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David Arnott

Temenos - Chief Executive Officer

Max Chuard

Temenos - Chief Financial Officer

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Operator

Thank you for standing by and welcome to the Temenos Q3 2013 results call. Joining us today, we have Mr David Arnott, Chief Executive Officer for Temenos; and Mr Max Chuard, Chief Financial Officer for Temenos UK. At this time, all participants are in a listen-only mode. There'll be a presentation followed by a question and answer session, at which time, if you wish to ask a question, you'll need to press star and one on your telephone keypad. I must advise you this conference is being recorded today, Tuesday 22nd October, 2013. I would now like to hand the conference over to Mr David Arnott. Please go ahead, sir.

David Arnott - *Temenos - Chief Executive Officer*

Thank you, operator. Good evening, everybody, and thanks very much for taking the time to join today's call. As usual, I'd like to start with some comments on our third quarter performance and the market backdrop. I'd then like to talk about the Temenos payment suite, our payments hub that was launched at Sibos this September, and then I'll hand over to Max for the financial update. Finally, we'll return back to myself to conclude before opening up the call for Q&A.

If you turn now to slide 4 of the presentation, which hopefully you've all been able to access from our website, Q3 has seen a good performance across all KPIs. The product business is performing well, with growth in software licensing, our fourth consecutive quarter, with maintenance also growing as expected. Our services strategy is delivering ahead of expectations, with margins improving strongly and partners taking a greater involvement both in sales and implementations. Group margins have continued to expand, driven by strong underlying margin drivers, around a single product offering and sales organisations selling more and more products, improving services margins, and lastly, of course, a better all revenue mix, as our services business starts to reach maturity at around 20% of total revenues, and is no longer a drag on product margins as it was three or four years ago when it represented around 40% of our revenues. We'd like to get services to positive margins as soon as possible, and, in fact, are ahead of our own plans, but it's never going to be a product margin business.

Our continued focus on cash has delivered both strong cash flows and good cash conversion, giving us confidence in forecasting a significant reduction in DSOs for 2013. We completed our 2013 share buyback in the quarter, with $54 million return to shareholders, taking the total return to shareholders for the year to $74 million, including our first ever dividend payment earlier in the year. I'm also delighted to say that Temenos has, once again, been positioned as a leader in Gartner's Magic Quadrant for retail banking core systems; the fifth consecutive year we've achieved this status. All in all, I'd say that Q3 has been another good, solid quarter of execution across the business.

If you turn now to slide 5, we've seen a good performance from the product business, with like-for-like software licensing revenues up again, 4% higher than Q3 last year. It's the fourth consecutive quarter that we've seen licence growth, and the level of sales activity is beginning to accelerate. If you look on an LTM basis, we've achieved licensing growth of 11%, which is already in line with our medium term outlook. We've signed five new customers in the quarter, which is fewer than in the same time last year but was compensated by some large deals into the installed base. For instance, we signed an important deal with a local partner in Asia to extend their SaaS offering, based on T24 into new countries. Maintenance revenue grew 4% on a like-for-like basis.

Our multiproduct offering and progressive renovation story continues to drive sales and pipeline growth, with very strong sales into the installed base. Europe continues to prove resilient, and we saw a good performance in all the other regions, with a particularly strong performance in Middle East and Africa. Looking ahead, we saw an acceleration of sales activity in the quarter, which continued into Q4. We particularly noted an increase in large retail bank deal activity outside of Europe, specifically in Latin America and Asia.

Turning now to slide 6, we continue to lead the way with product innovation, something we're very proud of. The quarter saw the launch of the Temenos Payment Suite, which we abbreviate to TPS, and I'm going to talk about that in greater detail shortly. We've also expanded the availability of T24 in the Cloud. T24 has been available from Temenos as software as a service since 2011, running on the Microsoft Azure platform. This service has proved very successful, enabling clients such as Renaissance Credit to establish new operations with minimal upfront investment. They can then scale effortlessly to meet demand, without having the headache of adding IT and operational costs. Just to give you one example, Grain Credit is adding 2,000 customers a month and still only has one IT person, and we're working to get a case study out to the market as soon as possible, given the amount of interest we're seeing in this space. Temenos is also once again named as leader in the Magic Quadrant for retail banking, as I've said. The fifth consecutive year we've been in this category. To give you a bit more flavour, we've moved markedly up to the very top on the Clarity of Strategy axis, and stayed flat on the Ability to Execute Strategy axis, where we were already very strong.

Our services strategy is ahead of expectations, with higher margin or, as we call them, premium services now accounting for more than 20% of services revenue. The amount of lower margin pure implementation work is falling, but this has not been at the expense of delivery, with 13 go-lives in the quarter, compared to seven in Q3, 2012.

Our partner strategy is continuing to gain traction with every new deal signed in Q3 having a partner-led implementation. I'm also delighted to be able to announce an extension to our agreement with Accenture; a partner for private wealth for many years now, we've now increased our collaboration to include core banking as well. This means that Accenture now becomes one of our global partners and, in addition, they've committed to double the number of certified consultants to 250, and also to invest in dedicated sales skills.

