Temenos Q2 2018 results call transcript

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Operator: This is Conference # 5193514.

Operator: Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's Temenos Q2 2018 Results Conference Call.

At this time all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session at which time if you wish to ask a question you will need to press star and one on your telephone and wait for your name to be announced.

I must also advise you that this conference is being recorded today, Wednesday, the 18th of July, 2018. And I would now like to hand the conference over to your speaker today, David Arnott, please go ahead, sir.

David Arnott: Thank you, operator. Good morning, good afternoon, everybody. Thank you for taking the time for joining today's call. I hope you've all had a chance to get hold of our results presentation, which you can find on our website, and if you haven't so far, we'll be using this presentation to walk you through some of our messages for today's call.

I'm going to start with some comments on our second quarter performance and then I'll hand you over to Max for an overview of the financials, and then I'll wrap up with some concluding remarks. So assuming now (you all found) the presentation, I'm starting on Slide 7, where at Temenos, we've had a very strong quarter with 23 percent growth in total software licensing and 17 percent growth in total revenue.

For those of you who joined us at our annual client event in May in Dublin, what we call this Temenos Community Forum, you may know that we signed, we have 3x the number of prospects attending that event than in the previous year.

Special thanks (around there) as they moved to digital, increased regulation and open banking, (which led to) significant increase in demand and activity in the end market. And we've been, once again, able to capitalize on this momentum as the leader in our market by taking market share and delivering another strong quarter.

This momentum also underpins our confidence in the outlook of the second half of 2018, as we've got very good revenue visibility from committed spend. We talked about some of the league tables that we topped at the time of the Q1 results, including that of Forrester Wave and the IBS surveys.

And since then Gartner have in May published their latest Magic Quadrant for retail core banking. And Temenos was recognized for the ninth time in a row as a leader in (the retail) segment of that quadrant, which is fantastic and it's further validation of our position as the leader in this market.

Moving now to Slide 8. I'll give you a review of our sales performance in the second quarter. Very strong performance in the quarter was driven by broad-based demand across all 3 of the segments and across all of our geographies. We continue to do well in winning new business with 41 percent of licensing coming from competitive deals and 13 new name customer wins in the quarter.

Touching on the regional performance for a second, Europe lapped very strong comparative with a large number of signings across all tiers of banks. And the strong performance in Asia, it was highlighting with large and with significant progress we've been making in Australia.

And also, we're pleased with the good traction we're building in the U.S. We signed 2 notable deals: the first with Northern Trust and the second with another neo-bank in the digital space – the digital disruptor.

As a reminder, we signed our first digital neo-bank in U.S. last year. The fact that digital start-up banks have selected Temenos as their technology partner is testimony to the strength of our existing products out of the box, as well as our innovation roadmap, these banks are typically at a cutting edge of innovation in financial services.

On Slide 9 now. I'd like to run you through the highlights of a couple of the key deals that we signed in the quarter. The first is that we announced a deal with Coventry Building Society who bought T24 core banking as well as our payments hub, our channel solutions and our financial crime mitigation suite of the products.

They're using Temenos to pair their digital transformation with a focus on speed to market for new products and services and maintaining their sector-leading cost efficiency.

Coventry is the second-largest building society in the U.K. and one of the top 10 mortgage providers with a great brand name. It's an important win for us as the U.K. is one of our key growth markets in Europe and growing in quite a significant way. The other deal I'd like to highlight is Northern Trust, which is a leading provider of asset management and banking services.

They're an existing customer of ours, already using our funds platform for their European operations, and they've signed a deal to extend the relationship further to support their growth and the integration of a recent acquisition they've made.

It's a strategically important client, but the decision-making process was driven at the most senior levels of the organization after the U.S. They demonstrate the progress we are making in building our brand in the U.S.

Moving to Slide 10 now. We had 24 implementation go-lives in the second quarter, giving a total of 49 implementation go-lives in the first half. We're particularly pleased to see that Julius Baer went live with WealthSuite across our Asian business after successfully going live in Luxembourg last year, as they're one of our key strategic clients in the wealth space.

