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Corporate Participants

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Temenos UK Ltd

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Presentation

Operator

Ladies and gentlemen, good afternoon, thank you for standing by and welcome to Temenos' Q2 2013 Results conference call. At this time all participants will be muted. There will be a presentation followed by a question and answer session, at which time if you'd like to ask a question you will need to press star and one on your keypad. I must advise you that this conference is being recorded today, Monday 29th July 2013. I would now like to hand the conference over to your first speaker for today, Mr David Arnott, CEO; please go ahead sir.

David Arnott – *CEO, Temenos UK Ltd*

Thank you operator. Hi everybody, and thank you very much for taking the time to join the call so shortly before the holiday period. As usual, I'm going to start with some comments on our second quarter performance and the market backdrop to those results, and then I'll hand you over to Max for a financial update, and then finally we'll return back to myself to conclude before opening up the call for questions. Hopefully by now you've all found the presentation which is loaded onto our website, and if you turn to slide four of that presentation I'd like to give you a brief summary.

It's been a year now since I first presented to you as CEO, and I'm pleased to report good progress. This quarter saw a strong performance across all KPIs as we continue to improve execution and deliver against the strategy we outlined to you in February with our 4th quarter 2012 results. The multi product focus is definitely working; as we expected, having multiple products is allowing us to meet the broader needs of our existing customers, and we've seen strong cross-sales. In addition, having multiple products is also helping to make us more competitive in our main core banking market, and I'll expand more on that later in the presentation. We also saw significant margin expansion in the 2nd quarter, up by 800 basis points. This rise in margins owes to a combination of higher revenues, an improvement in the sales mix towards more product revenues, and a lower cost base with the benefit of the cross reduction programme still coming through on a year on year basis. Cash generation continues to be very strong. We continue to convert more than 100% of a growing EBITDA number into operating cash on an LTM basis, and the strength of these cash flows enabled us not only to do strategic M&A but at the same time return cash to shareholders though a buy back. To underline this point, we initiated another buy back in the 2nd quarter of 2013. And finally, our strong performance in Q2 gives us confidence for the year, and allows us today to re-confirm our guidance.

Turning now to slide five, I'd like to dig a little bit more into sales for the quarter. Q2 saw a strong performance from the product business, by which I mean software licensing and maintenance. Like for like software licensing revenues grew 15% in the quarter, against the same period in 2012; the third consecutive quarter of growth. We had seven new customer wins compared to five in the second quarter of 2012, with good new T24 wins in Asia and the Middle East, and an important new private wealth customer in China. Maintenance grew 4% excluding the effects of currency, which is in line with our forecasts. Overall, the strength of the product business more than offset the reduction in services revenues, and we saw growth in total revenue, both in the quarter and for the first time in over two years, on a last 12 month basis. Our multi product offering continues to drive the sales, and more importantly, pipeline growth. We always expected that having multiple products able to meet banks' multiple needs would allow us to sell more software, especially to existing customers, however, what we also observe is that the multi product strategy is making our core banking proposition much stronger, and helping us to take market share. The fact is that core replacement is inevitable. The industry is not going to be able to meet the needs of more demanding customers, nor return to historical levels of profitability without replacing its core technology, but for many reasons a lot of banks don't want to embark on core replacement right now. What the multi product strategy allows us to do is work with new customers and to address their biggest pain points as they perceive them to be now, in the order that they want to address them, before eventually helping them to replace their core system, either in one go or more likely as part of a progressive renovation. This way, we deliver faster value and according to the banks' priorities. This strategy is also helping us to sell to bigger banks, and as you can see in the appendix, the share of revenue coming from tier one and tier two banks continues to rise. Where a customer does want to undergo core replacement, our ability to address their wider needs gives us a source of competitive advantage and more importantly, helps us to defend the value of the core system. We've got the broadest functionality of any vendor in the private wealth space, covering front, middle and back office, and again, with the ability for banks to renovate progressively. We continue to see strong growth in this vertical, and strong pipeline build.

