Final Transcript

InterCall

Contents

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Corporate Participants

Chris McGinnis

Temenos – Associate Director, Strategy and IR

David Arnott

Temenos – CEO

Max Chuard

Temenos – CFO

Presentation

Operator

Thank you for standing by and welcome to the Temenos Q2 2012 Results. At this time all participants are on listen only mode. There'll be a presentation, followed by a question and answer session, at which time, if you wish to ask a question you will need to push star, one, on your telephone key pad. I must advise you that the conference is being recorded today, Wednesday the 25th of July, 2012. I'll now [unclear] today, Chris… excuse me, Chris McGinnis, Investor Relations. Please go ahead.

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

Hi. Good evening, everyone. Thanks very much for joining our conference call today to discuss out Q2 2012 results. On the call with me today are our CEO, David Arnott, and our CFO, Max Chuard. Today's presentation will have prepared remarks followed by a Q&A. Before I hand you over to our speakers, I'd like to provide you with our usual disclaimer and 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 the forward looking statements made during this call to reflect the company's opinions only as of today. I would now like to hand you over to our CEO, David Arnott.

David Arnott – *Temenos – CEO*

Thank you, Chris. Hi, everybody, and thank you for joining the call. We know that this is a very busy earnings week, so we really appreciate you taking the time for the call tonight. I've been in place two weeks, now, and I have to say it's been an incredibly busy couple of weeks and we've made a lot of real progress already, in terms of aligning the team in what we need to do immediately. With some quick wins operationally, greater focus, putting our key people back into the front line, and generating a lot of positive momentum. Andreas, Max, and myself, have spoken to, probably, 60% of our investor base, spent time with all the key internal stakeholders, and met a large number of our clients and prospective clients. So, now I'm ready to go and prepared to take on the challenges ahead with full clarity of our priorities; chief amongst which is to deliver on our 2012 outlook. So, with that in mind, I'd like to start my business update on slide six. Clearly the second quarter was a very disappointing quarter. Our license revenue, at $24.2 million, was 38% down on last year. The worst year on year decline we've had for a decade. What is more, we didn't see the signalled improvement in the trend compared to Q1. Part of the explanation lies in the market conditions. The conditions at the time of closing Q2 were worse than at the time of closing Q1, but much more of the explanation lies with sales execution. There were deals that could and should have closed in the quarter. Some of these deals have now closed subsequent to the quarter end, which gets us off to a good start in Q3. Sales to the installed base were better. These tend to be sales of new seats or modules and, so, a fairly small ticket sale in general. They're also rarely competitive and we know the decision makers. This helps to make them both more predictable and more resilient in difficult times. In the quarter we had some small growth in sales to the installed base but, clearly, no where near enough to offset the fall in new business. Q2 2011 was a big comparative quarter. There were two very large deals. These were both difficult to lap but, also, they distort, a bit, the trends. Looking at the half year overall is more meaningful, I think, to extract trends. Looking at the first half, emerging markets were strong. We had some big deals, like Jordan Ahli Bank in the Middle East. Also, all of universal, retail, and private wealth management were strong. Universal is very much bound up with the emerging market story, but, in private wealth management, we really believe that we have a truly differentiated and compelling proposition with T24, alongside wealth manager and Triple'A acquired through our Odyssey acquisition. We see this in the first half but, more importantly, in a very strong pipeline. Volumes in the quarter were low; just five new name signing, against ten in the same quarter last year. Having said that, Q2 has also been a very challenging quarter for all our competitors and we do believe that we have reconfirmed our position as the leader in the sector, even in a weak quarter. So, in summary, Q2 was a difficult quarter. It was down 38% compared to the previous year, owing to a combination of tough comps, tough markets and poor execution. Obviously market conditions are out of our hands, but comps get easier, especially into Q4, and, as the company's CEO, I can tell you that poor sales execution will not be tolerated in the third and fourth quarter. Over on slide seven, I wanted to go through some financial and operating highlights. Maintenance revenue is solid. We've seen no change in renewal rates and, in the quarter, maintenance grew by 6%, excluding the impact of foreign exchange; slightly higher than we signalled when we last spoke. The services recovery continues. Margins and revenues were slightly down on last year, but, in the context of falling license related business for four quarters, the four could have been worse. Services have been doing a good job of driving sales into the base, and, on an underlying operating basis, business continues to improve. There's changing the skills mix in line with plan, utilisation and billable days are both on the right trajectory, and we project sequential improvement in margins in both the third and the fourth quarter. We also have eight goal [?] in the quarter. This is the same as in Q2 2011, despite falling volumes of new name customers. It shows that we're reducing the backlog of projects in implementation. At this year's Temenos client even; the TCF, we launched our Temenos Enterprise Framework Architecture, which we call TEFA. This is our architectural roadmap for the future. It's truly game changing and I'll give you a few examples. It will split the design time and run time, allowing for faster product development. It will allow us to bring the query database into memory, which will improve performance tenfold for read write and 100 times for read only. It will allow us to perform asynchronous and partial upgrades, so, progressive renovation of client systems, rather than just big bang implementations. It will allow for codeless integration with other apps and codeless interaction with other user agents, so we will be able to access our applications on any device. This supports our front end strategy, which will be a big growth driver going forward. All of these great initiatives were very well received by our clients. We kicked off our co-development with ABN AMRO to build a new international payment system and we launched a new version of T24, incorporating significant enhancements in areas like retail and ARC on the front end. So, not withstanding new sales, the business is meeting its operational goals. On slide eight now, I wanted to make a few comments about my priorities. Firstly, one conclusion from my first two weeks in office is that there will be no significant change to the company strategy and to the fundamentals of the business, and that the markets are as strong as ever. In terms of changes that are taking place, these are not fundamental. To improve focus, I've increased the level of operation between sales and services, I have simplified some of the processes that had been put in place to ensure we operate as a single voice in front of customers. We've got a great team and this is the time to have our best people as actively involved in the front line as possible. Lastly, as Max will elaborate on, we have moved immediately to make additional cost cuts. There are two important things to note about the cost cuts. The first is that we really can cut costs without affecting the company's long term prospects. There are still pockets of inefficiency in the organisation. And the second point is that the cost cut gets us to a fully loaded cost base of $350 million for next year. That is including variable costs and discretionary investments. Our projection is for costs of $350 million next year. So, in summary, we have acted quickly to improve execution and aligned the organisation around clear objectives for the second half, as well as reinvigorated the organisation around our long term potential. The cost cut will deliver significant margin improvement in 2013. So, with that, I'll pass over to Max to go over the financials.

