Final Transcript

InterCall

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Corporate Participants

Chris McGinnis

Temenos – Investor Relations

Andreas Andreades

Temenos – Executive Chairman

David Arnott

Temenos – Chief Executive Officer

Presentation

Operator

Thank you for standing by and welcome to the Temenos senior management changes and preliminary licence revenue for Q2 2012 conference call. At this time all participants are in listen-only mode. There will be a presentation followed by a question and answer session during which, if you wish to ask a question, you will need to press *1 on your telephone keypad. Please be advised that this conference is being recorded today, 11 July 2012. I would now like to hand the conference over to your speaker today, Mr Chris McGinnis. Thank you. Please go ahead.

Chris McGinnis – *Temenos – Associate Director, Strategy and IR*

Hello, everyone. Thank you for joining us on short notice. I'm Chris McGinnis from Investor Relations at Temenos. Today our conference call, on the call I have our Executive Chairman, Andreas Andreades, our CEO, David Arnott, and our CFO, Max Chuard. The call today will be composed of some brief prepared remarks followed by a brief Q&A session. We will provide a full business update with our full Q2 results on 27 July.

Before I hand you over to the speakers, I would like to provide you with our usual disclaimer, remind you that 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 forward-looking statements made during this call which reflect the company's opinion only as of today. I would now like to hand you over to Andreas who'll update you on the changes announced today.

Andreas Andreades – *Temenos – Executive Chairman*

Thank you, Chris. Hi to everybody. Thank you for joining this call, especially given the short notice. I'd like to go through the announcements we made today and give you some more information as I'm sure you have a lot of questions in your mind.

Guy has decided to leave the company for personal reasons effective immediately. He joined the company as CEO exactly one year ago. Clearly the intention was for Guy to lead Temenos for more than one year, even though his mandate was always to find and coach an internal successor. The fact that Guy has decided to leave after only one year is regrettable but it doesn't take away from the many good things he and the senior team have achieved in the last 12 months.

The company has a clear strategy and a solid platform for sustainable growth. David Arnott is taking the CEO position also effective immediately. The Board and I personally have felt that David is the ideal candidate to become CEO and the right successor for Guy, only now he's taking over sooner than expected. He's worked as CFO for Temenos for 11 years and he has also run our services business. In the last year he has supported Guy in a much more day-to-day operational role than a CFO normally would.

I am formally assuming an Executive Chairman position, which means I would be more involved in the business than I have been in the last 12 months. My intention is to support David and the team to restore Temenos back to profitable growth. This should not detract from the fact that David is the right person for the CEO position but as the transition is taking place sooner than expected, the Board and I feel that the combination of David and myself will be much more powerful. My hope more than anything else will be to coach and mentor the senior team. I will also advise in a number of other ways such as in shaping the strategy and the product direction and (unclear) efforts. But, let's be clear, David is the CEO for the long-term and this is not an interim position.

David has the right personal characteristics. He's passionate, he's an (unclear), he's driven and tenacious and he's got a great attention to detail. We have a CEO with the youth and energy to run this business for the foreseeable future. As CFO David has seen the company through past crises in our market. He has the eye for detail, the rigorous focus on execution to ensure we deliver in the toughest of markets but he's also the man to build on the achievements of the past to deliver sustainable growth over the medium term.

The same is also true of Max Chuard who is taking the CFO position, also effective immediately. Max is a longstanding director of the company. He's managed the financing, execution and integration of numerous acquisitions. He has run businesses within the Group and he has (unclear) our investor relations efforts and he's been healthily involved in planning strategic and corporate development.

Inasmuch as Guy's departure was unexpected, I trust that you will share my view that the management announcement today is a positive development. We've built a solid platform for the future and David and Max will lead us through the present difficult markets and through to the inevitable recovery. The strategy will continue to be largely unchanged but the focus on execution will sharpen and I'm here to support the team in whatever way I can. With that I would like to pass over to David to say a few words.

David Arnott – *Temenos – Chief Executive Officer*

Thank you, Andreas. Hi, everyone. As Andreas has said, we really appreciate you taking the time to join this call at such short notice. I don't plan to speak for too long but there's really three main topics I'd like to go over with you before we open up the call for questions. Firstly, I just wanted to reiterate one of the points that Andreas made. Guy's leaving doesn't signal a change in strategy for the company. The strategic priorities that Guy set out on the investor day last December remain unchanged. We're committed to the same priorities and goals. We want to restore services to sustainable profitability, we want to drive sales into the installed base, we want to grow the proportion of sales coming from Asia, from Retail and from Private Wealth Management. We want partners to become a more important sales channel and we want to continue to out-innovate our peers. So, in terms of strategy nothing changes.