Turning to slide 7, our US SaaS business is very much performing on track. In the quarter, we added 63 new customers, with like-for-like SaaS revenues up 7% against Q3 last year. The quarter also saw an important milestone with T24 on a SaaS basis sold to two financial institutions in the new market, so that's new relationships. SaaS versions of business intelligence and anti-money laundering have also been sold and are being installed in the first group of US banks as we speak. Lastly, the integration of the TriNovus operations and the team is now fully complete.

If you turn now to slide 8, I'm going to focus my attention just for a few moments on the Temenos Payment Suite, which we launched at Sibos a couple of months back. Let me start by taking a quick step back to put this in context and why we launched the payment hub. There're really a few reasons for this. First of all, transaction banking is one of the hottest areas in banking right now. Secondly, we've got good experience with payments. T24 today processes more than 2 billion annually, including some of the largest banks in the world, for part of a full payment solution that we already have. Thirdly, we've got the unique opportunity to co-develop the application with ABN AMRO, a Tier 1 bank, and one of the largest payment processors in the world. Lastly because, like ABN, many of our larger customers have been asking us to build a payments system.

So what is TPS? Well, it's exactly how today you would build a modern payments hub, incorporating all of the latest best practices and technology and leveraging the knowhow of the joint ABN and Temenos teams. I've listed some of the characteristics here. It's channel and platform agnostic, meaning it handles origination from any channel, source or input directly. It has a linear condition-driven componentised architecture, making it easier and inexpensive to upgrade and integrate with other systems, and to facilitate the highest levels of straight through processing. It's got sanction screening and AML fully integrated, as well as automated impairment repair processes, reducing the complexity of customers' IT estates and making it cheaper and easier to comply with regulations. It's flexible, it's real time, and it gives a single customer view, giving banks the tools to offer a really superior customer service.

If you turn now to slide 9, hopefully some of you will recognise this slide from our Analyst and Investor Day back in February when we said that we, at the time operated in a $26 billion market, with around 20% of this or $5.5 billion currently spent externally by banks. The remainder, of course, being internal spend. We've now added the orange bars for the payments market, which have added a further $6 billion to our total addressable market, with around $1.5 billion of this currently being spent with external advisors.

If you turn now to slide 10, once again many of you will recognise this slide from our Analyst Day. Those that remember it from the time will spot that the payments bubble has moved further to the right. Growth rates for the payment market had been revised upwards to reflect how much banks were investing in this area, to take advantage of the strong market conditions.

On slide 11 now, you can see that the competitive landscape for payments is really very different from core banking. Competing in payments pits us against new names, names like FUNDtech, Clear2Pay, ACI and Dovetail, all of whom are specialists in this area.

Against that backdrop, you might wonder why we believe we can compete so strongly in this space, and I'd just like to give a few reasons here. First of all, payments is close to core banking. There's lots of synergies. For example, we can work with the same partners for delivery and we can leverage our existing sales channel across the world. We see strong demand from the installed base. We're able to take many of the award-winning characteristics of our existing core banking architecture and apply them to payments, even though it's a standalone system. So, as such, it fits well into our progressive renovation story, around individual components that can be sold on a standalone basis but also benefiting from all the investment that we've made in core over time. We've only just built the system. It has no legacy. It's a modern, fresh system and it's ground-breaking in terms of what it can offer. I've gone into a bit more detail on this on the next slide.

On slide 12 now. Before I go into this detail, just a bit of background to put this in context. Banks are investing huge amounts of money in transaction banking, because it's a growing market. BCG estimates that revenues are growing by a cadre of 8%, boosted by the growth in electronic payments and the rising participation of the previously unbanked. However, at the same time as revenues are growing, there're also challenges. There's new regulation pushing up costs, such as SEPA. There are new competitors in this space, such as PayPal, who just launched an offering for corporate banks, who are pushing down revenues per transaction. Lastly, the complex IT and operational structures of banks mean they haven't been able to extract economies of scale. Between 2007 and 2011, operating costs rose as fast as payment volumes, meaning there was no change in margins. So banks are really today looking for systems to overcome these issues.

Again, I've shown a little table here, both what the market is demanding and how we plan to address that, and I'll read down them very briefly. Rationalisation of IT systems. TPS is an integrated comprehensive end-to-end payment system, which will allow banks to reduce the complexity and the cost of their existing IT estates. Customers are demanding a more personalised customer service. TPS allows banks to launch new products faster. It gives them the customer information and complete view to be able to tailor their products and services, and to reduce the risk of being disintermediated by new entrants such as PayPal and Amazon. They're looking for higher levels of straight through processing. TPS has been engineered to offer the highest level of automation with a sophisticated, condition-driven architecture, recyclers and payment repair all built in. This is going to enable banks to extract the sought-after economies of scale. Banks want to be able to cope with multiple channels. The system is being built exactly with that in mind, and it's channel agnostic so it really doesn't matter where the payment is originated. Systems need to comply with new regulation. The system we've built has got AML and sanction screening built in, as well as other functionalities such as SmartFind, to help retrieve and audit data. And lastly, banks need to derive actionable intelligence from data. We've integrated Insight, our business analytics tool, into TPS to allow for big data handling. And obviously the payment space comes under the category of big data. In short, the solution gives banks the tools to manage compliance more cost effectively and to drive economies of scale, at the same time as offering more personalised services where needed. I'd like to caveat, though, just to pre-empt the inevitable question later. Given the length of the sales cycle and the fact that we're only just launching this now, means that it really is a second half 2014 and beyond opportunity for us, even though, clearly, I'll be reporting to you as we progress over the next few quarters.