Max Chuard – *Temenos – CFO*

Thank you, David, and thanks to everyone on the call for joining tonight. I know many of you already. Today is my first call as the CFO of Temenos and I look forward to continue working with all of you. Now, let's go through the slides. Looking at slide ten, we show the different revenue lines and the profit metric for the quarter and for the last 12 months. I won't go through all of the numbers but I will discuss some of the figures which are circled. License revenue was down 38% in the quarter because of continued challenging market conditions, sales execution, and difficult comparative. Existing business, as well, at close; 9%, but not enough to compensate for the new business, especially with two large deals in the comparative period. In the comparative quarter we had signed Samba in Middle East and Nomura in Asia Pacific. Maintenance is now at $298 million and was up 2% in the quarter. I'll discuss maintenance further on the next slide. Services revenue was down 8% in the quarter, compared to a 38% drop in license, and down 1% in the last 12 months, compared to 24% drop in license during the same period. This represents a solid result and shows that we've been able to remove some level of dependency on license to deliver our services revenues. We've been successful at selling additional services into our client base, such as upgrades, expert services and training. Finally, we expect services to finish around 25 to 30% of total revenues for the year. Adjusted EBIT is down by $30 million year on year, compared to $50 [?] million fall in license. As you can see, the majority of the reduction flows directly to the profit. On slide 11 now, we show the underlying business performance for both revenues and costs by adjusting for the impact of foreign exchange movement. Like for like total revenues decreased by 11% in the quarter, whereas costs were up 2%. Licensing was 37% down in the quarter, services down by 5%, while maintenance grew 6%. This performance of our maintenance business shows that it is resilient despite market uncertainty. The maintenance revenue growth, as we [unclear] to trend, following 1% growth this quarter, and we expect this trend to continue through 2012. [Unclear] T24 remains in the low single digits. Like for like costs have increase 2% as continued investment, chiefly in services and G&A, has offset the benefits of the restructuring programme we undertook in late 2011. The full impact of the restructuring programme will come throughout the year. We expect that cost to fall sequentially in Q3 and Q4. We'll discuss cost in further detail in a few minutes. Turning, now, to cash flow, I've shown, on slide 12, how it [unclear] conversion into cash, which is at 1.37% [?] in the last 12 months, ahead of 1% outlook. We continued to grow within cash flow, in absolute terms, despite the drop in profit in the last 12 months. We had [unclear] movement in [unclear] the quarter, mainly related to payments of the Misys transaction. The costs were accrued in Q1 but based in Q2. Slide 13 shows the below the line items. Our touch [?] charge was carried [?] into 2012 than the prior year. This is because we are balancing out our touch charge evenly throughout the quarters, whereas, in 2011, the charge was heavily weighted towards Q4. This also explains the high tax figure for the [unclear], which will normalise as we go through the year. The other main point to highlight on this slide is that, in the last 12 months, we have suffered a move to our long term tax rate of approximately 17 to 18%. Going forward, this means that we will be able to go EPS in line with our faster than operating profit gross, as we benefit from low leverage and our financing structure. You can find, in the appendix, a more detailed slide on tax for your information. Slide 14 shows that our net debt at the end of Q2, which stand at… which stands at $164 million, or $113 million including trader shares. We include trader shares [unclear] as they are liquid and can be used for acquisitions. By the end of 2012 our levels will be less than one times the BTA [?]. Finally, slide 15 gives details of our new cost savings plan announced today. The execution of this plan will generate $20 million in savings, which will not impact, as David mentioned, our ability to scale for growth. These costs will be removed from all parts of the business. In sales and marketing, these savings will come from a simplified structure, as well as productivity improvement. We continue to consolidate our office infrastructure, as well as generating savings through off showing… showing more activities in our G&D and R&D functions. We will also simplify the structure in the services organisation, as well as change the [unclear] of our resources. Finally, we expect to incur a restructuring charge of between 5 and $10 million in the second half of the year. Look forward, this additional cost saving plan, combined with the action we've already taken, allows to provide some colour on the 2013 costs. We estimate our 2013 costs fund rate to be approximately $360 million at constant currency, allowing for considerable margin expansion in 2013. That ends the financial update part of the presentation. I'd like, now, to hand it back to David to discuss the outlook.

