

# Dassault Systèmes SE ENXTPA:DSY

## FQ2 2021 Earnings Call Transcripts

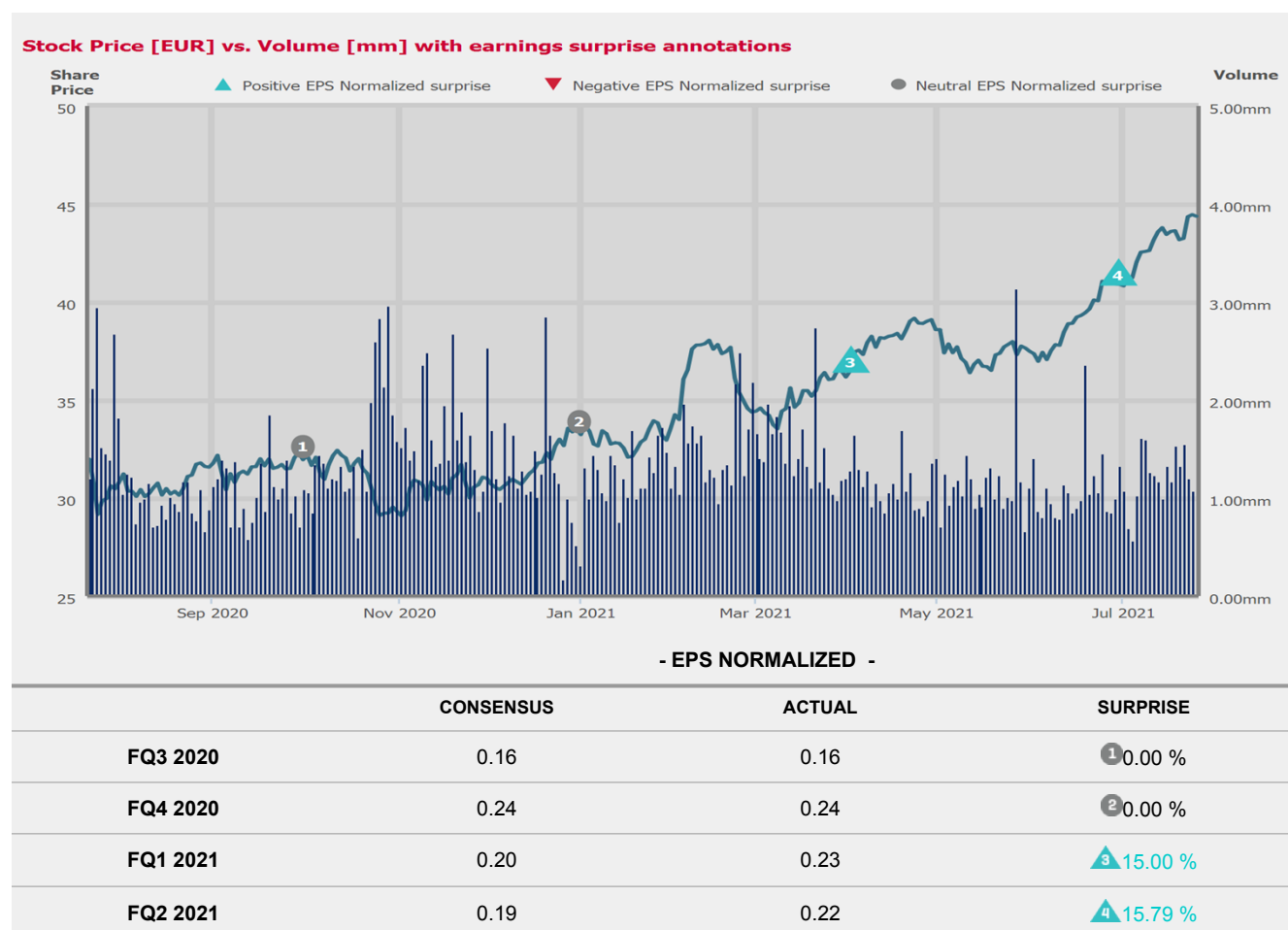
**Tuesday, July 27, 2021 8:00 AM GMT**

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.19	0.22	▲ 15.79	0.18	0.87	NA
Revenue (mm)	1153.88	1161.50	▲ 0.66	1115.10	4788.13	NA

Currency: EUR

Consensus as of Jul-27-2021 7:42 AM GMT



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# Call Participants

## EXECUTIVES

**Bernard S. Charles**  
*Vice Chairman & CEO*

François-José Bordonado  
*Vice-President of Investor Relations*

**Pascal Daloz**  
*COO, CFO & Director*

## ANALYSTS

**Adam Dennis Wood**  
*Morgan Stanley, Research Division*

**Michael Briest**  
*UBS Investment Bank, Research Division*

**Nicolas David**  
*ODDO BHF Corporate & Markets, Research Division*

**Stacy Elizabeth Pollard**  
*JPMorgan Chase & Co, Research Division*

# Presentation

## Operator

Good day, and thank you for standing by. Welcome to the Dassault Systèmes 2021 Q2 and Half Year Earnings Presentation. [Operator Instructions] Please be advised that today's conference is being recorded, Tuesday, 27th July 2021.