I'd like to hand you over now to Max to walk through the financials and guidance.

Max Chuard - *Temenos - Chief Financial Officer*

Thank you, David. Turning now to slide 14. Q3 saw strong growth in product revenues. Like-for-like software licensing revenues were up 4% in the quarter, and 11% in the last 12 months, thanks to solid execution and strong sales into the installed base. Maintenance revenues were 4% higher, showing the strong resilience of our customer base. With an increasing contribution from maintenance, a higher proportion of sales into existing customer base and SaaS revenues, the visibility of our revenues and cash flow is increasing. We always said that services is a margin business, and services is now within our range of 20% to 25% of Group revenues on an LTM basis. As we said at Q2, as a [hold] against further traction, revenue will continue to fall with a corresponding fall in costs. Our premium higher margin services business is now accounting for more than 20% of services revenues. The combination of these factors has seen the services margin in Q3 improve by 7 percentage points against the same quarter last year, and, sequentially, as the revenue mix shifts and the premium business continues to deliver. The combination of better sales techniques and lower costs drove non-IFRS EBIT margin up 5 percentage points to 23.5%; a growth of 24% compared to last year. In the last 12 months, the operating cash inflow has reached $157 million; 45% higher than last year, resulting in a cash conversion of 125%. This is the positioning as well to achieve our target of converting over 1% of EBITDA into cash flow for the full year. DSOs stood at 211 days at the end of the quarter, a reduction of 26 days from the same period last year, and flat against Q2, 2013. Q3 is certainly a weaker quarter for cash collection, and we would therefore [not] expect DSOs to increase in Q3 from Q2. We are now forecasting DSOs to fall by 20 to 25 days in 2013, ahead of our 10 to 15 days originally planned.

In summary, good operational performance combined with strong financial discipline has translated into a strong financial performance for the quarter.

Turning to slide 15, this is fourth quarter of software licensing growth, and we've now achieved 11% growth on the LTM basis. Total revenues were flat this quarter, despite the 21% fall in services revenues. We are clearly seeing a diverging trend, with licences growing faster than expected and implementation services, thanks to the ramp up in the partner channel, slowing faster than expected. Non-IFRS services margins were up 7 percentage points against Q3 last year, due to an increase in premium services, acceleration in our product strategy and the lower cost base, facilitated by increased viable cost base.

Finally, as you can see, the non-IFRS EBITDA margin has improved by more than the non-IFRS EBIT margin, which is due to the increase in amortisation of capitalised development costs, as amortisation begins to catch up with the higher level of capitalisation. We've included a new slide in the Appendix, which breaks down capitalisation of the development costs by quarter, together with the amortisation of this cost and the net impact. We will expect the net capitalised cost to be circa $14 million for 2013, a fall from $19 million in 2011 and $16 million in 2012.

Looking forward to the next few years, we will expect capitalised development costs to remain on the same level, with amortisation increasing to reduce the net impact to under $10 million in 2014, and to reach zero in the following year.

Now, turning to slide 16, we show the revenue and costs on a like-for-like basis. Like-for-like maintenance and licences were up 4%, when considering the impact of acquisitions and forex. Non-IFRS costs were down 8% on a like-for-like basis, against 6% decline on a reported basis, driven mainly by the fall in the services costs, which fell 26% against last year. As I said, we've increased the viability of our services cost base by growing our partner programme, resulting in a larger pool of resource available.

Looking at slide 17, non-IFRS EBIT growth has been augmented by efficient tax and financing, with higher growth in non-IFRS EPS in the quarter, and almost double on an LTM basis. As well, we reiterate our tax gains for the year at 17% to 18% of revenue before tax.

On slide 18, cash conversions. The 12 months ended September 2013 was 125% ahead of our target to convert at least 200% of EBITDA into cash, and we are on track to deliver our full year commitments. We've achieved over 100% cash conversion in each of the last three years, highlighting the quality of our earnings. Q3 is certainly a weaker quarter for cash collection, as I said. Nonetheless, this will be the first ever year that Temenos will be operating cash positive in all four quarters. It is also worth noting that Q3 DSOs would have been a further five days lower had it not been for FX that we had on the euro side. We now expect DSOs to reduce by 20 to 25 days in 2013, as I said, ahead of our plan. The strength of our cash flows also gave us the confidence to pay our first ever dividend earlier this year, and also to commence a share buyback programme in Q2. The buyback is now completed and we've returned $54 million to shareholders, on top of the $20 million paid in dividends earlier this year.

