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Speaker key

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MC Max Chuard
FG Fred Greave
FL Framer Langchow
CC Chris Corringbeck
TP Takis Philopolous
JQ Joseph Quarry
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CO Welcome to the Temenos Group Quarter Two Results conference call. My name is Sarah, and I will be your Coordinator for today's conference. For the duration of the call you'll be on listen only, however at the end of the call you will have the opportunity to ask questions. If at any time you need assistance, please press star zero on your telephone keypad and you will be connected to an operator. I'm now handing you over to Sarah Bowman to begin today's conference. Thank you.

SB Hello, everybody. Thank you for joining us this afternoon to discuss the Temenos Q2 2010 results. With me on the call are Andreas Andreades, our CEO, David Arnott, our CFO, and Max Chuard our Head of Corporate Finance and Investor Relations. The presentation to accompany the results can be downloaded from our Investor Relations section of our website, and, as usual, before I hand over to the speakers, I have to make you aware of the legal disclaimer statement on slide two of the presentation. Various factors may cause actual results to differ materially from company estimates, and indeed may cause company estimates to change. Therefore undue reliance should not be placed on the forward-looking statements made during the call, which reflect the company opinions only as of today. And I will now hand you over to Andreas for the business update.

AA Thank you, Sarah. Hello to everybody and thank you for joining the call today. I'd like to start on slide number five, with the business update.

The story for the quarter is really very simple. We've been seeing excellent business conditions now for four quarters. We've been building pipeline and momentum, and we are now seeing a very strong double-digit licence growth. Growth stayed at 26% and like-for-like at 19%, reflecting both bigger deal sizes and higher volumes.

Because we've been very disciplined and focused in the way we have invested so far this year, our costs are growing at a much slower pace, and this has translated into very strong profit growth, 46% in the quarter, and margin expansion. Margin increased by 300 basis points.

Now, turning to slide number six, it's clear that the business is very well positioned for the future. The growth initiatives we've invested in the last two years are now paying off.

Regarding partners, they are now beginning to bring us new sales, both directly, and this is as in opportunities we weren't aware of, but also indirectly, in that by pitching together with Temenos they help us to secure known opportunities.

Partners are also making a lot of the service investment needed, which frees up [unclear] for us to invest in product and sales.

We have a broader product portfolio than ever, with a significant number of add-on products like Insight and antimanage [?] on the range [?], and an enriched front office.

These add-on products provide another growing share of licences. They now account for about 16% of product licences. This is important because we have more software to sell to new customers, increasing these sizes, and improving our competitiveness, but we also have more software to sell to increasing customers, and these types of sales tend to be much more predictable.

We continue to gain market share. We believe that our 19% like-for-like licence growth in Q2 was significantly ahead of the overall market. And while the overall market is again growing, some of the weaker vendors are still seeing licences contract.

Our pipeline continues to grow strongly, both sequentially, but also year on year. This gives us the confidence to re-confirm our outlook for the year.

Now let me move on to slide number seven, where we focus specifically upon core sales. Sales growth was robust across all regions, but in both developed and developing countries, taking core banking investment decisions. Deal sizes are rising as we see banks commit to bigger projects than in the recent past, committing to market size roll outs or taking software across more than one division, where before they might have been more cautious.

And we are also seeing a growth in volume as well, in the quarter. We signed 12 new core banking customers against nine in the same quarter last year. We've also signed a deal with one more large Misys customer, to move off [unclear] software.

On slide number eight we look at the add-on products, starting with ARC and Insight. We now sign regularly between ten and 15 Insight deals per quarter, with deal sizes up strongly. This reflects up that we've added [unclear] models [?] to the Insight platform, but also have the product and then have much greater credibility in the market now.

We sold nine licences for our Front Office suite, which now includes ARC, Temenos Mobile and Temenos Biometrics. This compared to seven in the previous year, and like Insight, we enjoy higher deal sizes.

On slide number nine we'd like to look at AML and the SteP payment for that, which we acquired as part of the Viveo transaction. Both of these have now been flagged into our global sales network, and are enjoying strong sales momentum.

