Final Transcript

InterCall®

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Presentation

Operator
Ladies and gentlemen thank you for standing by and welcome to the Temenos First Quarter Results conference call. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question you will need to press *1 on your telephone. I must advise you that this conference is being recorded today, Tuesday 19th April 2011. I would now like to hand the conference over to your speaker today, Miss Sarah Bowman. Please go ahead.

Sarah Bowman

Hello everyone and thank you for joining the conference call today to discuss Temenos' First Quarter 2011 Results. On the call with me are Andreas Andreades our CEO, David Arnott CFO and Max Chuard Head of Corporate Finance and Investor Relations. You may download the slides for the presentation from the 'investor relations' section on our website. As usual our prepared remarks will be followed by a Q&A section and 48 hours from now you will be able to download a transcript of the entire call from our website. Before I hand you over to the speakers I just want to make you aware of the legal disclaimer on slide 3 of the presentation.

Various sectors may cause actual results to differ materially from Company estimates and indeed may cause Company estimates to change. Therefore undue reliance should not be placed on the forward looking statements during this call which reflect the Company's opinions only as of today.

I will now hand you over to Andreas who will give an update on the business and strategy.

Andreas Andreades

Thank you Sarah. Welcome and thank you for joining us today. I would like to begin with a couple of high level remarks about the business that will help put our Q1 performance in context.

Firstly – the core banking market is a very exciting market. It combines penetration rates with strong structural drivers. The market was somewhat slower to recover after the banking crisis in 2009, given the longer lead times. But we are now seeing very strong momentum. Q1 is always a seasonally weak quarter, a small quarter, and this year this effect was compounded somewhat by some microeconomic factors which have temporarily slowed down decision making in some parts of the world. That said – we remain confident about the outlook we have given for the full year, which is well supported by the pipeline. As independent studies have shown we are gaining market share and remain the best placed vendor to lead this market over the long term. I am particularly excited by the work we are doing with our partners, which is repositioning Temenos in a fundamental way.

Let me go through my business update for the quarter, and on slide 6 let me start with the highlights. Shortly after the Q4 results IBS – that is International Banking Systems Organisation – published its annual league table which showed T24 again as the best selling solution in our market; and confirmed our view that Temenos gained market share, in fact three points by our estimate. In addition, the Forrester group reiterated that Temenos is one of only two power servers with a global sales and delivery reach that this implies.

From a product offering perspective, we announced today that we are launching the first Europe-wide ASP offering to widen the addressable market for T24 in partnership with Wipro. Our licensing performance in Q1 together with the level of the pipeline and the associated visibility, as well as broader market developments continued to support our full year license outlook. Of course I am going to come back to that later on in the presentation.

Moving onto slide 7 and more specifically on license revenues – we had a 6% like-for-like growth against a stated growth of 3%, as revenues from V-Bank an on-core solution gained as part of the [unclear] acquisition showed a year-on-year decline consistent with our acquisition assumptions. Now David will explain the impact of these in more detail later on in the presentation.

In the quarter we had lower contribution from our Middle East business which was down to a 6% mix from 12% last year. While the events in the Middle East and the Japan earthquake have slowed down decisions, they have not stopped the valuations.

Q1 is a typically low seasonal quarter and small absolute Dollar deal movements as you can appreciate, can impact growth rates massively. For example a typical T24 deal in a small quarter can have a 10-15 growth point impact. This does not alter the full year outlook, as pipeline continues to be at record levels, and in fact more than – as I said quite often – three times our level of outlook licensing. In addition, contracted licensing from the Wipro ASP deal gives us increased visibility both for 2011 and in fact 2012. Product extensions continued to experience strong demand and they now comprise 16% of total license revenues, compared to 15% in 2010. I will come back to that on slide number 8, but before I do that let me just say that finally the Odyssey integration is proceeding well and we see excellent traction for the combined offering.

On slide 8 you can see how we have evolved the product extension business and how this continues to be a key component of growth for the future. If you translate the mix numbers you observe that licenses actually from our product extensions grew by over 40% in the first quarter.

