Temenos Group A.G.

Q1 2018 results call transcript

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Operator: This is Conference # 6269489

Operator: Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to Temenos Quarter 1 2018 Results 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 keypad and wait for your name to be announced.

I must advise you that this conference is being recorded today, 18th of April, 2018.

And I would now like to hand the conference over to your first speaker today, Mr. Adam Snyder, Head of Investor Relations. Please go ahead, sir.

Adam Snyder: Thank you very much. Thank you very much, everyone, for joining our Q1 2018 Results call.

I'd like to point out a couple of things before we start. Firstly, the numbers we will be talking about in the presentation are non-IFRS and under IAS 18. As such, they are directly comparable to prior periods. We’ve provided full reconciliation tables in the appendix of the presentation and our press release. And I would also encourage you to go to our Web Site where we have both a video and an explanatory presentation on the impact of IFRS 15 on our numbers.

The second thing I'd like to highlight is this call is very much focused on our first quarter results. As we've set out in prior announcements, our offer for Fidessa is in progress. This offer is governed by the U.K. takeover code.

Therefore, we will not be making any comments beyond the announcements previously released with respect to the offer and we will not be taking any questions the offer today on this call. Thank you very much for your understanding.

And with that, I will hand over to David, our CEO.

David Arnott: Thank you, Adam. Good afternoon, everybody, good morning, and thank you for taking the time to join today's call. I hope you've all been able to get your hands on our results presentation, which is on our Web Site and we're going to use as a basis for our commentary over the next half an hour or so.

Assuming you've got that I'm going to start some comments on our first quarter performance. And then as usual, I'll hand over to Max for an update on our financials and then I'll wrap up with some concluding remarks.

Starting on Slide 7, we've had a very, very strong start to 2018 with 40 percent that's, 4-0 percent -- growth in total software licensing and 20 percent growth in total revenues in the first quarter. We've talked a lot in our Capital Markets Day back in February about the significant market opportunity we've got in front of us, and the increasing urgency where banks are approaching our IT platform renovation as a prerequisite to either reducing costs or being truly digital. And this urgency and pressure on banks was once again demonstrated in our performance in the first quarter as well as our pipeline and revenue visibility going forward.

Not only is the market opportunity expanding but most importantly, we're winning the lion's share of the deals that come to market. We had very strong momentum across all geographies and all client tiers, which reflects the diverse range of banks that are under such pressure and have come to Temenos for help. As part of their selection processes, banks typically look at third-party analysts for insight and guidance on selecting the right partner. And that's why reports from firms such as IBS and Forrester are so important and why I'm delighted that once again, Temenos topped the 2017 League Tables for both firms across multiple categories, including core banking, digital banking and channels as well as payments. And I'll talk about that in a second.

Moving now to slide 8, I'd like to dig a little bit into the sales numbers for the quarter. As I mentioned, the growth in the first quarter has been across all geographies and client tiers, which is always good, as it’s great to be sitting behind multiple and structural drivers between fast- and slow-moving geographies that have got very different needs as well as sub-trends. And that are in fact, very different across say, retail, mass affluent, private, corporate, micro banking and fund management that we operate in. We continue to demonstrate our ability to win new business with 18 new customers signed up just in the first quarter alone, with competitive deals contributing 54 percent of total software licensing.

As we keep saying, any software vertical will ultimately concentrate around 1 or 2 market leaders. And I think it's fair to say that once again, in the first quarter of 2018, we've been successful in leveraging our position as market leader to continue to take marketshare.

There's a few deals in the quarter that I think are worth highlighting. First of all, we signed our first strategically important deal in Australia with a leading financial institution. But unfortunately, we're not able to name them at the current time but it's great to see that last year's acquisition of Rubik is already bearing fruit.

Secondly, we've continued to expand our relationship with some of our existing Tier 1 clients. For those of you that attended our Capital Markets Day, you may remember that we said on average, we've only captured 4 percent of the addressable spend in any of our Tier 1 and Tier 2 customers. And that means, of course, that we have a very significant opportunity in our existing base to expand our relationships further.

