Final Transcript

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Max Chuard

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Presentation

Operator

Thank you for standing by and welcome to the Temenos Second Quarter Results conference call. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question you will need to press *1 on your telephone. I must advise you this conference is being recorded today, Wednesday 27th July 2011. I would now like to hand the conference over to your first speaker today, Miss Sarah Bowman. Please go ahead.

Sarah Bowman

Hello everyone and thank you for joining the conference call today to discuss Temenos' Q2 results. On the call with me are our new CEO Guy Dubois, David Arnott our CFO and Max Chuard Head of Corporate Finance and Investor Relations. You may download the slides for the results presentation from the Investor Relations section of our website. As usual our prepared remarks will be followed by a Q&A section and 48 hours from now you will be able to download a transcript of the entire call from our website. Before I hand you over to the speakers I would just like to make you aware of the legal disclaimer on slide 3 of the presentation.

Various factors may cause actual results to differ materially from Company estimates and indeed may cause Company estimates to change. Therefore undo reliance should not be placed on the forward looking statements made during this call which reflect the Company's opinions only as of today. I will now hand you over to Guy who will give us an update on the business and strategy.

Guy Dubois

Thank you Sarah. Good afternoon. It is a pleasure and an honour to open my first call with all of you today. I really appreciate your time and your interest in our company. It is now 27 days that I have been running Temenos. It has brought a lot of excitement, actually a lot of intensity too and overall it has been a great time. Over the coming weeks and months I look forward to meeting as many of you as possible. I would like to introduce myself personally and I would like to start building a mutually beneficial and open relationship.

Now let me start my update with a summary of the quarter and we're on slide number 6. I need to tell you it has been a bendy start as I had to deal with a shortfall of licenses in Q2 and restatement of the full year outlook. But you know despite the uncertainty facing the banking industry, particularly in Europe, we believe that the fundamentals for the market and the Company are strong. Our pipeline is robust and the competitive dynamic remains unchanged. The issues we had in Q2 were confined to fewer than half a dozen of countries in Europe, where the uncertain conditions caused some banks to defer decisions. We believe this is likely to be a temporary effect but we decided to realign our outlook to account for this lengthened sales cycle. The fundamentals underpinning core banking replacement are fully intact. As we read everyday banks face many structural changes and we believe that modern technology is essential for them. What is more – Temenos is the best positioned of any vendor in this space and our growth initiatives are gaining momentum. The latest release of T24 R11 enhances our value proposition for Tier 1 and for Tier 2 banks, while our partners and services programmes also showed great progress in the quarter. As you can imagine the last point I would like to make is my focus in ensuring a smooth business execution to deliver the new annual outlook. We will have an opportunity later this year at the investor day to review my priorities moving forward.

Over on slide number 7 I set out what I consider the main financials takeaways from the quarter. As I said despite weaker than expected licenses, the overall performance was solid. We grew licenses by 14% which was 41% excluding Europe. Our services business returned to growth. revenues were up 10% year-on-year and 30% sequentially. Our adjusted EBIT margin was up by more than 1 percentage point. Lastly we made a one-off write down of 28 million of receivables. David will go into this in more detail later.

In terms of operational highlights and we are on slide number 8, we signed ten new banks for T24 in Q2, including a significant Tier 1 win in the PWM space and a very large Tier 2 retail win. We launched the largest ever release of T24. It is a breakthrough release because it features the first standalone component of T24 and also because it is the first release to run natively on the IBM Z-Series operating system. As you can figure component days deployment plus IBM are key to executing our Tier 1 strategy. Even while I was not in the Company in May, I attended the Temenos community forum which I had to say was a very impressive event. More than 1,000 attendees supporting, deploying and talking about Temenos' technologies and successes, frankly it gave me a very good feeling about the Company. Regarding the partners, the momentum is building up and consequently we have decided to increase our outlook for partner source deals, from 8-10% to 10-15%.

As you are probably aware we were selected as the Microsoft Financial Services Partners of the Year. It makes all of us feel proud of what we have achieved with the Partner Programme and is testament to the traction we are gaining with our technology partners, as well as with our SI partners.

On slide 9 I am not going to elaborate too much, but the key core banking system replacement drivers remain unchanged. They're well known and include unsustainable IT spend, increasing regulation, changing competition, rapid growth in emerging markets, improving the customer experience and obviously M&A integration.