Lastly, we're moving rapidly into the SAAS market. The TriNovus acquisition has catalysed our pre-existing initiatives by putting additional expertise in focus, and we now offer many of our products, including T24, on a SAAS basis and in the cloud. In the same way as component renovation is opening up the tier one opportunity, SAAS and cloud are opening up new markets to us, especially with smaller banks and financial institutions.

Turning to slide six now, a little bit of flavour on the geographies; Europe has proved resilient so far this year; in fact, it's grown revenues in the first half. This is very much a case of strong execution from our team, rather than markets. The markets for new business continue to be challenging, and it's too early to call a recovery in the market for new business. What we see is that firstly we're winning a greater proportion of the new business that is out there, but more importantly, we're selling very successfully into our customer base. This is a function of the multi product strategy, and in particular we note strong sales of our wealth management and channel products into the existing customer base. All of our other regions are also delivering on plan. When we changed the sales teams there was inevitably a period of disruption, and I'll come back to talk about this in a second; but what we now see is that the sales campaigns launched under the new management around the end of last year have started to deliver results, with strong pipeline build, and we would expect strong growth in licensing revenues from these regions going into the second half. As already noted, the multi product strategy is helping us to gain market share. We're also executing more strongly and our win rates are better. If we look at most of the competitors in the core banking space today, they're still reporting falling revenues, as we've grown licensing, for each of the last three quarters. Finally, our strategy to move partners to bring in additional sales channel, is gaining further traction, with partners bringing around 20% of software licensing in the first half, compared to 14% for calendar 2012.

Turning to slide seven now, I'd like to give you an update on the broader operations outside sales. We continue to extend our product leadership, ensuring we translate our above industry R&D spend into high quality tangible advancements to our product set, to maintain a key [sort of] competitive advantage. Q2 saw new versions of existing products incorporating the hundreds of functional enhancements that we make together with our customers, as well as the technology innovation that comes out of our labs. In Q2 we also put into general release a number of new products, such as Social Comply, a solution for social media monitoring and compliance, and our integration framework. The integration framework allows our solutions to be integrated faster, within a bank's existing IT landscape, and [M Chuary], which was our beta customer, has demonstrated that it can speed up implementations by a factor of three times. We made a number of model banking country platform enhancements, which may not sound quite as exciting as, say, SAAS or componentisation, but is key to reducing time to go-live, and therefore it's a value through pre-packaging local banking functionality so that it doesn't need to be customised every time you start a project. In my personal opinion, the vendor that truly unlocks the time to value equation and offers not just a compelling ROI but also a short time to value, is going to clean up in our space, as this is the single biggest objection a bank has to taking on a project, and therefore it's a big focus of mine. Lastly, as I mentioned earlier, the TriNovus acquisition is forcing us to speed up our SAAS initiatives. Regarding customer success, here too we continue to make good progress. We took eight customers live in the quarter. The partner programme is reaching a good level of maturity and all of the deals signed in the first half will have some level of partner involvement, and all of the largest deals are partner led, though our involvement is limited solely to project governance. We continue to see growth in productised services, which are the services most closely linked to the software and where our consultants are able to bring the most value to customers, ensuring they get the best out of our software. In total there are now 1,600 partner consultants in the Temenos services eco system.

Turning now to slide eight, I'd like to give you a short update on our US SAAS business. In the quarter we added 43 new customers. Like for like SAAS revenue was 31% up against Q2 last year. The quarter also saw some important new product launches, with the release of SAAS versions of our BI and AML products to the US market. In fact, we signed our first AML deal last Friday with United Texas Bank, and have four more slated to close in the next two weeks. The US model bank enhancements, which were determined on the back of existing customer requirements, are also on track. Significantly, we've identified the first takers of T24 on a SAAS basis in the US, which is key to demonstrating the market readiness, and also to showing the market the significant value of having flexible modern real time technology. Lastly, the integration of TriNovus operations, and the team is now largely complete, and the TriNovus offices are now the headquarters for our US business. So, with that, I'd like to hand you over to Max to update you on the financials.