Looking at slide 19, our leverage remains within our target range at 1.6 x EBITDA, despite returning, as I said, $54 million to shareholders through the share buyback. Taking into account treasury shares, our leverage is now only at 1.1 x EBITDA. Please note that the treasury shares figure of 56.3 million does not include the shares purchased in the past programme, as part of the recent buyback, as these shares will be cancelled now. We will expect the leverage to fall in Q4, to below 1x, due to the expected strong cash collection driven mainly by the maintenance collection.

I now turn to slide 20. We reaffirm our guidance for software licensing growth of 5% to 10%. As regards total revenues, the point to note here is that while we keep the guidance unchanged, we expect to come in towards the lower end of the range. As you have all seen all year, our service strategy of giving implementation work to partners while we concentrate on the delivery of premium services, is delivering ahead of plan. As such, we expect revenues to be towards the lower end of the range because of a lower contribution from services. We expect Q4 service revenues to come in around the same level as Q4 last year. However, offsetting the lower services revenue, we expect lower services costs and, as such, we will expect the non-IFRS EBIT margin to trend towards the higher end of the guidance range of 21.7% to 23.2%. With slower services revenues and cost, we therefore also expect the cost base to be lower than the $368 million we had originally expected. Finally, we reconfirm the 100% cash conversion and the tax rate guidance for the year. And, with that, I'll pass back to David.

David Arnott - *Temenos - Chief Executive Officer*

Thank you, Max. If you turn now to slide 22 of the presentation - just a couple more slides to go - I'd like to spend a few minutes looking at the market conditions, on the back of Max's outlook comments, as we head towards the end of the year.

We've got a broad solution, which meets our customers' demands. We tackle their pain points in the order they want with the systems that are easy to integrate, and we've proven to deliver unrivalled value. Today, this remains by far the biggest differentiator in deals. The focus on improving account management is helping to realise the installed base opportunity, and we're continuing to take market share with the LTM software licence growth of 11% compared to a market which was more or less flat over the same period. We've talked extensively over the years about the benefit of being global, not only for our customers but also for the diversity that it gives the business. Each geography has very much got its own dynamics. Latin America and Asia are performing strongly, driven by general market growth, and their mass affluent PWM trend within that. In the US, there remains a large opportunity in the sales base for a market disruptor with a modern, efficient scalable core, like the products we've just put into the TriNovus installed base. Europe remains at the early stages of recovery, with banks just starting to take a longer term view, a trend that others have observed in their Q3 reporting. One particularly interesting aspect of Q3 is that we're seeing signs that big deals are now coming to market in universal and retail banks outside of Europe. This is partly due to improving conditions, but also reflects the changes we made to the sales force, which is starting to come to fruition now. It’s around 12 months since the new organisation has been fully up and running, and with a 12 months sales cycle for larger deals, it is no coincidence that we're now starting to see the results of that change. All of this leaves us well positioned to deliver Q4 and, beyond that, our medium term outlook.

Just before closing, I'd like to say a few final words using my last slide. Q3 performance was good across all KPIs. It's the fourth consecutive quarter of licence growth, our pipeline provides confidence for Q4, and, above all else, this gives us comfort looking ahead into 2014 and beyond. The services strategy is delivering ahead of expectations, and margins are improving strongly. Overall, margins continue to expand and, while we're getting more and more confident about market conditions, we're going to restrict investment to key areas of investment growth only, which don't impact our ability to grow but do drive profits up at the same time as growing revenues. There really aren't any margin constraints for Temenos for quite years, as the basics of the Temenos model are so strong. We've delivered strong cash flows and cash conversion, with significant reductions in DSOs expected for 2013.

In short, the business is executing well. It's executing in line with strategy. Q4 is going to validate a lot of what we've been doing behind the scenes, and I look forward to speaking to you all in February to explain how my first full calendar year has gone. With that, operator, I'd like to open up the call for Q&A, please.

Questions and Answers

Operator

Thank you. As a remainder, if you'd like to ask a question, please press star and one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash key. Once again, that's star and one to ask a question. Your first question comes from the line of Adam Wood from Morgan Stanley. Please ask your question.

Adam Wood - *Morgan Stanley - Analyst*

Hi, David. Hi, Max. Thanks very much for taking the question. I've just got two, if I could. Just, first of all, there's been a lot of discussion in the market around the whole concept of outsourcing in the banking market and whether that's maybe becoming a bigger factor and maybe an inhibitor for you. Could you just talk a little bit, first of all, I think there was some talk around infrastructure outsourcing in particular? Obviously, you've not been willing to get involved in that, which seems sensible. Is there any reason why, first of all, partners couldn't help you out with infrastructure outsourcing where that was required by the bank? And, secondly, would there be any interest in more general BPO type deals? Then secondly, just on the services business, I appreciate that was obviously weak in the quarter. You're expecting a pretty significant bounce back in Q4. Could you maybe just talk a little bit about why we should see such a strong bounce back? And, given that lower cost base in Q3, I appreciate you've moved the costs more to variable costs, but should be maybe also see some leverage in Q4 on that stronger services number? Thank you.

