

**Dassault Systèmes**

Price EUR69.90

Feedback from "High-tech growth drivers" investor lunch in Paris

Fair Value EUR64 (-8%)

SELL

Bloomberg	DSY FP
Reuters	DAST.PA
12-month High / Low (EUR)	78.8 / 64.4
Market Cap (EURm)	17,981
Ev (BG Estimates) (EURm)	16,304
Avg. 6m daily volume (000)	249.3
3y EPS CAGR	11.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.5%	-10.3%	-1.4%	-5.2%
Softw. & Comp.	-0.6%	-6.9%	0.8%	0.2%
DJ Stoxx 600	2.4%	-3.2%	-1.4%	-7.2%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	2,839	3,055	3,359	3,681
% change		7.6%	10.0%	9.6%
EBITDA	897	1,009	1,129	1,269
EBIT	633.2	693.9	824.4	960.5
% change		9.6%	18.8%	16.5%
Net income	617.4	709.9	778.2	870.5
% change		15.0%	9.6%	11.9%

	2015	2016e	2017e	2018e
Operating margin	29.8	31.2	31.9	32.8
Net margin	14.2	15.2	16.1	17.2
ROE	11.5	12.2	12.8	13.5
ROCE	28.9	34.3	41.4	52.9
Gearing	-38.7	-44.1	-55.2	-65.0

(€)	2015	2016e	2017e	2018e
EPS	2.37	2.71	2.97	3.30
% change	-	14.4%	9.5%	11.2%
P/E	29.5x	25.8x	23.5x	21.2x
FCF yield (%)	3.0%	4.1%	4.6%	5.0%
Dividends (€)	0.42	0.45	0.53	0.61
Div yield (%)	0.6%	0.6%	0.8%	0.9%
EV/Sales	5.9x	5.3x	4.7x	4.1x
EV/EBITDA	18.5x	16.2x	13.9x	11.8x
EV/EBIT	19.7x	17.1x	14.6x	12.4x

On Friday, Dassault Systèmes held an investor lunch in Paris, focusing on High-tech growth drivers. The key takeaways from this presentation made by Olivier Ribet (VP High-Tech Industry) are that: 1) the High-tech industry accounts for 11-12% of sales and is up c. 30%; 2) all the industries DS addresses are impacted by High-tech; 3) DS has won a lot of flagship customers in High-tech, but the fast-moving nature of this industry creates challenges: new profiles in sales and R&D teams, retraining the indirect channel...

**ANALYSIS**

- **A significant growth driver, an increasingly complex industry.** High-tech accounts for 11-12% of Dassault Systèmes' sales and is one of the fastest-growing vertical with licence revenues up c. 30%. Dassault Systèmes made significant inroads in High-tech through the acquisition of MatrixOne in 2005 (PDM), and a total of 17 acquisitions allowed the company to build a large set of solutions for virtual testing, electromagnetic simulation, systems engineering, supply chain optimisation, advanced materials, digital marketing, PCB (printed circuit board) fatigue simulation, manufacturing execution, plastic injection simulation, etc. Demand from OEMs (consumer electronics, security, control & instrumentation, and software, computing & communication equipment) and suppliers (contract manufacturing services, technology suppliers, semiconductors) is driven by IoT, wearables, robotics, home automation or connected cars, with an increasingly complex ecosystem. Hot topics include shorter lifecycles, continuous innovation, customisation, modularity, intelligence, compliance, 5G networks, IP, cost/technology balance, 3D printing...
- **High-tech beyond High-tech.** High-tech companies address virtually all the industries Dassault Systèmes serves: Automotive, Aerospace, Healthcare, Consumer Goods (wearables), Retail (Auchan, Darty...). Customer experience is redefined through digital with the advent of new networks to access richer content, apps and services, on a continuous innovation mode. The challenge here for DS is to deliver transformative solutions covering ideation, engineering, manufacturing, supply, sales, marketing and maintenance. The advantage of DS' 3DEXperience platform is that it provides enterprise governance, continuous integration and delivery, co-simulation of systems and physical models, and traceability and reuse of design and IP.
- **On a winning streak, but challenges to face.** DS won a lot of customer references in High-tech during the past 12-24 months, with deals with increasing value as they not only address engineers, but sales, marketing and service teams as well. Flagship customers in High-tech on DS' 3DEXperience platform include Huawei, Ericsson, Google, Nokia or NXP. In semiconductors, most of the M&A deals (e.g. NXP-Freescale, NXP-Qualcomm) are positive for DS. The choice of Ericsson for the 3DEXperience platform in February 2016 after an 18-month competitive process involving 13 vendors was all about business and digital transformation. So far, DS has launched 10 Industry Solutions Experiences dedicated to High-tech companies, out of which 3 are for SMBs and sold through indirect channels. However, indirect sales partners, which were used to mechanical and electrical design have to be retrained on mechatronics. For existing customers, the challenge for the migration to V6 from V5 is related to the move to a larger scope, not the data model. In addition, the fast-changing nature of the High-tech industry has urged Dassault Systèmes to recruit sales and R&D profiles beyond the PLM area: expertise in connected objects, robotics, etc.

**VALUATION**

- Dassault Systèmes' shares are trading at est. 17.1x 2016 and 14.6x 2017 EV/EBIT multiples.
- Net cash position on 30<sup>th</sup> September 2016 was EUR1,502.4m (net gearing: -41%).

**NEXT CATALYSTS**

FY16 results on 2<sup>nd</sup> February 2017 before markets open.

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