We're very focused on our partner relationships. We have a strategy of working closely with partners to deliver successful implementations. Last year, we launched the Temenos Learning Community, which is leading our assets to industrialize the partner trading program ready for growth. This has been very successful. And now there's over 4,000 Temenos partner consultants, which has an increase of over 50 percent over the last 12 months.

Our close relationship with our partners is driving our services margin up, which has now reached 11 percent over the last 12 months.

Moving to Slide 11 now. I'd just like to spend a minute on the Temenos Community Forum or our annual client event. We held it in Dublin this year, and we have the Irish Prime Minister join us for our keynote speech along with presentations from several of our leading clients including Santander's Openbank, UBS and KBC. I've already mentioned that have 3x the number of prospects attending than in the previous year.

As well as using this event to sell, we use it to announce our new product innovations, some of which I've added and shown you on this slide that I expect has come from the presentations we gave at the time.

To highlight just a few of these, and I think it's worthy of note, we've further extended the Temenos Front Office Suite as a stand-alone digital front office solution that can integrate with any core banking system or any legacy system.

We announced enhancements to our data analytics and Robo-advisory products as (there are) key banks trying to capitalize on the data advantage in order to make part of their retail and mass affluent channels.

We also announced enhancements to our payments hub in areas of compliance and STeP. Our payments hub is available as a stand-alone solution in the cloud and enables banks to be ready for the demands of instant payments.

We see more and more banks identifying payments as a key pain point and we expect it to be increasingly important entry point into banks going forward.

Turning to Slide 12, just like to spend a minute on the outlook to the market into Temenos' standing backup, if you like for a moment, in the second quarter itself more into the medium term. Market growth is being driven by an increased pressure on banks from digital, increased regulation and arise of new competition taking advantages of open banking to break up the value chain.

Banks are struggling to adapt with legacy technology and are looking for packaged off-the-shelf solutions to transform their IT platforms and increase efficiency. We've seen a significant increase in signings with cloud and software-as-a-service, (and whilst this is) from a low base, we do expect strong growth in this area in 2019.

We're seeing clear signs of momentum building in the U.S., as more banks consider how to address their platform issues. Signings such as Northern Trust and the digital neo-banks, (the other end of this) (inaudible) (spectrum if you like,) show the range of clients looking for new solutions to support their growth, drive efficiency who want to launch new banking platforms.

We continue to demonstrate our leadership position with our growth rate well ahead of the market and the data points from the likes of Gartner, IBS and Forrester providing further validation of this.

And lastly, our revenue visibility continued to increase with committed spend from Tier 1 and Tier 2 progressive renovation and the growth in our pipeline giving us confidence beyond 2018 and after the medium term. So with that, I'd like to hand you over now to Max for an update on the financials.

Max Chuard: Thank you, David. Starting with Slide 14 now, I'd like to give you the financial highlights from Q2. We had a very strong second quarter, with total software licensing up 23 percent. The growth was broad-based across all tiers of clients and across all of our geographies.

This performance demonstrates our position as the leading global vendor of banking software. Our strong license growth over the last few quarters has driven (activation and) maintenance, which grew 12 percent in the quarter. We grew total revenues by 17 percent and EBIT by 20 percent, with our EBIT margin continue to expand to 30.5 percent on an LTM basis.

We also delivered strong EPS growth of 23 percent in the quarter. We saw a particularly strong cash quarter with operating cash up 52 percent, and DSOs down another 10 days to 114 days. By working closely with partners, we've been able to consistently improve our services margin, which reached 10 percent in Q2.

As already mentioned by David, last year, we launched a strategic initiative called Temenos Learning Community to industrialize our partnering program. This is a key success factor in our partner program and it should continue to help our services business.

On Slide 16, I will highlight some of the most important numbers for the quarter. Our total software licensing grew 23 percent reported in the quarter, 28 percent over the last 12 months, and total revenue grew 17 percent in the quarter and 19 percent over the last 12 months.

These numbers are evident of our leadership position, which have been recognized by the industry analysts, as we continue to grow significantly faster than the market. We've seen significant stakes in our cloud and SaaS-based solutions in the beginning of the year. Given the time lag between bookings and the revenues of these products, I expect this strong growth to be visible in our 2019 earnings.

