In consumer industry, people are using this approach to manage the churn, the cross-selling, the upselling, the pricing management. In transportation and mobility, people are using this as a way to manage the situation of the supply chain, especially to navigate in the raw material and energy component prices. It was also a way to make substantial savings on the procurement. It's also a way to optimize the weight and balance, for example, on the product performance.

So there are many, many different cases where this combination is extremely relevant. And it's just the beginning, and we firmly believe that the combinations between generative AI on one hand and the model and the science on the other hand is really empowering the customer to nurture the circularity and elevating all the data into knowledge and know-how.

Now if I zoom and I basically return now to the business trend we observed in Q1. First, let's start with the manufacturing industry. I already highlight the excellent performance we have our 3DEXPERIENCE platform and the process in terms of adoption within our total base. Looking ahead, I think we have a strong pipeline in transportation and mobility in our Space and Defense, and I think this has positioned us to secure major contract within the industry leader in 2024.

Now turning to Life Sciences & Healthcare. The sector is currently pivoting towards 3 things: patient centricity on 1 hand, technology transfer from the lab to the bioreactors and the utilization of the generative AI to foster innovation on the research and the discovery side. And I think MEDIDATA offers the most comprehensive platform to design, launch and conduct advanced clinical trials.

Why so? Because it's the only platform connecting the 3 parties, if you want, the pharma company on one hand, the hospital on the other hand and the patients. And you need to connect those 3 at the same time. Many of the competition, they have a fragmented way to address this market, at least they are using different platforms in order to make it happen.

In the Infrastructure & Cities sector, I think the decarbonization is becoming crucial, and it's contributing at least to -- why so, because this sector is contributing to 1/3 of the global emissions. And sustainability is really driving the commitments on many things. One of them is to triple the nuclear capacity to shift to clean energy and innovating in a much more inefficient way.

Among the challenges, I think we see reviving nuclear construction at scale and shorting the time between the nuclear constructions and the commissioning. Now let's look at some win chart.

This quarter is about the win back. Let's start with the first one, Volvo. You remember, they are using CATIA for a long time, but they were not using the rest, especially on the PDM systems. As you can see, they have decided to embrace the new generation of CATIA, CATIA 3DEXPERIENCE, at the same time, and they are obviously deploying the 3DEXPERIENCE platform everywhere. And at the end, the end result, they are migrating the 1,500 CATIA users to the next generation of CATIA.

Why they do this? Because they want again to transform from multiple platforms to one single one, which is scalable, which is facilitating the real-time collaboration, which is helping them to reduce significantly the time to market. And this is basically the most important things happening in this industry right now.

Why it's a difficult thing to do? Because you have to integrate the hardware and the software at the same time. And the gain, because they have been able to measure the gain, it's not weeks, it's monthly. It's really a significant gap compared to the way they were doing it previously.

The next point for them is really also to reduce their carbon footprint. And as you may know, we have invested a lot in life cycle management capabilities to integrate these impacts on the sustainability and especially to predict how much carbon footprint you will generate. And in this case, their target is reduced by 40%.

So I think it's just the beginning for the Volvo Car journey with 3DEXPERIENCE platform. And I think there are much more expansion we can do specifically on system of systems, the [most] team -- to generalize the [most] team approach, but also the data sciences.

Another win case, which I think will be interesting for you, is TSF. Why it's an interesting 1 because in this case, we have displaced Veeva. So for the one, who are convinced that Veeva is disrupting us. I think we have the proof that it's not the case. This company is a contract research organizations. They are based in Sweden.

And why they have selected Veeva -- sorry, MEDIDATA against Veeva. It's exactly for the reason I just mentioned before. Because they want to have 1 single platform to address the different stakeholders. And as a CRO, if the system is already deployed in all the hospitals where you are basically practicing the clinical trial, it's a huge advantage in time of cost.

So that's the reason why it was, I think, a wise choice for them. And the second thing is also they want to streamline at the same time the clinical operation and the data management operations, which is something you cannot do if you have 2 different systems. And [REV] is offering this ability to do both at the same time.

And last but not least, they are using MEDIDATA AI as a way to enhance the study enrollment and the feasibility. One of the difficulty when you do a clinical trial is to identify the potential patient you have to enroll. And to do this, you need to assess the different hospitals, the different sites in advance. And this ability we have within MEDIDATA with the AI capability to guide decision process is pretty unique on the table.

So again, good case for you. The next customer win I selected is size well. You know it because we are in U.K. And as you know, it's very important because it's a way to offer electricity and to decrease dependency on the fossil energy to 6 million household here in U.K. So they have selected the 3DEXPERIENCE platform to several things. One is really to increase the nuclear capacity. More importantly, is to enable nuclear constructions and reducing the time to operations. That's what is at stake.

And why it's a difficult thing, because on one hand, you have intensive engineering activities. And on the other hand, you have a lot of construction activities. And the 2 needs to work extremely well together and not in sequence, in parallel. And this is the reason why having 1 single virtual twin to aggregate the 2 view is fundamental for this sector.

So as a result, we are talking about 200 users. But in the next phase, we will expand to more than thousands of users because we need again to connect all the different stakeholders in these projects.

Before to hand over to Rouven, let me do a quick wrap-up. I think we had a solid start of the year. Our 3DEXPERIENCE platform business is delivering strong results and we have a strong pipeline going forward. In Life Sciences, the sector is pivoting, right? And I think we are uniquely positioned to address those changes and more importantly, we are anticipating MEDIDATA return to growth in the second half of the year.

