Temenos Q2 2016 results call transcript

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Operator: This is conference # 48545519

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by and welcome to the Temenos Q2 2016 Results Conference Call.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. (Operator Instructions) I must also advise you that this conference is being recorded today, Wednesday, July 20, 2016.

I'll now hand the call over to our CEO, David Arnott. Please go ahead, sir.

David Arnott: Thank you, operator. Hi, everybody and thanks for taking the time to join today's call. As usual , I'm going to start with some comments on our second quarter performance, as well as the market backdrop, and then I'll hand over to Max to update you on the financials.

So hopefully, you will find the presentation by now and I'd like to start on slide 7, starting with a summary of how the quarter finished. Q2 has been an outstanding quarter for us, with the business performing very well across all of our KPIs. The significant momentum in the market, we've capitalized on this by taking market share across our market segments.

Our total software licensing is up 25% in the quarter, driven by strong underlying license growth of 31% year-on-year. It's important to remember that in the second quarter of 2015 within itself a very good quarter, making the level of growth achieved all the more impressive. It's also a clear demonstration of the commitment from our clients to involve some significant IP renovation projects, clearly the structural pressures of digitization and cost control are front of mind for our customers today and continue to drive the decision making process.

We've announced several key deals over the last few weeks, which demonstrate our market leadership, in particular in the Wealth segment with the signing of Standard Chartered Bank, a leading Tier 1 private bank. The deal for us is of equivalent strategic importance for our wealth franchise as the signing of Nordea deal to our retail and corporate franchise in 2015. We've now won every key deal in the wealth space in the last three years.

The Standard Chartered and BIL, Banque Internationale a Luxembourg, we've had a strong start to Q3 and have record levels of revenue visibility. Pipeline activities also have been very strong with significant breadth and depth of deals across geographies, segments and client tiers. And at this point in the year, we're confident in achieving the high end of our 2016 guidance.

Turning now to slide 8. The strong growth in the second quarter has been driven in particular by activity in developed markets as we've expected at the start of the year. It's important to note that the growth in the second quarter was not driven by the signing of a few contracts, it was driven by strong sales execution across geographies and client base.

Europe was a significant part of the growth, representing 55% of total software licensing in the quarter. The key win in Europe is BIL, which is embarking on a progressive renovation of its entire operations across all lines of business and it's taking a combination of our wealth, retail and corporate suites. Although, to reiterate, this is not included in our second quarter revenue.

Asia had another strong quarter, again driven by our position in wealth, with the key wins of Standard Chartered Bank and Bank of Montreal, Asia Pacific. We had good momentum in North America with the signing of the Laurentian Bank in Canada where we competed with SAP. This was strategically important as it's enabled us to consolidate our position in the North American market and as an excellent reference for other clients in North America.

Overall, our win rates continue to increase, and particularly in wealth where it is nearing 100%. Most importantly, of course, we continue to take market share. We've had 21 new customer wins in the quarter, up from 13 in the second quarter of 2015, reflecting the strength of our product portfolio and the traction we've had with clients across all geographies.

Now, over the next couple of slides, I'd like to spend a few minutes talking about our competitive positioning, specifically in wealth and retail, which represent the vast majority of our franchise today.

Starting on slide 9 now, we continue to extend our leadership position in the wealth segment, where as I said, we won all key deals in the last three years in the market. The key deal is Standard Chartered Bank, one of the leading international private banking franchises. SCB will be deploying wealth suite across its private banking operations globally, which encompasses more than 30 countries.

The decision making process was driven by the same fundamental drivers we talked about over the last two years, namely, the need to standardize their IT systems on a global basis and increased automation, thereby decreasing ongoing cost and the need to offer a truly differentiated customer experience.

BIL is an important win in the wealth space in Europe, with wealth constituting a significant part of the project. They're focused on eliminating risk, digitalization and transforming the way they service their customers across all lines of business. Bank of Montreal, Asia Pacific selected us for the level of flexibility our products provide, as well as the significant reduction in total cost of ownership they'll achieve with implementing Temenos software platform.