In Q1, Openbank, which is a digital bank of Santander, selected Temenos Wealth Suite, to enhance their customer interaction, and another major Tier 1 European bank selected us for their instant payment platform. We fully expect this trend of further penetrating our Tier 1 and Tier 2 customers to continue and to drive our growth and visibility in the future.

On Slide 9, if I could spend a minute talking about some of the most recent market opportunities that are opening up to us, again validated in the first quarter. First of all, you've probably seen the announcement of Telia, who is a Nordic telco company, bought T24 core banking for their financial services technology platform, and they've made some announcements that. This marks an interesting move away from telcos partnering with banks, to telcos actually providing their own financial services directly to their customers. It's indicative of the type of new competition that banks are facing from multiple new entrants to their markets. And also of course, it opens up a new potential market for Temenos to target.

Secondly, we continue to see increased activity in the payments space as margins come under pressure from regulation, competition and new technology. Open banking is directly linked to the rise of instant payments and some banks are really struggling to meet the demand of this new standard, choosing instead to purchase packaged solutions from providers like us. We were ranked number 2 in the IBS League Table for payment solutions sold in 2017 and in Q1 this year, we sold our payment solutions, as I mentioned, to one of our very significant Tier 1 European customers.

Whilst we first launched the payments product a few years ago, we've heavily invested in it subsequently to ensure that it’s a market-leading product that can handle all the regulatory changes and is really only in the last couple years that this particular market has started to open up. And we're clearly very positive about this payments trend over the next few years.
* ET 07:17
Moving now to Slide 10 for a quick update on delivery of our projects. We had 22 clients go live for the first time on Temenos software in the first quarter. The services business continued to help our clients achieve their goals. Early in the quarter, EFG, which is a Swiss private bank, announced that they completed the migration of BSI onto their T24 platform as we talked about at the time of that client win, and in doing so, they're realizing

very significant cost savings that underpin the acquisition. EFG is just one example, a very good example of a bank that has been successful in running the incredibly efficient IT platform using Temenos software and thus, been able to grow its business on the back of that strong technology layer.

Our key implementations continue to progress well. Our last 12 months services margin reached 10 percent and we continue to work closely with our strategic partners. We've invested in our trading platform. As you know, we call it Temenos Learning Community -- to industrialize the training of partner consultants and clients as well to ensure that there's sufficient skills in the market to implement our pipeline of deals.

On Slide 11 now, a little bit of a drill-down into our competitive positioning. IBS published their 2017 League Tables last week, and Temenos was ranked the best-selling core banking system for the (13th) year. In addition to this and very, very importantly, we were as well the best-selling digital banking and channel system, the best-selling risk and compliance system and the second best-selling payment system behind a relatively small vendor that operates in the geography so very, very good performance well beyond the core.

We also retained our position as the only vendor for both the top pyramid in the Forrester Pyramid (for new name business) and extended business, by which they means of course sales to existing customers. To be in the top box for new business, you need to sell more than (50) new name deals and be selling in all 5 geographical regions. And we were the only vendor to be able to achieve that as I said.

Last year (Oracle were with us) in the top box but they've dropped out. TCS have dropped down of the second box, down a box and quite a few players that were around the middle have dropped down to the very bottom box. So you can see that, that pyramid is cleaning up nicely and the leaders are very firmly emerging at the top.

As I mentioned earlier, these League Tables are vitally important for banks when they select a strategic partner for innovating their IT platform. They

take a lot of comfort from learning that they're buying best-selling core banking system globally, and this, of course, helps cement our position as the market leader.
** ET 0946
Moving now to Slide 12. We've analyzed our position against the competition over the last 5 years so effectively extracted from the IBS report. This is very important, as you can tell, as it demonstrates that we've pulled further ahead of our closest competitors over the last 5 years.

As one example, in 2017, we sold 2.5x the number of deals as our next closest competitor in what we believe is ultimately a winner-takes-all market. And also bear in mind that this slide, the IBS report doesn't even capture the disproportionately high Tier 1 and Tier 2 win rate, where our win rate is extremely high. It really just measures any deal (worthy of) being of equal value in that table. So many of the (tail of the competitors) and even the big ones are getting squeezed into the lower end of the spectrum. We've come a long way, as you can see, since our win rates against our major competitors in 2012. We're confident that we can continue to capitalize on our position as market leader and pull even further ahead as we go into the future.