And I think simultaneously, we are laying out the foundation for the future growth by leveraging the 3DEXPERIENCE platform, enabling our clients to connect, on one hand, the data from experiences. And on the other hand, the model with from science. And they are using the generative AI to nurture the circularity and to elevate the data in what we call the knowledge and the know-how. I think now let's look at the Q1 performance and the outlook for Q2 2024. So Rouven, you have the floor.

Rouven Bergmann
CFO & Executive VP

Thank you, Pascal. So thank you, Pascal, and also welcome from my side for those who are here with us today and those who follow us on the webcast.

As you heard, we are entering into the year with a solid start as we remain focused on our fundamentals and the fundamentals of our business model. The combination of subscription revenue and upfront license revenue together grew 9% while the operating margin was up 50 basis points to 31.1% and EPS grew by 12% ex-FX. We knew that coming into this year, that MEDIDATA would weigh on our subscription performance. And in this context, subscription revenue is up 10% in the quarter.

If we exclude MEDIDATA, subscription revenue was up 22% and is driven by the strong growth in 3DEXPERIENCE. The share of recurring revenue remains high at 84%. Upfront license revenue was strong in the quarter. It is up 7%, driven in part by good performance of our business in Asia and as well a stronger demand for CapEx investments supporting our customers' business model preferences.

Now adding to the fundamentals, we generated EUR 671 million in operating cash flow. While below last year's level, cash flow conversion remains healthy at 1.44x of non-IFRS operating income. This trend reflects the progressive shift to subscription as we see a more ratable cash generation going forward.

Now let's review briefly how we performed relative to our objectives in Q1 2024. Total revenue at EUR 1.5 billion, it was in line with our objectives, just below the midpoint, while lower software and service revenue were partially offset by currency. Operating margin was at 31.1%, as said, above the high end of the objectives driven by disciplined expense management.

Importantly, we continue to invest to support our strategic initiatives with the net headcount growth of around 1,200 over the last 12 months. This sets a strong basis for continued growth and margin expansion in the future. As mentioned earlier, EPS at EUR 0.30 is reflecting good operating performance and strong financial income in Q1.

So to summarize the financial results. In the context of the MEDIDATA transformation, we delivered solid financials in the first quarter. Lower contribution in subscription revenue was offset by stronger upfront license. Clearly, 2024 is a back-end loaded year like 2023, underpinned by continued momentum in 3DEXPERIENCE and the return to growth for MEDIDATA.

Profitability is strong as a result of effective cost control, while we continue to make focused investments to shape our strategic cost drivers of 3DEXPERIENCE and cloud to support our full year and midterm objectives.

Now to our growth drivers. 3DEXPERIENCE revenue rose 29% in Q1 at constant currencies, driving the share of 3DEXPERIENCE to 36% of addressable software revenue. And in this quarter, 3/4 of the growth related to 3DEXPERIENCE is driven by deals larger than EUR 2 million, highlighting the strong value of potential and the momentum in our customer base.

In Q1, we had several key customers expanding the 3DEXPERIENCE platform use, such as Volvo, Honda, Dana, Payment Shipyards, B. Brown and EDF. Cloud revenue grew 6% in Q1 due to the anticipated lower growth contribution of MEDIDATA. Ex-MEDIDATA, cloud revenue was up around 50%, driven by continued growth momentum in 3DEXPERIENCE Cloud.

The cloud is now representing 24% of our Q1 software revenue. Key customers expanding on 3DEXPERIENCE cloud use in the quarter were Renault, Bouygues Construction, Schindler, Honda, Dassault Aviation as well as Sanofi, besides many others. We are confident that we will continue to capitalize on the momentum of our growth drivers and continue to grow our market share in 2024.

Now let me highlight to you the performance across GEOs as well as product lines, starting with the GEOs. Americas was up 5%, due to lower anticipated due to the lower, but anticipated contribution from MEDIDATA this quarter. Excluding MEDIDATA, Americas is up 9%, driven by strong momentum in Home & Lifestyle, Aerospace & Defense and durable growth in Transportation & Mobility. Europe was up 7% with strong double-digit growth in the North and Western regions. We saw a well-diversified growth profile across multiple industries such as T&M, Energy & Materials, Construction, as well as Home & Lifestyle.

Asia had a rebound in Q1, led by strong growth in China, up 17%, driving the strong license performance this quarter. Also Japan, India and Korea delivered high single-digit software revenue cost. Now from a product line standpoint, we saw continued good momentum in industrial Innovation, up 9% overall.

CATIA and ENOVIA were up high single digit. While DELMIA, NETVIBES were up double digit in software revenue. Subscription revenue already represents more than 2x the license revenue in industrial innovation and was growing 20% in Q1. Life Sciences was down by 2% overall with MEDIDATA at minus 3% versus a strong comparison base in Q1 last year. On the other hand, BIOVIA had a good quarter, delivering high single-digit growth in software, driven by renewals and expansions with major customers such as Regeneron, Gilead and Takeda.

Now let me provide you with an update on the market trends in clinical trials and our progress since the beginning of the year. First, on a trailing 12 months basis, we see market growth trends normalizing. In fact, since the beginning of the year, over the last 3 months, study starts are stabilizing to be slightly up versus a decline of minus 10% at this time last year.

Second, in this improving market environment, our growth bookings in Q1 support our plan to return to growth in H2. In fact, our study based bookings are back to growth driven by an increase in partner consumption. In addition, we have started to see increasing activity in the midsized pharma segment, which has always been a catalyst of our growth.

