TEMENOS Q1 2017 results transcript

April 20, 2017

18:30 CET

Operator: This is conference # 6677279.

Ladies and gentlemen, thank you for standing by. Welcome to the Temenos Q1 2017 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'll need to press star one on your telephone keypad. I must advise you the conference is being recorded today, Thursday, the 20th of April 2017.

And I'd now like to hand over to your first speaker today, Adam Snyder, Head of Investor Relations. Please go ahead, Adam.

Adam Snyder: Thank you very much, everyone, for joining us for our Q1 2017 results call. Before handing over to David, I would just like to highlight that we did have some technical issues with our website. Hopefully, you've all received the presentation and press release in the e-mail sent out from the Temenos IR e-mail address. If any of you have not received this, you can e-mail me now on asnyder@temenos.com, and I can send you a copy of both the presentation and press release straight away.

With that, I'll hand it over to David.

David Arnott: Thank you, Adam. Good afternoon, and thanks, everybody, for joining today's call. As usual, I'm going to start with some comments on our first quarter performance, and then I'll hand over to Max for our financial update.

So let's start with Slide 7. We had a strong start to the year across all our KPIs, building on the momentum, both in the market and in our business that we saw last year in 2016. We grew total software licensing by 19 percent and total revenues by 13 percent in the quarter while continuing to expand our margins and profitability. As we discussed extensively at the Capital Markets Day back in February, banks are under increasing digital pressure, and we're responding to this by investing in IT and real estate moving from legacy in-house software to integrated front-to-back digital solutions. And this is reflected both in our revenue growth and the strength of our pipeline today, which supports our outlook for 2017.

I'm also delighted to announce that both IBS and Forrester have published their most recent lead tables during the quarter. And once again, Temenos is ranked the #1 vendor by both institutions. This independent validation of our leadership position in the market is vitally important for our many stakeholders, including clients and prospects as it confirms what we see from inside the business.

On Slide 8 now. We had strong sales momentum across geographies in Q1, both in terms of deals signed and pipeline generation. The deals in Q1 were mostly for UniversalSuite, where banks are purchasing our software for use across multiple business lines. But we also had a number of deals for pure-play retail and WealthSuite customers. We're seeing banks moving away from investing only in their front end to demanding front to back to digitally integrated solutions. This trend has also been highlighted by industry analysts, who recognize that investing in channels without renovating the core only provides limited benefit for a bank looking to compete in the digital era. In this context, our value proposition of a front to back digital offering is critical to winning new clients, particularly Tier 1 and Tier 2 banks. We've sold 52 percent of our licensing to Tier 1 and Tier 2 banks in the last 12 months and had 20 new customer wins during the first quarter. As we discussed at the time of the full year results, we continue to invest in sales and marketing to drive our growth going forward.

On Slide 9 now. I'd like to focus on our services business and partner relationships. We have 28 clients going live in our software for the first time in the first quarter, up from 26 in the first quarter of 2016. Our close relationship with our partners is absolutely critical to delivering our services strategy, and they continue to be involved in the majority of our implementations as well as working with us to win and deliver our largest deals. The strength of our delivery model and partner ecosystem has enabled us to continue improving the profitability of our services business, which reached 9.6 percent net operating margin over the last 12 months, an increase of 1.2 percentage points as Max will talk about in a second.

If you turn now to Slide 10, we've given a bit more detail on the IBS and Forrester league tables that were published after our Capital Markets Day. For IBS, we've now been the best-selling core banking system for 12 years, which reflects the quality and functionality of our software and the fact that we've invested in one product set continuously to be the best in the market. In addition, we were the best-selling digital bank and channel system, which I'm particularly pleased about given the focus we have on our integrated digital offering. We were also the second best-selling payment system, and we're continuing to invest in our payments product to make it a market-leading solution. For the Forrester pyramids, we've also retained our position at the top of both pyramids, the new name business and the new and existing business.

Given our leadership position in the league tables, I want to take a minute to focus on why we win, and I'll use Slide 11 for this. Now our philosophy of selling package out-of-the-box software that is digitally integrated is a key differentiator, particularly given the trends in banking spend that I highlighted earlier. By minimizing customization and maximizing optimization, our clients are able to significantly lower their total cost of ownership. Our digitally integrated solutions enable our clients to provide their customers the experience they increasingly demand today.

I've got a clearly defined vision of the future in banking. This is reflected in our product road map and R&D spend, which is the highest in the industry. Banks want to buy software that will ensure their future proof. They invest in R&D and functionality today that banks may not need for another 2 to 3 years, which is exactly these investments and this visibility in understanding of the market that gives the banks the confidence to start working with Temenos today.