The last topic I wanted to cover in this section and I am on slide 10 is about my agenda. Clearly I have already been involving myself in the day-to-day business to ensure that we deliver the outlook for the year. I am also consulting with key stakeholders to set our longer term strategy and objectives. As I said it is my plan to communicate this to you at an investor day in the autumn.

In conclusion I feel good about the business. On the one side we have the largest IT spending industry that needs to transform and on the other we have Temenos, which is a market leader with a proven track record of innovation and growth. Even though we had a less than expected license quarter, I believe that Temenos has all of the ingredients to deliver predictable and consistent growth.

With that I pass you over to David for a more detailed analysis of the numbers.

David Arnott

Thank you Guy. If you would all like now to turn to slide 12 of the presentation I have show the different revenue lines and the profit metrics both for the quarter and the last 12 months. I am not going to walk through the whole thing as Guy has already walked you through a lot of the performance metrics, but there are just a few things on here I would like to highlight which are the numbers I have circled.

Licensing has grown by a healthy 25%, driven both by organic performance and acquisitions. Maintenance grew strongly by 40% in the quarter as we grew our cumulative client base and with the impact of acquisition, maintenance has now reached $183 million. Services has once again returned to growth, growing 10% in the quarter and 30% sequentially. This is driven by a growth in our high-end services and better change control revenues as we focus on project governance. We have now completed the phase of declining reported services revenues and we’re now starting to see services revenues growing again on a reported basis. Total revenue is now moving rapidly towards $500 million, and this scale will continue to drive further revenue and profit growth going forward. Through good cost control and an improvement in services you can see that we have continued to improve our margin in the quarter, even if licensing wasn’t quite as strong as we would have liked. In fact if you take our outlook you will see that there is 10 million of licensing growth in the second half, 8 million of services revenue growth and 2 million of maintenance, and if you take these together you will be able to prove our outlook margin for the year.

On slide 13 now I am showing the underlying business performance for both revenues and costs by adjusting out the impact of foreign exchange and acquisitions. Like-for-like total revenues increases by 2%, with cost decreasing by 5%. Taken together these give a very healthy 48% increase in like-for-like EBIT in the quarter. Licensing was flat in the quarter, maintenance grew at a healthy 8%, and services dropped as a share of total revenues as we execute our partner strategy. We continue to demonstrate very good cost control and I have show this over on the right hand side where you can see that like-for-like costs were down 5% in the quarter. This is because we were able to leverage our acquisitions to fund all our growth initiatives. For the full year we expect to be able to continue to use synergies to fund further investment, with like-for-like costs for the year remaining slightly down on 2010.

On slide 14 now I have broken out the restructuring costs that we incurred in the second quarter. Firstly there is the remaining restructuring costs coming from the acquisition of Viveo and Odyssey, which were last forecast when we last spoke to you at the end of Q1. Secondly we have taken a $5 million restructuring charge related to one-off cost reductions mostly coming from sales and development. Finally there is a one-off non-cash write-off of $27.6 million related to receivables, which I would like to go into in a little bit more detail. As part of my focus on services delivery I have undertaken a review of old outstanding receivables on ongoing projects where we had concerns about the customer’s desire and ability to continue projects to the point of go-live. This was as a result of a handful of unrelated issues in a number of accounts where client meetings took place in the last two months to evaluate go-forward options. This included a review of internal sponsorship on the bank side, availability of budget and strength of the business case to continue. As a result of this review we believe that for a small number of specific legacy projects collection is no longer probable even though the contracts are technically enforceable. Exiting these projects and taking this provision allows us to move on in these geographies and focus on growth, both directly and through our partner channel. This review is now fully completed. To put this provision in context – as a percentage of our total revenues over the past three to four years since some of these projects began, this is still very low, and our DSO trend continues to reduce as we have increasingly on quicker more packaged implementations in recent years. Our governance of projects and stakeholder management continues to improve steadily and this is in no way a reflection of Temenos project currently ongoing.