Lastly and important to highlight, we are competing well with run rates up across all the segments, driving market share gains, specifically in Phase III trials. To summarize, our market share dynamics are positive, adding about 2 points versus last year.

On mainstream innovation, we see good performance with 10% growth, driven by an excellent performance of Centric PLM. In this quarter, we won with Abercrombie and Fitch our largest deal in the fashion and apparel business. This, plus strong renewals, delivered excellent performance. For SOLIDWORKS, we are clearly transitioning to subscription at scale. Subscription revenue is growing over 60%, offsetting the decline in license revenue. And more importantly, we expect this trend to continue and further accelerate towards a higher share of subscription revenue to continue to drive sustainable growth.

As I just mentioned, a key contributor of our growth in industrial systems is provided by Centric PLM, which continues its strong growth trajectory with signing of new large enterprise deals quarter-over-quarter, adding new logos to our growing list of brands.

In addition, we are successfully renewing with existing customers, expanding our share of wallet, which was demonstrated with a number of strong renewals this quarter. So as you can see, the momentum is broad-based. Centric today delivers an integrated platform from concept-to-customer, leveraging generative AI as a competitive differentiator. This is truly a new category of PLM, and we are confident in building our path to $1 billion-plus business. Now let's turn to cash flow and balance sheet IFRS items.

Cash and cash equivalents totaled EUR 4.096 billion compared to EUR 3.568 billion at the end of 2023. This represents an increase of EUR 528 million. At the end of the quarter, our net cash position totaled EUR 1.103 billion, an increase of EUR 526 million versus net cash of EUR 578 million on December 31, 2023. This clearly highlights the disciplined and efficient capital allocation policy.

Now let's look at what's driving our cash position at the end of the first quarter. We generated EUR 671 million in operating cash flow for the quarter versus EUR 783 million last year. Cash flow from operations was mainly impacted by a lower decrease in trade accounts receivables this quarter versus last year. And this can be explained by 2 main effects.

First, there's an impact of over EUR 65 million of receivables was shifted to April as customers push payment dates to after the bank holidays at the end of the quarter. Almost all of them have been collected to date. Secondly, receivables are trending above last year's level due to the progressive adoption of subscription contracts in which invoicing is spread over the contract term and creates a new pattern and the cash collected when compared to the upfront license model.

In 2024, given the dynamics highlighted above, Q1 represents about 38% to 40% of the expected full year operating cash flow. While in previous years, Q1 averaged about 45% in the first quarter, 45% of the full year. As such, we expect a positive catch-up effect already in Q2. For any additional information, you will find the operating cash flow reconciliation in our presentation published this morning.

So to sum up, operating cash flow was mainly used for the repurchase of treasury shares of EUR 131 million, investments in CapEx of EUR 57 million and repayment of lease liabilities of EUR 24 million. Lastly, the total FX impact was about EUR 33 million versus December 31 last year. Now let's turn to the objectives for 2024.

Most important, we confirm our full year objectives. Total revenue growth of 8% to 10%, operating margin of 32.5% to 32.8% and the EPS at EUR 1.29 to EUR 1.31. Our pipeline supports our growth objectives as it's broad-based across multiple levels as mentioned with a more back-end loaded shape. We have good visibility in the continued momentum of 3DEXPERIENCE growth contribution, including sizable transactions.

MEDIDATA is on track to return to growth in H2 based on stabilizing market environment of clinical trial staff and continued good execution as evidenced in win rates and market share gains. As mentioned as well, SOLIDWORKS is progressing well, transitioning to the subscription model as planned. So as mentioned, we are reaffirming our full year objectives, which also includes double-digit growth in recurring revenue in the range of 10% to 11%, upfront license revenue in the range of 2% to 5% growth and services growth expected at 8% to 9%.

Now to update your models, I would also like to share some additional information related to Q2. We expect total revenue and software revenue in Q2 to grow between 7% to 9% each with upfront license revenue in the range of minus 1% to plus 7%, recurring revenue up 9% and subscription revenue up 15% to 16%.

Services revenue is expected to grow 6% to 7%. Our profitability is expected to continue to expand with operating margin up 50 basis points at the midpoint ex-FX, reflecting an operating -- reflecting a reported range of 31.3% to 31.5%.

EPS is expected to be in the range of EUR 0.30 to EUR 0.31 and up 10% to 12%. Now let me conclude. We had a solid start to the year. Our core business is performing well and is expected to accelerate throughout the year.

2024 is a back-end loaded year underpinned by continued momentum in 3DEXPERIENCE. For MEDIDATA, we see progress towards recovery in the second half, supported by the stabilization of the clinical trial market and good execution in terms of booking growth and win rates. As such, we are confirming our full year outlook, and we look forward to updating you throughout the year. We have several investor roadshows planned over the upcoming weeks, including in the U.S. end of May, and we look forward to meeting with you in person.

And now I would like to turn it back to the operator and questions. So maybe, Beatrix?

Question and Answer

Beatrix Martinez
Vice President of Investor Relations

Yes, we'll start with questions from the room.

Frederic Emile Alfred Boulan
BofA Securities, Research Division

It's Fred Boulan, Bank of America. I have 2. One is on China, a very good quarter. If you can spend a bit of time on the outlook there, what you're seeing for the rest of the year in the macro outlook that remains a bit complex.