On Slide 13, just like to summarize our forward-looking view on the market and our positioning for those who are unable to attend the Capital Markets Day. While digital and regulatory pressure continue to drive banking spend on IT, the new dynamic that's open banking is creating further pressure on banks and driving IT replacement.

It's clear that IT spend for banks is not discretionary spend anymore but a strategic priority at the top level within banks. This means, of course, that it’s winning the competition for CapEx inside banks under the greater urgency in banks to move forward with IT renovation projects at a very strategic level.

For Temenos, our install base, is going to continue to be a key driver of growth as we've demonstrated again this quarter with our sales into existing Tier 1 clients such as Openbank. As the League Tables show, we're the market leader in our verticals and we're consolidating this position as we win more and more deals and pull ahead of competition.

We've had a great start to 2018 -- I'd say a very, very strong start to the year -- with our revenue visibility increasing even further, driven by our strong pipeline growth and a committed spend from existing customers.

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

Max Chuard: Thank you, David.

Starting with Slide 15, I'm very pleased with our performance in this quarter, which was very strong across all KPIs. Our total software licensing grew 40 percent, driven particularly by new client wins and competitive deals. Software is a winner-takes-it-all market and we are leveraging our position as the market leader to continue taking marketshare.

Our maintenance revenue also continued to accelerate, growing (14) percent in the quarter and total revenue grew 20 percent in the quarter. EBIT is up 33 percent in the quarter and the leverage in our business line means we continue to expand our EBIT margin, which reached 30.4 percent on an LTM basis. We also grew our earnings per share by 48 percent in the quarter. Our cash generation was also very strong with $46 million of operating cash in Q1 and DSOs were down 10 days to 117 days. Finally, our services margin continue to improve, reaching 9.8 percent on an LTM basis.

On Slide 16, I will highlight some of the most important numbers for the quarter. The key figure is our total software licensing, which grew 40 percent reported and 35 percent in constant currency. We've now grown our total software licensing revenues by 27 percent and total revenues by 18 percent reported over the last 12 months, demonstrating the strength of our position in the market. Our business model and high level of working revenues enabled us to deliver strong margin expansion as we showed this quarter, with our EBIT up 33 percent reported and 43 percent in constant currencies. Our LTM EBIT margin reached 30.4 percent, an expansion of (83) basis points.

Services revenue grew 5 percent reported in the quarter against a strong comparative. Services for us in a margin business and we are pleased with the progress we've made, increasing the margin to 10 percent as we continue to work closely with partners and focusing on governance of our projects. We expect services to be set at 20 percent of the revenue mix going forward.

On Slide 17, we show like-for-like revenues and costs, adjusting for the impact of M&A and FX. As a reminder, we closed the acquisition of Rubik in Australia in Q2 2017. FX this quarter was a headwind at EBIT level with a benefit of the stronger euro on revenues more than offset by the impact of the stronger sterling and Swiss francs on the cost side.

Total software licensing renewal was up 19 percent like-for-like this quarter and maintenance was up 9 percent (giving) like-for-like revenues growth of 14 percent. This shows the strong organic growth in our business and reflects the significant market opportunity we have. Total like-for-like costs increased 5 percent in the quarter as we continued to invest in sales and marketing and product to drive our future growth. And we leveraged our G&A infrastructure and have, as we said, lower services cost in the quarter in line with lower services revenues. When excluding G&A and services, our cost on a like-for-like grew by 12 percent. We saved on marketing accounting for most of the increase (with circa 25 growth) year-on-year.

On Slide 18, we had a very strong growth in both net profit and EPS. Our net profit grew 46 percent in the quarter and 22 percent in the last 12 months. Our EPS grew 48 percent in the quarter and 20 percent in the 12 months to reach $2.59 per share. The increase in tax this quarter is for combination of the increase in the group tax rate and the stronger profit generation. We've guided for tax rate of between 15 to 16 percent for 2018 as we continue to benefit from the recognition of tax losses.

