Final Transcript

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Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Temenos Q1 2012 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 star, one on your telephone. I must advise you that this conference is being recorded today, Tuesday 24th April 2012. I would now like to hand the conference over to your first speaker for today, Ms Sarah Bowman. Please go ahead sir.

Sarah Bowman

Hello everyone. Thank you for joining the conference call today to discuss Temenos' Q1 2012 results. On the call with me are our CEO, Guy Dubois, CFO, David Arnott and Max Chuard, Head of Corporate Finance and Investor Relations. You may download the slides for the results presentation from the investor relations section of our website. As usual our prepared remarks will be followed by a Q&A section and 48 hours from now you'll 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 three of the presentation. Various factors 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 made during this call which reflect the company's opinions only as of today. I will now hand you over to Guy who will give an update on the business and the strategy.

Guy Dubois

Thank you, Sarah. Hi everyone. Thank you, as always, for taking the time to join us today to discuss our first quarter results. As you know, this is the fourth time I have presented quarterly results and my third set of results as CEO. On each of the previous occasions the clouds were gathering and darkening over our market. The sovereign debt crisis in Europe was causing distress in the financial market and the world economy was slowing. All in all, banks, particularly in Europe, were delaying and deferring capex spending and our sell cycles were lengthening on each occasion. Well, now is the first time that these clouds show any sign of lifting. The action of the European Central Bank, apart from solving the problem of government solvency, has at least brought some stability to market and the world economy now shows signs of recovery. It should help to lift the bank's profits. In turn, industry analysts like Ovum begin to predict some early tentative signs of improvement in the core banking market.

With regards to Temenos specifically, we are pleased with the progress we are making. The sales initiatives that we launched last year are beginning to bear fruit. Sales to our target market and to our installed base all rose in the quarter. We also made good progress with our services business. The quarter saw a high number of go-live, year on year growth in revenue and a significant narrowing in services losses. So the market may be showing some signs of improving and we, as a company, are delivering on our strategic priorities. Clearly it's too early to call it a recovery. Q2 represents another top comparative. Like Q1 we had strong levels of new business in Europe which continues to be very depressed but we believe Q1 was a solid start to the year and we are aware we need to, at this stage, deliver the year as a whole.

With that, I ask you to turn to slide six of the presentation for my market and sales update. As I said already, the risk of systemic failure has diminished thanks to the actions of the ECB. As the events of this week have shown us, it does not mean there will be no quick resolution to the Euro crisis or a quick bounce back in growth but it has at least brought greater stability to the European market and as far as the rest of the world is concerned, banks are well capitalised and well positioned to benefit from an improving world economy. While our market remains difficult, especially in Europe, there are some signs of greater stabilisation in buying behaviour and sales cycles.

As a company we are delivering on our strategic initiatives that we set out to you at our investor day in December. In the quarter we saw progress against our sales targets by geography, segment, tier and product, and we'll give more details later. BI, or Business Intelligence, if you like and PWM, or Private Wealth Management system, were particularly strong. As we flagged to you at our investor day, these two product lines are selling particularly well at the moment and in this environment. Our BI product, Insight, gives banks granular and real time information about products, customers, branches and risk and it gives them the tools for more revenue per asset, particularly through higher cross-selling and lower provisioning. Our Private Wealth Management products are selling well as more and more banks look to become more active in this space. They see PWM as a means of securing higher deposits and growing income in a way that does no tie up a lot of regulatory capital.

In the quarter we signed seven new banking customers including two new tier one, tier two customers. This is the same number of customers in the comparative quarter and continues to show momentum. We are tracking a solid pipeline of deals which reinforces our expectations for the revenues for the full year. Lastly, in its latest report on the core banking market, Forrester names Temenos as the only global power seller in 11. To qualify as a power seller, a vendor not only needs to sell a lot of software but it also needs to demonstrate a global reach, selling software in more than five regions. Forrester's report and findings should help to allay any lasting concerns that Temenos lost marketshare in 2011. This was a solid start to the year in absolute terms and particularly set against the comparative where sales to new customers in Europe were still fairly buoyant.

On slide seven I wanted to cover the Q1 financial and operating highlights. Firstly, revenue costs, profits and cash are in line with our projections supporting our full year outlook. Q1 is the first quarter in six in which we haven't seen deterioration in our like for like (unclear). Licences are still not growing on a like for like basis but the rate of decline has slowed significantly. This again points to some stabilisation in our market. Surely our services business continued its recovery towards profitability. In the quarter our revenues were up on the prior year and our cost base materially lowered and so losses narrowed significantly year on year. Given the solidity in the business, we would expect quarterly losses to continue to narrow sequentially from here and turn positive later in the year.