And then coming back to MEDIDATA Q1. If you -- can you share with us, like you did in the previous quarter, the delta between what you're seeing on the software side versus services. And when you look at the expectation of growth going forward, I mean, you mentioned return to growth in the second half of the year. Again, if you can be a bit more specific on the software component versus the rest of the business, that would be very helpful.

Pascal Daloz
CEO & Director

Rouven, you want to?

Well, I can start with China, and you will follow-up. So I think China, you have seen 17% growth, more than 20% for the license. Remember, China is really a license-driven market more than a subscription one.

On one hand, you could argue that compared to last year Q1, it's an easy comp, which is true. But on the other hand, I think given the uncertainty we have, I think we are relatively pleased with the momentum we are seeing. The growth is coming from multiple industries.

Obviously, the auto sector is extremely dynamic for us. And as you may know, we have a large footprint with all the EV makers in China. Construction is also driving this growth and aerospace as well. And more and more, we see also the recovery on the industrial equipment. And the proof of this is really the good dynamic we have with the mainstream market.

China is a significant market for SOLIDWORKS, and we had good bookings in Q1. Now if I look at the rest of the year, the pipeline is better compared to what it used to be. And there is 1 simple reason for that. China is investing a lot in innovations. And the geopolitical environment, to a certain extent, is forcing them to eliminate certain dependency. And there, I mean, the government is investing in many, many different sectors in order to accelerate the innovation cycle, and we are benefiting indirectly from this investment cycle. Rouven, few words about MEDIDATA?

Rouven Bergmann
CFO & Executive VP

Yes, absolutely. So MEDIDATA software revenue was very much in line with services. Also keeping in mind, Q1 last year was a very strong quarter for both software and services. More importantly, we're building our backlog for software and services costs.

Pascal Daloz
CEO & Director

I think they had 2 questions. The mix between service and software?

Rouven Bergmann
CFO & Executive VP

For MEDIDATA?

Pascal Daloz
CEO & Director

For MEDIDATA.

Rouven Bergmann
CFO & Executive VP

No change. No change. It's fairly aligned, right, between the 2%. They were down about minus 2.5%, amounting to minus 3%, to be super precise. So it's the same it's 2% for services and software. It's very fairly aligned this quarter.

I know. It's not the case in Q1. It's not the case in Q1, and we are really focused on building the backlog for the growth in the back half of the year and next year. And services bookings have been also good, yes, but they will produce revenue in out quarters.

Charles Brennan
Jefferies LLC, Research Division

It's Charlie Brennan here from Jefferies. I'll do 2 questions, if I can. Firstly, it sounds like you anticipated the metadata weakness at the start of the year. So can you just highlight where the disappointment came in the recurring line of the business?

And then secondly, it's been a while, I think, since I've seen a software company beat license expectations. Can you just give us some sense of what products contribute to the license line these days. And you've obviously got some of those that are already in the terminal decline cycle like SOLIDWORKS that's switching to subscription. So just at a high level, can you talk through which ones are growing and which ones are declining. And then just as a final follow-up, can you give us a proportion of the upfront subscription that fell into the license line .

Rouven Bergmann
CFO & Executive VP

Okay. So what drove the mix this quarter? We give the choice to customers to purchase in the subscription, the OpEx model and the CapEx model. And so as a result of that, the mix of deals can vary from quarter-to-quarter. And we are giving -- trying to give a precise outlook quarter-to-quarter, but there can be some fluctuation.

So in this quarter, specifically, we had very strong performance in China, which is predominantly a perpetual license business. The license revenue in China is up more than 20%, and it contributes to the license cost over proportionately. We also had a couple of larger transactions that were recognized as upfront license and not subscription this quarter. And that's an important point to highlight because on the subscription side, we report only what subscription, what is recurring year-over-year.

And if something is not recurring year-over-year or multiyear, 2 years more, it's represented in the upfront license part, which you see contributing to the strong upfront license revenue this quarter.

So to summarize the question, there can be fluctuations from quarter-to-quarter. Subscription revenue growth for MEDIDATA also was a bit at the lower end of our expectations, while we are focusing on building the cost for [H2] with bookings driving the backlog.

And if you exclude MEDIDATA, subscription was 22%. The last point I would like to make, and it addresses your third question. If we look at the subscription revenue run rate over the last 12 months ex-MEDIDATA, it's growing 29% and it's up 2 points year-over-year at the exit of Q4 last year. So while the subscription number at the surface looks soft, the dynamics in our subscription momentum ex-MEDIDATA is positive, remains to be positive.

And as we are getting through the cycle of MEDIDATA on the other side, we will see also the rebound in subscription. And for Q2, we have a number of large transactions in our pipeline that will benefit the subscription revenue as what we expect. So we will see a progressive increase in subscription revenue reported Q2 over Q1. And maybe to the products, Pascal? Do you have anything specific we can say?

Pascal Daloz
CEO & Director

No. But I think there is no specific trends toward the product line. It's much more the way we structure the deal as Rouven was stating. And when you have the multiyear, I think it's a good practice, and it's much more reliable for you to have the nonrecurring parts so-called subscription anyway to be in the license more than in the subscription line because by ensuring this, we are sure that the volatility is only on 1 item, right, not on the other one.

Charles Brennan
Jefferies LLC, Research Division

So what proportion of the license is an upfront subscription?

Rouven Bergmann
CFO & Executive VP

We don't disclose that on a quarter-to-quarter basis. There are 12-month subscription deals, so 1-year subscription deals that are recognized in the quarter for the license part, while the support is ongoing. But I don't think that there's any value in carving that out to give you this number.