Max Chuard – *Temenos UK Ltd*

Thank you, David. Turning now to slide ten, (unclear) so strong growth in product revenues. Like for like software licensing revenues are up 15% in the quarter, thanks to sales execution and strong sales into installed base in Europe, and with some prominent new wins, especially in (unclear) US [management measure]. Like for like maintenance revenue grew by 4%, showing strong resilience in our maintenance base. We always have said that services is a margin business. As we run that department model revenue continues to be deceased, but we are also seeing a quite strong reduction in costs. In fact, (unclear) services margins improved by 400 basis points on a year on year basis in the quarter, as we increase the contribution of high margin productised services, as well as increasing the level of partner activity. The combination of higher revenues, a better sales mix and lower costs through a good margin, up eight percentage points to 18%, with (unclear) almost doubling, up 86%. Finally, we delivered last 12 months cash conversion of 132%, ahead of our target of converting over 100% of EBITDA into cash flow.

Now, turning to slide 11, we saw growth in our total software licensing revenues, which combines on (unclear) and (unclear) licensing of 21%. It is now the third quarter of licence growth, and the first time after two years we turn our LTM software licensing to (unclear). Total revenues are also now growing on both quarter and LTM basis. And finally, our LTM services revenues are now at 120 million, representing over a quarter of the revenue mix, and on track to meet our target model for the medium term of 20 to 25% of total revenues. The combination of higher revenues, better revenue mix, and lower cost down 5% year on year, produced a significant rise in profit. (Unclear) improved by 86% contributing to an 8% increase in margin to 18.2%. And the final point, on an LTM basis, we reached (unclear) EBITDA of $135 million on the margin of 29.6%.

Turning to slide 12 we show the revenue on cost on a like for like basis. This quarter's impact of forex is very marginal, and basically the only adjustments are in relation to [three] levels and to the Edge acquisition, without which, the (unclear) would have only been growing at 31%, and the cost will be lower by 7% rather than 5%.

On non-operating income statement, on slide 13, we can see the (unclear) growth as it has been augmented by good control of [stats] and financing cost. In fact, if you look at the 86% growth (unclear), this translates into 254% growth in EPS in the quarter, even absorbed in a higher financing charge. On an LTM basis (unclear) EPS has almost doubled, with 92% growth. Finally, we (unclear) our tax guidance for the year at 17 to 18%.

On slide 14, I look at the cash conversion, which for the last 12 months ending June 2013 was at 132%. As I said, this is ahead of our target to convert at least [100%] of EDIBTDA into cash, and we are well on track to deliver on our full year commitment. As you can see, for the past three years we've been converting more than [100%] of EBITDA into cash, and cash flows have grown strongly in absolute terms. The strength of our cash flow gave us confidence to pay our first ever dividend in Q2, and I'm going to comment, is shared by that programme last month. At the end of June we've returned circa 12 million to shareholders through the buy back programme, and as of today, 24 million on equivalent of 1.1 million shares were bought back. We intend to continue our buy back programme. And finally, as a final note, our strong profit growth and (unclear) reduction on the P&L our strength in the free cash flow generation.

On slide 15 I look at the balance sheet, and as you see, our leverage remains within our target range at 1.3 times the EBITDA. If you take into account our (unclear) [shares], our leverage goes down to .7 times EBITDA. As you know, but I think it's worth remembering, that at the end of Q1 we refinanced the company and we lengthened the term of our financing with (unclear) capital repayment now due on to 2017 now, which gives us full flexibility on the funding side to deliver on our strategic priorities.

Now last slide, slide 16, you can see our guidance for the year, which we reaffirm today. Although our currency assumptions for the year have moved very slightly, which are not material, and so there was no need to update our guidance for the [FX]. So, to re-cap, we expect total revenue growth of 4.5 to 7.5%, which implies revenue of 469 million to 482 million at cost (unclear). License growth of 5 to 10%, which implies licence revenues of 131 to 137 million dollars. (Unclear) cost base we reaffirm at 368 million, which gives (unclear) margin of 21% to 23.2% implying a (unclear) of 102 million to 112 million. We continue to guide as well on 100% plus of EBITDA into (unclear) cash flow, and as I said, a tax rate of 17 to 18%.