What the league tables don't show is our strong client references and the traction we have with Tier 1 and Tier 2 banks. The deals that we have won give us strong credentials in this segment of the market and give us unmatched references for future deals. For Tier 1 clients, scalability and open architecture are critical. We've proved our software can scale to run the world's largest banks with 0 impact on transaction processing time. And our technology offerings and open architecture greatly simplify integration and maximize flexibility in the implementation process, in particular importance, in the new FinTech world.

Lastly, the depths and breadth of our partner ecosystem is also important for clients, who want to know there are skills available in the market to support them through their implementations. Our clients can choose how they want to run their implementations from working with one of our global system's integrators to lead a project or to working with a range of partners to different aspects of their IT renovation.

On Slide 12 now. I'd just like to summarize the industry outlook and our position within this. Banks are under increasing digital and cost pressure, which is driving their strategic decision-making around IT. IT renovation is being put at the heart of bank strategies for future growth, and as such, it is not a discretionary spend, and this is something we hear over and over again. Banks are realizing that they simply cannot invest in a new channel solution, but that progressively renovating the core as well as the front end is essential to compete in the digital era.

For the Temenos-specific perspective, we are the vendor of choice for Tier 1 and Tier 2 banks with unmatched preferences in this client segment and continue to take market share across the board. We have a significant opportunity to cross-sell into our installed base, who already understand the value proposition that we bring. And we have a strong pipeline across geographies and client segments and are increasingly confident in our outlook for 2017 and beyond.

On Slide 13, we've included the strategic initiatives we presented at our Capital Markets Day in February just to show you where we're focusing as a management team to drive our medium-term growth. We've made excellent progress on these in 2016, for those of you who are at the Capital Markets Day, you've seen the detail behind that, and are confident in continuing to do so in 2017 and Q1 has been a great start against all these initiatives. We firmly believe that by executing on these 6 initiatives, we'll be able to pull ahead of our competition and become the dominant player in our market.

With that, I'll now hand over to Max to update you on the financials.

Max Chuard: Thank you, David. Starting with Slide 15 now, we've had a very good start to the year. We had strong performance across all our financial KPIs. Our total software licensing has grown 19 percent in the quarter, continuing the momentum we saw in the market in our business throughout 2016. As David outlined, banks are under increasing digital pressure and this is translating into increased spending on integrated digital solutions. We continued the strong growth in our maintenance revenues, driven by the growth in software licensing in 2016. Maintenance grew by 9 percent in the quarter, which is a key component of our increased profitability year-on-year.

Total revenues grew 13 percent in the quarter, driving growth in EBIT of 15 percent and giving an LTM EBIT margin of 29.5 percent. We also had a strong EPS growth in the quarter of 29 percent. We had a very strong operating cash inflow in the quarter of $37 million, up 53 percent year-on-year. And our DSOs were 227 days at the end of Q1, down 24 days year-on-year. Lastly, we issued a new bond in Q1 to raise CHF 150 million, part of which will be used to repay our bonds maturing in July. Our leverage continue to decreased to reach 0.7x EBITDA at the end of the quarter.

On Slide 16, I will highlight the most important numbers, focusing on the constant currency growth rate. I'm very pleased with the level of organic revenue growth in the business with our total software licensing growing 19 percent year-on-year and 15 percent LTM. As I said, maintenance grew 9 percent both year-on-year and on the LTM basis, driving total revenue growth of 13 percent year-on-year and 12 percent on the LTM basis.

We continue to demonstrate good operating leverage with EBIT growing 15 percent in the quarter and 21 percent in last 12 months. We achieved EBIT margin of 29.5 percent for the last 12 months, representing an expansion of 170 basis points, which is ahead of our medium-term target of 100 to 150 basis points per annum. Lastly, we achieved a services margin of 9.6 percent for the last 12 months, representing a 1.2 percentage point expansion as we continue to deliver on our strategy of leveraging our partner ecosystem.

On Slide 17, we've shown like-for-like revenues and costs. The impact of FX on our P&L is mitigated through natural hedging of revenues and costs, and we actively hedged a significant part of the remaining currency exposure on a rolling basis. In Q1, we had a small tailwind at the EBIT level of around $2 million with the impact of the weaker euro on our revenues offset by the cost benefit of the weaker sterling on our cost base. Total revenues are up 13 percent like-for-like in the quarter, including total software licensing growth of 19 percent. The business continues to demonstrate the very strong underlying organic growth. Total like-for-like costs increased 12 percent in the quarter, reflecting our sustained investment in both sales, marketing and product.