Moving to Slide 19. Our cash conversion was at 113 percent in the LTM, well above our target of 100 percent of EBITDA. DSOs decreased 10 days year-on-year to end the quarter at 170 days. We expect DSOs to continue declining about 5 to 10 days per annum to reach 100 days in the medium term as we expand our relationship with Tier 1 and Tier 2 clients undergoing property renovation, which we demonstrated this quarter -- we signed a new deal with Openbank.

On Slide 20, we highlight the key changes to group liquidity in the quarter, with increase our cash on balance sheet from $168 million at the end of Q4 2017 to $195 million at the end of this quarter. We generated $46 million of operating cash in the quarter, an increase of 26 percent.

We ended the quarter with net debt of $255 million and leverage of 0.9x EBITDA. We have a very strong balance sheet, which we will use to drive growth and create shareholder value. The dividend of CHF0.65 per share we announced for 2017 will be paid in May post the AGM, subject to shareholder approval obviously.

On Slide 21, our guidance for 2018 remains unchanged. Our guidance is based on IAS 18 and constant currencies and does not include the impact of any potential acquisitions. We've provided the FX rate in the appendix as well.

We are guiding for full year total software licensing growth of the 13.5 to 18.5 percent and total revenue growth of 10 to 13 percent. Our EBIT guidance is in the range of $255 to $260 million, which implies a full year margin of circa 31 percent, which represents 100 basis points expansion in constant currencies. We expect the 2018 tax rate of 15 percent to 16 percent. And finally, we expect conversion of over 100 percent of EBITDA into operating cash.

We started the year with our highest-ever product revenue visibility, and this has increased further driven by strong pipeline growth and committed spend. I'm very pleased with our Q1 performance and I'm very confident in achieving our full year guidance.

With that, I will hand back to David.

David Arnott: Thanks, Max.

OK, so just before I wrap up, a quick plug for our Temenos community forum, which as you know, is our annual client event, which this year is taking place in Dublin between the 22nd and the 24th of May. We run, as usual, a dedicated track for investors and analysts, and it's a great opportunity to meet us, our clients, our partners and everybody involved in the industry. We are a very open company, I think it's fair to say, and we'd love to welcome you there to join us and get some real insights into our business and the market trends from us and also directly from our customers.

We'll be launching new products, and we will also be running dedicated sessions for investors and analysts with their executive and the product management teams. If you want any more information on that, please do get in touch.

In conclusion, we had a great start to 2018 across all of our key performance indicators, with strong growth across all geographies and client tiers. Banks are under a real pressure from digital, regulatory and open banking trends, and this is creating an enormous opportunity for Temenos as our clients prioritize IT spend over and above other types of CapEx. We've maintained and extended our position as the leader in our market in 2017. We’ve continued this into 2018 and we’re very confident that we're going to continue to take marketshare in a growing market going forward.

Our revenue visibility continued to increase, driven by the pipeline growth that we continued to see in the first 4 months of 2018 and by the committed spend from our existing clients. So all in all, I think it’s fair to say it’s a hugely exciting time for Temenos.

Operator, with that, I'd like to open up the call for Q&A, please.

Operator: Thank you. Ladies and gentlemen, as a reminder, please press “star” and “one” on your telephone keypad if you wish to ask a question. That is “star,” “one” to ask a question. And you can cancel your request by pressing the “hash” key. Thank you.

Your first question comes from the line of Josh Levin from Citi. Please ask your question.

Josh Levin: Thank you and good evening. I have 2 questions.

The first with regards to efforts to gain share in the U.S. market, can you give us an update? Is there any more visibility into some potential Tier 1 or Tier 2 wins in the U.S.?

David Arnott: OK, Josh. Let me take that one.

I can't obviously provide detail on specific names, but we are very pleased with our U.S. strategy commerce bankers, hitting their milestones, as we said the last few times. Everybody's waiting for (us to sound off a big) comparable reference to that, and it's great that we're hitting milestones on Commerzbank. We also, as you know, signed a digital startup bank at the beginning of last year, which is very exciting; it'll showcase how quickly we can stand up a new banking solution. And again that is going very well.