David Arnott – *Temenos – CEO*

Thank you, Max. If you turn, now, to slide 17, I'd like to take you through the outlook. We expect constant currency revenues to be between -5% and +1%, compared to 2011, which equates to a US$ range of 437 million to 464 million. We didn't change the margin rate at the time of the pre-announcement and we're reconfirming it now. We still expect adjusted EBIT margins of 19 to 22%, which equates to a US$ range of 30… of 83, rather, to 102 million. Lastly, since there are fewer adjusting items this year and because there are no material timing differences between accruing costs and paying for them on a full year basis, and because we've had feedback that you can't get to the underlying numbers yourself on an adjusted basis, we have moved to simplify our cash net [?] trick. Simply, we expect to convert 100% of EBITDA into operating cash flow for the year. Turning, now, to slide 18, I wanted to try and give a little bit more comfort on our revenue outlook for the year. Now, for me, this is the most important slide in the presentation and I'd like to spend quite a bit of time on it. At this stage of the year, our maintenance base is locked in. Our services revenues are approximately 90% locked in. Other than projects that could start based on sales made around the end of Q3, our services revenues are contracted and mostly predictable. The unknown, therefore, is license revenues and, on this slide, I want to take you through this last bit in a bit more detail to tell you how… what our outlook assumes. I've included more information than we've done in the past. If you look at the chart on the right, it compares the mid-point of our implied license outlook in the second half against the second half of 2010 and the second half of 2011. What you can see is that the level of existing business, so, the dark blue at the bottom, over the last two half years, has been very predictable and, in fact, has been growing. Therefore, this historical trend should give you comfort on the level… that the level of business is resilient and comprises the vast majority of our implied outlook for the second half of 2012. Now, if we believe that the level of existing business can hold in the second half of this year, this leaves between 25 and 30 million licensing of new name business to do in the second half to the mid-point of our outlook, which is the grey column over on the right, using reasonable assumptions for services and maintenance. To put that in context, this is the same level of new business as we signed in the first half of this year, i.e. there wouldn't need to be any change in the market, or execution, to deliver this number. And our second half is always seasonably stronger and will improve execution into the second half. If you look at the chart on the left, you can see how well existing business holds up in Q1. This should give comfort that it will hold up in the second quarter. However, the chart shows how much new business contracted year on year. As you can see here, and I've circled it in red… if you compare the first half of 2011 with the first half of 2010 it highlights how tough the comparative was. We had large bills with Samba and Nomura in the first half of 2011. And, as we know, the comparatives get much easier going into the second half of 2012, as you can see on this slide. In the second half of 2011, new business contracted by 50%, but, between the second half 2011 and the first half 2012, new business sequentially was broadly flat. So, for me, the take away here is that existing business is both resilient and predictable. Assuming it holds at the same level as over the last two years, the level of new business to deliver the second half is achievable. It's the same level as we delivered in the first half of this year. Turning, now, to slide 19, I wanted to make a few concluding remarks. The second half revenue outlook looks achievable, given the mix between new and existing, between licensing and the other revenue lines, and given the improved focus and execution we expect from now on. The additional cost cut we're effecting will deliver a $350 million cost base for 2013, which, coupled with the locked in maintenance growth, will underpin significant margin expansion. The sales organisation has been refocused and re-energised to deliver the 2012 targets. We're delivering on our product roadmap, our architectural roadmap is cutting edge, and we're already delivering against it. Release 12, launched at our client event in May, has a number of significant enhancements to maintain our functional lead, and our private wealth management offering, comprising T24 alongside wealth management and Triple'A, is extremely compelling. Lastly, the maintenance base is resilient and we're gaining traction in services. So, in short, we strongly believe we can deliver our outlook for the year and the future of the business looks positive, based on superior products, a recovering services business, and a materially lower, locked in cost base, going into 2013. Lastly, on a personal note, I've been with Temenos since it was a small private company and helped Andreas build the company to nearly half a billion dollars of revenues. The fundamentals are intact. Banks need to address their growth constraints, customer focus and efficiency issues. We're the leader in the market. Our market proposition is stronger than it has ever been and we have a great management team who are excited about taking on the challenges ahead. To take advantage of the great opportunities ahead, we need to deliver two things, however. First of all, we need to deliver our second half licensing commitments, and, secondly, we need to address our cost base, and both these initiatives are already very well advanced in the last couple of weeks. So, with that, operator, I'd like to open up the call to Q&A.