Let me turn my attention to the announcement we made earlier on slide number 9. As I said before we signed an exclusive agreement with Wipro to deliver T24 on an ASP model to smaller European banks and starters. The initial agreement is projected to bring a minimum of USD15 million in license revenues over 2011 and 2012. Out of this agreement there is a significant increase to license revenue visibility on committed revenue flow to Temenos for 2011. The ASP model allows banks to go live quicker and bundle on-core into a monthly fee. As such it lowers investment cost and providers a predictable monthly fee, making it a highly desirable deployment option for start-ups and small and mid sized banks, of which in Europe there are 8,000 with average assets of $3 billion or less.

The model may be replicated in other regional markets with T24, as we learnt from our experience in Europe. We are very excited with this agreement. This is a reseller agreement that takes our partner execution programme to the next level, while it allows us to retain our traditional licensing revenue model.

I would like now to move onto slide number 10 and 11 and give an update on services in our partner programme. Partners continue to invest and take a greater load of our services business. This allows us to refocus the service organisation towards offering higher level product related services, training, and project governance. This meant we had to reduce our headcount as we previously communicated, and we have consequently taken a 5.7 million restructuring charge in Q1. As we said before, 2011 is a transitional year for services as we continue to rebalance skills towards our target operating model. At this point I am happy to say that we have the right capacity for growth which we expect to return to from this point onwards, even this means that we are probably going to have a breakeven services business for 2011. The medium services outlook remains the same with a revenue mix of between 25 and 30%, and with a 10-15% margin. David will give more details on services later on.

To finish our partner update on slide 11, I wanted to make two announcements regarding product. As far as our partnership with IBM is concerned – we are announcing a major launch of our new T24 component based architecture on the z-series mainframe platform. What is exciting about this is that it addresses the requirements of the world's largest banks, while it protects their investment in mainframe infrastructure. This is the key to unlocking the retail Tier 1, Tier 2 verticals which represents about 60% of the core banking market. Never before has so much richness in functionality as provided by T24 has been delivered to large banks on their chosen technology platform for phased migration.

With regards to Oracle – the Exadata benchmark showed impressive speed scalability on T24 and consistent with our strategy to be the preferred solution for the full Oracle stack, we are announcing the availability of our bundled T24 product on Exadata platform. Both of these launches will be made in May at our Temenos Client Forum.

With this I would like to hand over to David to go through the numbers.

David Arnott

Thank you Andreas. If you turn now to slide 13 I would like to start with a look at the first quarter financial highlights.

Licensing revenue grew by 3%, total revenues by 10%; adjusted EBIT declined by 60% and adjusted EPS by 70% in the quarter. On slide 14 I have shown the different revenue lines and EBIT, EBITDA metrics and cash flow for the quarter and the last 12 months. I am not going to through the whole thing, but there are a few things I would like to highlight to you which are the numbers I have circled here.

License revenues were up 28% in the last 12 months, as a result of continued strong performance. Maintenance grew strongly by 39% in the quarter as we grew our cumulative client base, and with the impact of acquisitions, maintenance is now at $169 million. Historically our last 12 months maintenance revenues are very similar to the following 12 months EBITDA, which will give you some insight into how we expect our adjusted EBITDA to be looking in 2012. Services declined by 17% in the quarter as we moved towards our partner led implementation. We believe now we have completed the phase of declining reported services revenues, and will now start to grow services revenues again on a reported basis, even though this means we will probably be at the bottom end of the implied services revenue range for the year. Total revenue is now moving rapidly towards half a billion of revenues, and this scale will continue to drive further strong revenue and profit growth going forwards. Adjusted EBITDA margins remain at a very healthy 29%, and we expect our margins to continue to improve throughout 2011 as we leverage a flat adjusted cost base with any improvement in revenues flowing through to margin. If you take a look at our outlook you will see that there is $34 million of licensing growth in the last nine months of the year, 10 million of services revenue growth and 14 million of maintenance growth; and these taken together will prove our margin outlook for the year. Adjusted operating cash flows were $-19 million in the quarter, which I will come back to later, and our conversion of the last 12 months EBITDA was 82%. We remain on target for another year of 100% EBITDA conversion.