I think it's more important to look over the trend, which is up 2 points year-over-year ex-MEDIDATA, which demonstrates the momentum we are creating and showing that there's a strong progression. There's is no volatility in the number. The volatility is in the license upfront.

Balajee Tirupati
Citigroup Inc. Exchange Research

Balajee from Citi. 3 questions from my side. Firstly, on MEDIDATA. Why you expect to return back to growth in the second half of the year? Will it be fair to say that the full year -- on a full year basis, are you still expecting growth for the business?

Then 2 quick questions on capital allocation. Firstly, on cash flow. Your days of receivable increased by 12 days on a year-over-year basis. While multiyear subscription contract potentially is contributing to that, did you also extend easier receivable terms to some of the -- in some of the larger contracts, which has contributed to this?

And the second part of capital allocation on M&A. M&A is part of your midterm target. But over the last 4-plus quarters, since you have deleveraged your balance sheet, you have not seen any meaningful announcement. So where are the bottlenecks? And how is the pipeline looking right now?

Pascal Daloz
CEO & Director

You take the first 2. And I think, we don't refer to the last 1.

Rouven Bergmann
CFO & Executive VP

I'm happy to take the first 2. The trajectory for MEDIDATA is the H1, H2 story. And we are right now focused on building the growth for the second half of the year. Q1, we had a tough comp. We saw some bookings improvement, as I highlighted in my prepared remarks, which certainly for the partners and the partner consumption, which means the sell-through through the contract research organization is trending positive for the first time in 3 quarters, which is a really positive signal. And that will return back to growth over the next quarters.

Now for Q2, I want to be prudent as we are focused on building H2 and for the full year, we expect flat, to be flat. Maybe we can be slightly up. But for now, my based on assumption is to be flattish. And that will be -- we will be then, for the second half of the year, build the ramp for double-digit growth in 2025. That's the trajectory which we are on. And I think so far, our -- from our differentiation from what we hear from our customers, plus the momentum we are seeing also in midsized pharma companies, that has always been a catalyst of our growth. I think there's good signs that give us the confidence that we are on the right track.

And of course, we will update you as you will ask us during the next quarters for sure. But I think we have good visibility on our path, on our trajectory. For the DSOs. So you're right, the DSOs, they have increased year-over-year. However, they are stable sequentially or slightly down sequentially. There are 2 main reasons for the increase on year-over-year. The first 1 is the timing of single large contracts such as JLR and Renault, for which we expect an improvement in Q2.

And the second piece is the overdue payments, which contributed 8 days to the DSO increase, of which 4 days are related to the payments that slipped from March to April. So that will already improve. That has already been reversed. So there was kind of a bump in the number in Q1, Q2, the slippage at the last days of March to April because of the unfavorable calendar year that we could not avoid.

So in summary, I expect the DSO in Q2 to improve to be below what we saw in Q1, and that's what's happening. I think there are distinct effects. We have not provided more favorable financing terms to customers. We can be and have to be, if we have very large transactions, we have to work with our customers as they are making large commitments with us. We are working with them in partnership. And that's why I highlight JLR and Renault as 2 such examples. But they are paying customer. There's no issue with any of those contracts. In fact, in Q2, we have a large invoice and we will have large receivables from those clients.

Pascal Daloz
CEO & Director

Highlighting to the M&A, you're right. I mean, it's part of the model, and it's also factor in a way in the long-term plan we shared with you last year. We have a pipeline. The good news is we have a pipeline. We are working on it. However, I think we have something which is could characterize the way we do it. We are extremely disciplined in terms of value creation.

And if you look at the recent transaction in our space, many of them have been done on a very high multiple. And I think remember, the software, every 10 years, you have to bet again. So if you are not capable to have the payback in less than a decade, I think it's probably a questionable from a value creation standpoint. So that's my way to answer to your question.

So really, we are working on it. pipeline is there, but we want to do it in our own standards in a way to ensure we will continue to deliver the value to the shareholders. And also the M&A is not too much for -- I mean, usually, when we acquire a company, it's not for what they do. It's what we want to do together. And the together is sometimes more important than what they do. So it's taking time with some of the folks. So -- but I'm pretty confident that it's moving forward the way we want.

Michael Briest
UBS Investment Bank, Research Division

Michael Briest at UBS. Just a quick clarification on MEDIDATA, Rouven. Is that double-digit growth for fiscal '25 or in fiscal '25? And then just on SOLIDWORKS, I mean, you gave an interesting data point on the Q4 call around, I think, EUR 200 million exit rate in subscription. Can you maybe just talk a bit about the transformation there of how much of the business is still licenses, how much is cloud as opposed to sort of what 3D works as opposed to just on-premise subscription and just the trajectory?

Rouven Bergmann
CFO & Executive VP

Thank you, Michael, for your questions. And I clarify the first one. I think the articulation of our explanation, where we are on the recovery and transformation of MEDIDATA is going well. We are creating an exit run rate in 2024, where we are back to growth, and we will continue to build that exit run rate through our 2025 to be a double-digit cost. So I'm really looking for building the backlog growth at 10-plus percent to support 10-plus percent revenue growth. That is going to be our objective to be there in 2025.

Pascal Daloz
CEO & Director

Related to SOLIDWORKS, I think the statistic I have in mind is this quarter, if I look at the number of units, which is a good way to assess the balance between the upfront license and subscriptions, in which 2/3 is license and 1/3 is subscription. I think it was less than 20% last year on license around 10% in subscription.