Our cash generation in the quarter was strong. There was an overall negative working capital movement in the quarter as we paid out cash related to restructuring charges accrued in Q4 and because of the normal seasonal movement in cash from deferred revenues. Importantly however, our receivables balance continued to come down and for the first time the company's DSOs now stand at below 100 days. We took 15 customers live on our software in the quarter, up significantly on the previous year. This equates to about one customer going live a week and begins to reflect the progress that our newly created customer services group is making in delivering faster and more predictable projects.

Lastly, all of the industry research published in the quarter highlights our continued product leadership. It is critical. We are a product company and our products are our best form of differentiating ourselves. We spend more than any other vendor in our space on R&D and it's essential that this above average spend continues to yield superior products. So overall, I think we demonstrated solid execution in the quarter across all our key performance indicators. On slide eight I wanted to set out a bit more clearly our progress in the quarter against our main sales initiatives. As we stated at our investor day, it's important for us to grow the share of revenues from Asia to the fastest growing market in Americas, the largest market. It is both to underpin long term growth and also to protect ourselves against continued weakness from Europe in the near term. On the last 12 month basis, we are already up to a 40% contribution from this region and the challenge will be to sustain this share once Europe begins to recover.

Tier one, tier two deals tend to be disproportionally large; it's therefore crucial to win these deals to deliver strong licence growth. What we observed is that both in the quarter and the LTM, the share of licences from tier one, tier two is growing. The LTM tier one, tier two deals rose to 28% of revenue, in particular by a large deal with ABN AMRO in the quarter. Again, it will be important to sustain this kind of share going forward to effect growth in licences. Sales to existing customers are more predictable and more profitable at a gross margin level. What is more, we have a very large installed base of over 1,000 banks and our share of existing sales is low in comparison to the industry. So we set ourselves a target of raising our share of sales to existing customers. On an LTM basis it is up to 54% which is 1% behind our target for the midterm.

Retail is by far the largest segment for core banking representing more than half of the annual spend. It's critical therefore for us to grow this business and cement our leadership. In the quarter the share of revenue from retail improved significantly given a couple of big deals including an older key win in Canada. Lastly, we flagged that BI and PWM were especially fast growing markets for us and that as a result we need to increase our exposure to this market. This we did with very strong growth in both sales and pipeline for Insight, Wealth Manager and Triple A.

Thanks to the progress we made with our sales initiatives, we have succeeded in improving the six quarter trend of deteriorating like for like growth.

On slide nine I wanted to share with you some of the headline from analyst research published in the quarter. We pride ourselves on the quality of our products. High investment coupled with selective M&A has left us with a broad best in class solution set. This was confirmed in the quarter by all of the analyst research published. Forrester stated that overall we are the only power seller leading in sales and functional breadth across the world. Cellent stated that our solutions are the highest scoring in terms of wealth management functionality, and Gartner stated that we are one of the leaders in Islamic banking. So our high R&D and the effort of our highly talented and highly committed development team continue to pay off. Our product suite continues to lead the market.

I would like to let now David share his views and results from the financial standpoint.

David Arnott

Thank you, Guy. If you turn now to slide 11 of the presentation, I've shown the different revenue lines and the profit metrics for the quarter in the last 12 months. Now, I'm not going to walk you through the whole thing as Guy has already walked you through a lot of the performance metrics, but there are a few things on the slide to highlight which are the numbers I've circled. Licensing was down 16% in the quarter because market conditions in Europe in particular were still strong in the first quarter last year. Given that the first half of 2011 was still strong in Europe, the last 12 months licence revenue is showing a decline of 12% which will reverse as the comparatives become easier. Maintenance is now at 197 million and was flat in the quarter. This is a little off trend but it's due to some small timing differences on bookings both in the first quarter of 2011 and the first quarter of 2012 and the trends will return to normal next quarter.

Underlying attrition on the T24 side remains in the lower single digits and slightly higher on the acquired products. Services once again returned to growth, growing 8% in the quarter. This is driven by better change control revenues as we focus on project governance. This is more than compensating for the lower attachment ratio of services to licensing which continues to decrease as we pass more business to partners. We believe we've now absorbed the headwind of declining attachment ratios and this leaves us well positioned to grow services revenue sequentially going forward and we expect services to finish around 25% of total revenues for the year.

Total revenue is now moving rapidly towards half a billion dollars, and this scale will continue to drive further revenue and profit growth going forwards. Adjusted operating costs are starting to show the impact of the restructuring initiatives taken during 2011, and are 4% lower than in Q1 2011. Margins are up as a result of improved services, and good cost control, even in the absence of licensing growth in the quarter.