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

François-José Bordonado  
*Vice-President of Investor Relations*

Thank you, Nadia. This is François Bordonado speaking, Dassault Systèmes Investor Relations. From the company, we have Bernard Charles, our Vice Chairman, Chief Executive Officer; and Pascal Daloz, Chief Operations Officer and Chief Financial Officer. I hope that all of you and your family are doing well, and I would like to welcome you to Dassault Systèmes Second Quarter and Half 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 currencies unless otherwise noted. For an understanding of the differences between the IFRS and non-IFRS, please see the reconciliation tables included in our press release.

Some of the comments we will make during today's presentation will contain forward-looking statements, which could differ materially from actual results. Please refer to our risk factors our 2020 Document d'enregistrement.

I will now hand over to Bernard Charles.

**Bernard S. Charles**  
*Vice Chairman & CEO*

Thank you, François-Jose. Hello, everyone. It's good to have this mid-year review with you for the Dassault Systèmes 2021 second quarter on the full year perspective that, as François-Jose said, I will share with Pascal.

Software revenue was up 15%, you have seen that in the press release I'm sure by now. The license revenue is up 38% excluding exchange rate. And by the way, all this is organic. On recurring revenue, up 10% excluding exchange rate, which represent, by the way, 79% of software revenue. And as a result, the EPS is up 35%, would be 45% up of EPS if we were to exclude the exchange effect.

Basically, we believe that those numbers confirms a few things which are important to us, important to our clients and partners. The systematic approach to virtualization is becoming now in all industries. And we do use virtualization because we think it's the next step after a simple digitalization of documents.

And of course, the imperative of sustainable development. We'll come back on this. It's indeed reshaping the innovation process, and we have very interesting data point on that aspect, too. As well the inclusiveness, which basically is about better [ hiring ] people within companies and across virtual enterprise.

We continue to be making the difference with our clients, basically leveraging fully the virtual twin experience on everything we do, including doing the virtual twin of Dassault Systèmes itself. We believe that it's a game changer for all sectors of the economy. And we shared with you, with Pascal, early last year that our intent is to be a key player in both [ MI ], health and infrastructure.

And we are, as a result of that, and Pascal will articulate it, raising our 2021 guidance and targeting EPS growth of about plus 19% to 21%, which would be 23% to 25% if we were to exclude exchange rate. So some highlights, which basically are really proof points about our belief. And our belief -- and this is a long-term perspective, our belief is that the virtual world extend and improve the real world. And I think there are good stories today, as we did first quarter, which are illustrating this very well.

The second aspect of it is the platform phenomenon. Its adoption across the board. Its known in retail. And I think it's going to happen in manufacturing, construction and in health care, too. And this is why we think we are extremely well positioned with the 3DEXPERIENCE platform to really connect modeling, simulation and data together to really create what we call the virtual twin of the experience economy. But again here, quite interesting illustrations on that.

Another factor that is well illustrated with numbers this quarter is the dynamic of the mainstream. And the dynamic of the mainstream market, what we call mainstream market, is really in this inclusiveness of using the platform as a collaborative platform. And I believe that working together anytime, anywhere from any device, having a browser-based, cloud-based solutions is very differentiating. And it is a differentiating for -- as a system. We have, of course -- and that's the value of being browser-based and cloud-based as you can see with our offer. And the dynamic here is very strong.

So China, it is quite interesting second quarter 2021. More than 220 cloud wins in 1 quarter for China. It means we are trusted. We have the right infrastructure. And this adoption shows that we provide a good secure environment. As you know, the world of mainstream for us, mainly represented by SOLIDWORKS, is about 1 million-plus commercial users. It's about 250,000 clients and with an average of 20,000 per year. We believe that this track record will sustain.

And also, an important aspect of mainstream is what about mainstream PLM. I think the illustration this quarter about the performance of Centric PLM is another asset of this dynamic of adoption of product life cycle management across the board.

Centric PLM is now reaching about 500 companies 2,000 highly reputable brands are trusting Centric PLM and 99% retention rate. Most of the customers, above 90%, are accepting to be referenced in their industries. And you see here the incredible logo dynamic between 2016 to 2021. And as you may remember, we will be buying the remaining share of Centric PLM this coming August, which means that this is a fully powerful mainstream brand for Dassault Systèmes' future.

Back to the way we show you the proof points, the reasons to believe. If we look at the 3 sectors of the economy, and we look at both Manufacturing Industries, Life Sciences & Healthcare and Infrastructure & Cities, let's review what are the trends there. Clearly, the trends are their commonality: smarter product and services, move from supply chain to value chain, stable innovation. I see those 3 factors becoming very prominent in those 3 sectors of the economy which are connected industries together, because high tech is, for example, everywhere. And more to be discussed on that.

Let's review on the first, health sector. Of course, we are very pleased with the Medidata move. The team, on the cooperation and the integration of Medidata, is going extremely well. Pascal might comment a few things. We are very proud to announce that Novavax has used the new world of Medidata distributed, decentralized clinical trial. Three studies involving 45,000 participants were initiated in less than 8 weeks.

I think it's [ really good ]. And I think that it shows that sponsor-based, centralized clinical trials are also moving to decentralized, meaning that the patients are not in the hospital infrastructure, they are participating from home. This is thanks to myMedidata and thanks to Medidata Patient Cloud, which are really the expansion of the Medidata brands that are really proving to be work best solutions.