Turning to slide 15, I am showing the underlying business performance across our revenue lines, by adjusting out the impact of foreign exchange and acquisitions. You can see that on this basis, all of the lines are performing to plan, with licensing up 6% on the back of a 19% growth in Q4. Maintenance grows at a healthy 10% and services continues to drop as a share of total revenue as we execute our partner strategy. Total revenues declined by 1%. Note that now that the tribunal process has been completed in V-Bank which is a Legacy part of our Viveo business, we're able to report this as a discontinued business. Consistent with the acquisition case, V-Bank licensing continued to decline and will be less than $3 million in 2011. The like-for-like has been adjusted for V-Bank as a discontinued business to show the underlying T24 performance. We leave our outlook unchanged, and can now show like-for-like licensing revenue growth as the 19-24% number we have been working towards since the start of the year. This is shown on slide 34.

We continue to demonstrate very good cost control, and I have shown this on slide 16 where you can see that like-for-like costs were down 4% in the quarter. This is because we were able to leverage our acquisitions to fund our growth initiatives. For the full year we expect to be able to continue to use synergies to fund further investment, with like-for-like costs for the year remaining flat on 2010.

On slide 17 I have drilled down into services revenues and costs for the quarter in the last 12 months. Our restructuring is finished and we have absorbed the decline in services revenue that arises from our partnering model. As you can see in the appendices – back in 2009 we had a license to services ratio of around 1:1, so for a million Dollars of licensing we get a million Dollars of services, and today this has declined to around 70%. We're now at the point where we have the right capacity for growth without further cost cuts, even if this means we have a breakeven margin for 2011. I point to the note from this side briefly is that our services business still makes an 8% margin on a gross basis, and that we have a largely fixed overhead cost in services of offices etc, which in the short term has a magnifying effect on the margin with lower revenues. As we once again grow our services business, we will leverage this fixed infrastructure cost and this will drive margin expansion again.

On slide 18 I have split the margin improvement between product and services. You can see that the underlying strong leverage in the product business delivers further margin improvement as we extract economies of scale. This has allowed us to absorb the impact of services which has a significant portion of fixed overhead costs to bear in what has been a smaller business, as I have just discussed.

Looking forward into 2012, as services revenues restore profitability margins will improve, and this coupled with the strong continued product leverage, will drive continued margin improvements. I wanted to split it out like this, because whilst the product margin improvement is permanent, the services margin decline is a one-off. We can reach around the 30% adjusted

EBIT margin over the next couple of years, just with the normalisation of the services margin even without further significant product leverage.

Lets move now to the below the line P&L items on slide 19. We have got a very efficient below the line cost structure, driven by a low long term tax rate and good management of below the line foreign exchange. The underlying financing costs are up 4 million for the last 12 months as a result of our higher facility size.

Turning now onto cash flow. I have shown on slide 20 two metrics as I discussed last quarter. As I have said, our EBITDA conversion in the last 12 months was 82% and we remain on plan to achieve a third year of 100% EBITDA conversion.

On the next slide I would like to dig a little bit into Q1 cash flow performance. In the first quarter we had a reduction in payables totalling 14 million coming from the timing of variable costs and social charges. In Q1 last year, if you remember, we had a 12 million positive payable swing, resulting from the timing of social charge payments between Q1 and Q2. This is a 26 million quarter-on-quarter payable swing that washes out on a 12 month basis, but distorts this quarter's comparison. In addition, Q1 is a seasonally maintenance in flow quarter, especially from our acquired companies, and this drove a further working capital movement of $15 million in the quarter. For the full year the payable swing nets out to zero and deferred revenues grow. In other words reversing the Q1 deferred revenue movement, and if you do the maths you will see that we can achieve our 100% EBITDA conversion target without a reduction in DSOs. I would like to briefly walk you through this.

1 times adjusted EBITDA outlook will be $161 million and cash costs for the year are $360 million. Adding these together we need to collect $520 million. Our revenues are 546 million at the low end of the implied outlook. There is a 16 million increase in deferred revenue from maintenance growth, which means that our closing working capital will be at $183 million, implying a DSO of 123 days. This compared to the 125 days we started the year at. In fact our DSOs have been declining, and even in Q1 all but three days of our DSO movement, comes from the deferred movement, meaning we continue to manage down our receivables consistent with running shorter projects and getting more cash upfront.