Turning now to cash flow, if you would like to look at slide 15 our EBITDA conversion into cash was at 115% in the last 12 months. This is higher than the 100% outlook driven by the non-cash charges taken in the second quarter. We can achieve our 100% outlook cash flow conversion with a DSO reduction to 99 days, which compares to 104 days at the start of 2010, if you roll back the 28 million adjustment in our receivables as if this has happened at the end of 2010. Maybe let me explain that a bit more simply – if we had taken the 28 million provision at the start of the year rather than in June, our DSOs at the end of last December would not have been 125 as reported at the time, but 104. Therefore by taking them down to 99 days at the end of the year, this is a 5 day reduction which is in line with our historical DSO reduction trend; in fact it is slightly more conservative. In theory, with the 28 million non-cash charge now in our adjusted EBIT we should be taking our cash conversion up, but we're keeping our outlook at 100% to allow us to move towards shorter supply of payment terms, specifically on partners and external contractors, but also on things like office running costs in return for better rates. This is a one-off shift and we can absorb this whilst delivering our third consecutive year of more than 100% EBITDA conversion. This is because our DSOs continue to come down as we run shorter projects and benefit from the partner led implementations to negotiate more cash upfront and calendar dated payment terms.

That ends the financial update part of the presentation. I would like to hand you over now to Max for an acquisition update.

Max Chuard

Thank you David. On slide 17 I am pleased to announce a small but strategic acquisition. We have acquired Primisyn the leading provider of business intelligence solutions to the credit union market in Canada. Primisyn will extend our product offering into customer analytics and enhance our operational intelligence functionality. As you know business intelligence is one of our key growth initiatives. This is a large and fast growing market. Since moving into the BI market in 2008 we enjoyed exceptional growth and this acquisition will enable us to address a larger market and so we believe sustain our double digit compound growth rate in that segment. We expect the transaction to contribute to our bottom line and target an incremental, cumulative 12 million EBIT contribution over the next four years. For the remainder of the year we expect the transaction to be EPS neutral.

Finally on slide 18 our balance sheet remains very strong, with low leverage which allows us to make further acquisitions. We continue to look for accretive and synergistic transactions. Acquisitions are a key growth driver for Temenos and we have demonstrated over the years a strong track record of creating value.

With that I will pass over to Guy to talk us through the outlook for this year.

Guy Dubois

Thank you Max. Let's go to slide 20. I would like to draw your attention to our new outlook for the year. We now expect like-for-like license revenue growth of 5-10% for the year. This compared with our previous outlook of 19-24% license growth and gives an implied revenue range of $176 million-184 million. Regarding total revenue – we expect growth of between 13.5 and 17.5%, given an implied range of between $508 million and 526 million. For adjusted EBIT we expect to achieve a margin of between 24.5 and 25.5%, as you will calculate this implies a cost reduction. This is consistent with my objective to protect shareholder return. We continue to expect to convert 100% of EBITDA into operating cash. Our outlook for the tax rate increases slightly to between 10% and 12%. We continue to expect cash tax of only 6% this year, and we do not alter our previous assumptions about the Group's long term tax rate of approximately 17%. This outlook is revised to reflect current market conditions and we are confident we can deliver it.

On slide 22 I would like to wrap up with reiterating what I think are the key takeaway points from the Q2 performance. In most geographies the business continues to perform strongly and we continue to see strong pipeline build up. Although we do not see any change in competitive dynamics. Europe is clearly where the issues were in the quarter. We expect this to be only a temporary disruption and it is reflected in our new outlook. We strongly believe that we are in a sweet spot; we serve the industry that spends most on IT and which is undergoing a transformation. Add to that the fact that we are the market leader and we believe we have the position and conditions for long term sustainable growth. With our partners we are expanding our products and delivery proposition to cover any bank, anywhere in the world. Finally as you can imagine my first priority as far as my agenda is concerned is to ensure the execution of our full year outlook as well as continuing to engage with all stakeholders to assist the business. As I said I remain extremely encouraged and frankly very excited and I look forward to meeting all of you in the autumn to talk about my findings and future plans.

With that I thank you again for your time today and open the call up to Q&A.

Questions and Answers

Operator
Adam Wood, Morgan Stanley.

Adam Wood – *Morgan Stanley*
Good afternoon Guy, good afternoon David. I have got a few questions if I could. Just on the first talking back on the receivable write-off, could you just clarify all of that are actually services receivables that are being written off and there are no licenses in there. Maybe you could just dig a little bit deeper onto that in terms of the review that you have done. how confident are you that when you look at the rest of the receivables on the balance sheet, both licenses and services that they're collectable and we’re not going to have problems going forward. Have you looked at each one, one-by-one, maybe you could give us a little bit more detail on that.

Then as a follow up to that – I suppose investors will be concerned about the revenue recognition in the past that has led to a receivable write down. Could you maybe just talk us through the revenue recognition policy at the moment, how much cash you're getting upfront from banks, whether you're recognising licenses where there are receivables potentially over a year to be collected?