And for the cloud, I don't have the number in mind. But it goes with it, I mean.

Rouven Bergmann
CFO & Executive VP

On the cloud, maybe I can clarify. The cloud is fairly GEO-specific as well, interestingly. We have good momentum in the Americas. But we also -- we have in Euro North and in Euro West, the cloud in terms of number of seats is over 40% of the total seats sold. So there are GEOs where we are progressing extremely fast on our cloud business, while others will take a little bit more time. But it's working.

But remember, we took a decision. It's for -- to have the platform being -- the connection to the platform being mandatory for SOLIDWORKS. So -- and the platform is already -- will be on the cloud for the mainstream market. So the momentum is really in time, we are building the momentums to have the cloud proportion accelerating in the SOLIDWORKS base in the coming quarters. I think we are relatively pleased by the shift.

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

Two questions. Firstly, as you start to drive some of these larger standardization deals, this is obviously going to have an impact around kind of the cash flow dynamics of the business and create that sort of volatility. So to the extent that you can just help us kind of parse some of these different moving parts because there's obviously the component of license with delayed invoicing.

You also talked about as you build subscription and move to more quarter -- quarterly invoicing. Help us understand that should we assume that when you sign one of these big deals, in the subsequent few quarters, expect kind of weakness in that sort of free cash flow temporarily even if it just the case? And I don't know if there's a way to kind of list some of these moving parts in the free cash flow in order of magnitude just so we have a kind of framework of how to think about this impact.

Pascal Daloz
CEO & Director

Thank you, Mo. I think, Rouven, this question is for you. You have a fantastic opportunity to clarify because there are many, many misunderstandings, let's say, this way, which we are clear?

Rouven Bergmann
CFO & Executive VP

Yes. Now we are clear. I think we had also the opportunity to address this topic in some of the previous questions. But I think specifically for the large deals, we have in large deals an upfront component and a recurring component. And the upfront component is reported as part of the upfront license, and only what is recurring is supported in the subscription.

Some of our large transactions, like the one that we talked about last year with Jaguar Land Rover, also had a cloud component, which is a purely ratable component, which you recognize quarter-to-quarter. But the parts that are upfront on a multiyear contract, they are reported in the upfront license, and so they are not creating volatility in the subscription. That's again why I was going back to the 12-month subscription run rate to illustrate to you that the run rate is increasing outside of MEDIDATA despite some of the perceived volatility, but the run rate is consistent and is increasing.

So from a cash standpoint, those large deals, you're right, they can have some level of volatility as those are ramping and customers need some level of financing at the early phase of the transaction. It can be in the first year or second year until the revenue recognition and invoicing and collections is harmonized. So we expect to be at that level of harmonization in 2025 with the 2 large deals that we signed in previous years being Renault as well as JLR.

So I think that volatility at this point is temporary as a result of these large transactions, as it relates to cash flow. But when we look at the combined 12 months, there is -- the volatility is small. I mentioned Q1, which we had an elevated DSO, as I explained, which was in part the result of some deferred invoicing schedule related to JLR, which will reverse in Q2. And that has created some of the unbilled receivables that we report, which are up year-over-year. But as we are consuming this year and invoicing them, they will start to normalize.

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

And then secondly, in terms of sort of the overall pipeline makeup in build, particularly on the kind of core manufacturing business. I think you've highlighted that there's sort of more of these [time] there's additional contracts to come. I know each one is kind of varied. Some of them are kind of upgrades to 3DEXPERIENCE and the full platform. Some are kind of V5 to V6.

Where is the kind of the, as you look at that pipeline, and I know every customer is different, but can you give us a flavor of the evolution of that product pipeline? Is it still very auto-centric? Or should we see some of these generalization contracts in other verticals as well? Because obviously, this is key to kind of underpinning that medium-term visibility you have on the -- particularly the top-line growth?

Pascal Daloz
CEO & Director

Okay. So there are a few questions within your question, Mo. The pipeline is, I mean, is structured around 3 things. One is, as you said, certain customers who have adopted the 3DEXPERIENCE platform expanding their footprint. And in the car industry, I will say it's probably representing more than, I mean, close to 40%, right?

Then we have some win-backs in the car industry, where I was mentioning Volvo. But I hope this year, this will not be the only one. And we have larger win-back in the pipeline, whatever it's in the auto sector, but also in the aerospace supply chain. And this is probably something like 15% of the pipeline in value, right?

And the rest is coming from the diversifications, and we see more and more traction in consumer goods and consumer packaged goods. You remember the time when we had P&G almost the only reference we have that in this space. It's not anymore of a case.

And it's not only coming from Centric PLM, which is giving us a huge footprint in this space, but also the combination with the rest of what we do. For example, the reformulation in the CPG industry is driving a lot of new PLM needs, and we are very well positioned, in fact, for this. Architecture and construction, believe it or not, but the platform is more and more used to do the data science part.

As an example, as I'm seeing, L&T is a good case. It's also in the infrastructure space, you have seen with my reference, the energy transition is going also to change the way we produce the energies, the way we distribute the energy, and the platform is really considered now being, I will not say at least a standard in the nuclear activities, but more and more considered also for the distribution network.