Now, the fact that these three wins are across different geographies and client tiers shows the dominance we have in the wealth segment today. And lastly, ongoing implementations, such as Julius Baer are progressing well and remain very much on track.

Turning now to slide 10, we're also extending our leadership position in the retail segment, having won the two largest retail deals in the market in the first half of 2016. Laurentian was a key win in North America and the BIL implementation also has a significant domestic retail component. Drivers for Laurentian are very similar to BIL, with a focus on eliminating risks inherent in legacy operating systems, as well as increasing their agility and ensuring they've got the right IT systems in place to support future growth to digitalization and transforming client servicing.

What's really exciting about Laurentian is it negates SAP's biggest banking reference story, which they used every single time to compete against us and get off to name (inaudible) as reference. ATB Bank, which is literally across the road from Laurentian is about the same size, C$135 billion, almost C$138 billion, so very similar large retail banks.

ATB Bank allegedly spends over C$750 million replacing their core, we will replace basically an identical bank for a tiny fraction of that because we've got a model bank and country platform ready to go, out of the box, but they really don't have a model bank and country platform approach. So the business case for us is going to be compelling as reference when they're live.

Why would any bank in the future want to spend something like 5 times to 10 times for basically (bespoke) system is difficult to operate, makes no sense. More importantly, our ongoing implementations in the retail segment are progressing very well, in particular Nordea. Some of you may have seen Nordea's CEO himself talked about in their results corresponding that they go live in June, the first product on their new core banking platform. As I said at the start of 2016, this year is all about delivery and we've made very good progress across our large implementations in the first half.

Now slide 11, I wanted to set back a little bit and reiterate the key factors, as we set and that our customers tell us behind our success. And this is important when we look at the market backdrop in a second. And these hold across all segments and all geographies that we operate in. Our philosophy is selling packaged out-of-the-box software, this is vertically integrated, it's clearly resonating with clients of all sizes.

While minimizing customization and maximizing automation, our clients were able to significantly lower their total cost of ownership. The fact that our solutions can be implemented through progressive renovation is also a key differentiator, and again progressive renovation has been a driver for our second quarter licensing.

To Tier 1 clients, flexibility and scalability are absolutely critical and we've now proved multiple times that our software can scale to run the world's largest banks with almost linear scalability on commodity hardware's back, or even shared infrastructure like a private or public cloud, and many of you will have seen our joint marketing with Microsoft in this area.

In addition, banks understand that a world-class technology offering, an open architecture, greatly simplifies integration and gives the client maximum flexibility in the implementation process, for example around building and maintaining APIs. We could have clearly defined vision of the future of banking, and this is reflected in our product road map with such features as relationship-based pricing, embedded analytics and front office differentiation.

Banks today want to buy software that we ensure that's future-proof, and our vision and product road maps demonstrate this very well. We invest in R&D and functionality today that banks may not need for another three years to five years. That is these investments that give our customers the confidence to work with Temenos today.

Clients such as Standard Chartered, looking to implement standardized software across multiple geographies, the availability of pre-configured country platforms is a significant advantage. We've invested heavily in our country model banks and it's clearly paying off. The depth and breadth of the partner ecosystem is also important for clients who want to know that there are skills out there available in the market to support them through their implementations.

Our clients can choose how they want to run their implementations, from working with one of our global systems integrator partners to lead a project, to working with a range of partners for different aspects of their IT renovation. Lastly, the scale and quality of our customer references enables us to stand out from the competition, and this again holds true across all the geographies and segments that we operate in.

Turning now to slide 12, the partner ecosystem continues to expand and partners played a critical role in winning of key deals in the quarter, including, specifically Laurentian and BIL. We continue to focus on increasing the level of joint go-to-market activity with our strategic partners in all geographies.

We had significant levels of services activity in the quarter with 24 full go lives compared to 13 in the second quarter of 2015. Our LTM services margin, which Max will talk about later, was 7.5%, down from 8.8% in the past 12 months (inaudible) invested in our services business to ensure we've got the required technical skills in place for the governance and project management appliance implementations.