Turning now to my last slide, slide 22. At the end of March we had drawn down $217 million of our new $350 million facility. Our convertibles now gone, so we have a simple net debt of 450 million, or less than 0.4 times leveraged. This is despite being at the low point of our working capital cycle, having just completed the Odyssey transaction, and buying Viveo just over a year ago. This leaves us very well positioned to take advantage of any opportunities that do arise either on our financing capital structure or to support M&A.

That ends the financial update part of the presentation, so now I would like to hand you over to Max for an acquisition update.

Max Chuard

Thank you David. On slide 24 I would like to give an update on Odyssey. The integration is progressing rapidly. The new Private Wealth Management division is in place with its own P&L structure. The sales force is fully integrated within the division, which brings increased focus to this segment of the market. The [unclear] functions are also integrated and brings significant cost synergies. At the same time our approved development strategy is on track which can address all tiers of banks with a combined front-to-back solution. We see strong from the PWM products, and we currently expect the 2011 PWM license revenue to be ahead of our business plan, giving us confidence in the full year. Finally in Q1 we were pleased to see two clients go live with a combined Triple A T24 solution.

On slide 25 I would like to give an update on acquisitions. We continue to screen for potential candidates, and we look for targets that could compliment our products in adjacent markets, and geographically we are actively looking at key and large markets. We maintain our strict acquisition criteria which are as follows. Acquisitions must be accretive within the first 12 months, and we look at synergistic transactions that will leverage our global sales organisation, our market leadership and our level of investment in our products.

With that I will pass over to Andreas to talk you through the outlook for this year and concluding remarks.

Andreas Andreades

Thank you Max. Over on slide 27 and 28 I set out our overall position on the market and a summary of where we are at this point in the year. it is only six weeks ago that we spoke during our Q4 results, so not much has changed in terms of market assessment, and our value proposition remains intact.

2010 represented the first year of recovery for our market, with growth returning to modest levels of around 5%. Clearly and as the IBS league table has shown, we were able to grow licenses much faster than the overall market, underlining our growth in market share.

Looking in 2011 – we continue to expect faster growth in our market. This is what the industry commentators are telling us, and it is also reflected in our forward looking pipeline metrics. The fact remains that the banking industry continues to have a structural issue with IT spending, which it must address if the industry is to return to previous levels of profitability, and this issue is growing in importance in our opinion all the time.

While the 6% growth in Q1 in like-for-like licensing is below trend, as I said before Q1 is a seasonally small quarter and does not invalidate full year assumptions. Pipeline continues to be strong and visibility is good and especially given the development of the partner channel and ASP agreement with Wipro.

Specifically now in terms of full year outlook on slide 29 – we maintain our full year license outlook, unchanged. The true like-for-like T24 revenue growth adjusted for V-Bank is now higher than before. As I said, this is justified on the basis of both our pipeline and contracted license revenues from our ASP reseller agreement in Europe. Total revenues remain unchanged at a growth of 22-26%, even if the services realignment probably means we will be towards the lower end of the implied range for the services revenue. Adjusted EBIT margin is at an unchanged 26-27% as the growth in product mix and margin will compensate for any shortfall in services margin contribution.

At this point I would like to stress that we are maintaining adjusted costs flat for 2011, i.e. we are funding our organic growth through the synergies from the acquisition and this allows all revenue growth on a like-for-like basis to flow through to the P&L. We continue to maintain our EBITDA conversion into cash flow at 100%, and as David has proven we can deliver this without any DSO reduction. In fact, if you factor in that deferred revenues are expected to grow in line with like-for-like maintenance revenues of about 10%, you can see that in fact we are poised to exceed this key metric of our outlook. Finally tax rate is unchanged to 10%.

Finally on slide 30 I just wanted to bring attention to the growth in profitability that the maintenance model that is the cornerstone of our business model can deliver. Those that have been tracking Temenos for some time know that profits follow maintenance growth, and at 39% growth this quarter, and similar for this year we are poised to deliver another successful year.