The strong growth in recurring revenues has continued to drive our margin expansion, and EBIT was up 20 percent in the quarter and 21 percent in the LTM. And now our LTM EBIT margin has reached 30.5 percent. Lastly, we continue to improve our services margin, which is now at 11 percent on an LTM basis.

On Slide 16, we show like-for-like revenues and cost, adjusting for the impact of M&A and FX. As a reminder, we closed the acquisition of Rubik in Australia in Q2 of last year. Taking into account both currency movement and our hedging program, there was minimal impact from FX at the EBIT level this quarter.

We benefited from the stronger euro on the revenues although our cost also increased due to the number of currencies strengthening against the dollar. Our leadership position in the growing market means that we continue to deliver strong organic growth with total software licensing revenue up 16 percent like-for-like this quarter and maintenance up 10 percent. Total like-for-like cost increased 8 percent in the quarter as we continue to invest in sales and marketing and product to drive our future growth.

On Slide 17, we had another quarter of strong growth in both net profit and EPS. Our net profit grew 20 percent in the quarter and 21 percent in the last 12 months. And you can see we've been able to improve our financing cost over the last 12 months, by refinancing at better rate. The strong profit has driven our EPS growth and has sent EPS up 23 percent in the quarter and 21 percent in the last 12 months to reach $2.72 per share.

On Slide 18, our cash conversion was at 116 percent, well above our target of 100 percent of IFRS EBITDA. DSOs decreased another 10 days year-on-year to end the quarter with 114 days, and we expect DSOs to continue declining accounts 5 to 10 days per year to reach 100 days in the medium term.

On Slide 19, we highlighted the changing from the group and liquidity in the quarter. We generated $67 million of operating cash in the quarter for an increase of 52 percent, which is partly due to the timing of outflows leading to viable compensation elements that took place a little later than last year.

I expect this to normalize by the end of Q3 2018. Out of the total $260 million buyback that we announced, we bought $161 million of shares in the quarter at an average price of CHF 147 and paid out $46 million in dividend. We ended the quarter with $88 million of cash for balance sheet and has net debt of $417 million, which goes to a leverage of 1.4x.

Finally, on Slide 20, we have reconfirmed our guidance for 2018. Our guidance is based on IAS 18 and it is in constant currencies. We've provided the FX rates in the appendix. We are guiding for full year total software licensing growth of 13.5 percent to 18.5 percent and total revenue growth of 10 percent to 13 percent. Our EBIT guidance is in the range of $255 million to $260 million, which implies a full year margin of circa 31 percent, which represents (1) basis points expansion in constant currencies to last year.

We expect the 2018 tax rate of 15 percent to 16 percent, and finally, we expect conversion of over 100 percent of EBITDA in total in cash. We had a strong start to Q3 and our revenue visibility continues to increase. And as such, I am confident we will be above the midpoint of the guidance for 2018. With that, I will hand back to David.

David Arnott: Thank you, Max. So in conclusion, the second quarter was a very strong quarter across all our key KPIs. We moved towards becoming digital and regulation continued to be a key focus for banks, with open banking and payments, in particular, driving strong demand.

Our key spend is increasingly clearly nondiscretionary for banks, something they have to do, something that is critical to their competitive positioning, client retention and efficiency long-term in the market that has become increasingly crowded.

This is translating into continued growth for our end market, we continue to take market share pulling further ahead of the competition. We've had a strong start to the third quarter. The committed spend from Tier 1 and Tier 2 banks gives us confidence in our full year 2018 guidance.

Structural drivers are very much in place and our strong pipeline gives us confidence beyond that out into the medium term. And again, I look forward to updating you after our third quarter results in the end – in October. So with that, operator, we'd like to open up the call for Q&A, please.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. As a reminder, if you wish to ask a question please press star and one on your telephone and wait for your name to be announced. Please stand by while we compile the Q&A queue. This will only take a few moments. And if you wish to cancel your request, please press the hash key.

Your first question comes from the line of Takis Spiliopoulos from Bank Vontobel.