Premium services contributed 18% of services revenue in the quarter, down from 24% in comparative. The majority of the growth was from lower margin implementations. For the full year, we're confident in maintaining our services margin at similar levels to 2015. Maintenance revenues grew 7% on a like-for-like basis in the second quarter, which is in line with our expectations for the full year.

So overall, it was a very strong quarter operationally and we continue to focus on delivering success for our customers.

On slide 13 now, I'd like to give you a brief update on our activities in the US. We're making good progress on key deals in the pipeline, helped by the go live of a top 20 US domestic bank in the second quarter with the partial replacement of its core. It's an important reference client and the first large domestic US to go live and a mission-critical part of their bank on our core software.

As you may have seen, today our Board has proposed the appointment of a new Board member, Peter Spenser, through election at the 2017 AGM. Peter was a senior partner with Deloitte Consulting for the last 21 years before retiring this year. His roles including running Deloitte's global financial services IP practice out of New York. He will be an excellent addition to our

Board, bringing a huge amounts of experience (inaudible) US financial institutions on their technology roadmaps.

On slide 14 now, just like to highlight a few of the aspects of our product development that we showcased in the Temenos Community Forum, but for those who weren't there, we brought to market lots of new innovative products, we've got a very exciting product roadmap. At TCF this year, we really focused heavily on digital engagement, where we're launching a single platform, or what we call digital brain that captures, integrates and analyzes information across all internal and external systems that the banks uses to predict customer behavior and offer the right products at the right time through the right channels.

We've made significant progress on our real-time analytics offering, which is critical clearly for banks to be able to understand and analyze their risk profile on a continuous basis as well as retaining their customers and increasing share of wallet. (inaudible) to actionable insights as we described and taken from the core platforms, so T24 and made available to customers and relationship managers alike.

Lastly, they had some very exciting presentation from our fintech partners (inaudible) through a series of innovation jams that we conducted globally prior to the Temenos Community Forum. We're committed to facilitating our clients working with the most innovative fintech partners out there. This is achieved through the Temenos' Marketplace, single platform where customers can search Temenos and our partner apps through the Temenos Marketplace and discover the huge amount of software available from the Temenos ecosystem to meet their needs beyond what can be provided directly from Temenos.

On slide 15 now, I'd like to talk about the market and pipeline, it's clearly top of mind for everybody today. Thanks to the Brexit referendum, all the planned deals were signed with no delay and no change in scope. We did not see any slowdown to date in clients' engagement or decision making and key clients in the pipeline have specifically confirmed their budgets for IT investment (inaudible) reiterating their intention and need to move forward.

A flattening yield curve (inaudible) even more of an imperative, it's the only way to create shareholder value and we're being told time and time again, right up to today by our clients and prospective clients.

Banks are still facing the same pressures of cost digitalization and new nimble competitors and these pressures are intensifying, which is why IT spending is central to a bank strategy today. And in addition, banks are significantly better capitalized today than they were in 2008, meaning they're in a much stronger position to withstand macro shocks.

From an internal perspective, our pipeline remains very strong and diverse across geographies and segments. We have record levels of revenue visibility for the third quarter and the second half of 2016, which is underpinned by key wins, including Standard Chartered and BIL. But beyond 2016, we believe that market conditions are getting better and better for us and we're really excited about the years ahead.

So with that, I'll hand over now to Max to talk about the financials.

Max Chuard: Thank you, David. Starting with slide 17, I'd like to present the financial highlights, the figures on the slide are in constant currencies. (inaudible) it has been an outstanding quarter for us across all financial metrics with significant growth in both revenues, profitability and cash.

Total software licensing growth is up 25% year-on-year with software licensing up 31% year-on-year. The comparative conclude 2015 was (itself) a strong process with total software licensing growth of 56% and it was the first quarter with full contribution from both of the business we acquired in 2015.

The growth this quarter has been driven by high levels of activity in developed markets in particular, it has been broad base across clients, segments, and tiers. SaaS and subscription revenues contributed 21% of total software licensing in the quarter and maintenance grew 7% driven by the significant level of license sales in the last four quarters. The continued growth in our recurring revenue stream is helping to underpin our revenue visibility.