In the case of AML, for example, we have now sold this eight times in the first half of the year, five times in the second quarter, compared to only one time in the first half of 09. This demonstrates that the Viveo acquisition is delivering both cost and revenue synergies.

On slide number ten we offer a short update on product direction. Many of you attended our seminars community forum in Berlin recently, and received this update in question. For those of you who didn't, we made essentially three big announcements, which, as you will see from the articles shown on the slide, this from the Ideas magazine, will see us spend around $500 million on R&D in the next five years.

The three announcements were, firstly, the launch of a new Java version of T24. It's important for us to add [?] our stock [unclear] on the IBM and Oracle stacks. We are now implementing this version of T24 at Swissquote, which is our first reference site for this product.

The second announcement was that we are underway now and plan to componentise system for it's a kit [?] back of our SOA, [unclear] kit requisite to be able to win tier one deals, since this bank would like the option of a staged migration. So from the end of this year, that is 2010, banks will be able to implement our customer suite of T24 independently of the other components. It will enable the bank to use the T24 customer suite with all its existing legacy applications, while it's then safe to replace this with the remaining components of the T24.

Lastly, we gave more details of our stack] approach to future developments. As you know, Temenos transferred from being an open vendor. We run our software on more platforms than any other vendor. This is a key differentiation for us, and competitive at the same time, in that it gives customers more choice to leverage existing schemes and investments, or to pursue the lower [unclear] cost of ownership.

The market is clearly increasingly moving towards three or so vendor stacks, and it therefore makes sense for us to invest in these stacks in a specific way to ensure that performance is optimised and we can continue to configure effectively with single stack vendors.

Over on slide 12 we offer an update on partners. The first point to know is that partners are now starting to help us deliver licence growth. When we look at our pipeline of deal, we can identify over 25 million licences for deals that arise, prospects in for these partners, or deals that we are considering for jointly, and stand a much better chance of winning as a result.

Capgemini is our latest level partner, sighed up the community forum in May. Like Cognizant, Capgemini is beginning with a commitment to train 300 resources, and already we are working together on deals in China and south [?].

The partnership with Microsoft is progressing very well. We have set up a joint competence centre in the UK, to which we're both contributing resources, and which we work on optimising T24 performance on Microsoft technology. Already we are gaining excellent traction in this respect, and this will be reflected in outstanding high-water benchmarks, showing the very high volumes achieved.

The official launch of what we call Revolutionary Microsoft is scheduled for September.

The Deloitte partnership is gradually being rolled out across more countries, and in those countries where the partnership is already established we are collaborating very well.

Cognizant continues to put significant numbers of resources through our training academy, and is well underway to achieve the level of 1,010 [?] resource by mid 2012.

Already we've won important deals together, including one of the largest deals in the second quarter.

Now, with that I'd like to pass over to David for the financial update. David.

DA Thank you, Andreas.

If you turn now to slide 14, I'd like to start with a quick look at our second quarter financial highlights.

Licensing revenue grew by 26%, total revenue by 22%, adjusted EBIT by 46%, and adjusted EPS by 46% [sic] in the quarter.

On slide 15 I've shown the different revenue lines and EBIT EBITDA metrics and cashflow for the quarter in the last 12 months. I'm not going through the whole thing, but there are just a few points I'd like to highlight to you, which are the numbers I've circled here.

Licence revenues are up 26% as a result of an excellent performance in the quarter, which I'll come back to in a second. Maintenance grows strongly as go as accumulative client base, and with the impact of acquisitions, maintenance has grown by 19% in the last 12 months, and is now at $131 million.

Through strong signings, good cost control, and maintenance revenue increases, our adjusted EBIT grew 46% in the quarter, and 28% in the last 12 months. Adjusted EBITDA margins have now reached 31%, our outlook is for 32% for the full year, and we've got further upside potential over the next few years beyond that.

In the last 12 months we've added more than 500 bases points to the adjusted EBITDA margin, and this, coupled with the revenue growth, is exceptional leverage. The combination of margin and revenue growth will deliver significant increases in operating profit, EPS, and cashflow, going forward.