The second area I wanted to cover was on the second quarter licence figures. Even though we don't give quarterly guidance, I can tell you that these figures are materially below our internal expectations. We have signalled that we would have expected a continuation into Q2 of the improving trend seen in Q1 and we didn't. We didn't see the focus on the installed base and we didn't manage the longer sales cycle crisply enough, so we should have delivered a better figure and we're not at all happy with this performance.

Finally, I wanted to talk briefly about the outlook for the full year. It was a disappointing quarter. There are few signs that the banking industry or the macro economy are about to suddenly improve. This is why we're tightening our outlook. We now think that revenue growth is likely to be -5% to 1% constant currency compared to -5% and 6% previously. But we reiterate our margin outlook at 19% to 22%. Now, some of you might question how we can still keep the bottom of this range unchanged from the previous outlook.

Well, firstly, as I pointed out to you at the time of giving the full-year outlook, there's flexibility over costs and if you remember the cost bridge slide, it's worth going back to that because that laid out very clearly how the cost story for 2012 works. If you remember from that, there were significant variable costs which flex with the revenues and profits and there's still a material amount of discretionary spend which can be deferred and, if necessary, we'll do more on costs. This flexibility allows us to reiterate the margin outlook.

Secondly, from the preliminary reviews that I've done, it's clear there's much more with new and existing business. Existing business is holding out relatively well and we believe that we can do much more in the second half, especially with better focus. Also, within the new business the big problem remains Europe. Asia, like existing business, continues to constitute a growing percentage of signings. The last point on outlook is that we'll work much harder with much sharper focus and much tighter execution. In these difficult times it's necessary to track every deal meticulously and this is what we will do.

As Andreas said, I'm sure the management changes still come as a surprise. The only thing I'd like to add on top of what Andreas has said is the following. We are all of us – Andreas, Max and myself – in situ. We're eager to get going, we've got the support of the rest of the management team and we're fully confident that we can quickly restore the business to growth, sustainable growth in revenues, profits and the cash generation.

So, with that, operator, we'd now like to open up the call for Q&A.

Questions and Answers

Operator

We will now begin the Question and Answer session. If you wish to ask a question, please press *1 on your telephone keypad, then wait for your name to be announced. If you wish to cancel your request, press the £ or # key. Your question is from Josep Bori.

Josep Bori – *BNP Paribas*

Hi, good afternoon, thank you for taking my call. David, this first question I have is for you. I mean, you've clarified the rationale for keeping the margin guidance but I would like to understand the rationale for the top line range. If I did my maths correctly, I think you're lowering the midpoint of your guidance by about 2.5% at this point. That's about 12 million shortfall, but you were already 8 million shortfall in Q2 on licence only. So, what gives you the comfort that in the second half you are going to see anything similar to what you've seen in Q2? I mean, you made comments about the fact that the environment is not improving at all. Thank you.

David Arnott – *Temenos – Chief Executive Officer*

Hi, Josep. Okay. First of all, I'm not sure what your shortfall is against. If you remember on Q2 specifically, if you're talking against... about Q2 last year, you'll remember we had two very large deals in the comparative and we were very clear early in the quarter to avoid you to extrapolate the Q2 performance in isolation, notwithstanding the fact that we disappointed against our own numbers.

In terms of the full year, I'd just like to reiterate what we've been saying for the last couple of answers which, with better execution, will continue. The installed base continues to be a rich source of opportunities. We've done well in the installed base right through the cycle and we will continue to do so. Also, as you go into the fourth quarter new business comparatives decline significantly and throughout the whole second half we've got whole areas of the world that are doing very well – emerging markets, Asia in particular – and the work we've done as a team in the last two weeks deal by deal gives us confidence to reiterate the bottom of the outlook.

Josep Bori – *BNP Paribas*

Okay. Thank you, David. Yes, I was referring to the shortfall versus consensus for Q2. Sorry about that. If I may, just a quick follow-up on this. I mean, given that there seems to be a very aggressive weakness in the European region and kind of the change you've made in the guidance, can we assume that, not having announced any restructuring today, we shouldn't be seeing that for the second half or that is still a possibility you will be considering for the full Q2 results?

David Arnott – *Temenos – Chief Executive Officer*

Okay. Two questions in there. Firstly, Europe. To put Europe in context and to reiterate what we said up to Q1, Europe new business only constitutes 13% of our 2011 numbers. So, we should keep this in perspective. In terms of further restructuring, listen, we've only had a very short time here. We're looking at a number of options which may well include further cost cuts but you need to give us a couple of weeks to work that through and come back with a full story with the second quarter results, if that's okay, but, to be clear, we do remain committed to delivering the margin commitment for the year and margin expansion going forward.

Josep Bori – *BNP Paribas*

Excellent. Thank you very much, David.

