

## Investment Stewardship

# Vote Bulletin: Dassault Systèmes SE

Company	Dassault Systèmes SE (Euronext Paris: DSY)
Market and Sector	France, Software
Meeting Date	24 May 2023
Key Resolutions <sup>1</sup>	<p><b>Item 6:</b> Compensation policy for corporate officers</p> <p><b>Item 8:</b> Compensation elements paid or granted in 2022 to Mr. Bernard Charlès, Vice chairman of the Board of Directors and Chief Executive Officer until January 8, 2023</p>
Key Topics	Executive Remuneration
Board Recommendation	The board recommended shareholders vote FOR items 6 and 8
BlackRock Vote <sup>2</sup>	BlackRock voted FOR item 6 and AGAINST item 8

### Overview

Dassault Systèmes SE (Dassault Systèmes) is a French software company that develops 3D design, simulation, manufacturing, and data management software. Its products are used by companies in a wide range of industries, including aerospace and defense, automotive, consumer goods, and healthcare. Groupe Industriel Marcel Dassault has a 40% stake and voting majority in Dassault Systèmes. The controlled ownership structure has historically limited the responsiveness of the company to feedback from unaffiliated minority investors.

BlackRock Investment Stewardship (BIS) engages with companies to better understand how company leadership identifies and manages the material risks and opportunities in their business model that, in our assessment, can impact their ability to deliver durable financial performance for long-term investors like BlackRock's clients. BIS also engages to provide a long-term investor perspective on corporate governance practices.

Dassault Systèmes is currently undergoing a leadership transition. On January 9, 2023, the Chairman of the Board of Directors stepped down as Chairman but remained a Director of the company's board. The Vice Chairman of the Board of Directors, who is also the Chief Executive Officer, assumed the role of Chairman of the

<sup>1</sup> Dassault Systèmes SE, "Convening Notice to the general Meeting of the Shareholders," May 5, 2023.

<sup>2</sup> BIS conducts proxy voting for those clients who authorize us to vote on their behalf. As part of BlackRock's Voting Choice program, eligible clients can have a say in the proxy voting process by selecting their own proxy voting policy or one of 14 available third-party policies. 47% (\$2.3 trillion of \$4.8 trillion) of our index equity assets are eligible to participate in Voting Choice, and clients representing 25% of the \$2.3 trillion in eligible assets are enrolled in Voting Choice. Currency shown in USD. Source: BlackRock. Data as of June 30, 2023.

Board in addition to his CEO responsibilities.<sup>3</sup> On January 1, 2024, the current Deputy CEO will transition to the CEO role, while the current Chairman of the Board will remain in that position.<sup>4</sup>

BIS has a multi-year engagement history with Dassault Systèmes, over which we have discussed the company's approach to executive remuneration and other material governance-related issues. In particular, BIS has had concerns with the structure of the long-term incentive plan (LTIP) for the company's executives as, in our assessment, the LTIP is not aligned with the financial interests of long-term shareholders like BlackRock's clients.

We engage with companies where we believe it would be productive to provide feedback or improve our understanding as we make an informed decision on how to vote at a company's annual general meetings (AGM). As we highlight in our [approach to engagement on incentives aligned with financial value creation](#), well-structured executive compensation plans are, in our experience, an important tool used to attract, reward, and retain high-caliber executives who are responsible for strategic decision-making and delivering long-term financial growth. A poorly structured plan, however, may lead to business and/or reputational risk for a company. We encourage companies to make clear in their disclosures the connection between their compensation policies and outcomes and the financial interests of long-term shareholders.

At the AGM of Dassault Systèmes in 2020, 2021, and 2022, the company received high levels of dissent on their compensation policies from unaffiliated shareholders, including from BIS. We note that, even though Dassault Systèmes' has a controlled shareholding structure, following the 2022 AGM the company has been responsive to feedback from unaffiliated shareholders and has demonstrated that the feedback is informing changes they have made to their executive remuneration practices.

## Rationale for BlackRock's vote

### **Item 6: Compensation policy for corporate officers (FOR)**

**BIS supported the 2023 compensation policy for executives given that Dassault Systèmes has demonstrated progress in addressing several concerns regarding the structure of its LTIP. Moreover, we recognize the company's responsiveness to shareholder feedback, including BlackRock's, on executive remuneration in the past year.**

We note that the company has made improvements that, in our assessment, help align their remuneration practices with the financial interests of long-term shareholders. One such improvement was the extension of the performance duration of their LTIP to three years. As highlighted in our [European, Middle Eastern, and African \(EMEA\) Securities Voting Guidelines](#), we conduct our analysis of whether pay is aligned with performance over various time horizons with an emphasis on a sustained period of performance, generally 3-5 years.