So, with that, I will pass back to David now.

David Arnott – *CEO, Temenos UK Ltd*

Thank you, Max. If you turn now to slide 18, which is the last slide in the deck, I thought just before closing it might be useful to stand back one year after taking office and look what we've achieved as a management team, over the last 12 months.

The business today is simpler; it's more responsive to market changes, more accountable now that it's been de-layered and we've reintroduced a very successful original model. We've reconfirmed the products and sales focus, bringing clarity to the organisation, and resulting in much better execution across all aspects of the business. We've taken cost cuts, which have underpinned the profitability, but more importantly, not impacting our ability to grow, whilst driving significant margin expansion in the year. We've secured our funding for the strategic plan, refinanced the credit facilities at very good rates, and launched our first publicly listed bond. And finally, we've executed two strategically important deals with TriNovus and Edge IPK to enter the SAAS and US (unclear) markets respectively, and the results of these changes are clear. We've returned software licensing to growth, and we've taken market share. We've extended our leadership as measured by market share, but also in areas that are more difficult to demonstrate objectively, such as the perception of our products and our ability to hire the best talent in the industry. The strength of our cash flows and the confidence we've got in our future cash flows has allowed us to return cash to shareholders, both through the initiation of an annual dividend and the commencement of a share buy back programme.

So, we've done a lot in the last 12 months, and I feel today the business is well positioned. I wouldn't say that what we've done so far was the easy stuff, but I do believe that the real benefits of what we've been up to have still not yet been seen, and we will start to see them even more strongly as we move towards the end of what is naturally a period of putting management in place in the regions and helping them identify their key markets, and asking them to find leads and then running what is typically a 12 to 18 month sales cycle which started around the end of last year. So, I very much look forward to updating you all on how this turns into further shareholder value creation over the next few quarters. And with that, operator, I'd like to open up the call to Q&A.

Questions and Answers

Operator

Certainly, thank you, sir. Ladies and gentlemen, if you would like to ask a question at this point, please press star one on your keypad and please wait for your name to be announced. Our first question today comes from Adam Wood from Morgan Stanley, please go ahead.

Adam Wood – *Morgan Stanley*

Hi David, hi Max; I've got two, if I could; just first of all on the licensing; so it's now two quarters in a row that you've pretty much hit expectations or come in a little bit ahead; I wonder if you could give us a little bit of colour in terms of what it's looking like in the field; it's obviously been tough in software in the first half of this year, so has it been a real battle in the field to get those licenses in, or are you finding it a little bit easier, maybe building a little bit of backlog and pipeline, and any kind of matrix you can give us around the pipeline or backlog build to illustrate that would be really helpful to give us a feel for confidence now versus the start of the year on the license number for the full year? And then secondly, David, you talked about the changes that you've made, and some time needed still to see the fruits of that; could you maybe give us a little bit more colour on that, on the background; do you have the sales people rehired that you wanted to rehire, is there still more work to be done; so are people in place and so it's just about waiting for the execution now, or is there still more work to be done in the field? Thank you.

