TEMENOS Q1 2016

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17:30 BST

Operator: Thank you for standing by, and welcome to the Temenos Q1 2016 Results. 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 need to ask a question please press star then one on your telephone. I must advice you that this conference is being recorded today, Tuesday, April 19, 2016.

I would now like to hand the conference over to your speaker today, David Arnott. Please go ahead.

David Arnott: Thank you very much. Good evening and good morning everybody and thank you for taking the time to join today's call. As usual, I'm going to start with some comments on our first quarter performance, as well as the market backdrop and then I'll hand you over to Max for the financial update.

So, starting with slide 7 of our presentation, that hopefully you've been able to find on our website, I'd like to give you a summary of the first quarter of 2016. I'm pleased to report that we had a very strong start to 2016, capitalizing on the momentum we've built last year. We performed well across every single one of our KPIs, including sales, implementations and all the financials. The growth we saw in 2015 has continued into 2016 and is broad-based across geography and customer segments. Our total software licensing is up 53 percent in the quarter, which is very encouraging, given the market volatility earlier in the year, but there were some concerns about whether banks would delay decisions.

As we've discussed at the time of our full-year results, our customers continue to engage with us and are making decisions to embark on transformational IT renovation, typically through progressive renovation over multiple years. The digitalization trend continues to be a key driver for bank decisions making purchase and we firmly believe that the only way forward for a bank to deliver any kind of shareholder value over their planning horizon is to reduce IT maintenance costs through installing packaged software.

The ability to commit to your Board for margin improvement, even in the absence of revenue growth drivers, coupled with a specter of being marginalized long-term if you don't digitalize, is a twin combinations resonating now more than ever and continues to do so in Q1.

Banks clearly see the benefit of packaged, upgradable software, delivered through best-in-class implementations with our partners and this is reflected in our continued license revenue growth.

Looking forward, with committed spend from progressive renovation and the high level of activity we've seen in the first quarter, our revenue visibility in 2016 continues to increase and our pipeline for the rest of the year is strong, giving us confidence and reaffirming today our guidance for the year. Lastly, as you may have seen, we refinanced our credit facility during the first quarter, taking advantage of very low financing costs and increasing our total available funding. [Essentially], we have the flexibility to capitalize on future growth opportunities as they arise.

Turning now to slide 8, in the first quarter of 2016, we've seen growth across all regions. Given the continued market recovery, we've made additional investments in the quarter in both sales and pre-sales across all regions to ensure we're able to continue driving our license revenue growth and capture market share. In particular, we saw widespread activity across Europe with deals in multiple countries. Drivers in Europe, not surprisingly, are around cost cutting given the higher IT labor costs and digitalization to remain relevant as new players chip away at our clients' revenues or more importantly force prices down.

Asia also had a strong quarter, which was very pleasing to see after the region returned to growth in 2015. This was led by the traction we have with our wealth offering, where we have significant lead over the competition. We also saw increased activity both in LatAm and North America. Our momentum in the

US continues to build, having built critical mass of our US domestic operations and gained key references during the course of 2015. I'd like to talk a little bit more about the US in a few slides time.

Our product road map remains very compelling and our continued investment is reflected in the license sales we've achieved. Our retail and wealth products in particular had very strong demand. With the rebranding of our products into suites targeted at different customer segments, we are focusing on the cross-selling opportunity, which is especially important for large banks embarking on progressive renovation.

In terms of the competition, we continue to have high win rates across the board and particularly in wealth where the win rate is nearly 100 percent. We're taking market share in a growing market. We are also winning by far the majority of the large retail progressive renovation deals that are coming to market. We've had 19 new customer wins in the quarter, up from 10 in the comparative quarter on a like-for-like basis, which is a reflection both of our competitiveness as well as our expanded product portfolio.

Turning now to slide 9, our partner ecosystem continues to expand. We focused on increasing the level of joint go-to-market activity with our strategic partners as the combined value proposition is very compelling and partners continue to be involved in nearly all of our implementations.

Our services profitability continued to improve, with a 140 basis point increase in services margin year-on-year. This is driven by our [rigor] around the use of our implementation methodology by our partners and our own strong governance model around the implementation of all of our products.