Questions and Answers

Operator

Thank you. If you wish to ask a question, please press star, one, on your telephone key pad and wait for your name to be announced. If you wish to cancel your request, please press the hash key. Your first question comes from Adam Wood of Morgan Stanley. Please ask your question?

Adam Wood – *Morgan Stanley*

Hi, David. Hi, Max. Thanks for taking the question. I just wanted to focus on two things, though. First of all, on the cost cutting. I appreciate the need to focus on profitability and deliver that to the market but you were pretty aggressive cost cutters in 2009; more so than the rest of the industry, and, while we're going through another series of cost cuts now, after a focus, already, last year, on cost cutting, could you just maybe reassure us that what you're doing isn't, kind of, cutting into the bone, here, of your ability to execute and to grow the business next year? I think, particularly given, you know, the former CEO focused on some of the challenges on sales execution and maybe the need to invest there and in the product, maybe, just, in terms of some of the ways you're actually taking cost out that doesn't affect sales morale, or sales ability to execute, and also the amount of investment that's going into the product. And then, secondly, maybe just in terms of… you've spoken a lot about the execution in the quarter versus the environment; could you just maybe give us a little feel as to how much you think you could've done if the execution had been right, if you'd had it as you thought it should be, maybe in terms of, you know, what the percentage for… would've been with that in place? And then, as a follow on, what you're doing concretely to change the execution? Can you give, maybe, a couple of examples of areas where you see problems that you can easily address and change that execution? Thank you.

David Arnott – *Temenos – CEO*

Okay. Thank you, Adam. Great questions. Let me take them in the order that you gave them, so, first of all, cost cutting. Let's put this in context. It's 20 million out of a $400 million cost base, so it is… it is not that, even after the cost cuts we've made in the past, we're really cutting into the flesh of the business. What Guy put in place, in terms of investing in sales and investing in services, will absolutely be intact, and everything that we are doing on costs is being very much with a mind, not just of protecting the second half of 2012 but also moving towards our target P&L model, if you like. So, sales, specifically, I can commit to you that nothing we're doing on the sales side at a field level will in any way impact the number of feet in the street, if you like. What we're doing there is de-layering, bringing focus, putting some people, who previously were less closely connected to direct client situations as we scale for growth, back out in direct client-facing roles. So, if anything, our client facing head count goes up. Also, on R&D, what… we are moving towards out target model over the medium term, which is a lower percentage of R&D but we still have pockets of development, even after the cost cuts we've made in prohibitively expensive locations, and we will continue, basically, with what we've been doing in the past with a further cut in those areas. Again, notwithstanding the need to protect, in particular, the Triple'A and wealth manager roadmap, and, so, products that are doing very well. So, some comes from G&A, obviously; there is further opportunity there, but it's also importantly not all head count. We have infrastructure costs, as well, that we can take out. So, within the constraints of the fact that we haven't announced all of this internally yet, I'd just like to say that we're very conscious of our need to protect our ability to deliver the second half and also growth, and that's been at the forefront of our minds when we've been going through the cost cuts. So, is that okay?

Adam Wood – *Morgan Stanley*

That's great, thank you.