David Arnott – *CEO, Temenos UK Ltd*

Okay Adam, thanks, I'm going to take those together, if I can, because I think they're related. If your concern is that we had to scrape around to make the number, then that will be misleading; that's definitely not the case; but it's also not the case that we're doubling the number and we're building up a huge war chest for the future. The truth is very simple. The markets are challenging for new business, especially in Europe, but I think by focusing the right people on selling to the installed base we've been able to sign good quality, very profitable deals, bang in line with the strategy, on good terms. In emerging markets it's the same; we put a lot of investment into that in the second half of last year, and again, we signed a good level of business, a good healthy level of business, it's not that we got lucky with a couple of technical projects in a corner or something like that where a bank needed new users; it was bang on strategy. So, we're very pleased, obviously, with the first half overall; it's a good, solid performance; there is some level of obviously backlog generation, but we won't comment on that. But really, what I wanted to spend two seconds on, was clarifying the answer to your second question because it's very important. In Europe, we already had a very strong management team right from the get-go last summer. It was where something like 70% of our sales force were based, and most of the good ones have been retained. So, in a way, Europe was the first region to test whether our strategy on focusing on shorter time to value products, and farming the installed base was successful – and they've proven that that is the case. The other regions, really, we only put management in place between, I would say, the September of last year and Q1 of this year. And inevitably, it takes time for those new management teams to identify the key countries, find the projects that are in flight, get involved in those deals, work with the right partners, and with a 12 to 18 months sales cycle, we will only…what I've learnt, what I wanted to say was, that we will only really see the benefit of the management changes we made in those other regions something like 12 to 18 months after those people came in. And I'm suggesting therefore that because we've proven the model works in Europe, we will expect the same model to work in the other regions, specifically Asia, Latin America, North America, and the Middle East and Africa. The pipeline in those regions is developing very well; the strategy is clear; and I would expect to see an acceleration of growth in the second half from those regions as the deals come to maturity. And that really underpins our confidence in the full year.

Adam Wood – *Morgan Stanley*

That's really helpful, thanks very much, David.

Operator

Thank you. Your next question today comes from Gerardus Vos of Barclays; please go ahead.

Gerardus Vos – *Barclays*

Hi, good afternoon guys; there's a couple, if I may; the first of all, on the go-lives, the go-lives were a little bit lower than what we've seen in the last couple of quarters; is that indicating that we've now finally worked our way through those longer term integration kind of deals, who resulted in quite a bit of indigestion in the past? Then secondly, on the last call you indicated that the service profit for the full year would be around mid single digit loss; is that still standing for 2013? And then finally, deferred revenues came down a bit more than usual sequentially in the second quarter; should I read anything in there, or was it simply because Q1 was so strong? Thank you.

David Arnott – *CEO, Temenos UK Ltd*

Thank you Gerardus, let me take the first one of those; no, I wouldn't say that the lower number of go-lives is evidence of a trend that we've got the big projects behind us; they just happen to be lumpy, really, in terms of the dates when they go live. We still have a number of larger projects in flight, but overall I would say the changes we made 12 months ago in terms of services, governance, methodologies and so on, as an overall trend are accelerating projects, making them stick more closely to the project timelines, and we're in good shape, but not that we're at the tail end of our large projects, as you can see from our BSOs. The BSOs will continue to come down as you see the full impact of the tighter methodologies taking some of our remaining projects live over the next 12 to 18 months.

Gerardus Vos – *Barclays*

Okay, thanks.

Max Chuard – *Temenos UK Ltd*

It's Max, on the services side nothing has changed since what we said last time, so yes, we still expect circa minus 5% about on the services margin. And on the second question for the deferred…I think for the deferred you need to look at it on a yearly basis, and if you look at it you'll see that the deferred is going in fact down on 10%, while the (unclear) is [going] by 5%, and so the difference is mainly the acquisition of TriNovus and Edge, which was not in the comparative, so there's nothing specific on the deferred, it tracks nicely the [maintenance base].

Gerardus Vos – *Barclays*

Okay, thank you.

Operator

Thank you. Your next question today comes from Chanda Sriraman of Main First Bank. Please go ahead.

Chandra Sriraman – *Main First Bank*

Thank you. Congrats on a good set of results. I have a couple of questions; number one, I was just wondering, so you mentioned that the shorter term projects are doing well; I was just…how can you give us comfort that your new SAAS (unclear) of business intelligence and AML don't affect your near term growth, because this is something that a lot of the software vendors are seeing, with the propagation of SAAS solutions? And just a follow up on services; I noticed that quarter on quarter the services costs have basically been flat, so I'm just wondering how should we look at services costs going forward in the next couple of quarters? Thanks.

David Arnott – *CEO, Temenos UK Ltd*

Hi Chandra, thanks for your comment on our results; appreciated. In terms of sales, let me be clear. The extra AML and BI I was talking about is incremental revenue in the US through cross-selling our products into the TriNovus client base, where we had very little presence in the US at all before we bought TriNovus, so that is purely incremental. I suspect your real question isn't so much about that, but whether we're seeing a move towards SAAS outside the US?