We also won a Tier 1 bank in the fourth quarter of last year who we're not allowed to name publicly but it's not difficult to your handle on their name. And again, all the things add credibility to Temenos in a specific U.S. context. We have a healthy pipeline. The U.S. is a big opportunity for us. It's just under half the world's banking spend and it's got real structural pain. But we've always been very clear to say that there's no quick wins in the U.S. It's going to take a while like every other (geography, to standup) references, build on established value proposition, build out the credibility. But we do believe and we've seen this even into 2018, we have something truly unique. We have something that the local vendors cannot offer in terms of a real-time modern package to upgradable core with all the (surround-sound of fintech) and so forth. And we believe that this is unique going forward.

No real change. Nothing specific I can comment on in the quarter but we remain very positive about the potential from the U.S. over the medium term and as and when we can share further data points, we will do so.

Josh Levin: OK. And when you say you won a strategically important deal in Australia, does that mean it's a large deal financially for you or is it strategic for some other reasons?

David Arnott: We don't comment on the size of any deal. But typically, financials are less important for us than strategic in as much as they open up the potential for large geography. Even (the last ticket size) from a deal is not really relevant if you win a highly competed-for deal, for which there many, many comparable banks. So once you've got one, it tends to be -- the others tend to follow, which is why wins like Commerzbank in the U.S. are absolutely key.

In an Australian context, we can't comment on the size but far more strategically important is the fact that a very standard, if you like, Australian organization has adopted Temenos from a myriad of different opportunities they had. And this first-mover advantage in a market which has got some major, major structural trends is more important on a go-forward basis than the pure contribution of revenue from that individual deal.

Josh Levin: Thank you very much.

David Arnott: Pleasure.

Operator: Thank you.

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

Panagiotis Spiliopoulos: Yes. Hi, David, Max and Adam. Congrats on the impressive performance. Two questions, if I may.

On the payments deal. Was that an existing or a new customer and what made you win? What were the key decisive criterias? And who did you win against that? That would be question number one.

And second one, how many of the 18 new client wins were driven by partners? Thanks.

David Arnott: Thanks, Takis, for your nice comment at the beginning there. OK, I will take both of them.

In the -- for the payments deal that we announced, it's an existing customer, it's an existing Tier 1 customer. We put it in the bucket of examples of cross existing customers. And it's somebody was has used us in different geographies who now is going through major pain on their payment side. Because of the existing leadership we have with them, when they came to make a selection, they included Temenos and the relationships are very strong.

We didn't, however, win just because of our existing relationship. We won, and it answers, I think, your second question because we truly have the -- (in their opinion), at least -- a unique asset in the payment space inasmuch as most of the competitors with payments packages today, the technology is relatively old, it's often quite a services toolkit. It doesn't -- it's not necessarily built on the most modern architecture, which is scalable to the huge, huge volumes that we're going to be seeing if you extrapolate what's happening in the payments space today with micropayments and so forth.

The biggest challenge for any Tier 1 bank in the payment space is not so much the functionality. It's not particularly complex. It's the explosion in transitional volumes. Although very, very low size they because the same amount to process. So architecture was absolutely key, technology and architecture, integration to the core was key. Being a big software company with a strong R&D focus that will continue to be able to invest to meet the regulatory changes and the technology changes that are going to be clearly happening in payments were the reasons that the bank gave us for choosing Temenos as opposed to either building their own or to buying a third-party package.

It's exactly the same reasons in fact (that ABN gave) as one of our very early adopters a few years back. In terms of the 18 wins, they be, let -- maybe ...

Max Chuard: … yes, I can take it, David.

On the 18 wins, it has been quite consistent as what we've said for last year. Around 25 percent of our wins had some level of influence from our partners and we've seen that in Q1 as well.

Panagiotis Spiliopoulos: OK. Thanks. Well done.

David Arnott: Thank you.

Operator: Thank you. Your next question comes from the line of Josep Bori from Berenberg. Please ask your question.

Josep Bori: Hi, (good evening). Thank you very much for taking my questions. I have 2, if I may, on the field of the product offering.

The first one is related to your Slide 12 where you're showing your wins versus the top peers. I understand that the Oracle i-flex not long ago unveiled FLEXCUBE for version 14 so presumably that did not yet impact them in 2017. What have you seen in terms of their competitive level at the beginning of 2018? Are they trying to leverage more the maybe the broader Oracle portfolio to do so?