Operator

Your next question comes from Gerados Vos.

Gerados Vos – *Barclays*

Hi. Thanks for taking my question. Three, if I may. First of all, could you just give me a bit more kind of granularity on the kind of miss perhaps by region? What was really weak? Which areas did well? Secondly, from a kind of implied licence perspective, you know, am I right to assume that Q4 is around kind of breakeven from a growth perspective? And then, finally, you indicated that you guys didn't manage the lengthening of the sales cycle that well. What are you guys doing from a sales execution perspective to avoid this in the kind of future? Thank you.

David Arnott – *Temenos – Chief Executive Officer*

Gerados, let me take those three. So, the first one was on... Remind me what the first one was. Ah, the regional split, sorry. Listen, give us a couple of weeks. I don't want to put the trend out of context. Give us a couple of weeks to tell the full story. Q2, again we need to look at Q2 but also the balance of year. I would say on that give us a couple of weeks to come back with the full story on regions. There was no underlying trend away from what we've talked about, which is a good installed base, a strong growth in emerging markets and, as we said, we simply had two very strong comparatives.

So, in terms of the miss, it really followed the macros but... the macro story we talked about. Installed base held up well. We always struggle to lap two big comparatives but mostly the driver I believe is not market in the second quarter but execution, which doesn't really have a geographical angle. Obviously execution needs to be crisper in Europe but unless execution is extremely tight, you're going to suffer in any geography. Again, on the fourth quarter growth, give us a couple of weeks to work through the Q3/Q4 phasings but, given that the Q4 comparative for new business is really not a big number, clearly that's when we should start to recover. Whether mathematically it comes out to a flat on Q4, give us a couple of weeks to work through.

Okay. Apologies, I can't read my own scribbles here. So, in terms of execution on sales, really the key point, and I don't want to overly labour this, is execution. Guy has put in place with the sales organisation some very, very strong and rigorous processes around funnel management, deal qualification, new tools and having put those processes in place, we just need to make sure that we stick to them with the attention to detail at the individual deal level is absolutely rigorous.

That's the biggest change we'll make. Too early to talk about organisational changes and structural changes. Everything that we've put in place in the past, and that Guy has subsequently tidied up, is absolutely the right thing. We're not planning on changing it, other than really focussing on better execution.

Operator

Your next question comes from Mohammed Moawalla.

Mohammed Moawalla – *Goldman Sachs*

Yes. Can you give us the breakdown of what the maintenance revenue was in Q2 because, if I'm not mistaken, in Q1 it was sort of sequentially flattish to down slightly and, secondly, just around some of these execution issues, can you talk about just a bit more granularity around sort of state of where the pipeline is and was there any kind of lingering effect of the Misys merger talks that may have perhaps hit you kind of Q2 rather than in Q1?

David Arnott – *Temenos – Chief Executive Officer*

Okay. In terms of execution, listen, take an individual deal in any geography, this is a bank that is making a long-term strategic decision to change core systems and unless you stay extremely close to them at all levels, unless you understand their business case, help them build their own business case even more than you would normally do at the other end of the cycle, you risk missing something. You risk not understanding the Board's own dynamics. There's M&A involved. Banks have their own strategic issues. And I don't want to pin it entirely on execution. Let's be clear, the markets... many of the markets do remain challenging and sales cycles remain long, so I don't want to suggest that purely execution will get us back to the top end of the guidance but a compounding effect of focussing better execution of all the processes that we've put in place even with the current markets allows us to reiterate our outlook today.

In terms of pipeline, we don't have a pipeline issue, just to be clear. The market fundamentals remain intact. Core banking systems do need to be overhauled, margin pressure remains, competitive challenges remain and none of those have gone away, so I'm not going to comment on our pipeline out of context but, to be clear, we have a strong pipeline, we just need to focus better on the... managing the longer sales cycle and the execution, especially in the last phases of the deals. Again, to be clear, we've not lost market share. In fact, our opinion is we're gaining market share and therefore it really just comes back to better execution.

Mohammed Moawalla – *Goldman Sachs*

Great. And on maintenance.

David Arnott – *Temenos – Chief Executive Officer*

Sorry, on maintenance. Okay, listen, give me time to work through the full half-year numbers but I have seen the maintenance numbers so far and they're bang on the trend that we talked to you in the past... Last quarter we said we would grow like-for-like maintenance by about 5% and I would expect it to be in that region, certainly not below.

Mohammed Moawalla – *Goldman Sachs*

Right. Can you say where it was relative to the 49 million consensus?