David Arnott - *Temenos - Chief Executive Officer*

Thanks, Adam. Good question. Let me deal with them. I'll take both of those, if that's okay. I'm glad you asked about outsourcing because I don't think I was as clear as I could have been on our second quarter call on this. I think we need to split very clearly in our minds SaaS from BPO, or infrastructure outsourcing, as you're describing it. They've got very different drivers and we see them as very differently. SaaS, to start with that one; I believe it'll happen slower in financial services than in other industries because of the risk perception around core banking replacement, however it's delivered. But I do believe that it's massively disruptive for the sector. The cost advantage to running software, whether it's deployed on a Cloud or through a datacentre, is so disruptive to the cost base of a bank and allowing them to go to market quickly that it is going to have a major change over the next few years, I believe. I think it's something we want to be part of. It's exciting. It opens up new markets for us and already today, I would say probably more than most in our space, we're really already at the leading edge of that change. So if you look, for example, at the TriNovus acquisition, if you look at our own Cloud initiatives which we've been doing around the world, we've worked very well with Microsoft already. I referenced Ren Credit, Renaissance Credit, earlier. TriNovus has really forced Temenos to get more ready more quickly for offering all of our products in a SaaS environment. And the multitude of products we have that can be deployed, coupled with the experience we've gained through Microsoft and through TriNovus, really leaves us at the top table, if you like, in terms of addressing that market. So we're very excited by that.

On the other hand, BPO; BPO, to put it in context, is not something we want to particularly get into in our own right. It's labour intensive. It's capital intensive. You end up with balance sheets which are joining with IT staff and premises, even rent. You need to load up your balance sheet with hardware. It's not our core business. However, we do think it's important to offer our customers choice in terms of being able to deploy our products in any way they like. So as you rightly pointed out, we want to be able to offer a BPO service through partners. Partners, I think, are the key. We have great experience working with people like Wipro-HP, who have huge experience in this area and they're more than happy to provide the infrastructure support that we don't particularly want to get involved in. BPO we also see, to put it in context today, very much as a private, or onshore even, private wealth demand driven market. We don't see demand outside private wealth. We don't see it in universal and retail, for example. It's very specific around countries like Switzerland, Luxembourg, possibly Singapore. We plan to be part of it. But we see SaaS as much, much more exciting.

In terms of services, I think, hopefully, we've showed with Q3 that the variability we've introduced into the cost base meant that a slowdown in revenues, as you normally get over the summer, had an immediate knock on effect on cost. But we have by far more variable cost consultants, if you like than fixed cost consultants. We can turn on and off the tap quite quickly. So we've demonstrated, as Max pointed out, very good margin improvement year on year. Looking into Q4 sequentially, your question specifically was about the sequential increase in revenue. There's always a seasonality Q3 to Q4. There was last year. Summer tends to be quieter in terms of project starts. A number of projects that we signed in the first half, specifically Q2, really didn't get up and running until the end of the third quarter. And obviously you see around the year-end, if you go back over Temenos over ten years, you see a significant amount of activity around go-lives around year-end, Christmas, New Year and so on. So there's a normal seasonality to it. Coupled with some big project starts, projects that we've started in the first half, or signed in the first half, rather, that are really just getting up to speed now. Then, the last big driver on top of that is an acceleration around premium services, where we've really only been selling this for three or four months now, is a short productised services where, for a fixed amount, you send in a team of people and they will deliver for maybe 50 or 100,000 a project, like an upgrade assessment. We're starting to see the sales efforts we've made in that area come through, and driving quite strong demand, which we now have to deliver in the fourth quarter. So we're happy with the sequential increase Q3 to Q4, but I do want to put that in context of it being a margin business.

I think your last point, Adam, was about whether we can drive margin improvement out of services in the fourth quarter. Obviously, there is a lot of fixed cost in our services business anyway. They have to pay for their own overheads and so forth, so the seasonality itself will drive, obviously, much stronger margins in the fourth quarter. It you take all of that together, I'm quietly confident, although I'd like to reconfirm next February that we can at least achieve breakeven for services for calendar 2014.

Adam Wood - *Morgan Stanley - Analyst*

Great. And congratulations on another solid quarter, and thanks for taking the questions.

David Arnott - *Temenos - Chief Executive Officer*

Thanks. Appreciate it.

Operator

Your next question comes from the line of Michael Briest from UBS. Please ask your question.

Michael Briest - *UBS - Analyst*

Thank you. I've got a couple as well. Just going to the guidance again, as Adam did. For the low end of the full year revenue guidance, I struggle to see you doing anything other than the high end of the licence guidance, if we assume that maintenance is up 1 million or so, Cloud is 3 million. I think you need to do 54 million or so licences. Can you confirm that? Then, secondly, in terms of the deals, five customer wins was pretty low relative to history. But despite that, the new name licences were over half of the total. I'm just trying to triangulate that and suggest there was at least one very large deal in there. Can you talk a bit about that and perhaps whether those SaaS partners are buying licences that they then re-host, if you like? The Asian example, for instance. Thanks.

Max Chuard - *Temenos - Chief Financial Officer*

Hi Michael, it's Max. For the guidance question, your maths is thereabouts. I would say that to get to the low end of the outlook, we will be towards the high end as well of the licence range. So it's more or less as you said, yes.