You remember, I was highlighting the [hydroelectric] case, which is the Spanish electricity distributor, but they are not the only one considering the platform right now. So I think it's helping to balance the different opportunity across multiple industries, having different investment cycle in fact. That's the reason why I think, if you do the mix between the expansion between the win-backs, between the diversification and the momentum we have in the diversification, we are very confident for the pipeline for the year.

Beatrix Martinez
Vice President of Investor Relations

I can just take some questions from the webcast. May I ask you to ask just 1 question so that we have time for everyone.

Operator

Now we're going to take our first question, and it comes from the line of Daure Lauren from Kepler Cheuvreux.

Laurent Daure
Kepler Cheuvreux, Research Division

I have 3 questions. The first 1 is going back to Life Science. I understand your comment and your cautiousness on the second quarter. But should I read that the trough is in Q1 or in Q2 given the easier comps in the second quarter?

My second question is on MEDIDATA, on the large pharma? On your historic clients, when you look at the new trials that they are launching, let's say, over the last 6 or 9 months, do you still have a very strong retention? Or have you seen on the specific clients some of them switching to competitors to be clear.

And my final question is a clarification on the cash flow. Given the comments you made on the first quarter, have you changed your view on a few full year outlook? Or are you still eyeing for the same momentum in operating and free cash flow?

Rouven Bergmann
CFO & Executive VP

Okay. Thanks, Laurent. Thanks for your questions. On the first one regarding the second quarter. As I said, I think the second quarter outlook is in a similar range than the first quarter results, as we are focused on building our growth for H2 to be flat next -- for this year. So we're really focused on building our backlog back to growth to support double-digit growth.

And for Q2, we continue to win market share, as I said, in the first quarter and the win rates are very good, and we will continue to execute in this market to expand our footprint and our relationships. The other thing that Pascal mentioned the importance is of the differentiation of new products that we brought to the market where we are focused on with our customers to adopt those new products that are differentiating us and are driving future growth.

And then to the pharma, to the large pharma. For the new trials, I think it's -- we are very much in line with the market trend. Our existing subscription customers continue to start new trials with us on our platform. They have long-term subscription contracts. And we are confident about expanding those contracts with us as we go in through renewal phases. So there's no indication other than that.

And we are, of course, focused not only to renew what we have. We want to grow on top of that. On the cash flow, the answer is simple. There is a pending impact, and there is no change for the full year.

Pascal Daloz
CEO & Director

Maybe I can add 1 thing for you, Laurent. It's a statistic I was looking carefully. It's how much new clinical studies we are starting quarter-after-quarter. And I was comparing Q1 last year with Q1 this year, and it's 1,000 more. So it's significant. It's probably more than many of the competitors we have. But it's giving you an early sign about how the market is back against to the normal growth.

Laurent Daure
Kepler Cheuvreux, Research Division

Pascal, how many of the top 20 pharma are you working with? Could you share that with us?

Pascal Daloz
CEO & Director

The top 20 pharma. Look, we are working with almost all of them. We had -- at the mitigator time, we used to have a famous list of those who were with [Oracle]. But from those customers that on the top pharma we used to have, we continue to have the same number of clients, top pharma customers, where there could be some changes in the deployment and mix of what we do with them. But if your question goes in direction of have you lost any footprint with your existing customers, the answer is no.

Operator

[Operator Instructions] Now we're going to take our next question. And the question comes from the line of Nicolas David from ODDO BHF.

Nicolas David
ODDO BHF Corporate & Markets, Research Division

My question relates to the mix between license and subscription in Q1 and Q2. So you explained well how you classify the upfront part of subscription. But nevertheless, you had some volatility in other software subscription. Could you explain deeper what will drive this nice acceleration you expect in Q2? And I think it's like a more than 10-point acceleration you expect in -- over the software subscription in Q2?

And at the same time also, you increased your annual guidance for license. So what prompted you to do that? And should we think that also expect better support to growth?

Pascal Daloz
CEO & Director

Yes. Thank you, Nicolas, for the follow-up. On the mix, I think for now looking at Q2, we have a good pipeline, which is really geared towards subscription. And the Q2, that's where we have very good visibility. MEDIDATA, as I said, will continue to be in the same range. And so it's really coming from our core business, the acceleration.

And related to the license increase in our guidance for the full year is simply a reflection of the first quarter. Now we made some adjustments reflecting first quarter results. But you also saw that in the Q2 guide, the volatility really is in the license range of minus 1% to plus 7%. That's what's a bit difficult to preempt, right? That's why we wanted to be -- have the more flexibility.

Nicolas David
ODDO BHF Corporate & Markets, Research Division

And compared to Q1, you think that you have a better visibility regarding the subscription, extreme data that you have?

Pascal Daloz
CEO & Director

Yes.

Rouven Bergmann
CFO & Executive VP

Nicolas, the difference is we have more large deal the pipeline for Q2.

Operator

Now we're going to take our next question. And the next question comes from the line of Gianmarco Conti from Deutsche Bank.

Gianmarco Paolo Conti
Deutsche Bank AG, Research Division

I just have 1. Sorry to come back on this again. I want to be very specific here. And I was hoping you can share some more detail again on the visibility in MEDIDATA to get back to growth in H2 and double-digit into 2025. I'm wondering if you could share some detail on whether the visibility is driven by several conversations you had with CROs that are giving you confidence in the guidance? Or just trying to understand the underlying assumptions like here, if it's more macro driven in the form of inputs from these conversations? Or are there particular large deals in the pipeline that you see progressing further to conversion?