Adjusted operating cashflow was minus 8.6 million in the quarter, and 109 million positive in the last 12 months, and I'll come back to talk in some detail about that in a moment.

On slide 16 I'm showing the underlying business performance across all revenue lines by adjusting out the impact of foreign exchange and acquisitions, and you can see that on this basis all of the lines are performing very well, with licensing up a very strong 19%. This takes total revenue growth up to 11%. Maintenance is growing at a healthy 8%, and services revenues grow slowest of all as we execute the partnership strategy.

Coupled with this return to growth on revenues, we've exhibited a very good cost control, and I showed this on slide 17, where you can see like-for-like costs have grown by 4%. We made the majority of our investment at the start of the year, and you can expect costs to stay approximately flat throughout the rest of the year, although it's important to note that there are around 14 million of variable costs still in this second half forecast number.

The like-for-like cost growth of 4% is considerably lower than the like-for-like revenue growth, and when you add this to the contribution from Viveo, post restructuring, which obviously we're backing out on a like-for-like basis, together we're taking adjusted EBIT up by 24% for the full year, as Andreas will talk about later.

Let's move now to the below the line items, on slide 18.

Adjusted EBIT grew by 44% in the quarter, and 15% in the last 12 months. We've got very good management of below the line items, including excellent rates on our financing, a very efficient tax structure, and good management of below the line foreign exchange, and really, these are the three drivers for the EPS accretion, other, obviously, than the strong EBIT growth.

Option dilution in the adjusted EPS, just to highlight this, is only 2.1% per year over the last three years, and 2.9% over the last seven years. That's including 2010 on a consensus basis.

Turning now to cashflow, I've shown on slide 19 two metrics as I discussed last quarter. The left hand slide shows adjusted operating cashflow conversion, of adjusted EBITDA, and the right hand side shows our more classic operating cashflow to EBITDA conversion. The adjustments made between the two are the same as for adjusted EBIT, so backing out amortisation of acquired intangibles, and also restructuring costs.

Cash conversion in the last 12 months was 91%, as you can see on the right hand side in the orange box. In Q1, when we generated 185% conversion, I said in our results call that there were some timing swings on payables, and now you can see this has been the case in the second quarter, with the detail in the cashflow statement.

This is a mixture of timing on payments during the year, notably between Q1 and Q2, but we also took advantage of early payment discounts in the second quarter.

I'd also like to talk about maintenance seasonality, briefly. You can see on our balance sheet that our deferred revenue has dropped 15 million in the quarter, driven by both Viveo and Actis having seasonally low maintenance collections in the second quarter.

If you adjust the payables movement and deferred revenue movement, the cash conversion would have been 145% in the quarter.

Clearly, as is usual for Temenos, the deferred will grow strongly again in the second half, as we bill and collect the vast majority of our maintenance, which is one of our key drivers for our full-year cash outflow confidence.

A very important point is that deferred seasonality has been a negative 14 million in the first half and we expect a 40 million increase for second half. Comparing first half to second half, there's a 55 million swing on operating cashflow just driven by the timing of maintenance invoicing.

If you add to that the 13 million payable swing in the first half, in our cashflow statement, arising from the timing of outflows, and in part taking advantage of the earlier payment discounts I've just talked about, that gives us total first half to second half cashflow swing or somewhere around 70 million, which is really what underpins the full year cashflow story.

This pattern on deferred, and also on payables is not new, but I just thought it was important to walk it through again once more.

You can see on the next slide that our DSOs have come done 11 days, sequentially. This is the second quarter in a row that we've had double-digit DSO reductions. One very important point I'd like to make is that if you do the calculation of how much inflows we need to generate in the second half to get to 100% EBITDA conversion, the number you'll realise all we need it so generate is the same inflows as in the second half of 2009. This is despite growing cashflows by 27% in the last 12 months. Clearly this is mostly driven by maintenance collection.

Also, at the rate we're turning our DSOs down you can extrapolate that we're already in line with the trend in DSOs that we need, to get to the 100% EBITDA conversion.