At this point in time, just for information, we have about 400 related clinical trial in -- regarding the COVID-19, so it's not stopping. And I hope, at the end, this will -- we will be able to stop this pandemic, which is rather complex today in the world. But the point is decentralized Medidata expansion in portfolio, fast adoption, platform-based on mega studies.

Another good illustration in health is LabCorp Drug Development, adopting Medidata Sensor Cloud. This is a quite interesting approach. It's basically IoT for health. Sensor Cloud is about taking this acquisition of data in a seamless way, collect those data for clinical trials. I believe that this sector will also evolve quickly with very smart med tech -- personalized med tech.

Digital biomarker discovery, the first project will be an at-home version of the Six Minute Walk Test that you can read it -- read here. And we are very excited to have this infrastructure leveraging MC10 acquisition, you remember this small acquisition we announced a few weeks ago, playing a key role. We see that as a major avenue for fast acquisition IoT-based on the platform of personalized data in a very structural and professional way that we call clinical trial.

And another proof point here in another sector of consumer package and production is Boticário Group, which is adopting the 3DEXPERIENCE platform. It's a leading beauty company and world largest beauty franchise. It's well known because they are known for using natural ingredients. And the business value that they are really seeing here is really about

transforming their manufacturing processes, reducing inventory costs and defect, managing irregular products supply, improving the compliance, and of course, all this contributing to competitiveness.

And the solution we sold them, the industry solution, is called Perfect Production, which I think is the right naming for this kind of -- we noticed that in the fast-moving consumer goods, the reformulation area is a massive priority for sustainable justification.

Another illustration in the manufacturing sector is Alstom adopting the 3DEXPERIENCE platform to really integrate worldwide -- recent acquisition of Bombardier, for example, and they are adopting a cloud platform for all their PLM for -- across the group. They have -- the rollout is happening this year on -- throughout 2021 and 2022. And we will reach at least 15,000 cloud-based 3DEXPERIENCE platform users.

So basically, they are exploiting 3 industry solutions, the one we call Smart, Safe & Connected. This is for system -- on cyber system. Global Modular Architecture, it says what it does. And Lean Production Run, which is about optimizing production system.

The last 2 remarks on that sector is in the High Tech, HONOR expands SIMULIA adoption. Well-known brand. It's a spinoff of Huawei, and they do smartphone, tablets, laptops, wearable. They are accelerating their go-to-market, improving their R&D process, including the value chain. And they are using multiphysics simulation for all their product integration. High Tech has been a good dynamic, I think Pascal will make some remark later on, on that, in this quarter.

And related to the evolution of flow management. The example of DELMIA Quintiq for KiwiRail is a good example of how we can improve global service and fleet management and crew planning. And this is an excellent illustration to improve visibility of operations; improve health and safety and sustainability of the system; and of course, improve the utilization of their assets, in this case the wagon assets; and improve business agility to provide fast answer to the demand in a very disrupted world, especially in the context of the pandemic and in the context of supply issues in many, many area of the world. And it improves our profitability.

Before I talk about sustainability, I think we have a small video for you. So François-José, please launch the video.

[Presentation]

**Bernard S. Charles**  
*Vice Chairman & CEO*

So this is a short video that illustrates the importance of the role we can play, what we call handprint role we can play, contributing to sustainable innovation for the world in all sectors of the economy we are serving. And we are also applying this digital twin for ourselves, of course, with what we call Science Based Targets. It was approved, and we published our engagement on that with -- for net zero emission, with a time line which is now set up.

SBTi is important because there is a lot of situation and a lot of statements about sustainability. I think having it being science-based is important. We believe that this has the merit of accelerating also the value of a PLM approach so people can understand what is happening in their businesses.

So we have announced that we will reach the net zero by 2040 via carbon removal projects, which is very key. But we can debate about the fact that should it be 2040 or 2035, I think we will report regularly on our progress there. But I think being science-based provide a rigor and a professional approach to it, and helps our customers find out the way they should approach for their own business. And we believe that the 3DEXPERIENCE platform is a key catalyst and an enabler for these 2 efforts.

So we think that in this area we are transforming all our industry solution space. So they will include as we go -- and we are going to make available on the market, what we call the 2022x around the end of the year, 2022 market. We are integrating solution, many things. Sustainable design, we have a good illustration with Nabtesco or with Amcor Rigid Plastics here for sustainable design.

Sustainable production, with Amy's kitchen, for example, where they are really transforming using the platform. On sustainable experience, good illustration with NIO, electrical vehicle innovator in China; or Eviation aircraft, or new type of electrical airplane for a mid-range distance. So a lot of projects, whether in formulation, packaging, industrial equipment, home equipment or production, where the illustrations of our handprint can be measured and is tangible.

So we believe that we are executing to plan. And people are joining Dassault Systèmes because they love the purpose of Dassault Systèmes to provide the 3DEXPERIENCE universe to imagine sustainable innovation capable of harmonizing product, nature and life. And I believe, more than ever, with the last quarters, we have been illustrating that.

And with that, Pascal, you have the floor and provide the necessary numbers.

**Pascal Daloz**

*COO, CFO & Director*

Thank you, Bernard. Good morning to all of you, and thank you for joining us today.

So turning to our financial performance. I think we delivered strong second quarter results, thanks to the broad-based growth across regions and product lines. Total revenue increased 14% year-over-year to EUR 1.16 billion at the top of our 12% to 14% range. Software revenue in its component also came in at the high end of our objectives, with an organic software growth region, reaching EUR 1.1 billion.