We also continue to promote our value-add through expert services. Premium services, including training and consulting as opposed to standard customization support services, contributed 22 percent of total services revenue in the first quarter. We had a total of 26 implementation go-lives in the first quarter of 2016, up from four in the comparative period. Part of this increase is due to the acquisitions made in Q1 2015; however, the majority is an increase in the number of go-lives in our core business, with the increasing license sales we've seen over the past year driving an increase in the go-lives in the first quarter of 2016.

Recurring revenues now contribute over 50 percent of our total revenues and underpin the strength of our business, our profitability and our margin expansion. Maintenance revenues grew 8 percent on a like-for-like basis in the first quarter of 2016, driven by the strong licensing growth, in particular in the second half of last year. So, overall, it was a strong quarter operationally and we continue to focus on delivering success for our customers.

Moving now to slide 10, given the momentum over the last few quarters, I wanted to take a step back for a second and share our views of our competitive positioning. We're confident that our value proposition is unique and unrivaled in the market, and the level of license growth that we've seen over the past years corroborates this. In particular, our Tier-1 offering is significantly ahead of the competition as evidenced by the signing of Nordea and the other large Tier-1 progressive renovation journeys we're in the middle of.

We are the only vendor that offers truly packaged, upgradable software, minimizing cost of ownership going forward for our customers. Our front-to-back, vertically integrated product suite ensure we can help [them in] all segments modernized and adapt to today's digital landscape and progressive renovation allow banks to minimize risk when modernizing their legacy systems.

As I'm going to discuss on the next slide, validation is also coming from the independent analyst community, who continue to rank Temenos above the competition in our vertical. Some of you may have seen the announcement of the acquisition of BSI by EFG Bank in the first quarter. These are two private and retail-based banks headquartered out of Switzerland with international operations. And I mentioned this, because I think it's a great case study for why we're winning. EFG has been a longstanding customer of Temenos and BSI has been a longstanding client of another solution available in the market. As part of the announcement, the combined group plans to roll out our software across both banks and all the geographies they operate in.

Now, what's interesting is that by doing so, 50 percent of the acquisition cost synergies are able to be driven by the consolidation of the IT platforms. It's not for us to announce the level of efficiency that the combined group will realize through this process, but it is more than enough to convince others watching from the sidelines that the Temenos customer can use their IT platform as a differentiator, even in M&A, as it's so efficient once it's up and running.

On slide 11, we are very pleased that the independent industry analysts have once again named Temenos as the market leader in our verticals. Firstly, the 2016 Forrester Global Banking Pyramids were published. These once again confirmed Temenos' position as the market leader in banking software globally. For those of you not familiar with this report, each year, Forrester publishes two pyramids ranking banking software vendors globally. One pyramid measures new business only, which is what we show on this slide and the other one combines new and existing customer sales. Once again, this year, Temenos is the only vendor to top each of these pyramids. It's now the 11th consecutive year that Temenos has been a global power seller the new named business.

The IBS report focuses on core banking sales to new named customers. I'm pleased to say that Temenos is once again the best-selling vendor in 2015, the fourth year in a row that we've held the top position. In fact, Temenos has been the best ranked vendor according to IBS for 16 of the last 17 years. No other vendor in the market can match this unrivaled period of market leadership.

Now, the point of this slide is to look at it as a potential bank (inaudible) when choosing their next partner. Why would you not choose to buy from a leading supplier with the most wins and independently judged best architecture, best product road map to secure your bank's future? The more you differentiate yourself from the competition, the more you win and the more you can hold price, the more you can spend on product and taking the best salespeople from the industry and getting the attention of the right partners and so the virtuous circle continues. That's why these reports are so vital, when they come out in the market in the first quarter of every year.

On slide 12, I'd like to update you on our platform in the US. You got a truly differentiated offering in the US with a product that is real-time, upgradable, scalable and modular. Most importantly, we've demonstrated in 2015 that our value proposition is attracted to US customers and one with which we can beat the incumbents. With Akcelerant fully integrated, we continue to build out our US presence with additional senior hires made in the quarter. We also continue to build our US sales organization to ensure we are well positioned to the market opportunity. We are involved in a number of ongoing campaigns that are progressing well and are very focused on building up our joint go-to-market strategy with our US partners.