David Arnott – *Temenos – CEO*

Good. So, moving on to the environment question. We declined 14% like for like licensing in the first quarter. We expected to end up around the same position and my opinion is that the entire gap, or by the vast majority of the gap, between -14 and -37, is execution driven. Not execution in terms of an individual who didn't do their job but, more importantly, in terms of the organisation being aligned with focus to deliver those deals in the quarter, and a good example would be one of the significant deals that's closed after the quarter end. My opinion is that, with a better alignment on the services side, to overcome the client's objections that they really understood the project side of it, as an example, we could've got that one done in the second quarter. So, not a personal issue about non-performing sales people; more about the organisation that was scaled for growth, the bureaucracy, a little bit, had taken over the client facing side as you go into the closing stages of a deal. So, I believe we would've ended up around -14 with better execution. Now, we've covered a portion of that gap already in the start of the third quarter. I'm conscious of not over-positioning the third quarter on the basis of that, but the fact that we've been able to close a handful of deals highlights, to me, the fact that it's execution.

Adam Wood – *Morgan Stanley*

So, it may be scaling up the business a little bit too much before it was ready, and then being hit by the environment at the same time.

David Arnott – Temenos – *CEO*

Yes, pretty much. That, plus taking our eye off the ball in terms of… in terms of processes and alignment, I think. So, -14. If you want a number, my gut feeling is an underlying 14%. Just remind me, Adam, because my answers were a bit long, of your third question?

Adam Wood – *Morgan Stanley*

Well, that was it. It was basically just this very… well, it was really… it was the actions you were taking, but you've talked about, you know, the alignment of, for example, services and sales. Would that be the main one that you see as a problem, or…?

David Arnott – *Temenos – CEO*

That's the main one but let me give you one more practical example. I think we've lost, a little bit, the regional focus. The four pillar strategy of Guy will stay intact but the pillars became strong pillars and, at the regional level, I'm putting a lot more focus into a regional director working with a regional head of services and a regional support function to jointly sort out their issues and jointly share a P&L. So, the services team are now motivated to sign licensing, the licensing team in the region are now fully aware and on top of and involved in their services issue. So, there's this shift of the pendulum slightly back towards regions, which has taken place immediately and will be rolled out already for August. It's something more practical, I think, and there are a bunch of other stuff, as well, that I can't really talk about in detail at this stage, but along those lines.

Adam Wood – *Morgan Stanley*

Great. Thanks for the [unclear] answers.

Operator

Thank you. Your next question comes from Josep Bori of Exane BMP Bank. Please ask your question?

Josep Bori – *Exane BMP Bank*

Hi. Good afternoon. Thank you very much for taking my questions. The first one is actually a bit of a follow up on what Adam was asking. I mean, now that you've looked at the deals that got delayed in Q2… and you mentioned you'd signed, already, a handful… I mean, can you give us a sense of what you expect in terms of seasonality between Q3 and Q4? And, now that we're at it, if you could mention the number of deals that got delayed and how many of those are really signed? And then, on a separate question on deals; I think you mentioned there were two large ones signed this quarter? Can you give us a sense of how large are we talking about here? Is it, kind of, in the double digit total value of the contract, maybe? Thank you very much.

Adam Wood – *Morgan Stanley*

Okay, Josep. Let me take both of those again. We don't provide quarterly outlook. I wouldn't really like to say any more than I've already done on the second half. We put a lot of effort into explaining how we will deliver the second half and split up, for the first time, existing from new Europe and rest of the world, and I would like to confirm that we have the pipeline to support that. We've done a deal by deal review of forecast, and covered deals, that supports that, clearly existing. I hope we've made you comfortable that it's resilient. And, new rest of the world, we've split up from Europe because it's structural, it's growth driven, also pretty resilient if you take out two large outlay deals, but, in terms of Q3 to Q4 seasonality, all I would really say is that the comparatives get a lot easier into the fourth quarter. We're comfortable with the half year but I really don't want to make any commitments in terms of the third quarter. In terms of the cut off of deals, I didn't want to overemphasise, you know, we've slipped and now it's all going to be good again. All I was really saying there was that, the fact that we have closed deals early into Q3, suggest to me that execution really was the issue. If a bank has waited 20 years to change a system, a week shouldn't make a difference. I didn't want to illustrate that we're naively going into the third quarter thinking all is good. That was really a second quarter cut off point, so don't… I won't give you the number of deals that's slipped, I won't try and turn that into a dollar number, and I would really rather you didn't take that off the third quarter. Because, whilst we're very comfortable on the first half… on the second half in total, reading the third and fourth quarter would be too much of an ask.