On slide 12 now, I'm showing the underlying business performance for both revenues and costs by adjusting out the impacts of for-ex. Note that the numbers are now more aligned with the reported numbers, given that it's now over 12 months since we undertook a major acquisition, although clearly the last 12 months numbers are still affected. Like for like total revenues decreased by 1% in the quarter, whereas costs were down 2%. Licensing was 14% down in the quarter, maintenance by 1%, and services grew 11% as we execute our services initiatives.

We continue to demonstrate very good cost control, and I've shown this on the right hand side where you can see that like for like costs were 2% down in Q1, despite continued investment both in sales and in services. The full impact of our restructuring programme will come out throughout the year, and costs remain in line with our implied cost outlook for the year. There's a useful slide in our Q4 results presentation which explains the cost story for 2012, and it's worth having another look at that, so I've put it back in the appendices to this presentation.

Turning now to cash flow, I've shown on slide 13 our EBITDA conversion into cash, which is at 101% in the last 12 months, ahead of our 100% outlook. Good inflows in the quarter, which took DSOs down to under 100 days for the first time, allowed us to absorb a payables swing coming from our partner strategy and restructuring initiatives in the reported numbers. We can achieve our 100% outlook cash flow with DSOs reducing to 93 days, which is well within the lines of our internal projections. Our DSOs are coming down as we run short of projects, and benefit from the partner-led implementations to negotiate more cash up front, and calendar dated payment terms.

Slide 14 now deals with the P&O items below operating profit, and I think really the only thing worth highlighting here is that we're approaching our long term tax rate of around 17 to 18% already in the last 12 months. This will allows us to grow EPS at least in line with operating profit growth, in fact slightly faster, as we benefit from low leverage and a well-priced financing structure.

My final slide shows that our net debt at the end of Q1 stands at $83 million, or $125 million, if you want to exclude the treasury shares, even though we include these as they're liquid and can be used for acquisitions. By the end of 2012, we'll be well under one times leveraged, which when combined with our strong product offering leaves us very well positioned to execute our acquisition strategy or otherwise to put the cash to use to create shareholder value.

So that ends the financial update part of the presentation. I'd now like to hand you back to Guy to discuss the outlook.

Guy Dubois

Thank you, David. On slide 17, I wanted to remind you all of our outlook for the year, which we confirm in light of the solid start we have made in 2012. We continue to expect the revenue growth of between minus 5% and 6% on 2011 levels, giving an implied dollar range of between 450 and $500 million. We continue to expect an adjusted EBIT margin of between 19% and 22%, giving an implied dollars range of between 85 and 100 million. Lastly, we continue to assume an adjusted operating cash to adjusted EBITDA conversion of 100% or more.

On slide 18, I wanted to extend a formal invitation to you all to join us at the Temenos Community Forum in Barcelona. For those of you who are not aware, the purpose of the TCS is to bring together key Temenos stakeholders, customers, partners, senior management, investors and media, to network, share best practice, and learn about what's new in banking and banking IT. As always, we will run a separate investor track, bringing together the best customer and industry presentations with tailored investor only sessions. If you have never been before, I would strongly encourage you to join. The event is very open and informative, and a great follow up to those of you who were with us in London in December.

On slide 19, which is my last slide, I wanted to offer a summary of the quarterly results. We see some signs of stability in our market. The European banking market could get worse before it gets better, but the risk of systemic failure has at least eased. For the rest of the world, the outlook for banks is improving. And it is causing English journalists, such as [Ovens?] to comment on the first tentative signs of improvement in core banking. The drivers for core banking renewal remains extremely strong, and we continue to see good levels of pipeline growth. Banks in developed markets must address their structurally inefficient cost basis, while banks in emerging markets must both innovate and lower their costs to serve if they are to retain market share. In short, all banks need to embrace core renewal.

We made very strong progress on our sales initiatives in the quarter, helping to improve on six quarters of deteriorating like for like licence growth rates. Our cost base is under control, the cuts we made last year are manifested in a lower and falling cost base, which underpins our ability to deliver better margins in the future. Through streamlining, organisational change, new hires, better processes and so on, we are on track to deliver continuity improvement in services profitability. Lastly, as the industry analysts research published this quarter demonstrates, our product continues to lead the market. In summary, we believe that we have made the changes to the business, and are delivering on our KPIs, such that as the market improves, we can deliver the system's recovery.

Sarah Bowman

Thank you very much Guy. And thank you for listening to our presentation. We'd now like to turn back over to the operator for Q&A.