Panagiotis Spiliopoulos: Two questions, I guess, one for each of you. I mean, you mentioned a couple of times the payment is becoming key focus for banks. How do you tackle this opportunity? How do you win, basically, against the pure plays?

Maybe some background on this one would be appreciated. And then, one on sales and marketing costs, which grew 15 percent year-on-year under IAS 18 or 11 percent under IFRS 15. That's quite a bit slower than in the previous quarters. Is that intentional deceleration or is it just timing? Maybe I need more color on this one.

David Arnott: OK. Thanks, Takis. Let me take the payments one, and Max will take the sales and marketing one. So payments, especially Tier 1 payments is really a technology game. The big challenges for payments are on volumes. The volumes of payments are exploding, it's because we moved to a world of micro payments. But it costs the same amount to process a small payment as it does a big payment.

So the 2 big issues are, how to handle that huge, huge expansion in terms of the payment volumes out into the medium term as the way we spend changes and how to become – how to be profitable and purchase that large volumes of transactions with the fixed cost being relatively high.

So the functionality as you'd imagine is relatively straightforward. It's all about scalability, architecture, ability to support modern platforms. And they're quite unique. We started with a blank sheet of paper in our partnership with ABM.

Obviously, we've doing payments for – since the beginning of Temenos. But we've carved out a specific initiative around scalable high-volume Tier 1 payments. Really there will be – the architectural complexity a few years ago back in 2013 and what we have now is truly Tier 1 scalable in terms of the benchmarks we've been going through. It's nice that it's also fixed as a module within an overall core banking product.

So those who have previously paid (today's) payments know they can replace the batch systems, as people at KBC and ABM have been doing with more modules from the same vendors. That's a big differentiator.

And the second big differentiator, I would say, is the technology, because none of the pure play payments vendors out in the market today have modern technology. It's all been built in the days of batch systems. The architecture is very much based on the days of branch banking and it's really not scalable for the modern needs going forward. So (put on the new) architecture. But the fact we're a big software company, who can (handle more than) 1 vendor relationship is important too.

Max Chuard: Takis, on the second question, clearly, as we said many times, we (think best) on certain margins keep under 15 percent or 11 percent, on which (accounts) we look. It's just a fraction of time underlying the investment to growth is around 25 percent and that's an issue what we'll see for the year.

Operator: Your next question comes from the line of Josh Levin from Citi.

Josh Levin: If you look at software licensing, it grew 24 percent during the quarter. And I think it was 37 percent in the first quarter. You said the third quarter is off to a strong start. Your guidance for the full year total software licensing growth is 13.5 percent to 18.5 percent, but I guess doesn't the guidance look a bit conservative or am I missing something?

Max Chuard: Listen, obviously, we gave yearly guidance, which we did at the start of the year. Yes, as we've said we are confident on delivering that guidance. And as I've said, I expect to be above the midpoint of that guidance. Yes in Q2, we're starting strongly Q3, which is great because we are confident to be able to deliver on that guidance.

Josh Levin: OK, and my next question is about the competitive landscape. Are you seeing any of your competitors materially improve their product offering?

David Arnott: In a word no, not really. There's nobody who's come from left field. I think whomever's going to win is already playing, it's quite difficult with the momentum that players like Temenos and even some of the international other vendors (who may offer a) more services-like business model with the momentum we've all got and the fact that the market is moving so fast, I think it would be difficult to start from scratch.

So that leaves the competition really is the existing players. And I wouldn't say any of them have made any great strides in terms of focus on banking, focus on rationalizing their product set. And the market is big enough for all of us, but I would say certainly in first half of 2018, nothing's new.

Certainly not on the positive, let's put it like that, for many of our competitors in terms of changes of strategy or execution. In fact, our win rate that you can – as you can see, given our rate of growth being higher than the overall market is predominantly coming at this stage still from market share gains.

Operator: Your next question comes from the line of Gerard Vos with Barclays.

Gerardus Vos: Just a few if I may, first of all on the kind of revenue. So I think it was the first quarter in 8 quarters that you didn't beat consensus. I noticed that you also indicated in the presentation that you made a strong start to Q3.