And then my second question is just asking you, what are you doing, guys, on the blockchain field? And if you (have some sort of operation there) what's the business model for you? It’s just the additional modules on T24 or is it's just around services? Thank you.

David Arnott: Hi, Josep, OK, let me take both of those.

We really don't read much into competitors on an individual quarterly basis. I can't say that we've seen Oracle any more in the first quarter than we have done in the past. They're stuck between FLEXCUBE, which is an older product, that came through an acquisition, which our customers' feedback is generally that it's less packaged and (OBT), which was their next-generation core banking product. And we see both of those products competing occasionally. But I will just really point you back to the win rates against both (and the fact that) Oracle impact did not choose to participate in the IBS League Table at all this year.

We’re confident that Oracle are a very sizable software organization and that when with the right focus, they can be a serious competitor but I would not single -- I would not signal any particular change in their competitive strength certainly in the last quarter. And if we do see anything, we'll share that in a very transparent way. And (nor so) with any other competitors by the way.

In terms of blockchain, this is more indirectly relevant to us. There are certain use cases coming through like in trade finance for example, which is driving change a bit more (obliquely) for us. We can support (nearly -- include better technology), we can support -- we can support the technical or technology requirements of banks as they move towards that and nonbanks of course. It's a subject of discussion with banks but in terms of selling high-volume industrial strength core banking systems, their main value proposition for us tends to be, my costs are too high, I need to change out the package because there's a (bespoke code layer) for a single package and I needed to do a real-time so I can run campaigns through it.

Future trends, which are just starting to build out referenceability and creditability in financial services more (are the fringes) today rather than our main bread-and-butter market -- are something that we're on top of. We're involved in the various communities, the -- driving use cases for blockchains and clearly have the R&D capacity to meet the requirements but it's more indirect at this stage.

Josep Bori: Thank you very much.

David Arnott: Pleasure.

Operator: Thank you for your question.

Your next question comes from the line of (Jacob Cruz from Autonomous).

(Jacob Cruz): Hi. Thank you for your time. I guess I had 2 questions.

Firstly on the Telia deal, does this signal that you're going more for the non-financial institution clients and is that to some extent related to open banking initiatives, PSD 2, and those changes to the financial landscape?

And my second question you also talked about your visibility of revenues having improved relative to Q4. I don't think you've changed your revenue guidance in any way. Is that just holding off or is there a reason for not making any adjustments there? Thank you.

David Arnott: (Hey, Jacob). Let me take the first one and (I'll be quite crystal) -- it's more of interest to see a real use case as an organization like Telia that was no longer -- that previously were not participated in banking, moving into the banking space. And like many, many others examples -- retailers, online (depositors -- Jacob), there's all sorts of new (entrants in business). The number business cases prevalent in financial services now is growing almost by the day -- the different business models you can apply.

For a telco who have the distribution in place they're not the first telco to do this. It's interesting in 2 senses. First of all, their requirements are very similar to everybody else. And it opens up an addressable market for Temenos, which is nice. Not something we would necessarily steer the whole company towards but it's nice that we can drop the same products so quickly into new business model examples as they enter.

But secondly, again it's just another challenge that existing incumbent banks face; it's a new type of player that is coming with a good price advantage, distribution in place. And again, when we talk about the backdrop of a buying decision for core technology, that backdrop is nimble competitors, (regulators facilitating them) coming in, customer behavior that wants to work with nontraditional banks and it's another straw in the camel's back, if you like. It's probably more relevant in the context of a further data point the pressure (honest on it), the traditional participant in the financial services landscape rather than a huge market (in its own space). And whether we win these deals or our competitors with them it's more that context that is important.

Max Chuard: Hi Jacob.

On the visibility, yes, it's true that what we said in Q4 was we were starting the year with 85 percent visibility on the product revenue side and this has increased as we (delivered Q1). And we (see) the pipeline growing strongly and adding additional committed spend. Nonetheless, I think this gave us a strong confidence on the year on delivering the guidance; it's early in the year and therefore nothing has changed compared to what we said at the start of the year regarding the guidance.

(Jacob Cruz): Yes. OK. Thank you very much.