Questions and Answers

Operator

Thank you. We will now begin the question and answer session. If you would like to ask a question, please press * 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the # key. Your first question comes from Adam Wood (?) from Morgan Stanley.

Adam Wood – *Morgan Stanley*

Thanks very much for taking the question. Good evening everybody. Just maybe to start off with, on the licence side of the business, there's obviously been a lot to distract the company during the quarter because of the M&A discussions. Could you maybe just give a feel, did you feel that had any impact on the closure rates on the licences that you signed, could that maybe have been a negative influence in the quarter, or do you think that was sort of handled very well and was not an impact?

And then secondly, could we just go into a little bit more detail on the maintenance. That's down quarter on quarter, could you maybe explain a little bit more fully what was going on there, and how and when we should expect that to revert to a kind of normal sequentially up trend? Thanks very much.

Guy Dubois

Adam, this is Guy speaking. Good evening, and thank you for your question. I will answer the first one, and maybe David you want to answer the second one. As far as the (licence?) process is concerned, you know we've been very disciplined. As I explained already, I decided at the very beginning of the process that we will park as much as we can, this process, and only actually a very, very small number of executives were involved in this overall process, to leave as much as we could of the company very focused at delivering the best possible results in Q1.

We talked to many of our customers, many of our partners, during this process, and to some extent, because we were leading this overall process, and because we were eventually supposed to run it, I would suggest that the customers were not that worried, and they were feeling confident that on one side, we will continue, rightfully so, to focus on our flagship offering, T24 and other flagship products, and will continue to execute on our strategy which is to lead with an undisputed product offering. And today we continue to see the market recognising this point, our product offering is better, and driving the technology momentum.

So it has not impacted our results in Q1, and we are pleased with the fact that we stay extremely focused and very disciplined, and decided to stop this overall thing when it was appropriate, and when it was not becoming any more evident to the benefit of our stakeholders.

David Arnott

Thank you, Guy. Let me take the second question on maintenance, Adam, so the biggest driver for the sequential decline in maintenance is clearly foreign exchange. But even excluding that, there, you do get timing differences, both in quarter one last year, as I said, quarter four last year, and Q1. Some countries are cash accounted, and I would expect the normal return to growth of maintenance already in the second quarter, where you would expect to see more like the normal five to 6% year on year increase in maintenance. So back to our normal trend.

Adam Wood – *Morgan Stanley*

Great, thanks very much.

Operator

Your next question comes from Michael Brewst [?] from UBS. Please ask your question.

Michael Brewst – *UBS*

Good evening, thanks. Guy, in terms of the first half comparatives, you're emphasising how Europe is challenging. I mean, Q2 last year it looked as though Middle East/Africa was probably the biggest contributor, alongside Asia. Can you maybe talk about particularly Middle East, given some of the sort of unrest continues to affect that region, and then as you go into the third and fourth quarter, do you believe that these issues around new business with European clients will be behind you? And then, just, David, in terms of the cost base, I mean, last year there were some one-off, I imagine the one-offs this year were mainly in G&A, but can you talk a bit about the R&D run rate and maybe the level of net capitalisation in the quarter.

Guy Dubois

Yes, Michael, this is Guy speaking, good evening, and thank you for your questions. You know, at the end of the day, we have an expectation to keep the seasonality. You know our business, which usually delivers something like 40 or so percent the first part of the year, and obviously our Middle East and Africa business has been always an important business, this part remaining always in the range of let's say the 10% or so on a quarterly basis. As you are probably aware, we are regarded as one of the best solution provider for Islamic banking systems, not only, by the way, in MEA, but actually we sell that as well in Asia.

So we have a very strong offering. In Q2 last year we signed a very, very large transaction in Saudi, and this transaction was very well regarded to establish even more our leadership in

Middle East, so we are, we continue to be attentive, and we continue to be very focused at differentiating our installed base business from our new business. As you rightfully pointed, in Europe, the new business has been suffering, to some extent our European business, which was more in the, let's say, 55 or so percent overall, and when you look at the existing part of this business in the past, it was representing approximately 45%, and this time, for the last 12 months, it represents now 55%.

So we continue to believe that our strength in Europe comes from our installed base, which is extremely large, and where we like to cross-sell and up-sell many products that we acquired recently. I said that the business intelligence, that the business of our BI was very strong, I said our private wealth management offering, which is built fundamentally on three different product offering, was strong. As you can expect, they are these type of products that we are cross-selling to our installed base in Europe.

So I will remain cautious as far as new business in Europe is concerned, but feel that the other areas, particularly Asia, are giving us enough signals that we can see translated in our pipeline, to support what we have to deliver and stick to our outlook.