On Slide 18, we had a very strong growth both in net profit and EPS. Our net profit grew 34 percent in the quarter and 24 percent in the last 12 months. I would also note that our profit before tax grew in line with our net profit, as we benefit from a reduction in financing charges driven by our lower debt provision. Our EPS grew 29 percent in the quarter and 20 percent in the last 12 months to reach USD 2.15 per share. We guided for a tax rate of between 14 percent to 15 percent for 2017, as we continue to benefit from the recognition of tax losses relating to our services turning profitable in certain countries.

Moving to Slide 19. Our cash conversion for the last 12 months was at 117 percent, well above our target of 100 percent of IFRS EBITDA. DSOs ended the quarter at 227 days, a decrease of 24 days year-on-year. Operating cash, as I said, was very strong in the quarter, up 53 percent from last year, driven by a strong inflow of operating revenues as we highlighted at the time of the full year results, but also due to the timing of payable outflows, which will have an impact in our operating cash flows in the second quarter. Going forward, we continue to expect DSOs to decline at around 5 to 10 days per annum to reach 1 days in the medium term, driven by increased contribution from Tier 1 and Tier 2 clients undertaking progress in renovation and the positive impact of partner on our services business.

On Slide 20, we highlight the key changes to the group liquidity in the quarter. We increased our cash on balance sheet from $194 million at the end of Q4 2016 to $210 million at the end of Q1. We generated $37 million of operating cash as outlined in the previous slide. We bought back a total of $7 million of shares in the quarter and expect to complete our share buyback program of CHF 99 million before the end of the year. We also issued, as I said, CHF 150 million bond in Q1. That is a cash we'll be receiving in the second quarter and, therefore, is not reflected in our Q1 numbers. I will talk a little bit more about our financing in the next slide. And finally, our net debt is now down to $169 million, which equals to a leverage of 0.7x EBITDA.

Moving to Slide 21. In Q1, we took advantage of favorable market conditions to issue a new 7-year unsecure bond with a coupon of 1.75 percent, raising our total of CHF 150 million, part of which will be used to repay our existing CHF 100 million of bond maturing in July this year. This has enabled us to increase our total debt financing, extend the maturity profile of our debt and lower our average interest rate. We are in a strong position to deliver our strategic objective and to capitalize on the market growth.

On Slide 22, our guidance for 2017 remains unchanged. The guidance is in constant currencies on a non-IFRS basis. You can find our FX rate assumption in the appendix. We are guiding for total software licensing revenue growth of 10 percent to 15 percent, total revenue growth of 7.5 percent to 11 percent, and an EBIT ranging from $210 million to $215 million. I will note that the guidance excludes any future impact from the proposed acquisition of Rubik. I will also note that our guidance does not include the impact of new last transformational deals as the timing of potential impact of these are hard to predict. Given the strong start to 2017, the strength of our pipeline and our high level of revenue visibility, we remain confident in achieving our 2017 guidance.

My last slide on Slide 23, I'd like to give you a quick update on the proposed acquisition of Rubik that we announced in February. As a reminder, the offer we've made is equivalent to an estimated value of $50 million. I'm pleased to say that it is progressing on schedule, with Rubik scheduling the meeting to approve the transaction due on the 26th of April. The transaction is expected to close by the end of May. Rubik's 3 largest shareholders, who hold down 48 percent of the shares, have all announced their intent to vote in favor of the acquisition. Rubik will provide Temenos with increased product and planned coverage in Australia and represents an ideal platform to generate revenue synergies back creating our growth in this market, in particular, across wealth, core banking and fund administration. We expect the transaction to be EPS neutral for 2017 and 3 percent accretive from 2018 onwards.

With that, I will hand back to David.

David Arnott: Thanks, Max. So just before we wrap up, a little sales pitch from me. On Slide 25 of the presentation, I'd like to remind you that we're holding our annual Temenos Community Forum next week in Lisbon. It's a great opportunity for any of you that can make it to meet our management team, our partners and our clients and to see some great products that we'll be showcasing over a couple of days. For any of you that aren't signed up but would like to attend, we'll be delighted for you to join us. The 26th is the key day for investors and analysts, so please do get in touch with any of us if you'd like more details.