With that I would like to open up the call to questions.

Questions and Answers

Operator

Raimo Lenschow.

Raimo Lenschow

Thanks Raimo Lenschow from Barclays Capital. Briefly – if I look at these numbers optically I guess even you have to admit that they don't look very pretty because you have a revenue that doesn't look that great and costs seem to be in line with expectations, so there is obviously then the big mismatch on profitability. Can you just help us to get slightly more comfortable that this is just a Q1 issue and a typical one or two deals make this quarter look funny? What are the revenues coming through? What is the implication then on profitability in the quarters to come?

Second part if I may is on the services side. You have been predicting that you have services visibility on services for a few quarters now and pretty much every time the number came in lower than expected. Why are so much more comfortable now that you are at the low point and from now on you're going to be flat and growing going forward. Thank you.

David Arnott

Let me take both of those. First of all let me take the Q1 issue, as we have said it is a seasonally small quarter. The cost base is going to be flat for the full year on a like-for-like basis. The revenues will grow. Our growth rate last year was significant and we expect to continue that this year. The pipeline remains healthy, and we have got no reason at this stage to change our outlook. In fact if I give you the numbers again – we're going to grow licensing 34% at the midpoint, well supported by our pipeline, services I will come back to in a second and maintenance grows by 14 million of which the majority is already locked in from the growth last year. We do feel confident with our outlook at this stage.

Secondly on services – we have proactively been pushing services to partners to get the partner channel working over the last few years. But we have got to the point now where the level of services business is at the size we want to keep it. Going forward, even from the deals we signed in the first quarter, we do want a greater level of involvement in services. There are higher value-add services around the top of the projects, around governance and management consultancy and so on, and we are forecasting and already have started to grow again within the second quarter. The costs will stay flat for the balance of the year, we have completed the restructuring. Consistent with this level of new business growth, there is simply more work for us to do, we're going to start growing the service business again.

Now because of the fixed cost nature of the overheads in the business; that quickly comes back through strong margin improvement. That takes us without any further swing towards partners, which we're not pushing at the moment back to breakeven for the year, which will be clearly the final year of transition in services. Basically we have passed off enough as we need to partners and are now continuing to grow again.

Operator

Fred Grieb.

Fred Grieb

Two quick ones from me. First up on the Wipro deal – I just want to make sure on the 15 million that you mentioned; has that already been committed to be paid by Wipro. How are you getting to that number? The second question is just in terms of delayed deals. Was there any geographical pattern to those delayed purchases? Were there more in say the Middle East and Asia, or was it more of a global phenomenon?

David Arnott

Wipro just to be absolutely clear is a contractual commitment to pay a minimum of $15 million over the next two years. It is non-cancellable and we expect to be recognising that depending on the milestones on the project, approximately half this year, half next year.

Andreas Andreades

Let me take the second question. As I said in my prepared remarks Fred, we had a lower mix from the Middle East in the quarter, 6% mix against 12% last year. I don't want to say that there was broad based delay in decision making. Even though if you like, if you take the mix just by itself you could say it was lower in the Middle East and that is particularly one area where we saw that. But the underlying message – I have been doing this now for 40 quarters – Q1 is always a very small quarter. It is easy to have a great quarter if you sign a deal and a poor quarter if you don't sign one deal. It does not mean much either for the quarter or for the year. Yes there was a particular region, but from our perspective, we take it in our stride and we move forward.

Operator

Adam Wood.

Adam Wood

HI I wonder if I could just bring us back to the question of the license slippage. I wonder if you could just give us some more details around the Middle East deals. Are they deals that have closed since, do you depend on that region coming back for the rest of the year. maybe also if you could just give us a little bit of detail, maybe more detail on the pipeline and the coverage, whether that is in multiples of the guidance, or whether that is in percentage terms since Q4, Q1, how that has improved.

Just secondly coming back to the services business. If you could just again maybe go through the cost base movement as we go through the year. We had an $11, 12 million loss in the first quarter. I appreciate the revenue has stabilised from here, but does the restructuring you have done through Q4 and Q1 bring the cost base back to the level in line with revenues in the second quarter. Is that something that gradually happens through the year? If you could just give us a little bit more visibility of how that services cost base matches up with the revenues as we go through the next couple of quarters; that would be very useful, thank you.