David Arnott - *Temenos - Chief Executive Officer*

On the five new deals, a couple of points on that. Yes, there were some decent sized deals in there but I think that would be misleading, to be honest. I think by far the most success in the third quarter was around cross selling to the installed base. I think the reason we're struggling to reconcile it is because we don't look for backlog, so recognition of licensing from prior quarters, and also we don't report what we've signed in the quarter. That would come through as revenue in future quarters. I'd focus more on the five. To be honest, five isn't as good a number as it was in the prior year. We're focusing on the installed base and it's very lumpy. Last quarter we had a great new business, Q4 we're comfortable. I talked about the fruition of the 12 month sales cycle. So I wouldn't extrapolate too much at this stage from the five or the revenue in Q3. Probably let me get through Q4 and I'll be able to give a much clearer picture in February.

Michael Briest - *UBS - Analyst*

Can I just ask if the ABN AMRO go-live or Sibos would have triggered a fee for this quarter? And also you're adding services partners but the number of commercial opportunities out there seems to be going down, not up. How is that going to square in the long term?

David Arnott - *Temenos - Chief Executive Officer*

ABN, specifically, is not a driver for Q3 licensing. If it were, and if it were related to something else, I would have highlighted it because it's important to me to highlight the underlying business trends. So it's not a driver for Q3. What a lot of our partners are doing at the moment, in the absence of a real acceleration of new business, in the way we would hope to see as Europe starts to really recover, a lot of them are going through upgrades, taking our customers on to latest releases so they can access things like business intelligence edge and so forth. Some of the new products we've bought only go back one or two releases, so some of our customers need to be brought up to speed, which is a pure services opportunity. A lot of the partners are working on that, which you don't see in our numbers at all. And, most importantly, every new deal we've signed, we're really doing two things. We're doing the governance, so we'll send along a project manager and some senior technical people, lead business architects and so forth, to really have a table in the steering committee and making sure the product isn't being abused by the business partners. They're the guts of the team, the 15, 20 people that need to be deployed are entirely coming from partners, and that's really probably 80% complete compared to six quarters ago.

Michael Briest - *UBS - Analyst*

Great, thank you.

Operator

Our next question comes from the line of Gerard Vos from Barclays. Please ask your question.

Gerard Vos - *Barclays - Analyst*

Good afternoon, thanks for taking my question. I've got three, if I may. First of all on the pipeline, you seem to be quite comfortable on the pipeline going into Q4. Could you maybe give us a bit of clarity where that strength is coming from, and if you would expect that to come through already in Q4 or if that's more the base for your double digit guidance into 2014? Then secondly, on the re-licensing opportunity, I can imagine that you have gone now to a couple of those re-licensing opportunities. Can you help us understand if you do that at a discount, and how has that happened to build our models going into 2015 for that opportunity? Finally, on the payment hub, what do you see there in the pipeline and do you expect to start signing deals for the payment hub in the first half of '14. Thank you.

David Arnott - *Temenos - Chief Executive Officer*

Thanks, Gerard. Good questions. I'm going to answer them individually. In fact, I'm going to pass the re-licensing ones to Max. But I wanted to take all three together. Maybe I over-egged my messaging a little bit. In terms of pipeline, we're quietly comfortable, we're quietly confident. The pipeline is growing. What's very difficult to split out is the simple execution of the fact that we've now had a clearly focused sales force for 12 months, and you're coming to the end of that sales cycle. I didn't want to over-emphasise the uptick, I really didn't. Q4 is absolutely key for us. Let us get through Q4. But, beyond that, if you look at, and I referenced a couple of times the increasing activity in the market, so it was early stage RFPs and so forth. We believe that when we get through Q4, but please let me get through that first, that we will see a steady but not marked acceleration in Europe. And we believe that we'll benefit primarily from better execution and territory coverage in places like Lat Am, Asia, and Middle East and Africa. But I didn't want to over-emphasise that at this point until we get through Q4. In terms of Q4, specifically, I alluded to some larger deals coming to market. I don't want you to overplay Q4 by deals coming forward from next year. I think we're just executing solidly and, as we said, the 10% is intact. I wouldn't say more than that at this stage.

Let me quickly take the payment hub one and then I'll ask Max to talk about re-licensing. Payments - I'm telling you about it now because we launched it at Sibos and I wanted you to be able to put it into context of the opportunity. Having said that, we've only just trained our sales force on it. It's got a 12 month sales cycle. It's as complex in many ways as a back office systems replacement, because most banks have many payment systems you're replacing. ABN themselves won't go live until around Q3 of next year. Now, you can probably sell on a roadmap, or at least you can build pipeline on a roadmap, but I wouldn't be surprised if many banks wait and see how that goes, even though, obviously, parts of our payment offering are already up and running in other banks like JPMC. So, for me, it really is second half, and probably more importantly, 2015 as a driver. What I wanted to do at this stage was put in context the size of the opportunity. If you look, it's the second biggest after core banking. I wanted to highlight that it's different competitors. And as much as I can over the next three to four quarters, I'll give you flavour around pipeline and how we're shaping up against competitors and so on. So I wouldn't put in anything yet for 2014, but let me reconfirm in February.