Then finally just on the license outlook for this year – if you could give us a little bit more detail of how you get to that, if you could talk maybe in terms of the size of the pipeline versus historic levels and then the close rates that you're assuming versus historic levels to get to the license guidance you have given just top reassure us that that reflects the environment as it stands. That would be really helpful.

David Arnott

Thanks for those questions, good questions. Let me take the first and then I will leave the one on the outlook to Guy.

In terms of the project reviews, I have now completed a comprehensive review of all of these projects. There were a handful where I felt that I needed to see the client face-to-face and understand why we weren't gaining traction and why we were continuing to put resources into a project with no clear end in sight. I had those meetings and the result of which it makes sense for us to move on in those markets to develop those – maybe let me make it a bit clearer – so in those countries towards the end some of these projects become a little bit high profile in terms of not getting across the line and that does local damage in countries where people speak to each other. I took a view that it makes most sense to free up our resources and focus on developing those markets. To be clear we don't expect any further charges. I have reviewed all of those projects and I am very comfortable with the rest of the balance sheet. Again just to reiterate, to put this in context, this is a very small percentage of the revenue that has been recognised over the last four years.

I would like to link the revenue recognition question back to DSOs; because I think DSOs are the acid test of revenue recognition. Our DSOs have come down; they have continued to come down quite nicely over the four years since we started really attracting them with you. Our revenue recognition is, even though we're IFRS based we use US GAAP for our license revenue recognition because it is more prudent, it is tighter governance. Having said that the key to revenue recognition is judgement around whether the fee is going to be collected. As we have matured both internally over the last few years in terms of governing our projects, packaging the implementations, working with partners, we have definitely improved that and as a result on an ongoing basis we continue tweak with our revenue recognition methodology, not the policy, but the methodology by which we decide whether to recognise upfront and we continue to do that. In the light of this clearly we will continue to look at that policy. The majority of that provision is related to services, by far the most the majority if services related. There is a very small amount of license. Hopefully that deals with the first three.

Guy Dubois

Maybe Adam I could take the last part of your question. No need to tell you that as soon as I joined the business I went through a very extensive and thorough analysis of the pipeline. The pipeline is the first indicator as the need to understand the health of the business, it is the way that sales is performing and the way we translate the dynamic of the business into a comprehensive set of projects. I went through an analysis project-by-project and came to the conclusion that the pipeline coverage was sufficient and robust to delver the second part of the year, which is a result of the guidance that we gave a few weeks a go.

Adam Wood – *Morgan Stanley*

Is it possible to put any kind of specific numbers on that Guy in terms of the actual coverage as a multiple of the guidance, where the pipeline is and maybe versus where it has been historically when you have delivered, just to give us some more comfort, rather than just the qualitative view.

Guy Dubois

For the time being I will prevent myself to give any multiples on pipeline versus outlook. It is information which is obviously something that I am looking very seriously and very precisely. Instead of talking coverage and volume of pipeline, I am more in favour of always looking at deal-by-deal and what are the deals we are going to be taking to the forecast moving forward. For the time being if you don't mind I will reserve my answer on this specific question.

Operator

Raimo Lenschow, Barclays Capital.

Raimo Lenschow – *Barclays Capital*

Thank you for taking my question. That is a new way of spelling it as well. two things I wanted to ask is first of all again on the closure rates and the assumption on closure rates that Adam asked already, just let me rephrase it a little bit. If you looked at the deals that you saw in Q2, some that didn't get signed in the second quarter – was there an underlying theme going on that you saw that you also could see in the second half. In other words I am trying to find out how conservative you are for the second half closure rates, because I don't think pipeline seems to be the issue here.

The second question is on the services side. It seems you finally turned the corner there and are returning to growth. Can you talk a little bit about the prospects where you're seeing on the services side and for the second half? Thank you.

Guy Dubois

Thanks for your questions. As you can imagine the first thing I did was to do a postmortem of Q2. When you look at what happened as I guess I said, we had a very robust Q2. The only problem we had is frankly in four specific countries less than half a dozen of deals didn't materialise as expected. You could tell me but what are those countries? You will not be surprised, they were Spain, they were Ireland, they were Germany, they were Greece, and when I look at the deals – first of all they are very good deals. We lost no deals and I am quite confident that those deals will be closed in the near future. That is simply speaking what happened and that is what we said in one number that we reported when we said, actually without Europe the growth in Q2 as far as the license is concerned is very strong, but we had to deal with these headwinds coming from Europe. Moving forward I don't know if I am conservative or not, frankly because I am just like someone looking at the deals, talking to my guy. The management team in charge of Temenos is the same. The management team in charge of Temenos is the management team which has produced consistent growth quarter-after-quarter, but obviously I am looking at the way we are weighting the projects. I am trying to be quite intense at inspecting the pipeline, inspecting the sales processes, and based on it we defined our outlook based on the coverages I decided to take into account.