There's one more point I'd like to make, briefly, on cashflows, and that's that we had zero licence payments in our Q2 deals attached to milestones. Everything was either upfront cash, or on calendar dates. This reflects increasing acceptance of the Parlour [?] Model. My feeling is that over the next couple of years we're going to be able to not only stick to date-driven licence payments, but also push to get more of the cash up front, as we let partners take on more and more of the implementation responsibility.

Clearly we're managing this process towards partners very carefully, as we've discussed regularly in our services section, but I did just want to point out the effect that this is already starting to have on our DSOs and cashflows, where we're even managing to absorb what would have otherwise have been an increase in DSOs from a larger share of Tier One clients.

On slide 21 I've shown some metrics around our cash and debt and leverage. Out debt comprises 132 million Swiss francs of convertible bond, with a coupon at 1.5%. Having repaid another 16 million in the quarter, our bank debt is now down to 108 million. Taken with the convertible and some small finance leases, our total debt is 239 million, even if the eventual conversion of the bond is probable.

In terms of cash we've got 111 million of cash, including treasury shares, following our debt repayments in the second quarter. Most of our debt was in euros, and we benefited from around 7 million exchange upside as the euro weakened towards the end of Q2, reducing our debt by 7 million. We locked in the foreign exchange upside by swapping all of this euro debt into dollars in early July.

Turn below to our leverage, if you treat the convertible as equity, as we do, we've no net debt on our balance sheet today, and even taking the convertible technically as debt, as a bank would, leaves us at around one times EBITDA leverage, which is still very low on the back of three transactions in 18 months. And the credit for the business model, which generates significant free cashflows.

Looking forward at any future transactions, we continue to pay the debt over equity, given the momentum in our business to deliver future shareholder value, while at the same time remaining cautious as to acceptable leverage levels, as we've demonstrated successfully in the past.

In the short term our current cash position, which includes treasury shares, and our expected balance of year cash generation, should leave us at the end of 2010 with around $190 million of cash, leaving us very well positioned to take advantage of any opportunities that arise either on the financing/capital structure side, or to support M&A.

That ends the financial update part of the presentation, so now I'd like to hand you over to Max for an update on Viveo.

MC Thank you, David.

Over to slide 23, for an update on Viveo, our largest ever acquisition, completed at the end of last year.

The integration of Viveo is progressing well, and I'm pleased to report the following milestones.

The migration of Viveo clients to T24 continues successfully, with two clients migrating to T24 in the quarter. This takes the number of migrations to three, which is impressive given how recently the acquisition closed.

We continue to gain traction with our AML offering. As you've heard earlier, we signed five AML deals in the quarter, so that makes eight in the first half of the year.

In May we disposed of VBF, the consultancy arm of Viveo. This non-core business had revenues of 5.5 euros in 2009, and was marginally loss making.

Finally, we've made and have substantially completed our restructuring exercise in France.

Now, I would like to speak a little bit about our overall acquisition road map on the next slide.

Over the past several years we've developed internal expertise on gaining a good track record with execution and integration of acquisitions. We have the internal capacity to manage further acquisitions, and the economic crisis has presented us with a range of interesting opportunities.

Valuations remain attractive, and given our strong financial position and limited leverage we're in a position to make acquisition if the right opportunity arises. That said, we see acquisitions to complement our strong internal growth, and we maintain our strict acquisition criteria.

Acquisition must be accretive within 12 months, the first 12 months. Acquisitions should [unclear] gain or accelerate our geographic extension, increase our market penetration, and access complementary products.

Finally, we continue to look at synergistic transactions that leverage our global sales organisation, our market leadership, unending investment in leading products.

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

AA Thank you, Max. Now, I'm turning on to slide 26 of the presentation. Just a few comments on the drivers for our markets.

Q2 clearly gives us another data point showing improving dynamic in the core banking replacement market. As in many other industries banks are clearly investing in technology to deliver better profitability, however, there clearly is cost of replacement, but the recent financial and economic downturn postponed decisions by a good two to three years, creating more legacy in the banks and more urgent and fundamental need to restructure.

In addition, we would highlight some of the additional drivers for IT spending in banks, like regulation, the need to show deposit bases, by attracting new and better customers, coping with market growth, improving customer experience. In many markets like the UK, like Metrobank are raising the stakes in this regard. And M&A, which is [unclear] as banks begin to fail [?] predictably again, and begin to remove some of the overcapacity.