License and other revenue rose 38% to EUR 223 million during the quarter. And looking at the first half, we are now back to 2019 levels, which I think it's something very important. Subscription and support revenue increased 10% year-over-year, driven by subscription growth of 18%. And as Bernard said, the recurring revenue represented 79% of the software revenue this quarter.

Services revenue was up 5%, finally back to growth, year-over-year of course, and show a significant sequential improvement, as you can see. We achieved also services growth margin in the double digits, also substantially better versus last year because you remember last year, we took many, many actions in order to preserve the profitability despite the lack of activity.

Finally, the 3DEXPERIENCE and cloud revenue both performed well, growing 26% year-over-year. From a profitability standpoint, lower than -- lower-than-planned expenses, sorry, combined with revenue at the high end of the guidance led to a significant outperformance in operating margin and earnings per share. As you can see, our operating margin came in at 32.2% and EPS grew 35% or 45% in constant currency to EUR 0.22 compared to our guidance of 18% to 23%.

Now let's move to the software revenue by regions. The Americas grew 19% this quarter, benefiting from a strong performance in Life Sciences & Healthcare, High Tech and Transportation & Mobility. And now the Americas represents 39% of the non-IFRS software revenue. Europe increased 13%, led by Southern Europe and totaled 36% of the total software revenue. Asia also rose 13%. Within the region, we saw continued strength of China -- from China, which grew 24%, and continued also software in Japan.

Zooming now in our product lines, the second quarter performance. Industrial Innovation software revenue rose 8% to EUR 571 million. To be noted that CATIA, the world-leading solution in product design and modeling experiences, delivered sales growth of 9%, punctuated by CATIA cyber system. NETVIBES in the data intelligence and ENOVIA in collaborations also benefited from positive business trend during the periods.

Zooming in Life Sciences, software revenue amounts for EUR 218 million, an increase of 22%. We continue to see a strong momentum across Medidata product portfolio, including Medidata Rave, Medidata Patient Cloud and also Medidata Acorn AI. As well as what we call the attach rates, because you know we have the core module but you have also another -- a lot of solutions surrounding those core modules.

Medidata is also establishing itself as a leader in decentralized clinical trial. And you know this trend is becoming significant for this industry. And we are uniquely positioned because not only we have a set of solutions to connect the patients, but we also have all the back-end systems in order to connect with the [ sponsor ], which is unique on the market. And that's the reason why, as Bernard said, in many of the new trials, we are winning the market share. And trust me, in many, many cases, we are also displacing Veeva.

In the Mainstream Innovation, software revenue rose 27% to EUR 262 million. And within the Mainstream, the SOLIDWORKS software revenue rose 25% with the 3DEXPERIENCE WORKS family. The cloud-based solutions sales also up sharply during the period. And finally, Centric PLM delivered an excellent performance, posting near triple-digit growth and continue to take market share against the traditional players in this space. And at the same time, we are also expanding outside of the fashion industry, in food and beverage, in the high tech, in all the cosmetics, also becoming a significant segment for Centric PLM.

Now let's review our key growth strategy, on both 3DEXPERIENCE and cloud, and how we are progressing relatively to the objective we laid out during the 2020 Capital Markets Day. Our 3DEXPERIENCE strategy incorporates 2 axis of growth. With value up, we are increasing the value we bring to our existing customers. And with value wide, we are extending our venue to new customers.

As I mentioned, 3DEXPERIENCE sales grew 26% during the quarter and now represent 25% of the total software revenue, an increase of almost 200 basis points relatively to last year. Importantly, the 3DEXPERIENCE drove a number of significant large client wins during the period, reflecting into the 55% growth of the license in the beginning of the year.

Turning to the cloud. Cloud adoption is another cornerstone of our strategy and a further opportunity to expand our depth and breadth of our clients. Our cloud contribution, representing 19% of the total software revenue, a 2-point increase relatively compared to last year. And you may recall that last year, based on our end-market sector, we set the goal to reach EUR 2 billion in cloud software revenue by 2025, and this would represent an estimated of 1/3 of the total software revenue.

In terms of cloud strategy, we value the long term, it's one of our specific G&A we have, and the strategic relationship we have with our clients. As such, our cloud strategy is set to meet our clients where they are in the context of the industry and whether they are the starting point from them. That's the reason why we are offering 3 different cloud path.

Native on the cloud for the new customers, so specifically all the start-ups like the EV guys. The extended, mixing both on-premise and on the cloud solutions when you want to complement a large installation you have with new capabilities, new solutions. For example, what we do in the simulation. And Power'By, with an on-premise software solution, specifically SOLIDWORKS Desktop and CATIA V5 connected to our 3DEXPERIENCE platform on the cloud for collaboration and data intelligence.

To be noted, and this is I think very important for you, that we released 21x. We are now -- we have now more roles on the cloud than we have on premise. And we expect this trend to continue and be reinforced in the future.

Let's move to the operating margin. So as I say to you, from a profitability standpoint, the lower-than-planned expenses combined with the revenue at the high end of the guidance led to a significant outperformance in operating margin. Our operating margin came at 32.2% versus the midpoint of our guidance of 29.7%. And this demonstrates an overperformance of almost 250 basis points. This was driven in part by the combination of the expenses and head count tailwinds we discussed with you last quarter.