David Arnott – *CFO*

Very good, Michael. Let me take the couple of questions on cost there. So first of all, you're absolutely right: the majority of the adjusting costs do come out of G&A, and the majority of those relate to transaction-related costs. Underlying that there is a delta of capitalised development, which again if you back out the impact of capitalised development in Q4 last year, so capitalisation minus amortization was an 8 million impact, and in Q1 it's 5 million, which accounts for 3 million of the swing. And if you back that out, you'll see two things. First of all, the underlying costs adjusting for capitalised development and adjusted costs come down by 4 million; that's obviously 4 million in a quarter which is an annualised 16 million impact from the cost cuts we've already made. Specifically where those cost cuts have been made, the majority have impacted both R&D and G&A, which is why you see sequentially a drop in the underlying numbers for those two cost centres in particular, and we're trying to protect our investment in sales and marketing and also in our services base.

Michael

Thanks.

Operator

Gerardus Vos, from Barclays. Please ask your question.

Gerardus Vos – *Barclays Capital*

Hi. Good afternoon. Thanks for taking my question. Just a couple if I may, first of all perhaps on the granularity of the licence revenues. In the past you've made a breakdown between existing customers and new customers in mature markets and developed markets, and I was interested perhaps if you could give us some colour there in Q1, and particularly what happens with new customers in mature markets which was 13%, I think, for the full year '11. Then secondly, could you talk a little bit about kind of pricing? Because as if there's been quite a bit of pricing pressure during the Q1, and perhaps also make some comments on the pipeline. And then just finally, I notice that in the IBS league table Temenos perhaps dropped a little bit more than Oracle during 2011, and I was wondering did this have to do with kind of volumes which seems to be the case, or also the value of the kind of deals? Thank you.

Guy Dubois – *CEO*

Yes, thank you for your question. This is Guy speaking. Let me speak with IBS if you don't mind. I will go to pricing and also the other one, but I will come back. So the first idea you're right when we look at ideas, and we covered ideas when we talked to you about our 2012 outlook I would say a few weeks ago. We've been positioned as the number two behind Oracle with a difference of one extra banking project. As a matter of fact, we sold during the same period of time, twice as much licence business than Oracle, which means that obviously when you look at what happened in the overall IBS analogies, you'll notice that the overall volume dropped by 17%, roughly speaking, and we ourselves dropped a bit, but not as much. So in other words, this point the average value dropped a bit, because our new business dropped. Overall in volume we believe that we held fairly well our position, and as far as the volume… the value I should say, is concerned, we continue to produce a very high level of licence business compared to them.

Regarding the pricing, which is a good bridge by the way to your question relative to the price, two things I would like to say as far as the pricing is concerned. Do we see a deterioration of our discount? In other words do we give more discount? The answer is no. Our discount is virtually not moving at all: we are in a range of plus/minus one point or something like that. And as far as the pricing is concerned, I have to tell you our pricing is holding pretty well. It is holding pretty well because we continue to defend our value and our technology, and it doesn’t stop us to win new accounts, which is I believe a good indicator to tell if actually our pricing is well-positioned. When we signed seven new banks in Q1, as we did, including two Tier 1, Tier 2 banks, it means that our technology continued to lead and the pricing stands. What was the third…? It was…

David Arnott – *CFO*

Gerardus, I think the first point was the most important. Would you mind repeating it just so that we’re absolutely clear? We don’t want to give a wrong answer.

Gerardus Vos – *Barclays Capital*

It just related to the analysis you did with the full year outlook, the breakdown between existing and new customers, and the new customers you break down in mature markets and developed markets. I believe the mature markets… new customers in mature markets accounted for 13%, and this was the area which contracted most during 2011. I was just wondering if you could provide a kind of same granularity on Q1.

Max Chuard – *Corporate Finance and Investor Relations*

Yes. This is Max. Listen, in the appendix of the presentation what you can see we do provide the split of new and existing, and obviously the split that we gave last time was one off, and what we give is, you know, the split by geography, which is Europe, Asia, Americas, and Middle East and Africa, and that’s how we communicate. So, you know, if you want actually I can try offline to see if there’s something to do, but really what we are going to communicate going forward is this split between those four geographies, and it was a one off exercise that we did last time.

David Arnott – *CFO*

Not to suggest that there's anything off that trend in the first quarter; it's just that we set that up as a way of describing how to de-risk 2012. But there's nothing off trend.

Guy Dubois – *CEO*

There's nothing specifically off trend.

Gerardus Vos – *Barclays Capital*

Okay. Fair enough. Thank you.

Operator

Joe Sambora, from BNP Paribas. Pleas ask your question.