In conclusion now, on Slide 26, we had a very strong start to 2017. It's a seasonally small quarter, so difficult to extrapolate from. But in summary, we feel good. Fundamentals are intact. Nothing has changed. The drivers are as strong as they ever were, and it's a good start for the year. Digital is front of mind for our clients and is clearly driving their strategic decision-making for market growth. And banks are moving to integrated front-to-back digital solutions, which is increasingly being understood as their only real way forward. Our sales execution has been strong in the first quarter across client tiers and segments, and our leadership position had been confirmed by both IBS and Forrester. We're investing in sales and product to ensure that we could continue to take full advantage of the market opportunity and consolidate our leadership position in 2017 and the strength of our pipeline supports our outlook for 2017.

So with that, operator, we'd like to open up the call for questions, please.

Operator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. If you wish to ask a question, please press star one on your telephone keypad, and wait for your name to be announced. If you wish to cancel your request, please press the hash key. And our first question comes from the line of Mohammed Moawalla from Goldman Sachs.

Mohammed Essaji Moawalla: David, I wonder if you could comment a little bit around sort of the pipeline and some of the largest strategic transactions. If I recall correctly, sort of Bank of Ireland was sort of the last significant and announced around the back half of last year. Should we read into -- anything into kind of a lack of any recent announcements? Or is it just to do more with shape of the pipeline, seasonality, et cetera? And sort of related to that, I wanted to follow-up on the comment you made around universal deals in UniversalSuite kind of becoming more important. And you also said that Tier 1 and Tier 2 is now close to majority of the 50-odd-percent of the mix. I mean, are bigger customers now increasingly applying that product suite? Or is it still kind of coming with one specific area and then going from there? And just if I can sneak a last one in, on just payments. If you can talk about sort of PSD 2 and you sort of outline your ambitions to kind of get bigger in the payment space. So if can you update us on sort of what your plans there are?

David Arnott: OK, thanks, Mo. Great questions. Let me try and go after them as succinctly as I can. But in terms of big deals, I wouldn't read anything into any specific quarter. We're not knocking out Bank of Ireland of that size every single quarter. Our pipeline, we do have continued activity, clearly, in the large deals space. Those deals are moving through the pipeline. We can't comment on individual campaigns. But I would just point you to our medium-term view that even the largest banks are increasingly aware they need to change their core systems. It's a process that takes time. We look to our very high win rate, our 100 percent win rate, in fact, in those largest deals over the last couple of years and that's positive going forward. But nothing particular to flag, I wouldn't say. All good.

In terms of Universal, progressive renovation is the mantra for banks in terms of how they change their systems, and we have, as you know, 3 or 4 different ways. Whether you stand up a brand-new digital bank like a Leumi or an Equitable or you start with the front or you start at the back. And the line of business you start and, again, far more important than whether you start in the corporate-side or the retail-side or the private wealth-side is a shared vision from the C-suite that you need to change your whole infrastructure over time. And where you tactically start depends where your greatest pain is. If you're expanding private wealth in Asia, that's your biggest pain.

If your costs in Europe are too high, in the corporate side over retail side, that's your biggest pain. So I wouldn't read too much again from the swing between universal retail and private in the quarter. Certainly, it's a small quarter anyway. But we are continuing to see more and more banks looking for an entry point to start their progressive renovation journey and not just in Tier 1, Tier 2, clearly, but in the smaller banks as well. For me, to answer your payments question, we are very excited about PSD 2. It's extremely disruptive, if taken literally. We're starting to see an increasing number of banks look for solutions that allow them to either make their data accessible to third parties or to consume other people's data and put analytics around that in a very exciting space. We believe payments, as we've said in the past, is going to be a very fast-growing segment over the next few years: a, because it's very high volume and needs to be industrial-strength; and b, because the regulation and the competition is more disruptive in the payment space than probably any other area of the banking franchise.

Operator: Our next question comes from the line of Michael Briest from UBS.

Michael Briest: I'm just curious on the buyback activity. It slowed a lot in the quarter from Q4. And you said, Max, that you still think you'll do it in the full year. You're raising debt as well. I'm just wondering what the balances opportunities on the M&A side are and whether that won't be a better use of cash, given your high multiple. And then just in terms of the U.S., obviously, some good progress last year. How is the pipeline building there? Do you think we're going to see any more new names come on board? And then just finally, in terms of Avaloq, one of your competitors, they perceived around of external financing recently. Do you see that changing the competitive environment at all ? Or maybe leaving some consolidation in the wider sector?

Max Chuard: Let me take the first one. Listen, as I have said, we launched this for the buyback last year. The goal is clearly to finish it. We've done around 2/3 of data, a bit more than that. And probably way before the end of the year, it's going to be done. As you know, we are very well funded for -- I think we've got plenty to do in any type of transaction. And we are actively looking at a transaction now. At the same time, we are very disciplined, so we take our time to ensure that what we are going to buy will be synergistic and that's not going to dilute the, really this fantastic growth story that we've got at Temenos. So I think, yes, we are going to finalize the buyback, and we've got sufficient funds to do any strategic vision. As you've seen, we announced that we are about to close Rubik in Q2.