We achieved an LTM EBIT margin of 28%, up 42 basis points in the quarter with only minimum net impact from currencies at the EBIT level in the quarter. Finally, our cash flow this quarter was exceptionally strong, with Q2 operating cash of $38 million, an increase of 96% year-on-year. Our DSOs decreased by a record 46 days year-on-year to reach 130 days, ahead of our forecast.

Moving to slide 18. The key figure this quarter is our total software licenses, which has grown 25% in the quarter and 55% in constant currency over the last 12 months. We have now delivered consistently strong license for five quarters in a row, driven by our strong sales execution and leadership position in wealth and retail. With total revenue growth of 17% in the quarter in constant currency, I'm very pleased with our topline performance in Q2. Similarly, we've continued the growth in our EBIT with Q2 2016 EBIT growing 19% in constant currencies. We saw a decline in our services margin in the quarter driven by investment we are making to ensure we have the right governance and technical expertise in place as project ramp up in H2 we expect to deliver service margin in line with 2015.

On slide 19, we show the revenues and cost on a like-for-like basis. Q2 like-for-like revenues are up 17%, which includes a 25% increase in the like-for-like total software licensing, demonstrating significant underlying organic growth across the Group. Maintenance is up 7% and service is up 26% on a like-for-like basis in the quarter. Services contributed around 20% of revenues, both in the quarter and (inaudible) which is in line with our target model.

Total cost on a like-for-like basis were up 17% in the quarter (inaudible) increase was driven by increased servicing cost and (viable) cost also increased on the back of the strong license growth. We continue to invest in the business and we are well positioned to capture the growing market opportunity.

Turning now to slide 20. Our EPS growth continues to be strong, with the Q2 2016 LTM EPS of $1.84, up 18% on the previous 12 months. The growth in the EPS in Q2 2016 was up 17% versus last year and the fully diluted shares count in Q2 2016 is 71.4 million shares versus 67.5 million in Q2 of last year.

Moving to slide 21. We've had an exceptionally strong cash quarter in Q2, which was due to significant level of postponed license collection as well as the progress we've made on the (no-growth) implementations. We had almost twice the level of go lives as last year. The conversion of EBITDA to operating cash therefore continues to be well above our target of 1% plus. In Q2 2016, the LTM cash conversion was 130% versus 113% for the LTM Q2 2015. And our DSOs declined by a record of 46 days year-on-year, reaching 130 days by the end of the quarter.

On slide 22, we've outlined the key changes to the Group liquidity position over Q2. We generated $38 million of operating cash in the quarter, up 96% year-on-year. We paid $32 million of dividends in the quarter (inaudible) our leverage remained flat on Q1 2016 despite the strong cash conversion.

We have a very strong deleveraging profile, I think being at 2.4 times the leverage in Q2 2015 and expect to be below 1 times by the end of the year. We finished the quarter with $97 million of cash in our balance sheet and our total borrowings at the end of the quarter were ($286 million), our net debt position currently stands at $288 million.

Finally, on slide 23, we have outlined our 2016 guidance. We are guiding for full year non-IFRS total software licensing growth at constant currency of 10% to 15%, implying non-IFRS total software licensing revenue of $233 million to $244 million. We are guiding for non-IFRS total revenue growth at constant currency of 7.5% to 11%, implying total non-IFRS revenues of between $593 million to $612 million. Our non-IFRS EBIT guidance at constant currencies for 2016 is between $180 million to $185 million, which implies a full-year margin of circa 30%.

As David said, with Standard Chartered Bank and BIL, we had a strong start to Q3. As you know, we don't guide on a quarterly basis, however, based on the record level of visibility, we expect to grow total software licensing by low-single digits in Q3 2016. This could mean lapping Q3 of last year, which was a record quarter with the singing of Nordea.

On a full year basis, we are confident in achieving the high end of our guidance for 2016.

With that, I'll hand back to David.