So have some deals perhaps slipped from Q2 into Q3? And secondly, on the SaaS revenues, I think if I exclude the M&A, they went backwards. I think there were some kind of products that you've kind of discontinued from the businesses you've acquired. Could you perhaps share with us how much revenue impact that will be for the full year?

Max Chuard: It's kind of – I'm not going to comment under these circumstances. I think our collection is (actually even) better than the consensus. But I think it's a great quarter on the license – on the overall, I mean. I'm pleased that the full KPIs in Q2 have been outstanding. And clearly, based on our – and I see somewhere when we gather the additional data points, we are clearly beating on the license.

But putting that aside, we had a strong – a very strong Q2 and as I've said we're starting Q3 very strongly as well. We are in the business of looking at it on a quarterly basis, (if you) look at it on a 12-months basis. And unchanged, we feel very confident for 2018.

On the SaaS question, it's true that some of the legacy assets that we inherited through some of the M&A, we (inaudible) which had (a negative) impact on the year. And I think as we said, the cloud in SaaS is performing extremely well.

Now there's a timing to that because we start really booking the revenues when the customers goes live (with that) and it can take 6 to 12 months. But I think we seriously could benefit on the growth in 2019. But already as we've said during the Capital Market Day, this is something that we've expected as what we've said in the past, we do expect SaaS to be going up around 35 percent in the medium term. And I think, in 2019, we are going to see it to be closer (toward the action.)

Operator: Your next question comes from the line of Chandra Sriraman from MainFirst.

Chandramouli Sriraman: Just a couple from my side. First one, I noticed a big jump in contribution to licensing from Middle East and Africa. So I was just wondering if you have any thoughts on the region as such. And maybe – and the second one is on your investments in terms of sales and marketing.

David, you mentioned a couple of times the heightened interest in turnarounds in the TCF conference. Do you see any urgency to accelerate investments at this moment? Or do you think you have enough on the plate to deliver to high quality?

David Arnott: I think it's – on second thought, really appreciate it. You're right to spot that Middle East and Africa have grown faster there. They're performing very well actually. I would say the market itself is in good shape. Though, we've been particularly strong in terms of market, taking market share in the Middle East and increasingly in Africa from 2 groups of people.

First of all, a lot of the local players are starting to drop by the wayside in terms their ability to invest at the level that's needed, especially in the bigger banks. And secondly, we've taken market share from the larger global players, particularly Infosys and Oracle in the last 12 to 18 months. And that has started to show through our numbers.

On the sales and marketing piece, if you go back 4, 5 years ago, we (thought that the strengths) in the market were: a, the markets (willingness and need to change to SaaS systems.) And so we were holding back investments and focusing between revenue and margin.

We truly had visibility but the market wasn't moving to the extent it is today. We, in parallel, prepared ourselves for a level of growth by removing constraints around delivery. So the model banks, country platforms, partners programs, online learning community tooling , that (type of stuff is) well in place.

So I would say, today, the biggest constraint we have for Temenos over the medium-term is our ability to have presence in the market. And so it's a good 2 years now that we've been focusing significantly on sales and marketing investment, both in absolute terms, but also as we specialize so we've got product specialization in areas like wealth private banking, retail, capital markets and also in terms of the tiers, as tier 1 banks look for more technology.

It's more of a technology sale plus the smaller banks, it might be more of a bank in a box, how quickly can I deploy a sale. So there is a (complacency) as we grow as we capture all these different segments of market, and we've already been growing significantly our sales and marketing investment.

I highlighted the key areas as being sales investment and presales campaign support. They are the 2 big buckets of activity and we've found the model that does allow us to on board those people quite fast and find them in the market by going laterally to adjacent segments, setting up a sales academy and finding the right model to incentivize people to come away from our peers and our competitors to join Temenos.

So it is something we track. It is something that, to me, is one of the biggest opportunities for Temenos over the medium-term. And (I'd like personally) and I would say were doing quite well in terms of ramping up our sales investment. And you see that coming through the numbers.