Josep Bori – *Exane BNP Bank*

Thank you. And what about the question on the two large details? I mean, can you give us a sense of…?

Adam Wood – *Morgan Stanley*

How... sorry. Not really, and I would say, one… in line with our average deal size; good, solid, universal sized deals but nothing to distort the trend. It really was an execution point on Q2, rather than a modelling exercise.

Josept Bori – *Exane BNP Bank*

Okay. Very well. Thank you.

Operator

Thank you. Your next question comes from Michael Briest of UBS. Please ask your question?

Michael Briest - *UBS*

Great, thanks. I've actually got a couple. Looking at the charts you give on slide 18, which are very useful, the one thing that strikes me is that, last year in the second half, Europe made up half of the licenses, and in the first half this year it's made up less than a quarter. And I appreciate the comment about, sort of, new versus installed base but, clearly, banks in many parts of Europe are struggling, whether they're new customers to you, or otherwise. And, just, if you could give some prospect on how you see the existing customers in Europe behaving in the second half? And, then, secondly, on the maintenance there's a very nice acceleration in the second quarter. It's a bit hard for me to understand where that's come from, given the deteriorating licenses? And also the deferred income? I suspect there some currency effects in there but that's also down quite a lot. Can you talk about whether there was any catch up on maintenance, or premium payments that were made, to drive that growth in the second quarter? Thanks

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Adam Wood – *Morgan Stanley*

Okay, Michael, thank you for those. Again, taking them in order. Listen, Europe half year, full year; the main point here is that we've absorbed the majority of the reduction in Europe already, in the comparative. So, if you look at the first half 2012, for example, which is the right hand of the three columns on the left hand side, we don't need any change… and you add that to whatever growth you like on the dark blue… on the right hand side, which gives you a kind of a base for existing, we don't need a particular shift into Europe to deliver the second half. In fact, what I would say is, if you look at the first half, considering conditions are so challenging in Europe, what it does illustrate is that there is always somebody who needs to buy something. I would doubt, very much, that it would go down to zero; it's never gone down below… what have we got here; five or six million. But the main driver, I would expect, would be the light blue, which is the emerging markets, especially Middle East. To give you a bit of flavour on that, Middle East pipeline is very strong, Asia is strong. There's a pipeline in South American but I would really like to emphasise the Middle East and Asia components. But, again, the main point being, we don't need a shift away from the first half to stick on top of the dark blue line to get to the second half. I don't know whether that answers the question, or…?

Michael Briest – *UBS*

Well, I mean, just going back to Q3 last year, there were two tier one deals in Europe and it was 20 million out of a total of 38… and I appreciate you saying some stuff has slipped from Q2 and already closed but I just wonder if you're going to get anywhere near to the nearly 40 million you got in European licenses in H2 last year?

Adam Wood – *Morgan Stanley*

No, extremely unlikely and certainly not in our numbers. And, again, I don't want you to take away from this that I'm positioning this slippage, okay? I would… we will not get to that level of European business in the second half. And, if you want a bit of guidance, I would take the first half 2012, light blue and middle blue, and move them across to the right. That would be my best estimate from where we are today. And the last… and then the real question then becomes, not the size of Europe but how the risk comes around the light blue, which I can only say the Middle East pipeline is strong; we have good cover there, we have an excellent sales organisation, and backed up by Asia, especially on the private wealth management side. We see private wealth management and universal banks really driving those two geographies. Private wealth management, especially, in Asia. So, in terms of maintenance, yes, 6% is slightly off trend. We've guided more from 5%. Last quarter it was slightly below that; this quarter it's slightly above. This relates to a bit of cash accounting, a bit of forex, but no particular trends to note there, other than to keep modelling the 5% like for like. And deferred revenue, again, is driven by maintenance. If you look, over the last three years, at the swings on deferred revenue, they entirely come from maintenance, and, simply, we don't collect a lot of cash. And that's why deferred gets depleted in the second quarter and repleted in the fourth quarter. So, again, in terms of deferred; no real underlying trend, other than the normal maintenance, cash flow seasonality.

Michael Briest – *UBS*

Okay, thanks.

Operator

Thank you. Your next question comes from Gerardus Vos of Barclays. Please ask your question?