Gerard Vos - *Barclays - Analyst*

Fair enough, thanks.

Max Chuard - *Temenos - Chief Financial Officer*

On the re-licensing side, as we've said over this year, let us gather some more data points before we come back to you. As soon as we understand, we have a better visibility of how this re-licensing works, we will come back and explain and position it. It's too early for us at this stage. As we said, anyway, re-licensing is not expected to be material in 2013 and '14. But we hear the point and we will come back to you as soon as we get more data points.

Gerard Vos - *Barclays - Analyst*

Thank you.

Operator

Your next question comes from the line of Chandra Sriraman from Mainfirst Bank. Please ask your question.

Chandra Sriraman - *Mainfirst Bank - Analyst*

Hi, good evening. Thanks for taking my question. Just a couple of questions from my side. On the services contribution margin, will it be reasonable to assume that most of the restructuring was services related? So, going forward, we should see slightly better margins. Number two, can you also talk about or give us some sense of the variable costs in Q4? Should it be in the same range as previous years - $15 to $20 million? Thanks.

David Arnott - *Temenos - Chief Executive Officer*

Okay, Chandra, I was scribbling as fast as I could there. On services, I think you asked two questions. One, is there any more restructuring. The answer is no. Or, under a million, certainly. We're done. In terms of the margin drivers, it's not about restructuring. We're going through a one-off business model shift. We spent a long time installing our own software to make sure it went in on time, well, as on time as you can get in this industry, on budget, and, basically, get a reputation for having well-installed software to build reference-ability. It was almost a loss leader division for the last few years as we built our reference-ability. Once you've done that, it becomes a constraint to growth and you need to move to the next stage, which more established players like SAP and so forth have done, which is depend on an ecosystem of partners, bringing different skills, expensive skills, around things like senior business analysts, management consultants, heavy hitting project directors who can control a systems integrator in a big account. They are a cost before they become a margin driver because they need training before you can really deploy them. Then you've got a bench of people who've been previously doing implementation work that you now want your partners to pick up for you. So there's a shift that you have to go through, which we estimated it would take about six to eight quarters, where your attrition runs down on the consultants who should be implementing, because you're giving the business proactively to partners. Over time, those people find homes in the partner ecosystem or you just let the cost go down through attrition. And your top end, your productised services, as I described it earlier, become profitable. And that part of the business, which today represents 20% of our services, is a good 40, 45% business if you manage it properly. So we're just washing through it. We're probably three quarters of the way through now, and that will continue. So we will be left, in one to two years' time, with a good 30% of our business coming from high end services, a governance role on projects and a minimal implementation team, who really will be, the first time we go into a country, we'll probably want to do it ourselves to make sure it's done properly. That will drive margins towards what, typically, in an embedded services company within a software company, would be around 10% to 15%, and I guess we're probably one to two years away from that, but we're tracking faster than we thought we would. You only have to go through it once, so the quicker you get through it, the better.

Max Chuard - *Temenos - Chief Financial Officer*

Chandra, yes, as every year, Q4, this is where we get the largest variable part of the costs, and you should expect this to be the case again this year. I'm not going to give you the amount, but if you look at history what we've had, you won't be far away from that.

Chandra Sriraman - *Mainfirst Bank - Analyst*

Perfect, thank you.

Operator

Your next question comes from the line of Takis Spiliopoulos from Vontobel. Please ask your question.

Takis Spiliopoulos - *Vontobel - Analyst*

Hi David, hi Max, just two questions from my side. What is the percentage or what has been the percentage of non-T24 licences in Q3 and then in the same area, what percentage of licences have you derived from partners in Q3? I guess it was 20% in Q2, which you named last time. Thanks.

David Arnott - *Temenos - Chief Executive Officer*

On the partner one, it would be around 18%, which is in line with the last 12 months. We're trying to find the exact number but I believe it will be around 18%. In terms of partner led sales. The second one was about the percentage of licence revenue coming from T24. I think of this on a signings basis as opposed to net of backlog in and out. Obviously, with the focus on the installed base and the cross selling of newly acquired products, it would be a higher percentage around non-T24, although we also saw quite a lot of additional users on the T24 side, banks who'd previously bought a pilot number of users and they've expanded. We should have that number to hand. We don't unfortunately, but we can get back to you on that. I would say generally it's a shift towards newly acquired products based on the account management and the partners who really are focusing on selling that, as I talked about earlier. Get a bank to upgrade and sell them the new products. We'll come back to you with the number, apologies we don't have it.

Takis Spiliopoulos - *Vontobel - Analyst*

Maybe an add-on. Is there anything, you mentioned that you see a better market environment outside Europe for large retail deals, especially Lat Am and Asia. Is there anything else other than your upgraded sales force in those regions? Anything else that has changed in that market to make you a bit more confident?