Chandramouli Sriraman: Great, maybe a quick follow-up. Just you've had a fantastic run over the last few years, and as you look forward from here in terms of your opportunity, do you see signing more large deals as a key focus for you as such? Or is it penetrating deeper into your existing large customers? Do you see a lot more opportunity there?

David Arnott: Hope I don't have to pick one. Both are exciting in their own right. We've done the hard work of gaining the trust of a significant and cumulative number of Tier 1 and Tier 2, and of course, smaller organizations and specialized organizations. And gaining their trust to embark on what is going to be a very significant opportunity for us going forward. And I know a couple of your models out there are trying to quantify the opportunity.

Progressive renovations are changing out the addressable path of the subsystems that exist in those markets and the average of all your numbers is obviously a significant opportunity. That alone gives us a good base level of growth.

So provided we (don't) upset the bank, provided we deliver on the business cases, taken right on time, deliver revenue business case or the cost cut business case, whatever they have bought the software for, we can create sponsors in our customers and references for other customers.

That's a good level of growth. But if you would – I wouldn't say (not pinned) but we're proving every day the success our software brings to banks. Clearly though, if you take the excuse that software is going to be dominated by the best 1 or 2 software companies, it is also very important that as the big deals come to market that Temenos wins the lion's share of those and don’t have to share that leadership position with 2 or 3 others because then it starts to impact lots of things that you we shouldn't go into on this call now.

But if you remain the leader, if you look after you installed base, if you provide success, if you make (winners of the people that use) your software, if you win the lion's share of the big business, each one of them in its own right is a significant contribution to the $49 billion of addressable spend.

So I'd say it's both. Ultimately it's the same constraining factors to both. It's the sales organization for existing customers, the sales organization for new business. But ultimately, it's demonstrating that the product can go live quickly in existing customers that underpins their comfort to buy more software and underpins the company's new banks to join the club. So it's the same fundamental plot is really for the slightly different go-to-market challenges but broadly the same.

Operator: You're next question comes from the line of Adam Wood from Morgan Stanley.

Adam Dennis Wood: Just 2 from me, please. Just in terms of, on the building society in the U.K. (I was noting in) your commentary, I want you to give us a little outline on what the landscapes are.

I think one in particular has done I think some implementation (that's a bit needed) that seems to be challenging. Have they done any major moves towards packaged software or is that a fruitful field for you? And potentially, how big could it be? And then maybe just taking on the services margin, obviously good improvement there. Is that really sticking the way you'd like it to be? And then there is more limited upside from here, which is kind of still more work you could do on that side of things?

David Arnott: OK Adam, the question on the building society UK market, it is quite small so I won't – obviously, I won't be commenting on specific prospects. But it is a market that can be potentially big growth opportunities for Temenos.

There's a number of organizations there that we would be targeting, as you'd expect. And it's quite (standard but once) we've gotten into them, the commentary is quite easy to – it's not much. We've a functionality overlap for the rest of that market. It's quite homogeneous.

Max Chuard: And on the services margin, I'm clearly very pleased with the improvement and what you've been able to achieve over the last 2 years to be at 11 percent on interim basis, great. I think ultimately, it's – you should look at where other software services and the embedded software (inaudible) have been able to achieve.

I think there is still a bit of room for improvement uncovering in the new-gen family could potentially get to the 15 percent. Suffice it to say, I'm very pleased already with the levels that we achieved. As you know, services is a small percentage of the overall business, which represents less than 20 percent of revenues. So the improvement we can get from increasing the margin is quite small ultimately at the bottom line.

Operator: Your next question comes from the line of Mohammed Moawalla from Goldman Sachs.

Mohammed Essaji Moawalla: Two questions for me as well, first on the U.S. David, can you give us an update on where we are in terms of go-lives? But also in terms of sort of what the strategy is in the go-to-market.

You highlighted a lot of these digital neo-banks but what has been sort of the gating factor in terms of achieving perhaps more progress or announcements? And when do you start to see sort of evidence of some more references? Are these still sort of a medium-term thing or should we think of the back half year potentially to see some of this incremental progress?