So with that, I'll hand you over to Max to update you on the financials.

Max Chuard: Thank you, David. Starting with slide 14, I'd like to present the Q1 financial highlights. I'm very pleased with the performance in Q1, that's been strong quarter across the board. Total software licensing growth was up 52.5 percent year-on-year and software licensing specifically is up 35.9 percent year-on-year. We are very pleased with the level of license growth in Q1 2016 and with the high level of sales activity in the quarter. Our recurring revenue continues to grow, with SaaS and subscription revenue contributing 31 percent of total software licensing in the quarter, compared to 22 percent in Q1, 2015, largely driven by contribution from Multifonds and the US.

Maintenance grew 9.8 percent in the quarter, due to the high level of license sales and strong customer retention. These recurring revenues are critical to the strength and resilience of our business. The increase in recurring revenues, combined with the ongoing Q1 progressive renovation, continued to improve our revenue visibility for 2016 and the medium-term. Our total revenues for the quarter were $129 million, representing an increase of 25.5 percent year-on-year, which is the fastest we've grown Q1 total revenues in the last five years.

In the quarter, we continued to expand our margin, achieving a Q1 2016 EBIT margin of 27.9 percent, up 101 basis points year-on-year. Finally, our cash flows as well continued to be strong, with Q1 operating cash of $23.9 million, an increase of 136 percent year-on-year and DSOs went down by 32 days compared to last year.

Turning to slide 15, there are a few numbers I would like to highlight in particular. The key figure this quarter is clearly our total software licensing, which has grown 52.5 percent year-on-year in constant currencies and 66.4 percent in the last 12 months in constant currencies. The growth this quarter has been broad-based across all geographies. SaaS and subscription revenues totalled $12.3 million in Q1, 2016, a significant increase year-on-year, driven by the contribution from the acquired businesses. Our maintenance revenue streams continued to increase, growing 9.8 percent in the LTM in constant currencies. With total revenue growth of 25.5 percent in the quarter in constant currency, I'm very pleased with our topline performance in Q1. In addition, Q1 2016 EBIT grew by 28.6 percent in constant currencies and the Q1 LTM EBIT margin expanded by 101 basis points to 27.9 percent margins.

Turning to slide 19, we show revenues and cost on a like-for-like basis, Q1 like-for-like revenues are up 14 percent, which includes an 18 percent increase in the like-for-like software licensing. With the acquisition made in Q1 2015 fully integrated, I'm very pleased with the level of underlying organic growth across the Group. Maintenance is up 8 percent and services are up 24 percent on a like-for-like basis in the quarter. The growth in services is off a very low comparative in Q1 2015] and a significant number of implementation go-lives in the quarter. Finally, total like-for-like costs were up 14 percent in the quarter. As David mentioned, we've been investing in the business across both sales and pre-sales given the high level of sales activity in the last four quarters.

Turning now to slide 17, we continue to see strong EPS growth with a Q1 2016 LTM EPS of $1.79, up 25 percent on Q1 2015. It is worth noting that the fully diluted share count in Q1 2016 is around 71.1 million shares versus 67.4 million shares in Q1 2015. This is a small increase of share compared to Q4 2015, where we had 70.9 million shares and we do not expect a significant increase to this number for the full-year 2016.

Moving to slide 18, the cash conversion of EBITDA into operating cash continues to be well above our target of 100 percent. In Q1 2016, the LTM cash conversion was at 131 percent versus 115 percent for the comparative period. Our DSOs also continues to decline, reaching 151 days at the end of the quarter, a decrease of 32 days year-on-year. I'm confident in meeting our target of 10 days to 15 days reduction for the full-year 2016.

Slide 19, we've outlined the key changes to the Group liquidity position of the Q1. In Q1, we generated $24 million of operating cash in the quarter, up 136 percent year-on-year. We ended Q1 with $140 million of cash on our balance sheet, having paid down nearly $80 million of debt in the quarter. Following this repayment, our net debt position currently stands at $280 million, versus $267 million in Q4 2015, after taking into account a moderate impact from the strengthening of the Swiss francs.