However, two features of the compensation program continued to concern us. First, the company has elected to grant equity awards allowing the earning of a fixed number of shares (adjusted for stock splits) since at least 2005.<sup>6</sup> From the beginning of 2005 to the end of 2022, shareholders experienced total shareholder return (TSR) of more than 900%; that appreciation, combined with a constant number of shares granted, has led to an opportunity for large payouts. For example, in 2022, Dassault Systèmes awarded the CEO a total realizable pay of nearly \$60 million, including \$30 million in performance stock for his LTIP.<sup>7</sup> In contrast, the median realizable pay of European CEOs is roughly \$4 million.<sup>8, 9</sup>

The company's rationale for granting the CEO a fixed number of shares each year is to associate "*him with the company's capital with the aim of ultimately recognizing his entrepreneurial role for over 35 years with Dassault*

<sup>3</sup> Dassault Systèmes, "Dassault Systèmes unveils its future governance," April 27, 2022.

<sup>4</sup> Dassault Systèmes, [Dassault Systèmes' Capital Markets Day: Doubling non-IFRS EPS by 2028 to €2.20 - €2.40, Announcing Pascal Daloz as Chief Executive Officer on January 1, 2024](#), June 9, 2023.

<sup>6</sup> Dassault Systèmes, "Annual Report Form 20-F" Page 67, 2005.

<sup>7</sup> Source: Institutional Shareholder Services (ISS)

<sup>8</sup> Harvard Law School Forum on Corporate Governance, [CEO Pay Trends Around the Globe](#), February 3, 2019

<sup>9</sup> The \$4 million figure cited above reflects companies with revenues between \$1-5 billion over the past five years, which is broader than Dassault Systèmes' peer group.

*Systèmes and providing him with an equity stake comparable to that of founders of companies in the same sector.”<sup>10</sup> While we acknowledge the need to incentivize executives to deliver long-term financial performance, we question the appropriateness of the company’s approach given the potential value of the grants and the absence of any limits on pay which makes the company an outlier.*

In general, while we understand that companies may want to adjust their pay as they grow, we do not believe that payout opportunities should scale linearly with company size as that size changes materially over time. Rather, we encourage companies to establish appropriate payout opportunities in the context of their business and competitive position.

Second, the company’s LTIP performance criteria were previously tied to only one metric, namely, non-IFRS earnings per share (EPS). As noted in our [EMEA Proxy Voting Guidelines](#), variable pay should be based on multiple metrics, and we are wary of companies using only “output” metrics such as EPS or total shareholder return (TSR). Our preference is for “input” metrics as these are directly within management’s control. The company revised the compensation policy to include several sustainability-related criteria that align with the company’s strategy and business model. BIS does not have a position on the use of sustainability-related performance criteria in compensation plans, but in our view, where companies choose to include them, they should be as rigorous as other financial or operational targets.

Due to the leadership transition mentioned above, the new CEO, in accordance with the latest pay policy, will not have the same structure in terms of the number of shares allocated in their LTIP and have a more defined payout. These changes mitigated our concerns on these two issues.

BIS will continue to engage with Dassault Systèmes to share our perspective on areas where we believe they could further improve their remuneration practices and disclosures. For example, we remained concerned about termination payments, which currently leave open the possibility of payments for underperformance or pay caps in relation to the compensation policy’s LTIP.

**Item 8: Compensation elements paid or granted in 2022 to Mr. Bernard Charlès, Vice Chairman of the Board of Directors and Chief Executive Officer until January 8, 2023 (AGAINST)**  
**BIS did not support approval of the 2022 compensation report for the company’s Vice Chairman and CEO because of the concerns explained above.**

Consistent with past years, BIS did not support approval of the compensation plan for the Vice Chairman and CEO granted in 2022 because, as detailed above, the company did not apply a cap to his LTIP, which has led to an excessive pay-out in relation to his peers in Europe of roughly \$60 million. As highlighted in our [EMEA Securities Voting Guidelines](#), BlackRock will vote against relevant remuneration proposals and/or the election of the remuneration committee members when we determine that remuneration is excessive relative to peers without appropriate rationale or explanation.

Also, as described above, in 2022, the CEO’s LTIP was based on one non-IFRS EPS target, and there was little disclosure on the performance targets despite the significant value of the quantum. As we note in our [EMEA Securities Voting Guidelines](#), in our assessment, variable pay should be based on multiple metrics, and BlackRock will vote against relevant remuneration proposals when there is insufficient information on the use of performance criteria for the vesting of long-term awards.

BIS will continue to monitor developments in Dassault Systèmes’ executive remuneration and engage with the company, where appropriate, to discuss matters material to long-term financial value creation.

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<sup>10</sup> Dassault Systèmes, “[Universal Registration Document](#),” Pages 273, March 2023.

## About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability-related risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.<sup>11</sup>

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with durable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

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[contactstewardship@blackrock.com](mailto:contactstewardship@blackrock.com)

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<sup>11</sup> As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.