Our head count was stable year-over-year as hiring was offset by attrition, and that was higher than planned but in line with 2019 levels. Within research and development, we experienced a mid-single-digit net gains in terms of new team members. We have adjusted our hiring capacity and we expect to more than offset the attrition in the coming quarter. That's very important.

All this good performance is obviously translating into an EPS growth of 35% to 45% in constant currency to EUR 1.09 presplit or EUR 0.22 post-split and compared to our guidance of 18% to 23%.

Now let's move to the cash flow and the balance sheet, and turning back to our financial performance and to our balance sheet items. The year-to-date cash flow from operation rose 21% relative to last year. EUR 1.030 billion. Keep in mind that last year, it took us 3 months to overachieve EUR 1 billion. So in 6 months, we have been capable to deliver EUR 1 billion cash flow.

Our deferred revenue, now called contract liability, rose 17% in constant currency, which is relatively consistent with the operations. And finally, our net financial debt position at the end of June decreased by EUR 768.3 million to less than EUR 1.2 billion debt, putting us on track to reach our deleveraging plan goals probably somewhere early next year, which is almost 6 months, if not 9 months, ahead of the schedule.

Moving now to the M&A section, a few things to be noticed this quarter. In July, we acquired a French start-up called iterop, an innovative SaaS company leveraging BPMN 2.0 standards, which is nothing more than a neutral graphical language, to provide business processes solution. Let me explain the rationale behind this.

So first of all, you know our platform is not only a technology to power our roles and solutions or design manufacturing engineering, but it's also when you use a platform without the roles, a powerful business platform, enabling the virtual twin of the enterprise and transforming document-based processes into experiences.



iterop's technology will complement the Dassault Systèmes' approach to empowering clients with effortless migrations from documents to experiences. And together, Dassault Systèmes and iterop will enhance the 3DEXPERIENCE platform and the 3DS Outscale because we will combine this technology with both to give the ability to leverage when it's fully integrated with 3DEXPERIENCE platform or as a stand-alone services with 3DS Outscale.

Turning to Centric PLM, Bernard said a few words about it, but we plan to complete our acquisition of Centric early this fall without a significant incremental cash payment. So you may remember that we initiated a 63% equity stake in Centric in July 2018. And we are more than happy to finalize our partnership and continue to execute against Centric PLM's substantial opportunity in consumer industry.

And we are very pleased of what we did not only in terms of integration, but the ability to diversify Centric PLM far ahead of the traditional fashion industry. And the momentum you have seen recently is really the demonstration that this strategy is working. So Chris and team, you did a great job.

Turning now to our 2021 financial objective. We expect the current business environment and profitability trends to persist in the second half. As a result, we are raising our fiscal year 2021 revenue growth objective range to EUR 4.745 billion to EUR 4.790 billion, incorporating, obviously, the second quarter outperformance and greater visibility adding approximately EUR 10 million in software revenue coming from Medidata specifically. Our new objective represent an increase of 10% to 11% revenue growth versus the 9% to 10% previously.

We expect operating margin in the range of 32.7% to 33.1% versus 31.6% to 31.7% previously. I want to remind you all that because of the pandemic we implemented the cost-saving plan in the second quarter last year, and we expect the expense and the head count tailwinds we have experienced to dissipate in the coming quarter as we resume travel, increase sales and marketing spending and also accelerate the net gains in hirings.

We have raised, finally, our non-IFRS diluted EPS objective range to EUR 0.99 (sic) [ EUR 0.89 ] to EUR 0.91 on a split-adjusted basis or 23% to 25% from 17% to 18% in constant currency. This is capturing the earnings upside from the second quarter, the increased visibility we have, specifically coming from Medidata and the lower-than-expected expenses. You will find more details about the full year objective as well for our third quarter guidance in the earnings press release and in the presentation deck.

Now I think it's time to conclude before to take the questions. And I have a few messages I want to remind. So first of all, we are encouraged by the demand and we are seeing across our product lines and regions. We believe many of these trends are underpinned by secular drivers, as Bernard said -- highlight today, including virtualization, sustainability, inclusive environment. So those trends are really driving the demand and the transformation in many industries.

With our 3DEXPERIENCE platform, we began to preparing for these trends over a decade ago. And as such, we are greatly positioned to help our clients to address these new imperatives well into the future. And finally, we succeed when our clients are succeeding. And we -- I really want to take an opportunity, we want to take an opportunity, to thank all of our clients for their ongoing partnership and our employees also for the hard work they did and their dedications on our success.

Lastly, we expect to resume in-person meetings with the investment community this fall, and I hope to see you again on the road.

So I think Bernard and I are now ready to take and answer your question.

François-José Bordonado  
*Vice-President of Investor Relations*  
Nadia, we are ready for questions.

# Question and Answer

## Operator

[Operator Instructions] First question comes from the line of Adam Wood from Morgan Stanley.

### **Adam Dennis Wood**

*Morgan Stanley, Research Division*

Bernard, Pascal, congratulations are a very strong quarter. I've got 2, please. The first one just on the margins. Obviously, it's great to see your margin upside in the quarter, but I think we all know you want to invest for the future. Could you just talk a little bit about relaxed you are about being able to make up for the attrition in the second half of the year and if there are any implications for next year's margins, given how strong the margin improvement is going to be this year?