Andreas Andreades

Hi Adam I will take the first one. Again as I said before – we don't want to give the message of slipped deals that didn't sign on 31st March and they signed on 1st April, this is not what we are saying. We are saying that given the geopolitical situation in the Middle East, there was slower decision making. Just the Middle East probably represents about maybe 10, 12% of the total license mix for the year. even if you shave off a couple of percentage points and you project for the full year, you are getting to small numbers; which we believe given our increased contracted license revenues from the rest of the business that we are easily if you like ahead of the game. This is why we are able to actually reconfirm the outlook for the year.

Adam Wood

Can you put any actual numbers on that contracted licenses just to help us get comfort on that part of it? I don't know whether it is possible to talk about growth versus where we were at Q3, Q4, or coverage ratios or something like that, just to illustrate how strong you feel on that pipeline coverage and visibility on the rest of the business.

Andreas Andreades

What we have said is that – you might recall we said that in Q4 our pipeline actually grew sequentially from Q3, despite Q4 being the largest quarter. Usually the largest quarter in the year depletes pipeline. Despite that we ended up the year with a higher pipeline than the beginning of the quarter. what we are saying now is that pipeline through Q1, so at the end of Q1, continued at the same level as in Q4; which gives us a coverage on the pipeline of more than three times of what we need to sign, which historically has been more than adequate to secure a successful conversion of the pipeline into signing.

On top of that as David mentioned earlier, we have got minimum contracted revenues from our ASP agreement in Europe. That is actually on top, because that gives us revenues which we have signed and we expect to do.

David Arnott

Let me take the last point on services. Just to be clear on Q1, there is just under a 6 million restructuring charge in the quarter related to services, which clearly is non-recurring going forward. The cost base will stay flat for the balance of the year on services. We have got a headcount we need, we don't need more. There is a continued mix shift to go on within the services business as we move towards more high-end services, but that is not going to reported as a restructuring charge; that will be managed within the net base.

Really the margin improvement comes – and you can see this on slide 38 – you can see the seasonality there in our normal services business. We have clear increase as we go through the quarters towards the busier third and fourth quarters. That coupled with the fact that we're no longer proactively pushing more and more business to partners, rather at the moment we're balancing it and doing quite a lot ourselves and pushing some through partners will drive the margins.

Adam Wood

It is really the growth – it is a flat cost base from here onwards, excluding the restructuring charge on an underlying basis and then it is growth on the services business that gets us to a breakeven for the year.

David Arnott

Exactly yes.

Operator

Chris Grundberg.

Chris Grundberg

Just one very quick one. First of all just on the license growth expectations for the full year – apologies if I've missed something – but the absolute numbers obviously haven't changed. Am I reading it right that basically because V-Bank has shrunk more than you expected in the first quarter you're now expecting greater growth from the remainder of the business through the rest of the year. Is that the right way to think of it?

David Arnott

Hi Chris, let me take that one. No that is not the case. We have always known internally that V-Bank will be declining. In fact in this case the licensing will be declining. It is a Legacy business discontinued. What we couldn't say until very recently when the process stopped in France was that it was a discontinued business, so we weren't splitting it out. Now we can that legal process is finished. We're allowed to officially report that it is discontinued, and therefore we have split it out to really show what is happening on an underlying basis on T24. What we have always been tracking is 19-24% like-for-like T24 growth; it is just that we're allowed to talk about it now. Again back to Andreas' point, they're consistent with the pipeline growth we have been seeing.

Adam Wood

Understood, thanks that is helpful. Then just maybe on the add-on sales, you're saying that has grown 40%. If I back that out, and apologies if my maths is wrong; that implies that maybe core licenses will be growing about 1%. Is that about right? That ratio, is that what you're expecting through the remainder of the year to hit your full year targets?