Joe Sambora – *BNP Paribas*

Hi, good evening. Thanks for taking my questions. Just one on the pipeline. In Q4 you talked of a record final of deals, but obviously in the last two quarters we've seen sharp declines in licences. So is the final deals still at record levels, and if so, how do you expect that seasonality to pan out? I mean is 2012 going to be… follow the usual seasonality or maybe it is going to be a lot more back and loaded?

And then secondly, I wanted to ask just a question with relation to inferences that obviously had results recently, and they seem to have a trend that suggested they had more wins – they had 14 wins – but the product division revenue was then 19%. Should we infer from that that in the market the deals are getting smaller, or this is a trend that is maybe more specific tot them? Thank you.

Guy Dubois - *CEO*

Thank you, Joseph. As far as the inferences is concerned I read, like probably yourself, that there are among the results which were below expectation if I recall, but I could be wrong obviously, and it is true that the market didn't give us actually very large transactions. In other words when you look at all the deals which were signed in 2011, I know I'm talking '11, I'm not sure where I got the [ATM] in mind, but as far as '11 is concerned, there was no major transactions what I would call very large transactions driving the average up, which means that the average value of these in 2011 actually went down, because there were less deals and less new deals, and as you know the new deals are usually bigger than the upgrade or cross-sale activity in these [full] days. So it is a fact. You know, okay, though, in ourselves our new business is lower, which has got an impact on our average price per deal, as you can expect. So as far as the pipeline is concerned, we do have the right pipeline to deliver on our outlook. When you look at it, we have, I believe, at that stage the right coverage. Obviously this coverage covers both (unclear) and new businesses, and actually gives us well a fairly solid understanding on all the growth initiatives that we have been executing consistently since we shared with you our overall strategy last year. So we see an improvement of our overall BI and wealth management business which supports our overall outlook.

Now, as far as seasonality is concerned, actually what can I tell you? Business if fairly back-end loaded. We know that. I mean Q4 is always a fairly large quarter and you know when you look at what happened over the last few years we always had this 40:60 (unclear) to seasonality profile, and at that stage I don't see any reason why it should change.

Joe Sambora – *BNP Paribas*

Thank you very much.

Operator

[Tachos Speliopoulos], Bank of [Fontanelle]. Please ask your question.

[Tachos Speliopoulos]

Yes, good evening. Thanks. First question would be as a result of the Vista acquisition, or Vista acquiring Midas, have you re-initiated or resumed the Midas programme? I mean we haven't heard for quite a while anything about that, or is there any similar initiative planned? That would be the first one. And the second one maybe an update on the partner model, and maybe what percentage of licences will derive from partners, and specifically an update on how the partnership with IBM is developing. Thanks.

Guy Dubois – *CEO*

Thank you. Good evening. This is Guy speaking, and thank you for your questions. Well, the Vista thing, right. Actually I was talking to a customer from Midas was a bit worried because he was telling me you know I don't know anything about this overall [LB] activity, but obviously they understood that apparently there will be a lot of debt, and the service of the debit is going to put a lot of stress on the economics, and probably could impact, I believe, on their ability to deliver products and develop, but obviously I have no idea, so which means that we already have a Midas migration programme. We've migrated over the last few years a bit less than 30 banks to our platform, and obviously we notice customers coming to us, bank master customer, the Midas customer. I don't know if these guy are feeling well. Maybe these guys are not that committed to delivery anymore on the bank fusion. I have no idea. That's what a couple of customers told me obviously, and so we are welcoming these customers. We are having, as you know, a bank model line-up to migrate fairly efficiently any customers willing to consider moving to Temenos, and actually we'll announce a specific programme along those ideas at our Barcelona conference, and I hope you will attend and you will be at the first [light] to listen to what we are providing with these customers willing to migrate.

As far as the partner is concerned, actually Q1 is a fairly low… was a fairly low quarter as far as the partner activity was concerned. LTM, the impact of the partner business is about 10%. You know 10% of our business was brought by the partner LTM Q1. We are greeting Q4 with a very strong activity culminating to the deal with IBM. As you know, IBM Global Services decided to sign an agreement with us and endorse the overall Temenos technology, so as you know mid-term we would like to see this being above 20%. LTM will have 10%, stay [tuned], we continue to see a fairly strong commitment from our partners. I believe the last number I checked is telling me that we had approximately 1,700 partners, or consultants working for our partners, busy at deploying Temenos technology, so I'm continuing to be extremely focused on our partner activity, both integrators and technology, and we are working very hard to continue to drive momentum with and through our partners.

[Tachos Speliopoulos]

Thanks. So see you in Barcelona.