And then secondly, maybe a bigger-picture question. I think when we've discussed in the past around the pace of growth at Dassault, one of the restrictions has been client's ability to take a certain amount of change in the business and a reluctance to change, they're only willing to take so much risk on in any 1 year. As you look back over the last 12 months, do you think there's been some change there, the companies now are being -- are willing to be more aggressive and want to transform more quickly? And how does the focus on sustainability drive into that? Does that kind of accelerate that desire to change?

### **Bernard S. Charles**

*Vice Chairman & CEO*

Thank you, Adam. Pascal, you want to take the question?

### **Pascal Daloz**

*COO, CFO & Director*

Okay. So you are right, Adam, the head count has been a topic. Even if we did much better compared to Q1 because we hired almost 800 more -- a little bit more than 800 persons in Q2 compared to 400 in Q1. However, the attrition was almost offsetting this number. So coming back to the second half, I have slightly increased the capacity in terms of hiring in order to reach between 900 to 1,000 per quarter. And I do expect to contain the attrition to roughly 500 per quarter. That's the goal.

Related to the margin for next year, probably a little bit early to discuss it. But I thank you for the questions, nevertheless, because I do not want you to draw the conclusion that we are capable to maintain the 33% margin, we will expand this year or the coming years. So for next year, I do expect to be much more in the range of 31.8% to 32%. It's slightly below compared to this year because, your point, we need to reinvest especially to strengthen the sales team and also to give more capacity in research and development in certain areas.

### **Bernard S. Charles**

*Vice Chairman & CEO*

The second -- Adam, thank you for the second question related to our clients taking new risk in terms of transforming themselves thanks to platform on the digitalization and virtualization. I think eyes are opening. Eyes are opening about the fact that sustainability has significant impact, number one. The need to better understand which materials to use, which fabrics to use, which new process should be put in place, which new formulation for the related product, can I do smarter products so they are better optimized throughout their life cycle.

And the last point is about the bill across the life cycle, the eco bill across the life cycle. I think the situation has never been as good to help understand what PLM is about because it stands for product life cycle management. Up to now, PLM has been adopted to create a digital reference of what you do and how you do it. I think going forward, PLM will be used to do the virtual eco bill of the full cycle. Regulators are accelerating this trend.

Now conducting those transformations are very complex, Adam. And I think we are the catalyst and the enabler of this to happen. It's going to take time. However, I believe that many of the decisions which we reflected on to my presentation and Pascal's presentation are truly driven from that perspective. So it's there to last and we will see the implication for 2022, but we are comfortable of the dynamic -- the new dynamic it can create.

The last remark is, clearly, in our mind, in my mind, the supply chain is moving to value chain. And this is really deep. This is not about optimizing just the one-on-one -- well, in one-to-one relationship, it's about optimizing the total. No one does that well today. We believe we can do it with the platform.

So good drivers. We will come back every quarter to illustrate why what we call our handprint to help be the catalyst and the enabler for that are happening. But I think the showcase -- the orientation we gave today are confirming exactly the positive trend toward your question, Adam.

**Operator**

And your next question comes from the line of Stacy Pollard from JPMorgan.

**Stacy Elizabeth Pollard**

*JPMorgan Chase & Co, Research Division*

A few from me. First of all, on mainstream, what percentage of new customers are purchasing cloud now? And really, I guess, I should ask the same question for new purchases in the industrial sector, too. Perhaps it's a different dynamic there, but the cloud question. Number two, on 3DEXPERIENCE, 25% of software revenues now. What would you expect that to be in, say, 3 years? And then third question, as you delever, at what point could we see larger, more transformative M&A?

**Bernard S. Charles**

*Vice Chairman & CEO*

Thank you, Stacy. Pascal on the cloud?

**Pascal Daloz**

*COO, CFO & Director*

Yes. As you may know, SOLIDWORKS is almost gaining 50,000 -- between 50,000 to 60,000 new customers every year. And right now, if I do the math, it's probably around 10% starting with the cloud. China, only in 1 quarter, 220 new customers. So with this, I think you have a good order of magnitude, and this is accelerating.

For the industrial sector, I don't know if we should take the same approach. Because the question is not too much about the footprint, much more about the transformation. I think what could be noticed is we see more and more large incumbent companies moving to the cloud. You have seen Alstom is a good example of this. They're using it as a way to decommission the legacy system to standardize, to facilitate the integration. And as Bernard said, also to redefine what we used to call the value chains, much more along to the value network because the cloud is giving this flexibility to do it.

So you could expect to see more and more large companies moving with the cloud architecture and solutions. And I think with all the different sets of solutions we have, whatever it's a cloud you can share with others, or a dedicated cloud or a sovereign card, I think we have the full range of different solutions in order to answer to all the different needs coming from the industrial sectors.

**Stacy Elizabeth Pollard**

*JPMorgan Chase & Co, Research Division*

Can you explain the dynamic adoption across the board?

**Bernard S. Charles**

*Vice Chairman & CEO*

Clearly, to Pascal's point, the cloud portfolio is now overpassing the on-premise portfolio. Number two, the cloud portfolio is the future for mainstream. It's the current situation for Centric PLM. It is the current situation for Medidata using those platform-based approach, mainstream is also. Pascal mentioned the trend with 3DEXPERIENCE for large companies and [ moving into cloud ].