Andreas Andreades

Your maths is correct. Again though you need to bear in mind that it is a very low base quarter, so 40% on a couple of million, you are really talking sub $1 million numbers. Therefore you turn a 5% growth into maybe 1% growth or thereabouts. That is not the ratio we expect, and the ratio clearly will depends on – the ratio and the growth – depends on how big the quarter will be.

What we are saying – and it is clearly set out on slide number 8 – is that the mix for 2011 of the new products will be between 15 and 20%. It was 15% last year, so if you take the midpoint of that range; that is 17.5 you get a growth of about 20% on the product extensions and you can back out to see what the core growth would be. In fact it would probably be – it is within the range anyway, so you are talking about maybe similar growth across core and the extensions.

Adam Wood

That is really helpful. Just one last quick one – on the restructuring, can you set out what you are expecting for the remainder of the year.

David Arnott

We're not changing this. We said 15 million with our last quarter's results; that has not changed. We have taken 6 million in the first quarter related to services, as I have said. The balancing figure I suppose another 9 million.

Adam Wood

Any detailing on the phasing?

David Arnott

I would say mostly completed by the end of Q3, so equally over the next two quarters. That is entirely related to our Odyssey business.

Operator

Josep Bori.

Josep Bori

Good afternoon, thank you for taking my question. Just a couple left here. In terms of the guidance you are reiterating – have you made any adjustments in your assumptions for closure rates or even contract cancellations, given what has happened in Q1.

Secondly, somewhat related – given the transition in your model to a partnership distribution; is that in any way affecting your sales process or is this completely unrelated to that. Thank you.

David Arnott

We're not at this stage assuming any change in closure rates. We have seen a slightly longer sales cycle in certain very localised geographies. It is very short; it is only six weeks since we last spoke. We're not seeing any macro trends also. We have the pipeline coverage to at least deliver on the number we are talking about. No is the answer.

Remind me what your second question was.

Josep Bori

The second question was whether the transition to the partner distribution model was impacting your sales process and maybe you could explain some of the issues in Q1 or if they are completely unrelated. Thank you.

Andreas Andreades

Absolutely not. In many ways we believe and we have got evidence that we are much more competitive than before. We have been winning deals both in Q4 and in Q1 that might have looked difficult under a model where we cannot rely on the capabilities of system integrators. I would say no.

Operator

Prasad Borra.

Prasad Borra

A couple of questions from us – firstly on your 2011 outlook. Are you relying on any large deals? With regards to the phasing of those large deals in the pipeline – is it more back end loaded than normal.

The second question is – have you seen any deals being closed in this last two to three weeks.

Andreas Andreades

We aim for a first half, second half of the year – just to answer the back loaded question – of about 35-40 for first half and 65-60% I suppose for the second half, which is very similar to last years first half, second half seasonality. We are not seeing any shift to back end loaded deals.

Let me just say that last year in Q1 again optically the numbers – one might argue – were challenging, given a 1% like-for-like growth. In the end we delivered the year with 19% growth. You need to put this year's performance in the context of last year. There is no shift to back end seasonality.

Do we rely on large deals? Not to a bigger extent than last year. Last year we saw the Tier 1, Tier 2 deal mix go up to 23% of total mix, which is the mix we were achieving per-downturn. If you recall, during the downturn we went down in our mix of large business, we relied on smaller banks, we grew the number of smaller banks we were signing, smaller deal sizes, and delivered growth even in '09. In 2010 we saw the Tier 1 mix coming back, and what we are saying is that in 2011 we expect that to stabilise at last year's level. I am not expecting an increase; I am not expecting a decrease. I would say a normal contribution from larger deals.

Prasad Borra

Probably just one follow up on your restructuring expenses. You mentioned you have probably 9 million more to spend in the next two quarters, but also you said that restructuring is complete as of now. What exactly are you going to spend in the next two quarters?

David Arnott

The restructuring of our services business is complete. What we are talking about is the remainder of the restructuring in the acquired Odyssey business, which is largely on other departments.

Operator

[No further questions].

Sarah Bowman

Thank you very much all for participating. We have appreciated your attendance on this call, and please do feel free to reach us if you have any further questions in the coming hours and days. We will do our best to answer you in person, and we look forward to speaking with you again next quarter. Thank you very much.