Turning to slide 20, I would like to update you on our financing. In February of this year, we refinanced our existing credit facilities, taking advantage of exceptionally low rates, to both extend the term and increase the size of the facility from $360 million to $0.5 billion. Our weighted average maturity now stand at 5 years, up from 2 years in Q1 2015. We've also increased our total variable financing from $670 million in Q1 2015 to $875 million in Q1 2016, whilst decreasing our leverage from 2.2 times to 1.3 times over the same period of time. We have a very strong balance sheet, with a low cost of debt structure and significant flexibility to respond to future growth opportunities.

My last slide on slide 21, I would like briefly to highlight the key numbers in our 2016 guidance, which we are reconfirming today. We are guiding for full-year non-IFRS total software licensing growth at constant currency of 10 percent to 15 percent, implying total software licensing revenues of $234 million to $245 million. We expect total non-IFRS revenue growth at constant currencies of 7.5 percent to 11 percent growth, implying total revenues of between $594 million to $614 million.

Our non-IFRS EBIT guidance at constant currency for 2016 is $180 million to $185 million, which implies a full-year margin of around 30 percent. Given the strong start to 2016, I'm confident in our guidance for the year. Large banks continue to engage with us around progressive renovation. Our pipeline is very strong and our revenue visibility for 2016 continues to increase.

With that, I hand back to David.

David Arnott: Thank you, Max. So, in summary, on slide 23 now, Q1 demonstrates that we've had a very strong start to 2016. We continue to capitalize on the market dynamics and to take market share from our competitors. With the multiple dialogues we're having and the deal activity we've seen from our customers, we know that large banks are focused on digitalization and that in their mind, spend on IT renovation is not viewed as discretionary. It is a growth driver that we are in a prime position to capitalize on. Tier-1 and Tier-2 clients are continuing to engage with us on progressive renovation, a major driver of growth for us going forward. It's evident that our value proposition is resonating with the larger banks. With the high level of ongoing activity, our revenue visibility and the strength of our pipeline will remain very high.

Finally, on slide 24, I'd like to remind everybody that our Annual Temenos Community Forum Event that is being held in Barcelona from May 17 to May 19. We expect this year's event to be the largest yet with customers, prospects, partners, press and industry analysts all in attendance. Our theme for this year's event is Open and Integrated: Solutions for a Connected World. During the event, we will have extensive product demos of all of our latest software. There will be insights from both Temenos' executives and industry thought leaders, as well as the opportunity to meet our partners and customers. As every year, there will be a dedicated investor stream with the opportunity for meetings with the rest of the Temenos executive management team that you don't get to hear from every quarter. It's a great opportunity to get to know Temenos, our partners and our customers better, so please get in touch if you like more details.

With that, operator, I'd like to open up the call to Q&A.

Operator: Thank you. (Operator Instructions). Adam Wood, Morgan Stanley.

Adam Wood: Hi, good evening, David; good evening, Max; thanks for taking my question and congratulations on a good start to the year. Maybe just more broadly about the environment, there has obviously been a lot of discussion coming from some of the IT services companies, but also from us in the industry, saying banks embark on cost-cutting programs and whether that might impact some of these programs that you have. Could you maybe just give us a little take on that is in some cases that a positive cost-cutting actually drives these decisions and at what point does that switch into a negative where, yes, they want to make those decisions, but the cost cutting means they really can't do them in the short-term and push them back, what's the feeling there? And maybe just, secondly, a little bit more detail on the US. I think you had one customer signed and potentially either live or very close to live. Is it now still the situation in terms of signings and then go-lives and then, what are you expecting? Is that something that could come throughout the next couple of quarters or is it still more a sort of once a two year thing? Thank you.

David Arnott: OK, thanks Adam for that. OK, I think we are different to the SIs and the other players for whom financial services is just one vertical in that what we do underwrite significant cost cuts in banks. It's not a discretionary spend and we hear this every day in all geographies. If you are at the C level in a bank today, with all the revenue drivers moving around, the only way to guarantee shareholder returns [that] your own planning horizon is to do progressive renovation of your system. I think three or four years ago, where we had a binary decision of putting in a package or taking a set of components of a package and delivering shareholder value and profit improvement, frankly in 12 months to 18 months, and then doing the same next year after next year, is a big difference. So, we're not seeing our prospective customers delaying decisions.