From our perspective, our own performance definitely reflects improving market dynamics. We’re reporting double-digit like-for-like and steady [?] licence growth, of outline growth probably. We now have over three times cover in our pipeline, and that is a key metric in our business, and we have begun strongly our Q3 trading period, so all of these gives us valid confidence in our full year revenue outlook.

On top of that, we are seeing extra leverage, as you can see, based on three things, strong licence growth, bigger deals, growing levels of partner delivery, and investment in services, and a very disciplined end focused approach to our new investments.

Now, on slide 28 we report on our full-year outlook, and I would like to go through that. We adjust our full year revenue outlook range for crystallised currency movements during the second quarter of about 2 million. There is a reconciliation of that in the appendix representation. So we've already absorbed that 2 million in our fit to numbers. And the small disposal we made at the end of May, as Max said earlier, again, that is in the reconciliation in the appendix. So otherwise keeping like-for-like growth unchanged, we now expect full year revenues of between 435 and 445, and like-for-like total revenue growth remains 6% at the midpoint.

As regards licences, we have absorbed all currency, and leave the outlook the same. We continue to expect licences of approximately 150 million, equating to like-for-like growth of 12%.

We also leave the adjusted EBIT range unchanged at 110 to 115. This clearly raises the margin for the year to 25.6, and growth of the adjusted EBIT number on 2009 of 24%.

Lastly, our outlook for cash is also unchanged. We continue to anticipate cash conversion of 100% of EBITDA.

Now, on slide 29, like I do normally, I'd like to make some closing statements. On the graph you can see the track record in terms of delivering revenue and operating profit growth, which is set [?] in plus. Also, if you look at what we've already achieved, the last 12 months, you can see that percent line is beginning to accelerate again. The cover growth on adjusted dividends EBIT is 42% for the last five years, per annum, so my view is that our technology products, our delivery proposition with partners, they're stronger than ever. They're superior to peers. So we are well positioned for the current growth at or above historic levels in the future.

Now, our quarter licence performance ended [?] the momentum the last 12 months, reconfirming my view that we're clearly going to be in a position to deliver on our medium-term licence growth range of between 15 and 20% like-for-like, which is consistent with our downturn assumptions.

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

CO Thank you. Ladies and gentlemen, if you'd like to ask a question, please press seven on your telephone keypad. If you change your mind, and wish to withdraw your question, please press seven again. You'll be advised when to ask your question.

The first question comes from the line of Fred Greave from Credit Suisse.

FG Hey, guys. A nice quarter. I just, two quick questions from me, and the first is, did I hear correctly that a Cognizant source deal closed in the quarter?

AA I'll take this one. Yes, what we have said is that one of the larger deals in the quarter was closed, together with Cognizant.

FG Okay, great. And then my follow up would be, you're seeing additional competition from smaller, niche vendors, or how is that trending? Is it still causing pricing pressure for you guys?

AA Not really. Pricing has changed [?] up remarkably well in the last two years. In fact last year we took pricing up. This year we are a little bit ahead of last year; maybe materially you'd say same pricing. In our market we really fell on price. Price is a consideration clearly that comes into play, but you don't win the deal on price. You win the deal on functionality, you win it on technology, you win it on business [unclear], on delivering the value proposition for the bank. Price is probably number five or number six decision factor.

Normally where we win deals, especially against a number of competitors, we are priced at, on the licence fee side, even as much as sometimes double what our competition is, but clearly because we do deliver a unique value proposition we are able to get the deal done. And so smaller niche players, our market can't, in many ways, consolidate it, so what you tend to see on the shortlist is a shortlist of three vendors, maybe, that are the usual suspects, maybe an Oracle, an [Unclear] and a Temenos, and let's say this is the pattern, increasingly, more and more.

FG Great. Thanks a lot.

CO Our next question comes from the line of Framer [?] Langchow [?] from Barclays.