David Arnott: Pleasure.

Operator: Thank you.

Your next question is from the line of Chandra Sriraman from MainFirst. One moment please -- one moment. Mr. Sriraman, your line is now open. Thank you.

Chandramouli Sriraman: … can you hear me? Yes, thanks. Good evening, David. Good evening, Max. Congrats from my side as -- (on this quarter). A couple of questions.

First one, in terms of maintenance growth rate on a like-for-like basis, it's still at 9 percent. You've had a fantastic run in terms of licenses. When should we see some acceleration in maintenance growth? That's my first question.

And the second one is in terms of the sales and marketing cost that has jumped up in Q1, is it -- got something to do with the increase in competitive bids or it's more to do with hiring and the investment you've been talking about for some time now? Thanks.

* ET 35:52

Max Chuard: Why don't I take both of them? This is a maintenance (issue; if you look) back you can see (a clear adaptation) on the maintenance rates and this will continue. There's always a time lag between the maintenance and the license, and this is reflected on -- so we continue to see maintenance continue to grow.

On the sales and marketing, clearly, we've been saying now for a while, we are making significant investment capital opportunities so this is clearly the case so you can see their new people being recruited. At the same time, obviously, there is always also (an unavoidable viable) cost, which was higher because of the license increase compared to last year.

Chandramouli Sriraman: OK. Thanks.

Operator: Thank you.

Your next question is from the line of Gregory Ramirez from Bryan Garnier. Please ask your question.

Gregory K. Ramirez: Yes, thank you. Good evening. Thank you for taking my questions. I have 2 questions.

The first one is regarding the trends on the services. You mentioned the (tough comps) in Q1, but in Q2 and Q4 last year looked the same. Do we have to expect a further decline in services in 2018?

And my second question is, I know that you don't guide on the quarter on a specific client but the deal extension with Openbank and the wealth suite, do we have to consider this as a sizable deal? And do we have to expect a significant contribution in Q2 or do we have to expect it is spread over the quarters? Thank you.

Max Chuard: Hi, Gregory.

On the services trend, what I said is Q1, we faced a high comparative. Remember, in Q4 '16, we've seen some slippage on some closing or implementation that closed early in Q1 '17. And that's why we had a strong Q1 '17. Now as I said, we expect to be about 20 percent of the mix. So total revenue services to contribute around 20 percent of total revenues. And since we are already at that level, so if you want we expect the services business to grow in line with the other business.

Now on our side, Temenos, we are focused at -- we are looking at it more as a margin business as you know. And since what is key for us is really the focus on improving the services margin as we've been able to do again this quarter and reaching almost 10 percent. That's on the services side.

And on the deal extension on Openbank, it's great to see that we continue to extend our relationship into the large banks. As we said only 4 percent of the Tier 1, Tier 2 we have been able to penetrate, so there's so much more we can into those large banks. And that's really the excitement when we signed a strategic last Tier 1, Tier 2 deals, there's so much more that we can to the future. I won't comment on the size of this one or what it means, but I think what it shows again is we're able to further penetrate our Tier 1 relationships once we enter into the future and we can do more with them because of the strength of our offerings. I think this is very exciting for us.

Gregory K. Ramirez: OK. Thank you very much.

Operator: Thank you.

Your next question is from the line of Steven Goulden from Deutsche Bank. Please ask your question.

Steven James Goulden: Hi there. Congratulations on the quarter.

I just wanted to go back to Slide 12 when you showed, I think, 2.5x the new name deal (volume) versus Oracle and 3x (versus Infosys). Do you have any idea of -- when taking into account all the other competitors -- what your marketshare of new name wins would be, probably by dollar value throughout last year?

David Arnott: OK, thanks, Stephen.

It's very difficult to get your hand on that certainly on a dollar value basis. I guess by dollar value, it will probably come around 35, 40 percent globally. But bearing in mind that the relatively low activity in the U.S. is very low for us. There are deals that happen in the U.S. context, typically switching from 1 core to another (but we’re not present) in at all because we’re really only just starting to find our feet in the U.S.

If you take our addressable market today for core -- (wider definition of core) -- including the front office piece, the analytics piece, probably around 35 percent on a value basis would be our guess (to date).