David Arnott: OK, Mike. Let me take the last 2 of those. So the U.S. pipeline's developing nicely. Sales organizations are maturing. We've been able to bring people in from competitors and from other organizations that give us access to the very large and exciting U.S. customer base of partners and so forth. Our engagement with partners and, increasingly, in the U.S. strategic advisers, the go-to people of the banks look at -- look to through the select of vendor with the likes of Cornerstone. Huge amount of activity in the market in terms of educating the market on who Temenos is, that's resulting in a steady pipeline growth. And yes, I would expect, hopefully, to see more names this year. We can't clearly comment on that.

But we're very excited about the U.S. opportunity. In terms of Avaloq, I wasn't sure whether there was an Avaloq-specific question, you pretty much talked about M&A. Let me take this as an Avaloq question. If it wasn't, we'll pick that up offline afterwards. Avaloq went through a different route to us originally. We decided that being global is vital, selling the same product into a global market is what gets the revenue stream going. Recycling that revenue into R&D is what takes the product ahead and products ultimately -- product leadership is what ultimately makes it a category killer. Avaloq strategically decided very early to focus on the Swiss market, and they really got themselves trapped in a relatively small geography. And for those of you who live through the Temenos expansion of our working capital, as you take a company and expand it to new geographies with the growth pains that are involved in the early implementations, as you find your seat in new countries, the working capital constraints -- the peak is very, very high as it was for Temenos. Avaloq got to the point where they need to internationalize because the global model is clearly the right one, and they're expanding into a number of geographies in the middle of a number of projects. And through that, they need a refinancing to fund their working capital. And also increasingly, they've adopted a route to go down more the BPO route.

Where we prefer to see ourselves as a vendor of packaged software that other people install for us and you generate leverage through getting other people to sell increasingly and install software into a global market, they've gone the other route. They're very much focused on BPO, typically, for the Swiss market and expanding that into other geographies. Our view is it's capital intensive. It's heavy. It's difficult to differentiate yourself, and it's not the route we've chosen to take. So because very early in their customer's life they've decided whether they want a proper upgradable package or if they want effectively a hosted BPO banking service, we'll meet less and less. In fact, we had 100 percent win rate against Avaloq last year. And if you look in the IBS League Table, they're way down the bottom. So we're very different companies today, and I don't believe the reinjection of financing into Avaloq fundamentally changes their value proposition, at least, in terms of our space.

Michael Briest: OK. That's great. Max, a point of clarification. When you talked about not doing dilutive deals, I mean, Rubik is obviously relatively small. What's your, sort of your margin dilution? How willing would you be to sort of sacrifice that margin for a year or 2, if the right deal came along? Or is that a real barrier to you, you looking for an acquisition?

Max Chuard: Now, as you know, (inaudible) both 50 percent top of margin at our level. Ultimately, probably in the future, some of the transaction we are going to do will leverage digital impact from a margin point of view in the short term.

I think this will be more than compensated by the synergistic position for the transaction. And I think we'll be willing to do that. So probably, if you look at our medium-term plan on that, which is to be growing EPS by 15 percent on a CAGR basis, probably these acquisitions, you could see a slight impact at the margin level, which will be compensated by potentially actually the same growth -- effective growth of the EPS level.

Michael Briest: So just was the 15 percent including acquisitions? Or...

Max Chuard: The 15 percent is an organic target that we've got. What I'm saying is that this organic target can be achieved obviously organically, but as well with acquisition. We can deliver that 15 percent or exceed it as well through acquisition. Those acquisitions probably will come at the expense of the margin obviously.

David Arnott: In the short term.

Max Chuard: Short term.

Operator: Our next question comes from Adam Wood from Morgan Stanley.

Adam Dennis Wood: Maybe just to follow-up on the U.S. business or rather the Americas, we saw that pick up quite a bit in terms of the proportion of licensing in the first quarter of this year. Is that maybe more LATAM rather than U.S.? Or is it more incremental business or revenue recognition coming from Commerce Bank, for example? Or is it some new wins in that U.S. market?