FL Hey, a good quarter as well. A quick question, Andreas, for you, on the moving T24 to be more componentised. And first of all you said the first components will come out end of 2010, but how long will it really take to have a full-blown offering? And then, what also does it mean, in terms of the infrastructure that you need to have underneath, to run a componentised T24? And what does it mean for your pricing with your customers, because obviously you have a completely different approach then, to selling the product? Thank you.

AA Thanks [unclear]. We are looking at a two or three-year roadmap, really, for the realised completion of the componentisation of strategy. That's consistent with our enterprise roadmap, as we explained at our client forum in May.

Now, clearly the way you price and the way you deliver value to customers is very different. Under a Tier One component perspective, I'd say you are able to position each component separately, and therefore potentially expect a much higher combined, if you like, value. That is if you try to sell it in one go. And that is a pure Tier One play.

Of course, you are selling the deal over maybe three, four years, so you are breaking up your licence over three or four years, but as you know, overall you'd be able to extract more value out of deals than otherwise, because you are able to prove your

value proposition as you go along, and therefore you're able to sustain the value, how they are performing.

Now, the infrastructure that is required to run a componentised solution is really around the strategy that we talked about. So things like process web flow and orchestration and running the application within the work sphere environment or the [unclear] confusion [?] environment. This is exactly what we are saying that in each of these technology stacks we want to be best in class in the way we work with the technology stack, so we are more competitive in any particular stack than the vendors that focus exclusively on that single stack. So… and we believe that we can do that. We've got years of experience in operating our application off of different technology bases, so very pleased with the way it's going, and very confident about delivering on that.

FL Thank you.

CO The next question comes from the line of Chris Corringbeck [?] from GBS.

CC Hi. I have a quick one, just to start with. On the services margins and cost that you saw in Q2, I probably just missed it, but do you see if there's anything particularly odd about that? The cost number seems to be a little higher than certainly I was expecting. And maybe further, if you could share what you're expecting for the rest of the year, in Q3 and Q4 that would be helpful as well.

DA Okay, hi, Chris. This is David. Let me take that one. You did have a little bit of restructuring-related to Viveo in the second quarter services. That's really the reason between the second quarter services. Underlying that, as we move increasingly business off to partners, we're building our own capacity, so for the full year, if you carry that logic on for the full year, we would have otherwise put people on projects that we're now giving to partners.

For the full year we're expecting around ten to 15% fully loaded margin, so around two to 300 basis points lower than last year is our current view, based a little bit on flying Viveo, which operates at a lower services margin, but also through creating capacity as we move more and more towards the partner model, which obviously is the right thing to do for the business for a number of reasons.

What that means for the second half services margin, they'll be around 20% fully loaded, which is pretty much flat on the second half of last year.

CC That's really helpful. Thanks. And then maybe on the restructuring, I think… am I right in thinking that the total for the year is now 11 million? Can you say whether you're expecting any further charges there in H2, and if so, how much?

DA So far we've absorbed 11. We don't expect to have a material amount in the second half, but… because it's quite a complicated structured process in France. We can't really say more than that, but we do believe we've absorbed the majority of the restructuring charge.

CC	Great. And maybe just one last one. You mentioned that your pipeline coverage at the end of June was three times, I think. I wonder if you can tell us what that's looked like, what the evolution has been like, maybe at the end of December and the end of March. That will be really helpful, thanks.

AA	I'll take this one. What I said, actually, is that at the end of June it's more than three times cover, our balance for the year, if you like, forecast, therefore we feel we have the pipeline to deliver on our numbers. And what we said is that pipeline has been growing, both against last year, but also sequentially, and if you look at the ratio, the ratio has gone up since December. So it's gone up between December and March, and it's gone up between March and June.

CC	That's great. Thank you very much.

CO	The next question comes from the line of Takis [?] Philopolous [?] from Bank of [Unclear].

TP	Hi, gentlemen. One question. It was a pretty strong result, especially on licences for the quarter. Didn't you feel any negative impacts maybe also on the tactical decision side at the banks, from all the sovereign debt issue, or the stress tests looming? And if not, have you already seen conversion rates improving, or at least not getting worse? Thanks.