Steven James Goulden: Great. Thanks a lot.

David Arnott: Yes.

Operator: We have a last question on the line. Would you like to take it?

David Arnott: Yes.

Operator: It comes from the line of Mohammed Moawalla from Goldman Sachs. Please ask your question.

Mohammed Essaji Moawalla: Great. Thank you very much and well done on the quarter. I had 2 questions if I may.

One, David, perhaps -- I know you've not given us a lot of detail in the past -- but could you quantify anything around the pipeline in terms of sort of growth or just pipe coverage and sort of that momentum to just sort of quantify your higher visibility comment?

And secondly, it's interesting some of the wins you talked about in payments, but since PSD 2 has gone in effect at the start of the year, just clearly opens up like the Telia opportunity, the TAM and (new opportunities) in open banking, et cetera -- I mean, how big or meaningful of a driver an additional TAM opportunity for you could this be?

David Arnott: OK, thanks, (Mo). Let me take those.

Pipeline, as you know, we don't provide the numbers for our pipeline; it's very difficult and often misleading anyway. We track it in different ways internally. Really the point to highlight is the ones we've already made, which is in absolute terms it’s at a historical high. It continues to grow the flow-through of deals through that pipeline from RFP into workshop into (reference visit) into final contract negotiations; (it’s all) working very well.

It's a nice geographical hedge, as I referred to in my script, between different geographies with different pains, emerging markets needing systems quickly to handle growth and capture trends like mass affluent, more established countries sitting on too high a cost base worried what to do about pricing pressure from the new entrants and where this leads them long term.

We've got a nice mix of banks buying for different reasons in different geographies (driven by different) structural drivers in different areas of business, which is a -- healthy to have lot of irons in the fire. We deliberately don't publish numbers against that. What we try to do is give some more anecdotal evidence. And I think it's fair to say that today we're happy with the breadth and depth of our pipeline than we've ever been.

Secondly, in terms of the payment opportunity, we actually added payments as an addressable market when we entered the payments space back with (ABN) a few years back and we quantified that at the time as being a $9 billion addressable market for us over time as the internal spend specifically in core transaction processing of payments. It is big. It takes us from the $48 billion that we currently talk about as our TAM.

And it's nice to see that as banks are driven over the pain points through like PSD 2 and they do look the third-party scalable solutions that Temenos is winning the high-profile deals as they come through. It's more something to watch over the next few years but we do believe that payment is a very hot area, first of all, from the new competitors entering the space, secondly, just because it is unbelievably painful for the traditional bank to cope with the explosion of payments and the look to book ratio in Payments. And if there's one area of core banking that is going to tip the back over the edge it's going to be the payments space.

We talked about this. It's nothing new. We talked about it in our Capital Markets Day. We've been talking about it for a few years, and we're pleased that we've got a data point with a big Tier 1 having shown Temenos as their partner for payments going forward. It's something we'll all be gaining traction going forward.

Mohammed Essaji Moawalla: Great. Can I sneak one in just at the end?

Was relicensing having much of an impact in the quarter or anticipated to have much impact for the year?

Max Chuard: No, listen, relicensing, I think (we came out a) stable level where around 20 percent of our license, total license every year comes from relicensing. And it's quite stable. I won't comment it on quarterly basis but on a full year basis, it's what you should expect. This is now ongoing and it's providing good visibility and this is one of the factors that we are seeing (that's been increasing) compared to the past. One of the elements is the relicensing obviously.

Mohammed Essaji Moawalla: Great. Thank you very much.

David Arnott: … to answer the question another way, there is nothing underlying the Q1 performance like a big (rise in relicensing has anything to do with distorting the underlying) trend. Just a good solid mix of milestones and contribution from new and existing, which kind of answers the question you're trying to get at from another way.

Mohammed Essaji Moawalla: Thank you.

David Arnott: Very good. Operator, thank you very much indeed. Thank you, everybody, for taking the time to join today's call. See you in Dublin hopefully. If not, look forward to speaking to you around the second quarter results, if not before. Thank you very much.

Operator: Ladies and gentlemen, this does conclude your conference for today. Thank you very much for participating. You may all disconnect. Enjoy your day.

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