So there is no doubt in our mind that it simplifies everything. And the mechanics, to address your question about 3DEXPERIENCE adoption, is as customers adopt a wider portfolio on the new generation, 3DEXPERIENCE is a condition, even on on-premise. So the dynamics should continue to be very strong from that standpoint. We need to do

well. And what we are focusing now is making sure that the 3DEXPERIENCE platform can integrate customer legacy's data on legacy tools, which are not necessarily our own software, to help them go to a platform approach.

So those 2 factors are the strong factors. In a certain horizon, 3DEXPERIENCE is just a platform for every aspect of every solutions of Dassault Systèmes on the longer term. So at some point in time, it will be reaching the prerequisite of platform infrastructure for everything we sell.

**Stacy Elizabeth Pollard**

*JPMorgan Chase & Co, Research Division*

No, that's helpful.

**Pascal Daloz**

*COO, CFO & Director*

And the last question around...

**Stacy Elizabeth Pollard**

*JPMorgan Chase & Co, Research Division*

Yes, which is M&A.

**Pascal Daloz**

*COO, CFO & Director*

You asked another question, which was the last one related to M&A, right?

**Stacy Elizabeth Pollard**

*JPMorgan Chase & Co, Research Division*

Yes.

**Pascal Daloz**

*COO, CFO & Director*

So obviously, we will not answer to these questions during the call. Nevertheless, you are raising a good point. Because with the ability to deleverage the company and being almost in a position to have no any more debt somewhere early next year, this has given us the freedom not only to do the bolt-on acquisitions, the -- what we do with reinforcing our capabilities, continuing to infuse innovations with start-ups, but also to consider a significant expansion. And I think it's going to be a good topic for the Capital Markets Day next year.

**Bernard S. Charles**

*Vice Chairman & CEO*

Yes.

**Stacy Elizabeth Pollard**

*JPMorgan Chase & Co, Research Division*

I will ask it again.

**Bernard S. Charles**

*Vice Chairman & CEO*

Welcome. Welcome, Stacy.

**Operator**

And your next question comes from the line of Michael Briest from UBS.

**Michael Briest**

*UBS Investment Bank, Research Division*

Very strong performance in Medidata, so 22% in the first half. I think previously you were looking for 14% growth in the year and, Pascal, I think you said the EUR 10 million increase for H2 relates to Medidata. I mean that's about 3 points of full year growth, so what are you actually expecting for Medidata this year? And then somewhat related, just if I take out the cloud revenues from recurring software, I get about 6% growth. Do you think that's a rate that you can improve upon in 2022 and beyond as the rest of the business, if you like, gets back to a healthier shape?

And then Bernard, just on the sort of Infrastructure & Cities market, and Stacy was asking about M&A, but we haven't seen a lot of progress there. Can you give us an update? And then maybe around Altium, I think that their talks with Autodesk finished recently. How important is that relationship with them around the sort of 3DEXPERIENCE side, because I think you're looking to advance that 6 or 12 months ago?

**Bernard S. Charles**  
*Vice Chairman & CEO*

Thank you, Michael. Pascal, Medidata.

**Pascal Daloz**  
*COO, CFO & Director*

I will start with the first one. So you're right, Medidata did an outstanding performance H1. But remember, H2 last year was much better compared to H1 last year. Because if you remember, the revenue increased almost from 13% to more than 18%. So I do expect to continue to have a good performance. But the base will, to a certain extent, lower the growth of Medidata in H2. So that's the reason why if you -- if I come back to the previous guidance I gave to you, the 15% range, and now I'm much more targeting 16% plus. That's what we are talking about.

Related to the cloud, against -- the core -- the key thing for us is not only -- is really not to measure too much the contribution from a revenue standpoint, even if I set the target, it's much more related to the footprint. In the footprint, we have different KPI to measure it. One is, obviously, the number of users. And the second one is the volume of data we have in our cloud. Because at the end, this is what it's about.

Cloud is, on one hand, the inclusiveness, the ability to connect as much as people as you can. And on the other hand is the ability to leverage the data to the artificial intelligence, analytics. And that's the real things we are tracking. And what I can say on those 2 items, it's a triple-digit growth we are seeing. So if this is going the way we want, to answer to your question, Michael, automatically, the revenue will come and the extra growth coming on top of Medidata will be there.

What I can say is we are betting a lot on the new 3DEXPERIENCE WORKS family to trigger this growth because we have reasons to believe that the market adoption is extremely good. We are seeing some proof point in regions of the world. Bernard mentioned China, but we have others. And as I was saying also to Stacy, we see also large transactions moving to the cloud. It was not the case probably 1.5 years ago. This also will contribute to accelerate the percentage. So if you compare to last year, it's 2 points in addition in terms of mix coming from the cloud. And I do expect these trends to continue to be -- to reinforce and maybe to slightly accelerate over the next 2 to 3 years.

**Bernard S. Charles**  
*Vice Chairman & CEO*

Related to Infrastructure & Cities, thank you, Michael, for putting this topic. As you know, it's the third big topic for Dassault Systèmes in addition to the world of the making and the world of help. Projects are very near. They are transformational. They are all on cloud, both for city and construction. It's related to not only the engineering and design, but related to the construction test itself. So the dynamic is a good dynamic.

We are -- I think this sector is looking for a platform-based, cloud-based infrastructure everywhere around the world. China is a good driver for us. On Europe, with not only the BWIG showcase, but now the BWIG showcase is expanding with all the project partners. Because this sector is a very project -- it should be known, but better to say it, it's project-driven. It's not only company-driven, it's consortium-driven.