David Arnott: Thank you, Max. So in conclusion, turning to our last slide, which is slide 25. Our strong sales execution across the board in the second quarter and we achieved record sales growth in the quarter and gained significant market share as demonstrated by the multiple wins that we've recently announced. Post Brexit, all planned deals closed with no delays or changes in scope and we've seen no slowdown in client engagement times, with key clients reconfirming an intention to invest in our key renovation.

We started Q3 with record levels of revenue visibility and a very strong pipeline, both for the short and medium and long-term. We therefore expect to achieve the high end of our guidance for 2016.

With that, operator, we'd like to open up the call to Q&A please.

Operator: (Operator Instructions) Chandra Sriraman, MainFirst.

Chandra Sriraman: Thanks for taking my question. Congrats on a great quarter guys. Just a couple from my side. So clearly you're winning all these large deals, you have 100% win rate on wealth. Can you just talk about competition, what is competition doing? You mentioned SAP a couple of times, but you didn't mention the others. Any thoughts on competition would be quite helpful.

And Max, maybe one question, you've had five quarters of extraordinary license revenue growth, but your maintenance revenues have slowed in the last couple of quarters, is this a timing issue? I'm just trying to reconcile the difference here. Thanks.

David Arnott: Okay. Chandra, thank you for your time. In terms of competition, I talked about SAP, not because we see them as a more dominant competitor, because the Laurentian deal is a very, very strategically important, as I said, because they just (appear) everywhere, seems to be their one really good reference and we can utilize that.

In terms of the rest of the competition, I would not say in the last three months has been any major change. We do believe our business model is different. The packaging, upgradability, technology investment, all the things I've talked about is something that none of our major global players have, and been instrumental in winning not just the larger deals that we've talked about today, but also a very large number reasonable medium to large-size deals that also signed in the second quarter and driving the pipeline. So no major change in terms of competition, clearly, we've been gaining market share, difficult to track on a quarterly basis, but I'm very confident that when we get to the end of 2016, we will have gained market share from all of our global competitors.

Max Chuard: And Chandra, it's Max. Listen, yes, the maintenance growth is going as per our expectation for the year. Obviously, there is always a time lag between the license and the maintenance and you should continue to see the maintenance improving year-on-year.

Chandra Sriraman: Thanks. If I can follow up just one quick one. I assume your initial guidance was -- did not include Standard Chartered and now that you have that in the bag, I was just wondering what kind of a flex do you have in terms of your guidance now? Is it -- are you comfortable exceeding the guidance, is this conservatism that you've pushed only to the high end of your guidance? Thanks.

Max Chuard: Listen, Chandra, as you've said, we've indicated that we expect to be at the high end of the range. As well Standard Charted, on the (inaudible) are not part of the guidance. But I think at the same time, it's fair to say that it was taking a cautious view as well of the macros, following the Brexit and I think that the guidance that we mentioned today to reflect the best outcome that we believe for the year.

Operator: Michael Briest, UBS.

Michael Briest: Yes, thanks. Good afternoon and congratulations from my side. I mean, just in terms of Q2, I mean, the license is about 20% ahead of where we in the street were and I'm just curious, was this outperformance or was this bang on budget is you'd expected to lead to earlier signings maybe that were in the second half previously?

And then secondly, Max, in terms of the DSOs, typically when you have a strong license performance you expect the DSOs to go up rather than go down, I mean, again very creditable performance, but will maybe Standard Chartered and BIL coming in through Q3, (lead) DSOs to go up again or do you think the current level is sustainable?

And then finally, David, just in terms of the opportunity, I mean you're very confident there, I'm just wondering what investments you're putting in today to try and sustain that momentum on the license and sales line through 2017, 2018 et cetera? Thanks.

David Arnott: Thanks, Mike. Let me take the first and (inaudible) as we go along, so we didn't bring -- we didn't see banks -- so Q2 was not driven by processes shortened into Q2 closing. It was in line, in fact, slightly ahead of our own expectations and reflects our own feeling the momentum has been building in the market for a long time. So it's what we'd hope for, but everything just worked perfectly, to be honest (inaudible) all geographies, all peers, big deals, small deals, all went extremely well, so we're very pleased.