Gerardus Vos – *Barclays*

A very good afternoon. Thanks for taking my questions; a few, if I may? Just, coming back to, kind of, cost base; to drive it down to 350. I seem to remember at the, kind of, full year outlook, that the cost base for 2011 was 386. The 12 fixed components was at 341 and then there was a discretionary variable component on top of that to bring it up to, kind of, 390. Now, that would imply, kind of, run rate of around 85 per quarter. The last two quarters being run around 10 million above that, which really surprised me because I would not expect any kind of variable component or discretionary component would be included in that. So, I was wondering if you could, kind of, reconcile, basically, the cost base you outlined at that moment in time with the cost base you outlined today? Then, secondly, if you would be able to provide me with the number regarding the, kind of, Misys payment? And, then, finally, David, regarding services; is there any kind of change in strategy there, or is focus still on mainly driving services indirect [?]? Thank you.

Max Chuard – *Temenos - CFO*

Hi, Gerardus, this is Max. Let me take the first one. Basically, to come back to the cost base [unclear] we discussed last time. Part of the viable [?], which are two elements of which we have, first, a discretionary part and a viable part. Clearly, the discretionary part; this is the balance which collects with the profit, and then the viable one is linked to the licensing. So, even though we are not performing as expected, you see, like, some viable within the year. So, that's the first point to note. The second one is, you will see the cost train [?] to start reducing into three… into four sequentially, and if you were to look at what is the implied cost base for the full year, you could assume that the reduction will up by more or less one third in Q3 and two thirds in Q4. Now, on the question on the table swing that I mentioned; the 10 million; in fact, eight… around 8 million, refers to Misys.

Gerardus Vos – *Barclays*

Sorry, could you repeat that? I missed it.

Max Chuard – *Temenos -CFO*

Out of the 10 million payable swing, 8 million linked to Misys.

Gerardus Vos - *Barclays*

Okay, thank you.

David Arnott – *Temenos - CEO*

Okay. Gerardus, this is David on services. So, short and sweet; no change in strategy at all; simply better aligned with sales.

Gerardus Vos – *Barclays*

Okay, thank you.

Operator

Thank you. Your next question comes from Sandra Sherman [?]… excuse me, sorry, it’s Takis Spiliopoulos of Bank Vontbel. Please ask your question?

Takis Spiliopoulos – *Bank Vontbel*

Yes. Hi, David and Max. First question would be on you mentioning having talked to prospects and customers already. So, what was their initial feedback on the changes, or recent events? Any main issues or fears? That would be the first one. The second one; having launched TEFA out about two months ago, what was the initial feedback there from customers? Have you seen any change in the pipeline, maybe more Q1, Q2; banks getting interested in terms of this? Thank you.

David Arnott – *Temenos – CEO*

Thank you, Takis. Great questions. Again, let me take them in that order. So, feedback from clients and prospects; obviously, initially, a CEO change concerns them, so we've spoken to a very large number. I've probably spoken to 40 customers, now, and met personally, face to face, five or six prospects. When you explain it; when you explain that you're not changing the strategy, you're not changing the roadmap for the product, you're not changing our delivery organisation, and that we're a safe pair of hands who've built the company, as a management team, to what it is today, you very quickly convince them that all is okay. So, you need to do it face to face; you can't… call by call… you can't just expect them to pick it up from a press release. But, personally, I have to say, on the calls and meetings I've had, it's… because, from their perspective, so little is changing, and because there's continuity in the team that they fact, it's not an issue. TEFA? TEFA was launched in our client event in Barcelona, as you know; you were there. Very well received. They like it. There's some really quite disruptive things in there; I tried to pull out a few of them in my script. And, yes, it has had an impact on our pipeline. In particular, private wealth management banks and tier one organisations across the board really like the progressive renovation story. They like the fact that that you can replace the front and then, when you're happy with that and you've delivered your cost cuts and your new functionality at the front end, you can then come back and replace the back office. So, yes, I would say it's had an impact on our pipeline. In particular, in private wealth.

Takis Spiliopoulos – *Bank Vontbel*

Thanks.

Operator

Thank you. Your next question comes from Sandra Sherman of Maulind [?]. Please ask your question?

Sandra Sherman – *Maulind*

Good evening, gentlemen. Thank for taking my questions; I have a couple. Coming back to the cost base issue; in your full year 2011 results, you talked about fixed cost base of $340 million. You're taking the cost cuts of about 20 million, so… but you've got it to 350 for next year, so I'm just trying to understand how much of that 350 could be discretionary? My underlying question is, does that mean that you'll have three years of no discretionary pay, or very low discretionary pay, and would that affect the sales floor morale? That's question number one. And number two is, in your geographic split, I see that America was particularly weak this quarter. Is that just because of the tough comps in Canada, or are you seeing a different dynamic there? Thanks.

Max Chuard – *Temenos – CFO*

It's Max. Let me take the first one. So, we are 60 [?] compared to the original communication; the 340. If you want the equivalent number for that for next year; it would be 320, where, if you want the fully loaded cost would be at 350. So, basically, you've got 30 million viable and discretionary cost into that number.