And we now notice that, thanks to our friends from BWIG, there are multiple new consortium being set up to offer remodeling of certain set of cities or infrastructure for energy distribution in cities. We call that the hydrogen or electrical plugs that needs to be installed. And we have many projects on that, that are connecting the territory management, what we call [ SOLIDWORKS City ] on the project management, which is related to the use of the platform to construct what needs to be constructed.

So I believe we are here to create this game-changer approach. Like what we did, we did it on mock-up 30 years ago in the manufacturing sector. It takes time, but I don't -- I think it will last. So we'll come back regularly to tell you -- to share with you new wins in this area. And by the way, I am convinced that the size of installations can be at least equivalent to very large manufacturing clients in terms of both revenue and number of users. And what we're communicating on BWIG is already a proof point of that, and all being subscription-based, cloud-based, which is our priority right now. So that's all what I can say.

Related to Alstom, of course, we -- when -- back 2 years ago, we decided that we should have a multiple approach. We have a great partnership with Cadence with synergies. We have a partnership with also the Japanese player. Our customers like it. And as you know for everything related to wiring, packaging, this is going to be made in the platform.

And when it comes to chips and boards, we will use third-party integration. Those third-party integration are going very well. I must say that the situation will -- that come with the recent news flow, accelerated our strategy to have multiple options, which was already the case, but I think it has strengthened the relationship with the other players for the satisfaction of our clients. That's all what I can say at the current time.

### **Operator**

And your last question comes from the line of Nicolas David from ODDO BHF.

### **Nicolas David**

*ODDO BHF Corporate & Markets, Research Division*

Two questions, actually. First one is will you please provide us some color regarding the, yet again, very strong growth of SOLIDWORKS in Q2, is it again mainly due to the 3DEXPERIENCE WORKS strategy you already mentioned? Or more this time kind of the back catalog thing? And any color regarding the average deal size increase and also the trends for H2 would be helpful.

And my second question is regarding Industrial Innovation. sorry about that, but this is maybe the only area where you're still slightly below '19 level in Q2. My question is, which sectors and brands are still below '19 level? And should we expect a catch-up in this area? Or do you think that there is some brands and sectors which have taken a hit that will be difficult to recover soon?

### **Bernard S. Charles**

*Vice Chairman & CEO*

Thank you, Nicolas. Just a remark on the SOLIDWORKS growth. It's now visible for the market, I'll let Pascal provide data, but it's now recognized by the market that the 3D -- all SOLIDWORKS portfolio in the next less than 2 years will be based on the 3DEXPERIENCE platform. That's including -- so all including the desktop collaborative process will be cloud-based, platform-based environment connecting to the desktop. So that's the trend.

And it has significant consequences because it means that there is a higher [ credit ], higher consistency because the next-generation SOLIDWORKS is based natively on the 3DEXPERIENCE platform. All the roles and processes which are part of the Dassault Systèmes-wide gigantic catalog will be compatible on that point. That's the context in the next 18 to 24 months, in 2023. And with that, Pascal, I'll let you comment about the dynamic between desktop and 3DEXPERIENCE WORKS.

### **Pascal Daloz**

*COO, CFO & Director*

Okay. So this quarter, and to a certain extent since the beginning of the year, Nicolas, I would say 2/3 of the growth is coming from the volume. So the ability -- I mean, the desktop solutions. It's partially a catch-up because last year, you remember, was soft. And also, the growth drivers for SOLIDWORKS is still there. I mean you still have a significant number of people migrating from 2D to 3D every year. And we are capturing, if you remember, almost half of them. So the rest is coming from the WORKS family, which is some incremental growth.

And last but not least, which is probably the most important and you are right to ask the average deal size, we have -- we are seeing some increase and it's coming from the mix. We see more and more SOLIDWORKS users buying additional simulation seats, expanding into the PDM area or connecting with manufacturing capabilities. So this is also what is reflected into this excellent performance of SOLIDWORKS.

Coming back to Industrial Innovations, I would say there are a few things. Because at the end, the question is not what is going well but what could be better. So what could be better? I think DELMIA could have been better for the first half of the year. I do expect, given the pipeline we have, that DELMIA will be -- will have a much better performance. So DELMIA is around the mid-single digit. It should probably be much more a double-digit growth. So that's what I'm expecting in H2 as a recovery. Aside of this, ENOVIA is growing at 10%. NETVIBES, more than 50% for this quarter. [ ENOVIA ] is also growing at double digits. So clearly, all the components are extremely good.

From an industry standpoint, I think there are a few where we are not seeing yet the strong momentum in this sector. But I will mention at least 2. The first one is the Marine & Offshore markets. We grew significantly the last 2 years, and the first half has been relatively soft. And the second one is the Industrial Equipment. We have seen a lot of traction coming from the mainstream markets. However, for the large equipment, we are not yet back to where we used to be in '19. So we'll still have some progress we can make on this front. And I hope the investment cycle will be back also in this.

**Bernard S. Charles**  
*Vice Chairman & CEO*

So thank you, everyone, for participating to this call. I hope that you find useful information, and we continue to take this with high level of integrity as -- needless to say, we will host a conference call this afternoon. And we are always there for you with the investor team whenever you have additional questions.

Thank you, and have a great day and a great summer if you have not taken a summer break yet.

**Operator**

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

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