There is a point, of course, when visibility becomes very low, the banks delay all decisions, no matter how sensible those decisions are, but I think unless you go back to the dark days personally, and then a couple of other quarters, the combination for us of quite good visibility and that visibility not being very pretty, is a real sweet spot for us and that's what we're seeing in all geographies, whether it's about cutting costs, within budget time frames or about getting digitally ready for which a prerequisite is a modern core, pure analytics and people are looking through the P&L volatility. As long as their balance sheets remain strong and their strategic plans are in place, we are frankly not seeing that at all, neither in the Q1 signings nor in the evolution of our deals through our own pipeline.

On the US, yes, we talked about two deals, two big deal wins last year. One of those is, partially live, in line with the plans that are part of the system is up and running, and there is various stages throughout the rest of this year. We have a pipeline of other deals, similarly within our target of the top 124 banks and also at the small community banking credit union market, and you should expect further announcements as and when we sign those over the next couple of quarters.

Operator: James Goodman, Barclays.

James Goodman: On the services line, I wanted to ask you, it was considerably ahead of where we expected it. Was there an element of it being ahead of your own internal forecast? And just on that side, I would have expected the fulfillment of those services, the costs not to scale as quickly as they did do? So can you talk about the revenue and cost growth within services and about the run rate from here, whether the sort of $30 million is a quarterly run rate that will grow sequentially? And I had a follow-up then just on recruitment if I could.

Max Chuard: On the services, I was [searching my script]. Clearly the comparative was much lower and I think that's why we were expecting to have that type of growth in the quarter. Having said that, we expect for the full year services to grow as we said last year, not as fast as license, but to be growing again. Remember, services was going down in 2014 and the first half as well of 2015. When we reached the 20 percent of the mix, this is when we said, we expect services to grow again. So, on that side, it's part of the plan and I expect again service for the year to be at around 20 percent of the mix. Now, as you know, we worked a lot with partners on quite tough times where we [prime] when the partners does implementation for us (inaudible) that's why we do as the variability on the cost side as much as we get on the revenue side. So, this is why you've had the ramp up already in the quarter.

James Goodman: OK, thank you. And the follow-up on recruitment was around sales and pre-sales. I think you talked before about the need to recruit more people on the pre-sales side. I wanted to ask, in terms of the headcount that you've now got working for you within your partner community. Do you have a sense of how productive that headcount now is? And then, can you talk numbers there? And to what extent that you've been able to match that with pre-sales recruitment internally?

David Arnott: OK, let me have a stab at that one. So more than half of the sales and pre-sales investment that's been made between the end of Q3 and now has gone on pre-sales, which as we said last time is a constraint, the lead generations can come more from partners and where your trouble is to support the workshop for those partners generators, pleading that we have been able to identify and extract largely from competitors good pre-sales resources, and also territory coverage and product specialists, product evangelists if you like on the sales quota-carrying side. In terms of partners, again, the way the partner organizations work is a -- no matter what the construct of the partnership, they are independent P&L systems, they control their own investment, and you can have a good relationship with a partner in one geography, while they will work with somebody else in another geography. We do have across our key strategic partners an increasing number of salespeople who are dedicated just to selling Temenos products, thus moving as we would expect.

And the other dynamic is above the dedicated quota-carrying salespeople in those organizations, sponsorship from the practice heads, the financial services practice heads who point their organizations towards supporting Temenos in those campaigns and supporting long and often expensive sales processes, which are non-revenue funding in what is ultimately a services business.

For our key strategic partners, we are seeing them prepared to make that investment in those sales campaigns. We are also seeing that they are understanding that Temenos is the partner that would leave them the biggest service opportunity. And the third thing we're understanding is that, not in every geography and in every bid of course, but increasingly the partners do expect Temenos to be the winning solution and that's what their lead table is so important. So definitely going in our direction, difficult to put numbers behind it, but it feels like it's working very well.

James Goodman: Thanks, very much.

Operator: Michael Briest, UBS Investment Bank.