Guy Dubois – *CEO*

I would be very pleased to welcome you over there.

[Tachos Speliopoulos]

Thanks.

Operator

The next question comes from Mark Geall, from Deutsche Bank.

Mark Geall

Hi. Good afternoon, everyone, and thank you. Three questions, if I may? The first one, I would just like to understand in a little bit more detail the relationship between licence and services. Obviously there was a big step up in the number of go-lives. There was a nice draw down, in terms of the receivables, on the balance sheet, and I'm just trying to understand the dynamic that is happening here, in terms of the relationship between maybe licences recognised from new deals in the quarter, versus that historic trend, and as you change that partnering model, and are able to recognise maybe some of those revenues sooner, whether that's what's really sort of giving the impetus, through this year.

Second question, just on the Americas, or probably Canada. Obviously the performance of that business was three times your run rate, your historic run rate. I just want to understand the sustainability of that, and whether there are any sort of new initiatives in terms of sales and marketing go to market around the Americas to keep that at those levels.

And then a third question just on the bridge that you've kindly reminded us of, in terms of going from the 386 to 390, in opex. I just wanted to understand the implied 30 million of discretionary spend, and really understand how discretionary that actually is. You've obviously given a very broad revenue growth range of minus five to plus six, and I just want to understand, you know, in those two scenarios, what impact that actually has on that 30 million of discretionary spend. Thank you.

Guy Dubois

Mark, thank you for your questions. Let me start answering, and I'm sure David will give even more granular information that you are looking for.

Let's start with Americas. Well, it is true that we had a fairly large transaction coming from Canada, but it is not the first time we are addressing Canada. Canada is one of our key markets. We are having many customers in Canada. We've developed a very strong Canadian model bank, driving a lot of possible momentum.

As far as America is concerned, when you're looking at Americas overall, we have, and I'm talking off the top of my mind, but something like 70 customers, so it's not that we are nowhere in America, as you know, with 70 banks, you know, we are having some footprint, and one of my ambitions is to better address this market. As you know, it has always been a challenge for us. Actually, it's a challenge for any European-based originally to address a US market, but we have an initiative, called America, and at one point, when appropriate we'll disclose the contents of this initiative, which keeps me busy, and we hope to be able to tell more about it soon.

As far as the licence and services business, and those two are correlated, and David will tell you more about the [rev-rec] attached to this process.

The services business, as I guess I made clear, will remain in the 25% of our total revenue. We continue to forecast approximately 25% of our business this year coming from services.

The services business is a strategic business, and this business has developed from two main flows; one, which is the business coming from the new deals we are signing, with an attachment of services; not only our own services, but the services actually going to the partners as well, and what we decided to develop as well, in this part of my new, overall services strategy, is to develop our business coming from services self-generated activities, and here we talk about migration to future or current version, we talk about specific requests from customers, to install extremely fast new products, and get return as soon as we can.

So I'm pleased to see that even the licence in Q1, were what it was, and where it was, because we are self-generating services from our services activity, what we call our self-services activity, we continued to see, and we are expecting to see, a momentum. So that's the way it works, and as I said already, in any software deal that we are doing, we will have services activities, because it is essential for the success of the deployment of the business, and I'm glad you noticed that we went live with 15 customers in Q1. It is to some extent the result of the creation of our customer services group, which is managed by an executive that we recruited about five months ago, [Verne Michael Rumpf], which is putting a lot of discipline at executing, it’s delivering on our customers’ commitment.

David Arnott

Thank you, Guy. Let me take your last two points, Mark, in reverse order. I'll deal with the relatively easy one first, and then have a go at services, and I want to make sure I'm answering the right question. So on the discretionary costs, at the 390 level, clearly that discretionary cost flexes by 26 million, so that would entirely be accrued on delivery of 390, because the 390 is at the high point of the outlook. If you take the midpoint of our outlook cost range, which is about 378 million, at that level there's about 14 million of discretionary accrued at that number, and this relatively linear down to the bottom of our outlook, at which point it becomes, I would say, three to four million, which is variable paper for that portion of the population, who have absolutely no link to the group numbers. So it's relatively linear.

In terms of the services to licensing, and correct me if I'm answering the wrong question, what we've been successfully doing this quarter in particular, and I believe it’s a trend, is uncoupling services revenue from licensing, so whilst our attachment rate has now dropped below 50%, and therefore our backlog of services has been declining, we believe that backlog has now reached its low point, and we will rebuild as the licensing grows, but the actual attachment ratio of licensing is at its low point.