David Arnott – *Temenos – Chief Executive Officer*

Listen, maintenance won't be an issue. It'll be... it'll line with consensus. It'll be in line with our prior statements. Maintenance is not an issue and I don't know whether your underlying question is whether we're seeing maintenance attrition at a higher rate or anything like that but I want to put this clearly in perspective. This is a signings, timing and execution issue. This is not a wider issue that's impacting our maintenance base at all. So, in the way as we guided that our maintenance growth like-for-like would recover from 3% to 5% in the first quarter, I see no reason why we won't be coming back to you in two weeks with exactly that message.

Mohammed Moawalla – *Goldman Sachs*

Okay. Thank you.

Operator

Your next question comes from Michael Briest.

Michael Briest – *UBS*

Thanks. If I look at Q3 last year, there were two tier one deals in Europe and Europe was about half of the licenses for the quarter and obviously, you know, it was a decent number, notwithstanding it was down a bit year-on-year. For your sort of revised guidance, the low end would still imply a reasonable outcome for licenses. Should we be assuming that basically is still challenged by the environment and the comparators and really Q4 is going to be the make or break quarter?

David Arnott – *Temenos – Chief Executive Officer*

Michael, again, listen, give us a couple of weeks to work with the exact timing of cut-off between deals between, say, September and October. I wouldn't say... It's too early... Give us a couple of weeks to talk about what Q3 will be. I don't want to position the third quarter as being a challenging comparative. Yes, we had some good deals in Q2 but... Q3 last year rather but at the same time we've got a very large installed base. It's now six months since we launched our installed base initiative. The emerging markets are doing very well. When you look at an individual quarter, it really comes down to the individual deals within that quarter and the closure plans. Obviously we've got a large number of deals in the quarter. Clearly the growth is going to come from the fourth quarter rather than the third but whether it's significantly down or significantly up or slightly down and then flat, I need to work through it deal by deal in more... over the next couple of weeks.

Michael Briest – *UBS*

Could you maybe say many contract wins there were this quarter or Q2. I mean, there were ten in Q2 last year. And then in terms of number of go-lives.

David Arnott – *Temenos – Chief Executive Officer*

No, listen, give us time to add it up. We've only had two weeks. I don't want to give you stories out of context. We need the two weeks to come up with the story but, to give you a heads up, there's nothing off trend in terms of the number of deal wins or the deal size or the number of go-lives. In fact, the services business is doing very well but give us time to give a full story on that.

Michael Briest – *UBS*

But could you just then maybe frame the full-year guidance? I mean, I expect people will move towards the low end, the -5% revenue growth. What sort of license growth would that imply for the year? I seem to recall it was a -10% or -15%.

David Arnott – *Temenos – Chief Executive Officer*

Okay. We don't guide on licensing, I'm afraid, so you can do the maths yourself.

Michael Briest – *UBS*

All right.

David Arnott – *Temenos – Chief Executive Officer*

I'd like to be more helpful but this is an out of context call two weeks after the quarter end. Really the story is very simple, just to keep it in context. We don't have an issue on our services business, we don't have an issue on maintenance. We're very good at controlling costs, we'll cut further into costs now if we need to. We will simplify structures, we will form better alignment and we will focus on execution. Really this is about licensing. To give a story around Q3 or Q4 specifically, you have to stand back from the macros, you have to stand back from the trends and you have to look at the individual deals and I need time to do that with the team properly.

Operator

Your next question comes from Stefan Gaechter.

Stefan Gaechter – *Helvea*

Yes, hi, good evening, everybody. I have two questions, basically. First, I wasn't able to join the call from the beginning. Did you guys add any colour to why Guy left? That's my first question. And the second question is you did comment on maintenance revenues with regards to Q2 but at the very moment it would be, of course, very helpful if you could provide us potentially even with guidance for maintenance revenue for the full-year. I mean, could you give us an idea for, let's say, worst case and best case outcome for maintenance sales?

David Arnott – *Temenos – Chief Executive Officer*

Okay. Reasonably quick. Let me take those. So, why did Guy leave? As we've said, for personal reasons. Maintenance, the second quarter, if you missed that, will grow at approximately the... certainly not lower than the 5% like-for-like that we talked about in our first quarter results and for the full-year we've also said that like-for-like maintenance, so currency adjusters in other words, will also grow by around 5%.

Stefan Gaechter – *Helvea*

Okay. Thanks, that's very helpful.

Operator

There are no further questions at this time.

Chris McGinnis – *Temenos – Associate Director, Strategy and IR*

Thanks, everyone, for joining us today on short notice. Apologies for the briefness of the call but you'll get full details on the Q2 on the 27th when we report the full results. If you do have any further questions, you can contact me. Thanks for joining the call today.

David Arnott – *Temenos – Chief Executive Officer*

Thank you.

Operator

This does conclude our conference call for today. Thank you for your participation. You may all disconnect.