David Arnott – *Temenos - CEO*

In terms of the second question, I wouldn't read too much into the America's part of the pie chart. In fact, our second largest deal in the first half came from the North American continent, so, no underlying change in the drivers for the… for North America, or for the Americas, overall, in fact.

Sandra Sherman – *Maulind*

Thanks.

Operator

Thank you. Your final question comes from Michael Studer of Bellevue. Please ask your question?

Michael Studer – *Bellevue*

Yes, thank you for taking my question. I have one regarding your licensing revenue split. We see that you, kind of, have a collapse in Q2 2012, compared to 2011, but your long term level is still at about 40% for Europe, so, my question is, how do you see that progressing into the second half and how much further decline we, kind of, have to expect there?

David Arnott – *Temenos – CEO*

Okay, Michael, thank you for that. I'll just repeat what I said again, if that's okay? I hope you find slide 18 useful; it's certainly a cleaner way, I think, than we've ever laid it out in the past. I would just answer… repeat Michael's point that probably the best way to look at it would be to cut and paste the third column across, which is the first half performance of this year in the same market conditions, getting worse in the second quarter with, arguably, some execution on top of it, and map that across to the second half and put it on top of the installed base. So, the 40% includes… the other thing I would to would be to take Europe, so, take our existing base, which is the dark blue, for the first half… and you can see that on the right hand side… maybe grow that a little bit or leave it slightly flat but you can see it's clearly predictable. So, we're not expecting much from Europe. Europe remains challenging. And, on top of the installed base growth, or revenue, rather, I… really it comes down to the emerging markets, which is about private wealth universal and a little bit of retail.

Michael Studer – *Bellevue*

So, actually, you expect Europe to further decline in percentage of total? Is that the right read across, right? Can you still hear me? I, kind of, lost… Can you hear me?

David Arnott – *Temenos – CEO*

Yes, we can. I was just trying to… could you ask one more time, sorry? I'm trying to be helpful here but I think I'm missing the point.

Michael Studer – *Bellevue*

No, the point is just that Europe, with 40% on a long term basis, right? I mean, we obviously have, there, a basis effect, which, kind of, should ease, at least, into Q3, however, still a very high basis. And, therefore, my question was just, taking your response that you're just counting in the existing business in Europe and no real growth, you're obviously expect Europe to further decline into the second half?

David Arnott – *Temenos – CEO*

Oh, it's all right. Cool. It was simpler than I thought. Yes.

Michael Studer – *Bellevue*

All right. And then, maybe on the cost base, again, on your cost cutting; focus, you say, sales and marketing, you're just, kind of, say refocus? I mean, can you give us some more colour on what do you exactly mean by that? Some personnel reallocation, some closures off of businesses? Just so that we get a better feeling how you actually tackled the cost base?

David Arnott – *Temenos – CEO*

Okay, don't necessarily link sales and marketing to the… to, overall, a disproportionately high percentage of the cost efficiency programme. What I meant on slide 15 was, simplified structure means removing processes internally which mean that the services business… the sales business is less aligned with services, it means flatter reporting, it means putting our best people back into direct contact with quoters and ownership of specific deliverables for the second half, whilst keeping intact everything that Guy has done. And, but refocus, what I meant was really aligned with services, so, for example, you don't have a separate services organisation who the sales team look at and say, it's your problem to be able to come in and position services to this customer and I'll be back when you're done. It's a joint collaboration between services in the region and sales, who have to understand all of the client's objections, all of their issues that are on the critical path to signing; one of which is very often the delivery side; how long will it take, is the statement of work completed? And they've been a bit split off, so, refocusing is refocusing of the sales and services people all around… all around the closure process. In terms of costs, because this is a costs question; the de-layering drives out some costs, geographically, there is a small amount of cost to come out, in particular if you talk… look at the areas we've talked about where sales are growing. We have too little investment in those territories and, arguably, too much in the parts of the world that are not growing, so, within the constraints of what we can… what we've announced internally, there's a bit of cost saving in sales and sales related activities but mostly it's about alignment with the rest of the business. And I've talked a lot about services but, also, clearly, alignment with product. But, again, your underlying concern is, are we doing anything to hurt our ability to deliver either second half sales or 2013 sales, and I'd like to be very clear; we are not.

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

Okay. Thanks, everyone. That's… we don't have time for any more questions but thanks, everyone, for joining us, and we'll speak to you after our Q3 results.

Operator

That concludes the conference today. Thank you for participating. You may now disconnect.