Pascal Daloz
CEO & Director

Absolutely. Thank you for your persistence and reiteration so it gives me an opportunity to make it even clearer. So you're right, there are several factors. But there's a macro factor, where we see evidence that from a market standpoint, the number of clinical trials start to become much more predictable and be back to the normal cost trend that what we saw pre-COVID, and we see the evidence in the first quarter. That was in part of my prepared remarks. So that's 1 factor. That's a stabilizing factor.

The second factor you mentioned is the visibility with CROs, where for, yes, more than 9 months for the first time, we saw an increase in partner consumption. So the throughput, the sell-through through the CRO partner being up versus the previous 3 quarters, where CRO partners were in terms of their volume shrinking and now they are stable to growth. So we see growth through our channel, which we are essentially in a new upswing cycle with our partners, which is also, by the way, a sign that we are not losing to the competition.

We are continuing to take market share and our partners continue to commit to -- with us. And then there's a third element besides the partners, we talked about enterprise and mid-market. The mid-market business in North America and Europe has always been a catalyst of our growth, so midsized pharma companies. And here, we see momentum picking up of platform implementations, but also single trials, large Phase II, Phase III trials. And that can be quite large and significant in terms of revenue contribution.

And then the last element is the baseline effect. We will have a new baseline effect, the rebalancing, which will be much more favorable compared to last year. So we are back to -- we are able to build a backlog growth that has also a different baseline than previously. So these are the effects that give us visibility and that we track quarter-to-quarter on how we are performing against that.

Operator

Now we're going to take our next question. And the next question comes from the line of Ben Castillo-Bernaus from BNP Paribas.

Ben Castillo-Bernaus
BNP Paribas Exane, Research Division

Can I just come back to the next quarter Q2's license guidance. The range is quite wide there versus what you typically give. I know you touched on this already around you have some larger deals in the pipeline. But is this a new normal? Is Q2 particularly different from others? Perhaps you can expand and just unpack on what's in that pipeline. Just give us a bit of a flavor.

Rouven Bergmann
CFO & Executive VP

Yes. So the way we designed the pipeline for the second quarter is we have good -- we have -- if I start with the geographical way to look at it maybe, we expect cost acceleration in North America. Europe had good growth that I think is durable, and we'll continue to see that also in the second quarter and has some potential to pick up.

Asia had a very good quarter with -- of course, driven by China, but also with good growth in Korea and Japan. And for all those markets, we have good visibility and also the mix of pipeline from larger midsized and smaller transactions. We expect also CRE, SOLIDWORKS to have a bigger impact in the second quarter growth than the first quarter growth.

And as you saw in the first quarter, there could be certain deals that can flip to a license with a subscription model that's sometimes difficult to predict. And also the dependence on China and the impact China had in the first quarter, translating that to the second quarter, we felt that we should give us a bit more flexibility on license depending on the evolution of how the conversion of pipeline to revenue and deal closing will occur in the second quarter.

But I think we have a better structural pipeline in the second quarter than in the first quarter, specifically in North America, but also in Europe.

Beatrix Martinez
Vice President of Investor Relations

Maybe a last question before we close the call.

Operator

Yes, of course. And now we're going to take our last question for today. And the question comes from the line of Toby Ogg from JPMorgan.

Toby Ogg
JPMorgan Chase & Co, Research Division

I just wanted to come back on the cash flow comment. The Q1 operating cash flow should be 38% to 40% of the full year. I think that implies close to EUR 1.7 billion of operating cash flow. So it doesn't really imply any kind of real improvement on the cash conversion side versus sort of a lower level in 2023. So is that right interpretation of that comment?

And secondly, when do you expect an improvement in the cash conversion? And what gives you the confidence in that? And then also just linked to the free cash flow as well. The CapEx looked like it was up a lot in the quarter. What was the driver of that? And are you expecting higher CapEx going forward?

Rouven Bergmann
CFO & Executive VP

Thanks, Toby, for the question and the opportunity to clarify. So the -- if you do the -- if you -- if I look at the numbers, 38% to 40%. If I -- if you take the 38%, the operating cash flow will be better than EUR 1.7 billion. It's closer to EUR 1.8 billion.

Now we want to give us a little bit of room because we have some volatility as we experienced this quarter. But definitely, the comment on 10-plus percent operating cash flow improvement, that's what we expect for the year, and that has not changed. So the volatility that we discussed this quarter in Q1 is -- the majority is timing related, and we will -- we expect Q2 to rebalance that already. Maybe not in full, but we will see the progress that for H1, for the first 6 months, we will see similar conversion from operating income to cash flow than what we had last year.

And then we will see on that as our, of course, our operating income is growing this year by around 10%, we will see that reflected in the operating cash flow, plus some of the working capital improvements that we discussed previously that these are still to come.

So from that perspective, the outlook has not changed. I think there was just more clarification in terms of timing required that we see in the quarter, and I think we've explained that. That was the first one. Toby, what was your second point?

Toby Ogg
JPMorgan Chase & Co, Research Division

Just on the CapEx.

Rouven Bergmann
CFO & Executive VP

CapEx, we are slightly higher, and that's mainly due to some of the investments we made into the expansion of our of our office space, real estate. We've opened 2 new spaces that are driving some of the CapEx investments. But they are in the context of our growth strategy. And so we also have -- that will -- yes, that's the reason.

Operator

There are no further questions for today.

Beatrix Martinez
Vice President of Investor Relations
Thank you. Thank you, everyone. And we have our call later today, if there are any broad questions. Thank you.