Regarding the service maybe David would like to say a few words.

David Arnott

Let me take the services question. I am obviously very pleased to see services recovering by 30%, growing 30% during Q1 and the second quarter. Going forward that trend will continue. The real reasons why it is improving are two things. First of all utilisation has improved and secondly we're getting a lot better at change management through our governance processes, documenting changes insisting on getting paid for them, really just industry standard things that we haven't been very good at for the last few years has been more successful than I thought to be honest. That trend will continue. We're definitely beyond the point of declining reported revenues, they grew in the second quarter and per my internal forecast they will continue to grow through the third and fourth quarter. In fact if you just take our historical revenue seasonality over the last few years, you will come to the revenue implied outlook. The cost base is obviously locked in; we have completed the restructuring, no major reductions or increases. That gets us to the outlook margin of around breakeven on an adjusted basis.

Operator

Mark Geall, Deutsche Bank.

Mark Geall – *Deutsche Bank*

Good evening gentlemen thanks for taking the question. A couple if I may – firstly just on the cost side. If I take the bottom end of your prior guidance and the bottom end of the new guidance it implies about 20 million of Opex savings, so a 5% saving of overall Opex. Can you talk a little bit about where in the business this is occurring? You're obviously still seeing a loss on the services side. In relation to this Guy you hinted at the TCF that you were to take a look at the sales engine, the sales capabilities for the business as a whole and I just wanted to understand whether that is an area that you think actually needs investment. Are you actually doing investment in sales and distribution, albeit still trying to make high end Opex savings for the business and then there is a follow up.

David Arnott

Let me take the 20 million cost reduction one. You're right on the maths – our implied cost base does come by around 20 million for the full year. Almost all of this is a reduction of variable cost as opposed to people based reductions. We always said that the profit itself protects down to a certain level and that has come from reversing bonus accruals and obviously reversing sales commissions based on the lower signings.

Guy Dubois

Mark let me take the second part of your question. I believe we need to bring our self-execution to the next level. Why is that? We are becoming more and more what I would call a multi-product company together with a multi-channel company, addressing multi-tier banks everywhere in the world. Our overall sales organisation is reaching the next level of sophistication which is needed to develop our business. I am focused at improving this process. I am focused at introducing new tools to make sure that we will manage this transformation smoothly. When I am looking at the spend on our sales and marketing organisation, I believe we have got sufficient money to do what we committed to deliver this year. I am continuing to assess the situation and obviously when we will present to you towards the end of the year our strategic planning and strategic outlook for the coming year and following years, I will be in a better position to tell you if we need to do something and the magnitude of what we will need to do. But for the time being I am more focused at improving what we have, reallocating what we have and streamlining what we have, where we have to do it and that is what should bring the expected performance for this year.

Mark Geall – *Deutsche Bank*

Just in terms of a follow up – I mean in terms of the improvement in services, should we assume that there was maybe redeployment of headcount within the business in Q2, which enabled off these problem projects that enabled you to deliver growth or should we not create a link between the write-downs and what has been happening in the professional services business?

David Arnott

Absolutely no link at all. Just to be clear, we didn't move either people from one cost centre to another, nor was there any impact in terms of services utilisation or revenues from people engaged in the projects which we have written off. That was a pure balance sheet write-off and is not in any way linked to the services margin in the quarter.