Chandra Sriraman – *Main First Bank*

Yes.

David Arnott – *CEO, Temenos UK Ltd*

And the answer there is we're honestly not seeing it much yet, but we are conscious that it is a trend that may emerge quickly, and we're doing everything we can to make sure we're ready, and I honestly believe we're more ready than anybody else in the sector today. We've learnt a lot from our partnership with TriNovus in terms of getting all of our products ready, and if you look what's been happening to our product set in the last couple of years in terms of breaking out individual components, like payments, AML, BI, and the component roadmap we have, the product offering coupled with the model banks and country platforms and all the sort of, bank in a box type of work we've been doing, leaves us extremely well positioned to benefit from any uptake in the SAAS market. And obviously as you know, we have a great partnership with Microsoft and three banks running live in the cloud. As and when that market develops we have specific plans for go-to market, we have the right partnerships with people who may want to provide services on more of a hosted basis; that is not our core business; but as that market accelerates we believe we will be a net recipient from the increase in banks moving towards more compelling third party systems as the ROI goes up.

Max Chuard – *Temenos UK Ltd*

Maybe I can take the second round, the services cost, where basically of (unclear). First time, let's just…provision against services; we look at it as a services…as a margin business. First we look at it, how we say, margin to the cost, and we've said, you know, what we expect for the full year. And (unclear) to extrapolate you will see the cost base being more as flattish towards (unclear). But as well we look at services as a total of…of full use, on what contribution services brings to a total mix, which we expect in the meantime we said to be between 20 and 25%. And (unclear) depending on the level of activity on the services (unclear), we might walk more or less with partners, which will have an impact on the margin. But to answer the question, you can assume that costs for the balance of year will be quite flattish to what we've had so far.

Operator

Thank you. Your next question today comes from Michael Briest, from UBS; please go ahead.

Michael Briest – *UBS*

Thanks, good afternoon; Max, firstly, a small one for you, just in terms of R&D capitalisation and amortisation; could you say what the amortisation was for the quarter; and the capitalisation looks to be about flat year on year; should we think about that for the full year? Secondly, on the US, you said you've identified targets for the SAAS solution and T24; can you be a bit more explicit; is there someone who's bought, is there someone who is just on your radar that you need to now sell to, and when do you think that customer will purchase and go live, if you like? And then finally, apologies for bringing it up, but one of your competitors indicated that they displaced you at a big German bank in Switzerland; I'm just wondering what the revenue and cost implications are of that, and what you can say about the thinking behind it? Thanks.

David Arnott – *CEO, Temenos UK Ltd*

Hi, it's David, we were scribbling and I can't read my own scribbles; let me take the one that we remember and then Max will take the amortisation one. So, we obviously don't comment on specific customers at all, although the bank in question is a good partner of Temenos and working well in other countries. Occasionally a bank will make a strategic decision around a full business process outsourcing, which affects many things, including finance departments, properties, receptionists, and their banking solutions. It's not a market we want to be in; it's very capital intensive; it requires huge amounts of head count in areas which are not part of your own core business, and we prefer to see the BPO market as a buyer of software, so sell licensing into that market, and again, as part of our sales offering, we're making good progress in that. In terms of the economics of that individual deal, let's be clear; there's no impact at all, but the bank in question is continuing to use the software, and to the extent that as part of their bigger movement of the whole back office out, the numbers will be immaterial in any case. So, overall, I would see the move toward BPO and SAAS with the industry is very, very compelling, and even within the next 12, 18 months, giving more upside than downside.

Max Chuard – *Temenos UK Ltd*

So (unclear), so the amortisation of cap dev, I think that's what your question was, (unclear) million for, for Q2, and we kept the [licence] [fixed] for the same quarter.

David Arnott – *CEO, Temenos UK Ltd*

Can you just quickly summarise what your remaining question was, because I think it was the most important?