AA	I think let me take this one. The simple answer is we did not see a hesitation of banks to contract this in the second quarter, and even if you look at the slide… It's in the appendix, where we have the revenue bubbles, the licence revenue bubbles, you'll see that Europe represented 30% of the mix in the quarter, and this clearly, and with the LTM, is at 45%. Last quarter it was at a much lower number, so we saw an increased contribution from European business into the revenue mix.

I don't see that… The way we interpreted this is that banks, at least in our market, did not see a double dip as a potential to put a hold on their investment pattern. They continued to invest. And actually, the market improved throughout Q2, and it was running almost in parallel with the euro and sovereign discussions; double dip discussions, which concerns what we've been saying now for quite some time, but from our perspective the market is much more of a structural market. It's not a cyclical market. Cost of fabrication [?] is not cyclical. Yes, it can be affected short-term by a financial crisis, as it was of Q4 or Q3… Q4 of 2008, but very quickly came back in the first quarter of 2009, so… and we continue to believe in that behaviour of the market that whether your global growth is 3% or 4% or 2.5, we don't believe that it materially changes the core-banking decisions. So provided we are not getting into a financial crisis, then banks will continue to have the confidence to invest. And this is what we find in the second quarter.

TP	So is it fair to say that you would expect conversion rates to improve a bit, going forward, with less worries about double dip, if it doesn't happen?

AA	Well, in our outlook we are not assuming an improvement on conversion rates against last year. We are assuming the same conversion rates in the balance of the year. Therefore if global confidence in the recovery is progressively strengthened, bit-

by-bit, every quarter, you should be able to see the conversion rate clearly move up, and this is what makes us confident about our full year outlook.

TP Okay. Thanks.

CO The next question comes from the like of Joseph Quarry [?], from Deutsche Bank.

JQ Hi there, good afternoon, and thanks for taking my call. Just a follow up on the comments about the outlook. The licence performance in Q2 has been very strong, and I'm wondering if there is a way you can split the impact of just the cyclical recovery versus the partnership strategy beginning to kick in? You mentioned one large deal coming from the Cognizant partnership. What's the contribution of each site?

AA David, do you want to take that?

DA Okay. Joseph, they're a little bit intangible. It's difficult to say, this is a deal that's come through a partner or come direct. Many come… We instigate it, and then we get across the line, because we've got the support of an organisation like Cognizant behind us, and vice versa.

I think the key message is that it’s only just starting to work with the partners now, and as Andreas has been saying, we've got a very strong pipeline to support quarters now. It’s been growing. We're starting to see an accelerating conversion of that pipeline, and there's real momentum behind us.

However much you add on to that for partners, and you get the grey area in the middle, where it’s not clear who is totally responsible for the division, it can only accelerate that growth, going forward. So I don’t think even we, internally… we've got two separate models that we add together. There are a number of deals, an increasing number of deals that are being brought to us by partners, at different stages of evolution. We've got a significant improvement in the number of deals we're working on direct, and you’ve got a bunch of deals in the middle where we may not have been in if we didn’t have a partner to support us, or the partner has brought us in.

So all of those together give us confidence that we will get to the numbers in our outlook today, but it's quite difficult to split the two. I don’t know if that helps?

JQ Yes, no, it does help, thank you. And just a quick follow up as well, on the outlook again, obviously you have a very strong, positive commentary in the process layers, and you sounded quite optimistic, but you have delivered 19% like-for-like licensed growth, and you are guiding the full year for a 12%. So is this just due to the toughening comparison the second half of the year, or actually you are embedding a little bit of conservativeness in the second half?

AA I'll take this one. If we were to be revising our outlook every quarter on the basis of the performance of the final quarter, then, effectively what we are doing is giving guidelines on a quarterly basis, and we are not going to be doing that. We've set our target at the beginning of the year. We've set our outlook. And we feel

confident about that, and we have a great quarter now, and we believe we are in an excellent position to deliver on our numbers, and we stay there with the numbers. Does it mean the numbers are conservative or there is upside? Time will tell. Clearly we gave enough information for the [unclear] to officiate the dynamics. As I said earlier, in my prepared remarks, the business [unclear] involvement [?] has improving, and we've been seeing excellent business and involvement now for four quarters, so it's inevitable that after so much pipeline business momentum, you are going to get to a point where the numbers, we realise, will look good from a positive perspective. So I'd like to leave it at that. I don't want to get into a guess where, is it conservative, is it high, is it low? [Unclear] we say, I don't know.