Mark Geall – *Deutsche Bank*

So are you able to then give us an age profile on the receivables or is that – you sort of hinted the last 3-4 years but the age profile I think is probably quite relevant in terms of understanding…

David Arnott

Let me give you a classic profile here. So you start a project either under a fixed price or time and materials some of these project, most of these projects started quite a long time ago, long before we had proper project governance implementation methodologies and the project continues and eventually you either hit the time and materials cap or you use up the fixed price but they're still not live. These are projects predominately signed price for 2008 at which point you struggle along on the project and you pour money into it either because it's a fixed price or you pour your good resources into it and you need to take a view of whether that project has really got the internal traction to continue and go live. Mostly the issues are related to the bank side in terms of the sponsorship and then you continue to bill them, you continue to invoice because the principle is that you're late because it's largely the bank's fault, so you've proved the principle by continuing to bill them. You believe you are going to collect it because you take a view you are going to go live and that was all correct. However, when I dug deeper into some of our bigger projects, some of our older projects rather, in terms of really testing at what point there's a clear agreement that they are going to go live, a handful of them – I am not confident that they will. I couldn't get the visibility that the internal sponsorship was there and I raised a series of meetings to discuss when I'm going to get paid my money, really just to force the issue rather than keep sending people out, continue to invoice, I needed to know whether I'm ever going to get paid or whether I should redeploy the people onto other projects. As a result of that, by far the majority of those projects are doing absolutely fine, especially anything signed since 2009. The systems are complex to migrate but we are going to get there. The bills are being paid but I found a handful that I simply wasn't comfortable that we were going to get there and I made the decision with the management team here to stop investing in this projects. Some of them get to the point where you almost go semi legal to prove the point in parallel to continue with the project and that creates reputational risk in the country, so you've got a situation where you're spending money, you're hurting your reputation in a country where people talk, you're not allowing partners to come into the geography. You're signing new deals and trying to free up scarce resources to work on these projects and all it's not a good situation. So as part of our services transformation project returning to growth focusing on partner led implementations. We made a decision to stop fighting, to exit these projects and to redeploy our resources elsewhere.

Mark Geall – *Deutsche Bank*
So there was a redeployment of resource?

David Arnott
There's a very small amount of redeployments of resources. It's more that so in terms of the ageing of receivables to answer your question specifically, these invoices have been built up over I would say the last 9 and 12 months. As we've gone through theses projects, I pulled the people off theses projects but if you take 28 million and you divide it by the number of projects and you divide it by 12 months, it's not a major part of it.

Mark Geall – *Deutsche Bank*
Okay.

Operator
Takis Spiliopolous, Bank Von Tobel

Takis Spiliopolous - *Bank Von Tobel*

Two questions from my side. First on the partner programme, did you already reach in Q2 the higher level of sorting from Portlands and b) what has made you alter your view that you think you're going to get more from Portlands, that would be the first question. The second one for David, organic licence growth was zero on a like-for-like basis reported [14]. Now what was like-for-like excluding Europe – you gave us a 41 number including M&A and FX so what will be the same number on a like-for-like basis. Thanks.

David Arnott
Takis, could you just repeat the first part of that question?

Takis Spiliopolous - *Bank Von Tobel*
The first question was on the Portland programme, whether you already achieved the 10-15% level sourcing from Portlands in Q2, and b) what has made you alter this number already down.

Guy Dubois
I can briefly answer this question Takis. I would stick to our policy to give you an annual outlook for the partner [unclear] so we are confident that will be the ranges that I gave of 10-15% by the end of the year, but as you can see in what we've communicated so far, we are pleased with the progress we are making.

David Arnott
Takis, unfortunately on your second point about the 41% excluding the impact of acquisitions, that's not a number we report.

Operator
Rajeev Bhal, Matrix.

Rajeev Bhal – *Matrix*
A couple of quick questions, back to the cash flow side of things. Excluding the write-off, it looks like underlying the DSO worsened by about 20 days in the quarter, just wanted to understand whether there was anything going on within that and when we're likely to see the snap back that

gets us to 100% for the year; is that more likely to be Q4 than Q3? And then allied to that going back to the question of the write down, could you give us a feel for when that 28 million of revenues was booked; is it more 2010, is it more 2009, just in terms of you know at what point those revenues float through please?

David Arnott

So 20 days DSO increase in the second quarter on an underlying basis, there's really two drivers for that, first of all the seasonality of maintenance invoicing. You can see that the deferred revenue declined in the second quarter. We don't have a lot of maintenance invoicing in the second quarter and secondly is just the phasing of Odyssey cash flows which overlay the business which also have a very low overall Q2 seasonality. The reason therefore for the reduction in second quarter DSOs is the reason for the improvement in the second half. If you take our movement in deferred for the second half, you will see that our deferred swings by 40 million in the second half, compared to a 32 million negative swing in the first half. That will take you to a full year deferred swing of 8 which compares to 4 million last year. So really it's just our normal maintenance invoicing plus a little bit of timing on the license receivables overlaid by an even stronger trend of Odyssey maintenance timing. So we get to reduced DSO basically by the unwinding of the maintenance deferral.