Michael Briest – *UBS*

Yes, it was one the US, where you say you've identified targets for T24 (overtalking)?

David Arnott – *CEO, Temenos UK Ltd*

Sorry, yes, okay; so there's two things we're doing in the US. The first thing is, for clients that are already clients of TriNovus with their old core banking system, we are working with them to convince them that the T24 functionality is comparable to the US product that they currently use, and therefore allow us to replace the legacy TriNovus product with T24. There's no requirement to do that, obviously, as long as we provide the level of service; it's up to us; but it's good that the functionality, and obviously all the advantages above the functionality, like the faster speed and so on, is there as well. And what that will allow us to do, not necessarily to add extra revenues, but will allow us to have banks running on T24 in the data centres in the US. So, that was our first priority, if you like, was to host T24 in the data centres for their existing customer base. The second priority, which we've said by 2015 will drive between 5 and 10% of Temenos' total revenue from the US, is persuading new financial institutions in the US, who are not clients of TriNovus today, whether they're clients of a competitor, like a (unclear) or a Fidelity, or banks that are using a more traditional on premise model, to take T24 through the TriNovus data centres and therefore bring additional revenue. That part of the project is yet to start; as we've said, we're still getting the products ready, but we do have already a demo system of the full US product. That's been road-showed around banks in the last month, and those presentations and demos have been very well received, so all is looking good.

Michael Briest – *UBS*

Thank you.

Operator

Thank you very much. As a reminder, please press star one if you wish to ask a question. Your next question comes from Takis Spiliopoulis, from Vontobel; please go ahead.

Takis Spiliopoulis – *Vontobel*

Hi David, hi Max, well done for this quarter; a couple of questions; the first one on the partner model; you said basically 20% of licenses came from partners in H1; was this the result of any particular deal or would you see a continuous progression from this level, or was there any other aberration? The second one, on your statement about gaining market share; did you see any players showing any particular weakness, or was it a more homogenous picture; I mean, we've all seen the software growth rate so for some of the players out there, but some of them aren't even bidding against Temenos? And then the third one, for Max; we've had 2.7 million of restructuring costs in Q1, and 2.5 in Q2 now; I guess that was for the service business; what should we be looking for, for the full year? Thanks.

David Arnott – *CEO, Temenos UK Ltd*

Thank you, Takis, for those comments. So, in terms of partners, there was no one large deal that's won that percentage; it's been a very steady progression for two years now, and I would expect that trend to continue; probably not accelerate, but certainly continue in the direction it's been going for the last two years. In terms of our competitors, I would say that the biggest difference over the last 12 months is that the offshore development shops, for want of a better word, so those who have packaged their software less than we have, so Infosys, [Tata] and Oracle, which are large custom built projects, have lost market share, and that's consistent with the IBS league table. Legacy vendors who've not invested in their products, so some of our competitors that have been acquired by private equity and so forth, are also largely absent from the market. And with the exception of Temenos and probably a couple of local players, I think we're the only ones to be actually growing in the last 12 months. Other than that, no major trend.

Max Chuard – *Temenos UK Ltd*

Takis, the restructure charge, as we have said all along, the restructure charge will take place mainly in the first half of the year, which is by far complete; I think too in the second half of the year you will see material development structure charge, so maybe a million or so, but no more than that. I think we're expecting to around five million for the year; we are slightly above this number now, but I think for balance of year there is very little left, which as you mentioned, some services restructuring, and as well some development as well that are still due to go in Q3 and in Q4, but very limited amounts.

Takis Spiliopoulis – *Vontobel*

Many thanks.

Operator

Thank you. Your next question today comes from Alex Tout from [Arrette]; please go ahead.

Alex Tout – *Arrette*

Hi guys, thanks for taking my question; just, we heard from quite a lot of software and services names this quarter, but the emerging markets were quite challenging; it looks like you potentially saw a bit of a decline in Asia. Would you just like to comment on how you're seeing the demand environment in Asia and Latam as well? And then just secondly, how confident are you in the higher end of your guidance now, given that you've got the really easy license comp out of the way now, and also just the situation in services, which I guess doesn't seem to be stabilising as quickly as you would have liked? Thanks.