And then maybe just thinking a little bit more broadly about some of the bigger deals in the pipeline. David, at the Analyst Day, you flagged that one of the strategies is for bigger banks to set up standalone new entities that hopefully attracts customers to the new platform over time rather than trying to completely rebuild or re-platform existing systems. When you look at that platform, is there any risk from your point of view that those deals will tend to be a little bit smaller than, for example, the Nordea re-platforming and that changes the mix of business? Or will they also be sizable enough that a big bank would also have a material impact on the licenses?

David Arnott: OK. Second one is a very interesting question. Let me deal with the U.S. It's not LATAM, it's the U.S. Revenues in the first quarter starting to come through from the progress we've been making over the last 12 to 18 months. Now I wouldn't, again, from a P&L point of view in any one seasonally strong quarter, I wouldn't start extrapolating numbers, but it's definitely the U.S.

In terms of the big deals, the -- personally, I think the standing up of a brand-new digital bank from scratch is the best option, especially above a certain level of complexity of banks. And typically, a big Tier 1 and Tier 2 banks are very, very complex. If you're a smaller or maybe you're in the private wealth space or universal bank in the country, you're able to progressively renovate with your back and your front as the car is driving along. What we're starting to see is large complex banks like Leumi and other significant banks that we're working with are finding that it's just so complex, especially in the retail space, that time-to-market on the digital-side, on the client retention and client attraction-side is absolutely top of mind. And they don't have time to change out the back to give real-time data 3 years later. They have a much more urgent view on this. And therefore, standing up a brand-new digital bank is the right route, and in parallel, they can start to chip away at the back end. In terms of deal size, I would say that this is not cannibalization of what would typically be otherwise a large upfront component. Typically, this supplies the banks who otherwise would probably have done nothing.

In fact, if you look at the banks that we've been starting a digital journey with, certainly more than half, probably a lot more than half, have also started in parallel some kind of progressive renovation of their middle and back office process. Maybe in a different geography, maybe in the different line of business, but under the same strategy. So we're not replacing a very significant Nordea with a significantly smaller digital bank and, therefore, delaying the back end, the big back end replacement about 4 or 5 years. They tend to work on both in parallel.

Operator: Our next question comes from Takis Spiliopoulos of Bank Vontobel.

Panagiotis Spiliopoulos: First one will be bank on the M&A stuff. Would you be also looking at larger deals? I mean, we've seen a larger proposed transaction in Canada and -- or the 1 mentioned with Avaloq? Do you see any opportunity arising at the client level that you can grab additional market share from the uncertainty clients are facing? And the second one is on BPO. You mentioned some while ago that you would do a BPO offering with a partner in some specific countries, Switzerland, Luxembourg where -- with the recent client demand. Can you update us on any progress in that respect?

Max Chuard: All right, thank you. So let me take the first one. So on the M&A side, we said we don't put any restriction on M&A agenda. Obviously, to do something more transformational or of larger size, clearly, the rationale and the strategic feat will clearly be very important for us. As I said, we've got this duty for us and for Temenos. And to do something larger, it has to make a lot of sense and to be highly accretive. So obviously, as I've said, we do have a pipeline of potential transactions. Some of them are larger, if you want, some smaller. So we do -- we don't put any limitation on what we could acquire. Definitely, I said what is key is the strategic fleet of the target.

David Arnott: And let me take a BPO question. So we've been very clear that we don't want to get into BPO ourselves. It's -- they're all so intensive. It's not -- for many reasons that you are aware of, we don't like it. However, that doesn't mean to say customers should not be able to consume our software-as-a-service. And if you look at the type of banks we are targeting, which is typically the larger, more complex banks, they have the infrastructure, and they have the organization to be able to run their own end of day, do all of the business process side of things in-house as opposed to someone like at Avaloq who, if they're running a small Swiss commercial bank, it is not particularly different to other Swiss commercial banks, it just wants a stand-alone service. So already in a number of countries, we do have ad offering, the go-to-market offering, maybe in the cloud for -- with someone like Microsoft, maybe for our own data centers in places like the U.K. and the U.S , where we're able to host the customers' instance of our software in our own environment and provide some level of services around that. To an extent the bank wants more services, we have a range of partners who are able to provide the additional BPO services in conjunction with us and our data center partners, and that's already up and running.

Operator: Our next question comes from Steven Goulden from Deutsche Bank.

Steven James Goulden: I just wanted to begin to -- obviously, we talked a little bit about the U.S. already. But talking about the competitive landscapes, obviously there are 4 major local players. Oracle is also doing KeyBanc as far as I was last aware. If you could -- you talked before about slightly seeing an opportunity in 120 banks with around sort of $10 billion of assets. I mean, maybe if you can just say why that opportunity exists in that segment? And perhaps how you would differentiate yourself from the local players and sort of how you see the opportunity there? And then sort of on a related note but not just limited to the U.S., maybe you can talk about primarily who you see as giving up share in terms of -- so you guys are taking share and from the last number you said was around 30 percent of new deals by value.