JQ Okay. Fair enough. Thank you very much.

CO Our next question comes from the line of Rajiv [?] Spar [?] from Private Jeffrey [?].

RS Thanks. I just wanted to dig into a couple of things from the cashflow side. First of all, could you just confirm what the movement in accrued revenue was, in the quarter, if that has moved significantly? And then secondly, I may have missed the point on this, but the 11.6 million outflow around deferred revenue; could you just remind me exactly what's going on there, please?

DA Okay. If you look at the balance sheet, which is on the back of the press release, which has gone out with the presentation, you can see receivables and accrued are treated together in receivables. In fact it's gone down. If you go March to June, you go 267 to 263, in short term and current assets, and then if you look down to the other 12 months' balance sheet that's down 16 to 15, so it's about 5 million down.

RS Okay, so there's no reliance accrued. And the deferred revenue outflow?

DA The deferred revenue is purely seasonality. If you look at Temenos, the base business is very much about delivering the majority of our maintenance in the fourth quarter. Because you do that, your deferred goes up at the end of the fourth quarter, as you send out all your invoices, and you rebuild up your deferred, and then it goes down over the year, which is why, the main reason I was stressing in a number of ways in my prepared remarks, we're confident about the full year.

In the second quarter Temenos working capital on the maintenance side is pretty much flat, but the Viveo business we acquired has almost no maintenance in the second quarter, and neither does the Actis business we bought in 2007, in fact. So almost all of that decrease in deferreds is because Viveo and Actis have been depleting their deferred revenue, booking maintenance revenue, and not collecting cash to top it up again. So clearly that's a slight twist on the overall story for the Temenos Group. So what that means is that Viveo will clearly be stronger in the second half, more in line with the Temenos business. We don't, as a base business, tend to have quite such a low second quarter as Viveo do, so that's really driven by the acquisition of Viveo.

If you take out about 11 million of that swing, you'll see the deferred movement is very similar to the second quarter last year, when we didn't own Viveo.

RS Yes. So the 11 million is a fair assessment for where the maintenance revenue on the acquired businesses would be for the quarter?

DA Give or take a… Oh, okay.

RS Broadly?

DA Yes. There shouldn't be much wrong with that. You could check all the implications there are. There might be a bit of forex and so on, but directionally that's correct.

RS Understood. And then just… this is going to echo Chris' question slightly, but R&D came in a little higher than I was expecting. Is there anything there that's going to stick in the cost bases you invest in these new products? Are we going to see any big shift in the capitalisation rate?

DA No. The capitalisation… Let me take those points in reverse order. The capitalisation we're keeping flat, and I've got to the point now where the capitalisation is almost equal to the amortisation, so the extent I can keep it flat to increasing with the total R&D I'll do so.

In the second quarter you've got a little bit of… and again, I need to be careful here, a little bit of restructuring still on the Viveo business. We've made the majority of the investment overall in the cost base in the first quarter, and you can see the sequential jump, excluding variable costs, between Q4 and Q1. And since then it's been pretty much flat. The only thing that's really affected it has been the Viveo restructuring across the different cost centres as we've executed different departments' strategies at different times. But underlying that, I would say in terms of R&D headcount, no real… no increase since the first quarter. We invested quite a lot at the beginning of the first quarter, and nothing since, and the cost base on R&D, and in fact all of the lines, will remain pretty much flat for the third and fourth quarter.

RS Okay. Understood. Thank you.

CO Thank you, ladies and gentlemen. That concludes the question and answer session for today's call. I would now like to hand the call back to Sarah Bowman, for any closing remarks. Thank you.

SB Well, we'd all just like to thank you very much for participating on the call. The transcript is going to be available after 24 hours, and I will be available shortly on mobile phone for any further questions you may have. Thank you all so much.

CO Ladies and gentlemen, thank you for joining today's conference. You may now replace your handsets.