Rajeev Bhal – *Matrix*

Got it, but it's more likely given the phasing of maintenance billings to be a Q4 phenomenon than a Q3 phenomenon?

David Arnott

Correct, it's mostly Q4. The revenue that was booked on this 28 million was booked between the second half of 2009 and beginning of this year, February, March this year. After that we've put resources on the stopped billing, the majority of it. They tailed down over the last few months in other words.

Rajeev Bhal – *Matrix*

Okay got it, thanks.

Operator

Chris Grundberg, UBS.

Chris Grundberg – *UBS*

Hi yes thanks, just to come back to that receivables number, I think you may have just given some colour into it but just to understand that better, at the end of 2010 I think you had 28 million of receivables which were over 360 days old, but they did have a provision against them of 11.6 million. Just to be clear, the write-down then it did run to debts which were less than 360 days overdue; is that fair? Some of those issues were more recent.

David Arnott

Some of them were, it's really not that simple because within receivables you've got a crude revenue. I think I've been confusing you my mixing the timing of when we physically invoiced the client to prove our point of principle to when we booked the revenue. My earlier answer to Mark's comment was that we invoiced them this year but the revenue was booked last year, so some is fixed price, some is time and materials, but it's not a simple case of taking all the over 365 days receivables from our balance sheet minus the provision and assuming that's what we're writing up now. Some of it is that, some is a bit more complicated than that.

Chris Grundberg – *UBS*

Okay thanks, well maybe switching tack just quickly. On the European issues you've experienced and the view you have to the second half, just a couple of simple ones; can you give the quantum of the slippage at end of Q2 in license terms and then also whether or not any of those deals have closed post the quarter end?

Guy Dubois

I will refrain myself to answer this question. I believe we do not disclose this type of information.

Chris Grundberg – *UBS*

Okay thanks.

Operator

Josep Bori, BNP Paribas.

Josep Bori – BNP Baribas

Hi good afternoon, thank you for taking my questions. Most of them have been asked, but I still have a couple of short ones. The first one is as you are moving towards more partner source deals, how good is your visibility on that type of business? Is it presumably less clear to you when things are going to progress etc, can you give us some colour on that? The second question is when you reported Q1, you referred to kind of the Middle East turmoil as part of the reason for those issues and is that still part of the problems in Q2 or that's kind of a little bit behind and more the issues today are related to kind of the debt situation in Europe and concerns over general macro? Thank you.

David Arnott

Second one was related to the Middle East and we've had a very strong recovery in the Middle East in the second quarter.

Guy Dubois

Yes, regarding the first one related to the partner, and the visibility to go towards partners or have a common go-to-market with partners, I believe our visibility is fairly high because we give a lot to relationship which is very intimate relationship with them where we want to have a clear understanding of what is going on and how we can combine efforts to deliver the expected project. That was a go-to-market, but even in the post sales activity, we want to continue to keep our service organisation involved virtually in any deployment of Temenos. I want to make sure that my service guys are very close to the technology which is deployed, how it is deployed and its probably a guarantee for the partner as well as the customer that the one which is the closest to the product can help in the most efficient way the go live in the shortest possible time.

Josep Bori – BNP Baribas

Excellent, thank you very much.

Operator

Knut Woller, Uni Credit.

Knut Woller – *Uni Credit*

Yes hello, thanks for taking my questions. Just briefly on two things, a) the Wipro deal that you announced, can you please give us any idea about which percentage of the revenues of the roughly 7,5 million for this year you already booked in the quarter, what is expected still in H2 and then second, you mentioned lengthened sales cycles if I am correct and sales cycles tend to increase to 18 months in times of crisis. Can you give us an idea where we are exactly in terms of sales cycles? Thanks.

David Arnott

Maybe let me take the Wipro question first and I'll let our expert talk about the longer sales cycle. We don't comment on revenue recognition on any specific deals, certainly not Wipro, but just to be very clear, it would not in any way have distorted the trend ion the second quarter.

The length of the sales cycle?

Max Chuard

Yes actually our average cycle is - these are on the year. It is true that in Europe it is taking a bit more time for a few specific deals. I do not commit or give an 18 month sales cycle duration, but on the deal that we are referring to and the one which slipped from Q2, it is clear that the sales cycle tend to be a bit longer than the average cycle we experimented in the recent past.