Max Chuard: OK. So let me try and keep this relatively quick. There's quite a lot of information on -- and I know you've seen this in our Capital Markets Day around why we targeted the 10 billion-plus segment in the U.S.

We believe that the reasons where that segment of the market is the best for us is: a, because it plays to our strengths. We're very high volume, scalable architecture, a deployable, upgradable, bridge API layer around our cores, access to international ideas that's built into a corporate product offering. And the bigger banks in the U.S. need that type of very, very high volume, productized offering that the smaller banks may be don't in a smaller, typical community banking and credit union market. We have a -- the world's best core banking suite of products. If you look at our 4 competitors, they've got a mix of things they bought, acquired, built over time. None of them are particularly modeling the architecture and all of them is old, and it does not meet the needs of a Tier 1 bank that's trying to be digital with real-time transactional data coming out. So we have something that's unique in the U.S. context in our opinion, and that message is increasingly resonating with the big banks. They're the ones that need to change more than some of the more cozy credit union community banks and types of models. In terms of where we're taking market share from, if you look in the IBS League Table, we -- the gap opened up between Temenos and all of our competitors in quite a significant way this year. I will put probably 2 trends behind that.

First of all, what I would call development shop vendors, those who typically would focus less on product and more on building a new banking system with a bit of IT in the mix of the beginning are tending to fall behind because banks increasingly want the package. They want the same package that other big banks are using. They want to be upgradable. They wanted to have a huge amount of R&D and expanse of release models. So there's much more of a wanted share at the beginning of the sales process about whether you want effectively a captive development shops under IT or whether you want to admit that they can buy the same package and focus on the business side of things. And that idea that, that a lot of what happens in a banking IT landscape doesn't make you a better or worse bank, then you should just go and buy the best package is increasingly resonating. So for those development shop-type of companies have fallen behind as have the smaller vendors, who increasingly are seen as unable to invest in R&D in and unable to compete in the same way long term and be a strategic partner for banks 10, 20 years out, given the pace of investment that needs to grow -- go into a suite of banking products to meet the medium and long-term demands already started for these institutions.

Operator: Our next question comes from the line of Laurent Daure from Kepler.

Laurent Daure: In fact, I have 3 questions. The first is coming back on your potential M&A targets and the possibility to take on some margin-dilutive deals. Can you walk us through or maybe the Rubik integration and how you would within a year make this deal from EPS neutral to a 3 percent EPS positive impact?

Meaning that over a 12-month period, you seem to expect some big margin upside and this is the case for the other deals you might consider in terms of having low margin but a quick recovery after. The second one is so we go back on the U.S., want to make sure I understand where you really had a great first quarter in terms of license. Do we have to consider this to be more of a one-off link maybe to the Commerce Bank contract? Or is it something that's likely to remain strong for the full year? And finally, I know Q1 is a small quarter and not very relevant. But still, if I was to strip out the Forex, there's not much leverage on margin. So if there's anything specific to mention on that, that would be helpful.

Max Chuard: Let me take probably the first and the last one. So on the M&A target, my comment on the margin, I would say is we'll be willing to buy companies that might not have the same amount of -- the same margin as us, as you know, we're both 30 percent. And if the target is below 30 percent, you might not find transactions that companies that have that level of margin. Nonetheless, we'll be able to be growing EPS faster with an M&A plan.

So I think that is the first thing. Then the second one regarding Rubik. OK, I think that will be there are 2 things. The first one, Rubik themselves went through some transition phase where they've been building every product, which is now available for sale, and they start to see -- to expect the benefit of that product. And the second part is what we can bring. If you can remember, Rubik is a very tiny company with little credibility in the market and what we can bring to them, which will mean that we do expect a very good level of synergies on that transaction. And that will mean that we'll be able to turn that company, which is slightly making a very small profit so far to a more interesting -- on a 3 percent EPS set for 2018. So that's for Rubik. And on Q1, yes, I mean, very little leverage in Q1. It's a little, it's a small quarter. I wouldn't read anything into that. You need to look at our business on the 12-month basis. If you look at the 12-month basis, I said we've extended the margin by more than almost 170 basis points, which is way more than our target of 100 to 150 basis point for the medium term. So clearly, I won't highlight any -- take any point from this Q1 margin. I think things are progressing well. We confirmed the guidance for the year, and I'm very confident that we will be able to deliver it.