What we've been very good at doing is not being so dependent on licensing to deliver the services revenue, so we've got a lot better at change requests, we've got a lot better at management consultancy, we've got a lot better at things like funded scoping, and there's less dependency between the services revenue in quarter and licensing signed in the prior quarter.

Come back to me maybe offline if that doesn’t cover it.

Mark Geall

Yes, I suppose the question, or the follow up there is, just so I've got it clear in my own mind, is then, is this a better ability to recognise those service revenues earlier, ie, if we were to take a look at your historic backlog of services, and let's say the age of that was one and a half years on average, you now feel that you can now recognise that over a 12-month period, ie, you're running the business more effectively, and as a consequence your DSOs falls, but also your ability to recognise those services revenues improves, or is it that actually, although the attach per deal is falling as you say, your ability to, if you like, cross-sell services is actually increasing, so, you know, we get this, you know, rather than this less than one-to-one mix of services and licences, services now will be more than licences in any particular quarter, because you’re more effectively cross-selling services?

David Arnott

Okay, well, within the 25% ratio, of course, there's a bit of a mixture going on, so the revenue recognition for services, historically was much more fixed price led, so you would take your fixed price, you would spread that on a percentage completion basis, on average over between the next four and six quarters, and so, after Q4 you would see typically a one or two month delay, and then you would start on the actual implementations and start to accrue your revenue.

What we're seeing much more now is time and materials, short projects, high daily rates, so the contribution to a quarter, as you start that quarter now, would be a much higher percentage of non-backlog. The backlog will behave exactly as it did in the past, but we're starting to see, and particularly in the first quarter, additional small buckets for high value services, coming from short change request projects, and therefore, obviously, the DSOs from services will go down.

Basically. the driver for the lower services DSOs is the overall shorter implementations, which is coming from our model banks and the implementation methodologies, which is something we've put a lot of work into deskilling the implementation, to break an implementation down into maybe nine to 12 months, which matches much more your cash profile to the revenue profile. So the DSO's reduction in services is also clearly what's dragging the licensing DSOs down.

I suspect I probably haven't fully dealt with it like that, so let's maybe take it offline.

Mark Geall

Okay. Thank you.

Operator

Your next question comes from [Stefan Gaitcher] from Haver. Please ask your question.

Stefan Gaitcher

Yes, good evening, ladies and gentlemen. I have just one question. I'm wondering if you could give us a little bit an idea about your current attrition rates, as well as current maintenance fees, and of course it will be very interesting if you could display out that information for your core business and T24 mainly, but also for the acquired business, talking, for instance, about the private wealth management business?

Guy Dubois

Yes, Stefan. This is Guy speaking. Thanks for your question.

Yes, as far as our attrition, maintenance attrition is concerned, you know, we continue to see a very, very low attrition. It's in the range of the single digit, I would say, and a single digit, a small single digit, for our T24 product offering. I have to admit that it is just a bit higher for the acquired business, so we're not particularly worried with that.

David Arnott

And our standard rate of maintenance is 21%.

Guy Dubois

Yes, 21%, sorry, I should have answered, yes.

Stefan Gaitcher

It's still 21%? You know, me modelling maintenance fees there, using 21%, I always end up having a too high number, so…

David Arnott

Okay, I won't just have the modelling exercise on live on the phone, but directionally not all licensing attaches maintenance. Occasionally we do have code sells with no maintenance. We have a certain client base that is still paying maintenance at the historical maintenance rate. 21% is our current list price, but some of our earlier clients, when we were at 15%, and even at 18%, have an extended holiday, where what they buy continues at that rate, and then the other overriding driver, of course, other than the attrition we talked about, sorry, the forex.

If you put all that in, over five years, you should come to within a few million of where you should be, and Sarah can help you model that offline.

Stefan Gaitcher

Okay, maybe one short follow on: on the attrition rate for the acquired business, do you think you will be able to bring down that attrition rate, going forward?

Guy Dubois

We are committed to serve our customers the best possible way. We are re-energising acquired businesses, which have been put on amendments mode, and we are re-energising this base by offering extended maintenance terms. We are re-energising this customer base by giving attractive migration programmes, so we continue to be focused at keeping our customers, all our customers, even if these customers the been acquired on platforms, which eventually will not be part of our flagship core offering, so we are working at it.

Stefan Gaitcher

Okay. Thanks a lot for your answers.

Operator

Thank you. There are no further questions. Please continue.

Sarah Bowman

Thank you so much for participating, and we have… Feel free to contact the IR Team if you should have any further questions. Thank you very much, and good evening.

David Arnott

Thank you.

Guy Dubois

Thank you very much.

Operator

That does conclude your conference for today. Thank you for participating. You may now disconnect.