In terms of the investment, I do need to reiterate the point that Max made, we do remain cautious on the macros and therefore whilst we've had a good quarter, we are restricting our investment to investment that can protect our ability to deliver long-terms, so product delivery and Q sales and partner engagement, people cost.

Max Chuard: And Mike, and on the DSOs, listen, I think the current levels are sustainable, understand that, clearly what we've seen is an improvement on how much cash we collect upfront on the license and that's now partially explain -- and secondly, the level of go live and implementation that we are bringing onboard, so those two has drove the DSOs to those levels, I think we see September and for the year.

Michael Briest: And can I just ask, about the Standard Chartered deal, just in terms of the nature, one of these was quite a renovation, like Julius Baer, where it's sort of built over many quarters or does that more of a Nordea, sort of big milestone payments periodically?

Max Chuard: Listen it's one also that Mike, it's a long project, so it's an renovation of 30 countries, so you can imagine that will take time, and clearly these give us visibility not only for Q3, but as well for 2017 and the medium-term.

Operator: Gerardus Vos, Barclays.

Gerardus Vos: Hi, good afternoon, and also congratulations from my side. Just on the service gross margin and a drop there, Max you explained you made some kind of investments, I was just wondering if you could give me a bit more insight in exactly where you're investing in the surface level?

And then secondly, obviously very large (inaudible) kind of licenses, but it didn't seem to drop all through to the operating kind of profit line. Could you perhaps explain why that didn't happen? Thank you.

Max Chuard: Okay, this is Max. Listen, for the first one on the services, you can imagine what a large project that we have signed, those Tier 1 and Tier 2 deals. What we do for most of them is the governance and this is maybe a team of 5 people to 10 people, including project management, including technical experts and so on, that will flow through the project.

And that you do need to invest ahead of the project starting up. And that's what we're doing, each (one of those) project start in the second half of the year, you're going to see the benefit of that (inaudible) that we can sustain the level of margin we had last year.

David Arnott: Hey, Max. Just to follow up on that, so that's a group of people who kind of go from the kind of projects, so it doesn't go out the scope, it stays within the kind of model bank, but they don't do the implementation that is done by a third party?

Max Chuard: Exactly, that's really the model. It's not always like that obviously, but that is the model, to have a governance team with key personnel to ensure that things go on track before the model banks (inaudible).

Gerardus Vos: Okay, that makes sense.

Max Chuard: On the operations, listen, you've seen some of the upside on the EBIT. It's true that not all of that went through it because we said we have said increase on the variable cost, which reflects both, I'd say, the license growth, but as well we've got variable cost base which is self-funded based on the increase on the license and I think this is where some of the improvement in the license went in Q2.

Operator: Adam Wood, Morgan Stanley.

Adam Wood: Hi, thanks for taking the question. And also congratulations from me on an excellent quarter. Just maybe first of all on the US, we spoke about this a bit, could you maybe help us understand how the pipelines building there and how quickly that could start to come through, now you've got couple of references and some key wins there to go out and win?

Secondly, on the partner side, I think we've seen that and you've always seen that as critical to drive the licenses, digital is a big focus for those companies, is that engagement increasing to what extent and any help there and around how that's helping licenses will be good.

And maybe just one follow-up on the maintenance question from earlier. Obviously, some of the business we imagine will be coming through the renewal licenses from 10 years ago, as you switch business model. Is there any update there in terms of how much of that is driving the business, and therefore how much of impact that would have on the maintenance growth going forward? Thank you.

David Arnott: Okay. Thanks, Adam. The US, the pipeline is progressing. We are working with our sales organization that we've been investing heavily in. With our partners doing account planning of all the top 120 banks over $10 billion, and also the segment between $1 billion and $10 billion, which are two core strategic areas where we believe we can differentiate ourselves.

The pipeline is evolving to the point where -- processes are coming to the point where over the next couple of quarters, I would expect to able to announce something, but I'd rather say -- to announced progress in that market, but I'd rather be able to talk about that as and when those deals come to fruition over the next few quarters.