David Arnott: Well, let me try and deal with the U.S. question as simply as possible. Please don't extrapolate any 1 quarter's P&L related to any deals. I clearly can't comment on any revenue related to a specific deal. I've said that our strong U.S. -- our strong revenue in the Americas in Q1 came from the U.S. It actually comes from a mixture of customers. But if I could just -- and I wouldn't comment on 2017 comment commitment specifically from the U.S. I will just say that the U.S. for us is a very, very exciting medium-term opportunity. It's huge. The banks are basically identical. The competitors are particularly strong, and those banks are in real pain. The time it takes to get there is not going to be a 2017 hockey stick. The early deals, the rev rec takes a while to come through because of their long, quite complex implementations for the early ones. It takes a long time to develop. The pipeline, the sales cycle is long. All the data points are looking very good. We've won a number of deals, and we're taking customers from the incumbents. We have something different than the other international vendors, but I wouldn't necessarily extrapolate P&L upside into any great extent in 2017. We're really looking at this as a catalyst as one of the drivers that can take Temenos to a totally different level over the medium term. So in Q1, yes, there was revenue. That revenue was good, but it doesn't change anything fundamentally about the story that we laid out in our Capital Markets Day.

Operator: Our next question comes from James Goodman from Barclays.

James A. Goodman: First one was actually on the margin and the FX benefit that you saw there during the quarter, understandably, from the sterling weakness. However, in Q4, sterling was weak, and we didn't see the margin benefit. So I'm wondering if you could add some clarification there? Has some hedging rolled off? Or is there something going on in the other category of cost?

And perhaps more importantly, for the full year, at current rates, what would you expect the FX benefit to be on the margin? And then second one, more broader question was on the scalability that the business is currently in. The fact that growth has been, for sustained periods, considerably ahead of expectations. I'm just curious in terms of your focus on avoiding any constraints on that growth carrying in? Maybe if you can make some comments around the utilization or recruitment in the services business, which is having to grow to support this and maybe on the footprint of your partners as well.

David Arnott: OK. Thanks, James. Good questions.

Let me take the second one while Max just calculate that on the Forex. We've highlighted a number of times over the last couple of years that a constraint to growth for any software company and, in a way, we refer to this in the context of Avaloq earlier, once you start to decouple and find a large number of deals, delivery of that software becomes a constraint very quickly.

I think Temenos, for those who were around up until probably 2010, 2011, we've grown extremely fast, and we never had the time to stand back, write our methodology, package our country platforms, train the partners, create training programs, all of the business readiness that allows you afterwards to grow in a controlled way around good methodologies, process lead implementations. And if you look today, I would say our growth and probably a good level of faster growth than what we're already seeing can be managed such as the robustness of our delivery model. I think, the challenge is going to be over the next few years, more on the software's users end controlling upon in an implementation rather than the pure delivery and skill set. We will be going into a new country like to install a software for the first time ourselves. So we can do it properly, we can document it, we can package it and enrich our model banks and country platforms and then we pass those model banks and country platforms to partners to use in the future implementations under our tight governance models. And you can see this through our idea as well. And so it is something you need to watch constantly. We have a very robust skills, organized skills, management organization, both tracking the skills internally and around our partners. It's never 100 percent perfect. But today, I think all of our key projects are going extremely well. We're hitting the milestones and the sales campaigns we're in the middle of, which are effectively probably the 2018, maybe in 2019 implementations, we have resources planned around all the key bottlenecks to start those. So as good as you can expect for a company of our level of growth, I'd say.

Max Chuard: And Jim, thanks for your question. It's -- regarding Q4, I think if we didn't see the impact was related to the fact that the euro was weaker in Q4, which mitigated the impact at the profit level, so that's for Q4. And going forward for the full year now, as you know, Q4 is larger quarter from a revenue point of view. So if you want the benefits that we get Q1 to Q3 on the weaker pound, we lose it probably in Q4 through the bigger revenue impact mainly on the euros side. So that's, I will say at this stage, I will not expect any impact at -- from the Forex at the bottom line on the full year basis. Probably, there'll be a benefit Q1 to Q3, which then would be lost in Q4, obviously, if the rates are where they are today.

David Arnott: Very good. It seems there's no more questions. So thank you very much, everybody, for taking the time to join our call today and ask so many good questions. We may see some of you next week in Lisbon. Otherwise, looking forward to speaking to you all at the end of our second quarter results in July. Thank you very much.

Operator: Thank you very much, ladies and gentlemen. That does conclude our conference for today. Thank you for participating. You may all disconnect.

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