Michael Briest: Thanks, good afternoon. In terms of the acquired revenues on the total software side, it looks about $7 million or so and I'm presuming, that's all in the subscription side. Can you talk about that business? I guess it's all in the US, but it doesn't seem to be growing sequentially. What would you expect for the rest of the year there and why isn't it accelerating from the sort of $12 million run rate it came in at? Thanks.

Max Chuard: Hi Michael, it's Max. The SaaS subscription is mainly the US on the Multifonds business that we brought. [We stand] for the full year, I do expect this to be growing faster and to be more growing towards the upper-single-digit and this is what we've seen. So, there can be on a quarter-by-quarter base some volatility, but on a 12-months base, we expect this to be closer to the high-single-digit quarter.

Michael Briest: OK, thanks. And then, just in terms of the balance sheet, obviously you've improved your ability to fund deals, what is the M&A pipeline like and what sort of size deals or areas of interest you have? Thank you.

David Arnott: As you know, we are always looking at potential transactions, different areas, is it on the product side, is it on a bank customer. It's difficult to call when those transactions can happen, because it's a long process, but it's good to be ready with the financing in case there is a strategic opportunity and to be able to move fast. Now, we have some of them are more advanced stage, some are at an early stage, so it's difficult to call when those could happen. I think as I said in the past, we've done quite a few of those acquisitions in the last years. I mean, we get more I would say confident on our ability to integrate and to deliver value for those acquisitions, and chance for me, I'd say I think the (inaudible) with the transaction around (inaudible), but again if there is something strategic, we will do the transaction as we've got the financing in place now.

Michael Briest: OK, thank you.

Operator: Takis Spiliopoulos, Bank Vontobel AG.

Takis Spiliopoulos: Yes. Thanks for taking the question. Two, if I may, please. After Q4, you mentioned that you have a visibility of around 80 percent on your product-related revenues. Can you confirm this? Is it still a similar number? And maybe on the other product, there was nothing mentioned about the payments, channels, PI, which some of them had pretty strong growth last year, maybe what's happening there and link to that any change seen on the sales cycle either for the front or back-end products? Thanks.

Max Chuard: Takis, I'll take the first one. Yes, we mentioned around 80 percent, last time we spoke and as I said there is a slight increase in the (technical difficulty) quarter. So, I don't want to give specific numbers, but the visibility has increased in the quarter.

David Arnott: OK, Takis, let me take the second one. We probably should have made this clearer. If you look at the re-branding exercise we did, the start of this year, we've repositioned our product families into suites, so, retail suite, fiber suite, universal suite, et cetera. Within each of those suites, so that's an addressable market, like let's take private wealth. Within each of those suites, you've got a front office component, which is the channels and digitalization that we've been talking about. You've got core banking and then you've got the analytic space underneath.

The way we presented today, talking in terms of suites, but they behave in very different ways. Ultimately, the structural drivers for all of them are the same, it's about digitalization and reducing core costs to have a modern system to allow you to access digitalization and a better analytics [to add to] the offering. If you look at it from a product dimension rather than a vertical dimension, both the core banking piece is doing very well in all of our verticals. The front office piece clearly plays to the digitalization trend we've been talking about and I gave some examples over the last four quarters about how both retail banks and private banks like Credit Suisse and Julius Baer started with digital and moved to the back. Other verticals like in retail, maybe they start with the back and then move towards the front. So, across the product, within each of those suites, the demand for the core banking component is strong as we've talked about. The demand for channels is also very strong, and the demand for the analytics piece also is key to that proposition. But it's more that's what we described as progressive renovation, you can start with the middle or the back or the front, or you can start with the geography.

And payments, we've effectively rolled into the core banking piece, because it's basically is part of the core bank -- payments always part of a core banking value proposition. So, maybe, we'll try and split it out on the both axes, but all the product families and the suites are doing very well.

Takis Spiliopoulos: Understood, what about the sales cycle?

David Arnott: Sorry. That's the same, no major change, I'd say.

Operator: And there are no further questions at this time. Please continue.

David Arnott: Thank you very much, operator. Thank you everybody for taking the time to join tonight's call. Look forward to speaking to you after our second quarter results.

Max Chuard: Thank you.

Operator: That does conclude the conference call for today. Thank you for participating. You may now disconnect.

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