David Arnott – *CEO, Temenos UK Ltd*

Hi Alex, let me take those; so Asia and Latam, or the overall emerging markets, we're very positive; the pipeline is developing well. Asia in particular, if you look at the last 12 months, suffered from a touch comp in the second half of 2011 when if you go back to the transcripts of the time, we had two quite significant deals, and we've replenished the management in Asia; at the end of last in the pipeline is developing well. The same as Latam, and I would say the same as the Middle East and Africa, the market is there in the universal banking space; regulation is changing, there's trends such as mass affluent, middle class segments that need to be addressed, and I don't know so much what other people are saying, but we're very happy with progress in those regions; they're doing exactly what we expected them to do. In terms of the revenue outlook at the top end, really, this goes back to the question I took right at the beginning from Adam. The difficult thing to read is how quickly the changes that we made to management in those markets around the end of the year, are going to come to fruition with deal flow. If the sales cycle is good and solid, and we run those projects (unclear) the compelling events that the deals were signed to this year, we (unclear) end up at the top end or even higher. If some of those deals take slightly longer, we would end up clearly more around the middle. In a sense it's almost academic whether those deals sign in Q4 or Q1; the important thing is that we're not losing deals to competition. We are winning them; we are working with partners, and the partners that bring deals in those regions, and to be clear, so far in the first half we've not lost a single deal in any of those regions to a competitor, so we're very happy with the way emerging markets are doing, but there'll be much more prove points around the year end. In terms of services; very briefly; we treat services, as Max has said, as a margin business; the faster it goes to partners the better, because it feeds them and they bring licensing. We're able to take costs out at broadly the same rate as revenue comes down, and therefore improve the overall revenue mix, so what you might see is a scenario of licensing revenue being strong, we'll be very clear at the year end about how that's working geographically, and a faster move than we'd hoped for on the services revenue side, so services maybe being slightly lower than the implied guidance, but obviously with a commensurate reduction in costs, which going into 2014, would be a very good position to be in.

Operator

Thank you. Our last question today comes from Mohammed Moawalla from Goldman Sachs. Please go ahead.

Mohammed Moawalla – *Goldman Sachs*

Thank you. Can you just comment in a bit more detail around the improvement that you're seeing in Europe; I'm just curious how we should think about modelling potential seasonality for Q3? And just as you look at the pipeline, can you give us a sense of what magnitude that's improved, and how the sale cycles and the close rates are developing there?

Hi, okay, let me take those; Europe, as I've said, is challenging for new business, if you're trying to convince a bank for the first time to buy something – that remains challenging. It's not that other people are winning them, the banks just are sitting on their hands at the moment. I would expect that Europe would be broadly flat, because even though we're successful in selling to our installed base, we've been successful in that since the 4th quarter of last year already, and we don't see any sort of structural uptake, even though Europe's bottomed, we don't yet see a recovery, and as we laid out in February, we laid out a three year plan which was not contingent on Europe recovering. So, that's Europe. Emerging markets, as I've mentioned a couple of times now, we see pipeline developing nicely as the sales force find their feet and find the projects that are ongoing and so on, and therefore the pipeline is growing strongly, and I would expect that to convert into a natural end of a sell cycle around the second half of this year, and certainly going into 2014. Obviously we don't give pipeline matrix, but I've tried today to give a lot more flavour than we've done in the past in the softer issues around how the business is developing geographically.

Mohammed Moawalla – *Goldman Sachs*

Okay, that's great, thank you.

David Arnott – *CEO, Temenos UK Ltd*

Okay, so operator, I don't believe there's any more questions, so you know where we are if you think of anything after the call. Thanks very much indeed for taking the time tonight, and we look forward to speaking to you after out 3rd quarter results.

Mohammed Moawalla – *Goldman Sachs*

Thank you, bye.

Operator

Thank you, ladies and gentlemen, that does conclude the conference call for today. Thank you all for taking part; you may now disconnect your lines.