And on partners, can you just repeat that I understood it as our partners engaging in (multiple speakers).

Adam Wood: Just getting an update, yes, on where you are with partner engagement on the sales channel, how much of an influence that's being and does that accelerate if all the consultants are talking about digital as you are and so I imagine (multiple speakers)?

David Arnott: Digital cap. I thought it was a digital point. Okay, now I got it. Okay, listen, definitely digital is top of mind today. We're working -- obviously the partner model is very local, you can have strategic alliances with everybody, but ultimately, it comes down to a local -- the local country manager and country director who owns the resources and how they choose to deploy them. So the relationship needs to be local, you need to be the most likely to win and you need to want to have a value proposition for what their current (inaudible).

And in every geography, we have a very strong governance model of working with partners, identifying the white space analysis, core key customers, is their (pain) specifically digital, maybe they want to launch a mass affluent on the back of a retail bank, maybe just starting to reduce their cost to progressively renovating core.

And as structured process, with all key partners in all geographies, definitely a trend in the last three quarters to four quarters, the digital has become top of mind, and that's reflected in our own digital engagement platform, which was now demonstrable. We have a good demo of that. We trained our partners on it. They have better access to the C-suite frankly than we do and it resonates very well on the business side, which is more and more -- you see more in the C-suite.

So yes, digital is top of mind and yes, not in every geography with every partner, but we understand it and we're working with our prospective customers as another possible entry point on the digital side beyond the core.

Max Chuard: And to your last question, Adam. The renewal of the 10-year licensing continues to trend, as we said around 10% to 15% of software licensing comes now every year from that. I expect this to be the case as well this year because no change to that, now I think this is well in place to process that even well internally.

Operator: Gregory Ramirez, Bryan, Garnier.

Gregory Ramirez: Yes. Good evening and thank you for taking my question. Obviously, congratulations. A couple of ones from my side. The first one, just to come back on services, you had very, very strong growth in Q1 and Q2, obviously it was led by implementations. But what about the seasonality for Q3 and Q4 compared to H1? Is it expected to be different from what we saw in 2015?

And just to come back on the -- what we expect on the total licensing revenues for Q3, just to -- some clarification, you mentioned about Standard Chartered Bank, but is BIL contributing to the Q3 total licensing revenues and is it significant?

Max Chuard: Okay. So I think let's start from me. Listen, on the seasonality for services, as you know, we are pushing more and more for the services to be done by partners, but as I said, there is always a level of governance that we're doing, sometimes though we do take the lead and we do prime those implementation as well, which means actually you can see variability on the level of services revenues. And that's why we do also give a range, which is quite broad on the guidance.

Nonetheless, at this stage, I wouldn't see any change to the (inaudible) we've seen in the past. Probably on Q3, we mentioned BIL and Standard Chartered, because basically both of them have been announced early July and clearly it does give a level of visibility, which means we are confident to have some level of growth in Q3, as I said, keep in mind that Q3 last year was an exceptional quarter when we signed Nordea, so very pleased with that outcome, but at the same time, those large deals do provide visibility, not only on the quarter but as well, as I said before, in the medium term.

Gregory Ramirez: And just the last one, on the SaaS and subscription, on the (cost and FX) looks like it's a high single-digit growth, maybe you have some effect that looks like a pretty low for a SaaS business. Why do you explain these kind of, I'd say slower ramp up and do you expect some acceleration for H2?

David Arnott: Okay, Greg, let me take that last one. What the industry believes is the world will move towards software as a service roughly over the next few years. Obviously, above a certain size of bank, which tend to be currently reasonably small, the majority of banks don't want that. They don't need that, they're quite happy to drive cost savings just by taking out an old core banking system and putting in a modern package. And that is more than enough of a challenge in phase 1. Beyond that, there's further savings to be made by shared infrastructure like public cloud.

And when the industry is ready to move that way, we will clearly be a leader, you've seen our joint advertising with Microsoft, we've seen some large regulated banks ahead of the curve, working with Temenos in the public cloud, but it's not moving as fast as the industry analysts think. But over the medium to long term, we do share the view that the market will move towards software as a service and we are ready.