David Arnott - *Temenos - Chief Executive Officer*

I think both those markets - again, I don't want to single out those two in particular - but I suppose those two do stand out. But Middle East and Africa are the same. I would say it's 70% execution. We've got really, really strong sales people in those regions and, more importantly, a strong partner ecosystem, so we're working with people like IBM and so forth, who are the gatekeepers to the accounts in those regions. I would say 70% of the reason our pipeline has increased is execution. Having said that, structural issues in both those markets - in emerging markets, there's a big underlying private wealth trend, as I've talked about for quite a while now, and an emerging middle class who want to be treated differently and if you don't treat them differently they'll move their money to an HSBC or somebody else. We're now, I think, a lot more succinct in our messaging to those banks about a private wealth solution, you know, bank in a box, if you like. But the larger retail and universal banks, if I look at our RFP flow and our pipeline flow, both those regions have not really seen many deals like that coming to the market in the last couple of years. It's not that they've been going to other people because we didn't have sales people; they weren't coming to market. And I think it's consistent with my European comment - banks, in all economies, are starting to take a longer term view. In Europe, it's looking beyond the cycle to attract customers, protect themselves from new incumbents into the space and so on, and in emerging markets it's very much about capturing growth across the space. In retail, for example, offering mobile solutions, an efficient core. I look at some of the deals in pipeline. Banks are looking for an efficient modern core they can consolidate other smaller banks, they can go to market quicker. So 70% execution, 30% banks in emerging markets starting to take a three to four year time to value, if you like. But again let me get through Q4 and hopefully I'll be able to give a lot more flavour on specific deals and geographies and buying behaviours.

Takis Spiliopoulos - *Vontobel - Analyst*

Sure. Solid quarter. Well done, thanks.

Operator

Your final question comes from Mohammed Moawalla, from Goldman Sachs. Please ask your question.

Mohammed Moawalla - *Goldman Sachs - Analyst*

Yes, hi. Can you just elaborate a little more on Europe? I know the sales cycles here are quite long, so you talked about some signs of gradual improvement. When would we start to see a more pronounced rebound in the European licence business for you, given the sales cycles?

David Arnott - *Temenos - Chief Executive Officer*

It's really macro driven. You're probably as well positioned to answer that as me, in many ways. The key here is banks' visibility. For a number of years, banks were really, in the last few years, they've been much more tactically focused around which parts of banking they want to be in, protecting their jobs, really looking very short term. Before that, we had a decade where banks were growing extremely fast and, frankly, could avoid a very painful open heart surgery because they could cover it. You didn't have regulation in the payment space, you didn't have the headwinds of Basel II and Basel III. You could cross fund it from private banking or investment banking. And we felt for a long time that the suites between those two scenarios, where banks take a three to five year view, and it's really not a very pretty view, was a great opportunity for us. Again, I don't want to over-emphasise the uptick here. I would say that we're seeing banks starting to issue RFPs on the back of three to four year decisions in the universal small to mid retail space. Will they make a decision at the end? I think we just need to track it and tell you as we go along. But definitely we've seen an increased willingness to look two to three years out in banks in Europe. However, I believe it will be muted. If you remember, I laid out my scores very clearly on not having a three year plan that was dependent on a recovery in Europe. I was very clear to say that we'll cross sell different products, we'll have a progressive renovation story. We'll have a componentisation strategy, and we'll focus on emerging markets. What we're seeing in emerging markets, to clarify my point earlier, we're seeing the acquired products as an enabler for selling more T24. So the fact you've got a standalone front end for wealth or business intelligence may mean that they lead with T24, and come back subsequently to change the front end or the channels. That's the way we've set up the three-year plan. So we're definitely not in any way dependent on a recovery in Europe. It's a key market for us, the structural issues are more compelling than anywhere else, and we're just starting - starting, I say - to see light at the end of the tunnel. So again my gut feeling if I had to pick a trend would be an uptick from 2015. If we can gain market share or an acceleration of that in 2014, so much the better, but that's the time horizon I would think in terms of.

Mohammed Moawalla - *Goldman Sachs - Analyst*

Okay, and can I just ask one more? In terms of your thinking on use of the balance sheet and M&A, I know you've done this acquisition in US. Are you thinking that you're entering back into the market to do something a bit more mid or large size, given the stabilisation as well that you're seeing in the business itself?

Max Chuard - *Temenos - Chief Financial Officer*

Mohammed, it's Max. We are always in discussion with potential targets, we've got ongoing discussions at different phases. We look at it as a pipeline; we need to do that to be able to execute on our acquisition strategy. But the timing of that is always difficult. Clearly, for us, it's part of the strategy to continue to do M&As. We've done quite a few in the last few years, and I think we get more comfortable as well from a size point of view on our ability to execute and to integrate them. But again, it's also difficult to time, but clearly that will be, and as we've seen in the past, the most accretive way to use our cash.

Mohammed Moawalla - *Goldman Sachs - Analyst*

Great, thanks.

Operator

There are no further questions on the phone lines. Mr Arnott, please continue.

David Arnott - *Temenos - Chief Executive Officer*

I think that's all. You know where to find us if you think of any more questions. Thank you very much for your time this evening. We look forward to speaking to you either between now and the end of the year or after Q4. Thank you very much.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.