Operator

Mohammed Moawalla, Goldman Sachs.

Mohammed Moawalla - *Goldman Sachs.*

Yes thank you. I just wanted to get back to the pipeline. Is there any way that you can quantify the sort of deal or profile within the pipeline? I know the business is very lumpy to the extent that are you doing any more volume that perhaps reduces some of the risk around quarter end or is there still a very lumpy pipeline? And the second question is just in terms of Q3 and Q4, any colour you can give in terms of sort of recovery on licence growth; should we assume that this is going to be very Q4 loaded?

Guy Dubois

Thanks for you question. I know that you would be extremely keen to be exposed to all of this information about the pipeline and there are many ways to merger it and weigh it, all the good stuff we do as far as the pipeline is concerned, but as you understood for the time being and when I refrain myself to share anything with this type of figure as far as the pipeline is concerned, and I do understand the need to quantify it, but I'm afraid I'm not going to communicate that merger body today. As far as the back loaded profile of our revenue, it is back loaded. It's the nature of what we do. What I did frankly was to review that pipeline thoroughly deal by deal with my management team, my Chief Operating Officer and myself, regional directors in particular, to assess the profile of it. And after having finalised its assessment, I took a judgement call. As a matter of fact the new outlook for the year is actually very comparable to our historical profile of revenue. In other words, in our recent history, Temenos delivered approximately 35-40% of it's licence in H1 and the remaining in H2 and taking into account the new profile we shared for this year, actually we are right back in the same historical business profile. So back loaded it is.

Mohammed Moawalla - *Goldman Sachs.*

Great and just one more follow up. In terms of some of the existing sales cycles that are underway, some of the projects that are underway, do you feel the need that some of those need resetting in any way in terms of probability of closure - I am just trying to understand are you making any organisational changes in terms of account allocation or sales force territories or anything like that? Are any of those types of adjustments being made to the sales organisation?

Guy Dubois

The answer is no. I'm looking at all of the main transactions personally. As you know, the evolution of the transaction is changing all the time, taking into account the different indicators. We didn't make any modification in our sales structure. We haven't changed the allocation of the deal. I'm a great believer in consistency and stay very close to the customer and that's what we are doing to ensure the execution of our plan.

Mohammed Moawalla - *Goldman Sachs.*

David, just one from me. Is there any way you can break out the receivables balance between the services and product's related?

David Arnott

No, we don't provide that split.

Mohammed Moawalla - *Goldman Sachs.*

Okay, thank you.

Operator

Stefan Gaechter, Helvea.

Stefan Gaechter – *Helvea*

Hi thanks for taking the question. Just two short questions, first one did you guys see any changes in attrition rates recently or not and the second one is I would appreciate highly if you guys could also provide us with full year guidance for the reported EBIT number as you did for instance in the first quarter.

David Arnott

Okay, we not specifically consciously dropped the reported EBIT, just because of the size of the adjustments in the second quarter, but basically the only difference will be the restructuring charges that we've talked about of 28 million on the balance sheer receivables and 5 million for cost reductions. And you can flow that through to the movement on adjusted EBIT and you'll come to the number. It wasn't really intentional to drop it like that.

Guy Dubois

Stefan coming back to you regarding the attrition. I'm always concerned when I'm looking at the attrition. I don't know if you know but I have been already in many locations, I spent time in Asia, in India visiting all my guys or as many guys as I could and I noticed that we have attrition. In India our attrition is exactly in the average of the industry, but it doesn't please me anyway to be in the average of the industry because I believe any attrition costs us energy, and our job is to keep our guys the best possible way, so we need to work on it. Obviously our attrition is consistent as I said with the average but I would love frankly to give my management team and myself an objective to reduce it and contain it because it is a waste of energy, a waste of time and a waste of knowledge. So it's a very high priority for me, but there is no further deterioration to be clear. But I believe the company will just be better if we were containing our resources better.

Stefan Gaechter – Helvea
Would it be possible to quantify the attrition rate on average as if now?

Guy Dubois
Yes, obviously it is very possible to quantify, but if you don't mind for the time being, I would not disclose this information. Sorry for that.

Stefan Gaechter – Helvea
No problem, thanks a lot.

Operator
No further questions.

Sarah Bowman
Well thank you very much for your participation. We look forward to speaking with you in the future over the coming days and week and will try to answer all of your questions in person if possible. We look forward to speaking with you again on our next call for our third quarter earnings. Thank you, and good evening.