Operator: Takis Spiliopoulos, Bank Vontobel.

Takis Spiliopoulos: Yes. Hi, thanks. Excellent job, David and Max. Really well done. Two questions from my side on this top 20 US bank. When do you think will you be able to give us the name and basically market this in a broader way? I think that was the original plan, so maybe an update on this one.

And then one again on the DSO. You're already pretty close to the original mid-term target with 130 days. So question A will be, do you still think you can go down by 15 days per annum, let's say, for the next two years, three years? Or B, is it already -- would you be prepared to give us maybe a new target, maybe I don't know, towards 100 days, what needs to be done? What needs to happen to get to such a number? Thanks.

David Arnott: Takis, thanks for your comments in the beginning there. We went live with this top 20 US bank with a very large part of their business toward the end of the second quarter. We are already using them to be clear as a reference, they're a great reference, they're very happy.

They're going to continue to buy software from us and absolutely our core strategy in the US. So taking references and to Adam's point earlier, without the live (referenceability), we would not be building the level of pipeline that we're building in the US for the medium term to-date. Unfortunately, we've hit a block because they have a very powerful compliance department who -- for whatever reason best known to themselves, refuse to let us share their name, but they're taking references on the ground, we are very pleased with the progress and the business is extremely happy with the use of the large system.

Max Chuard: Takis, thanks for your questions. DSO, listen, yes, we came to that 130 days faster than expected, you know that was a plan by 2018 from (inaudible). At the same time, what I can say that, this is I believe sustainable for this year. So we are not going to -- we should not see an increase in the DSOs.

Now, if you don't mind, let me a bit of time and probably on that strategic day, so that I give you where I believe the next phase could be in the medium term, and so I respond more in details probably during the next Investor Day.

Operator: Gautam Pillai, Goldman Sachs.

Gautam Pillai: Yes. Thanks for taking my question. Congratulations from me as well on a great quarter. Couple of quick questions, if I may. First of all up on the full-year guidance. Can you please comment if any part of the license revenues from the Standard Chartered deal was recognized in 2Q?

And also are all the large deals you already announced now included in the full-year guidance?

And a quick housekeeping question on the tax rates, any reason why you are maintaining the 17% to 18% rate, given before average was a few points lower? Thanks.

Max Chuard: Yes. Listen, the tax rate is a fair question. You've seen that over the last couple of years, we've been lower than the 17% to 18%, which is if you want, our normalized tax rate and that's why we've put it there, because that's the level of the normalized tax rate. As we've turn the services business into profitability, that allowed us to recognize some of the (inaudible) assets, which meant that out tax rate is lower than the normalized level of 17% to 18%. And as you can see in the last 12 months, we've gone about 13.5% for the LTM. So that is the reason why.

Now on your first question, I wasn't sure, I didn't really understand the question, if you don't mind, repeat?

Gautam Pillai: Sure. I was wondering if any part of the license revenues from the Standard Chartered deal was recognized into 2Q at all? And if you have now included all the large deals, which you have announced in that guidance, in the upper end of your guidance range?

Max Chuard: No, nothing was in Q2 from Standard Chartered or BIL. As we said, Standard Chartered and (BIL) give a strong start to Q3. And again, we continue with the same logic as (inaudible) we've had so far, which means that very large and difficult deals to take a view on the timing, not to include in our guidance.

And so we've continued to take that approach and the way we've guided for the banks of here is taking to account, obviously the more challenging (comparatively) we had from last year and to take a more (concise) view on the macro outlook. Nonetheless, as you've seen, we are now expecting to get the high end of the guidance for the year.

Operator: Thank you. We have no further questions, please continue Mr. Arnott. Thank you.

David Arnott: Thank you very much, everybody for taking the time to join the call this evening and greatly appreciate it. Look forward to speaking to you at the end of the third quarter, if not before. Thank you.

Operator: Thank you. Ladies and gentlemen, that does conclude the conference for today. Thank you all for participating. You may now disconnect. Have a good rest of the day. Thank you.

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