And then secondly just coming back to the balance sheet, you obviously have done a fair amount of the buyback that you specified a few months ago. How do you sort of think about your M&A through the rest of the year, but also weigh that up against the kind of returning capital back to shareholders via buybacks?

David Arnott: OK, no thanks to those. I'll take the U.S. ones. OK, we're making good progress and we're very happy with where we are, clearly. Ally's been live with payment from – for a good 1.5 years now and that's clearly a reference in the payments space. Commerce Bank are hitting all of their milestones and have met all their Q2 milestones, and they are well on track for their Q3 milestones which gives us the bulk of the new localization delivered.

So after that, it's really about the banks' (readiness and keying data) and things like that. So we are making very, very good progress on Commerce. We signed a Tier 1 bank in Q4 last year. That's also progressing well. And I can't say much more about other than it is progressing well. We also signed if you remember last October a neo-bank that is in (New York, we planned to) go live in Q2. They are ready to go live. They're totally done.

They're just waiting for their final approval of the banking license and some branding issues which I shouldn't talk about on their behalf. But we'll see a formal launch, but our job is effectively done. And we're trying another new neo-bank which is really quite disruptive.

It's staffed by people from Facebook and Amazon and LendingClub and they're going to be making a lot of noise. And I think these new banks are interesting in as much as they allow us to prove we can deploy software quickly.

They're going to be disruptive and it's always nice to be attached to a disruptive name. But to the revenue opportunity clearly, the market is really for us about the top 120 other banks over $10 billion where we're looking to extract efficiencies, savings and allow them to be (able to) compete against some of these new players.

So I would say for that, it's clearly about commerce in this Tier 1 pool of banks (we won.) So there's no competitor that's won a U.S. deal in the meantime. We've won them all and we're just crunching our way through them. So we'll have references in the second half of this year and going into 2019.

Max Chuard: Well, having on the balance sheet as you've seen only in during Q2, we've payed $46 million of dividends, we did $161 million of(buybacks, and still on the leverage is still below 1.5x EBITDA. So CMMI would want to continue the buyback as that we announced to complete the $250 million that we announced.

But at the same time, we still have a very strong balance sheet, which allows us to look at any new opportunities. And now clearly on the M&A side, timing there was difficult to predict but we are looking at ways to complement the organic base. But rest assured that the balance sheet is very strong for us, if needed to be able to do more acquisitions.

Operator: Your next question comes from the line of Michael Briest from UBS.

Michael Briest: A couple for me. Max first and then one for you, David. In terms of the guidance, I know as your current assumption now is, I mean, in our thinking sort of $1.16 for the year. I think in the first half, it's probably $1.19 or $1.20. So it's quite a bleak forecast for the euro for the second half.

Can you sort of talk about the assumptions behind that? Or maybe are you sort of suffering from Brazilian reais and the Turkish liras or things like that flying around, which have been quite weak? And then just on the SaaS subscription business, Gerardus was asking for the second half of the year, should we assume the Q2 run rate is more indicative before you ramp up SaaS in 2019? And that might help us understand the guidance.

And then David, just in terms of Australia, I noticed there was a deal with Volt. One, is that the one you're referencing or is it another deal that hasn't been announced yet? And then just on Middle East, Africa you asked earlier, it's a pretty big contribution seemingly. Are there no large banks that you can call out as having driven that strong performance this quarter?

Max Chuard: Hi, Michael. This is Max. (Recently) the $1.16 is for the balance of year so (it's translated out) for the full year. (We'll be talking one cleaving) factor, and we are back like after a detour where we were at the start of the year when we gave you guidance for – and I think for us, I mean the main one is the (range) as far as most of the impact on the currency side. So I think we are quite clear with that.

On the SaaS now, to come back to the question of that was asked on what to expect for the balance of the year, I think SaaS will be probably between 10 percent to 15 percent growth for the full year. So you'd see a continuation probably of where we are today in Q2. Obviously, starting Q3, we don't bear the contribution on – from where we can be more proportionally. It should be more than 12 months. So I expect the underlying to be growing faster.

David Arnott: Michael, let me take the Australian one. And I think you need to repeat the last one because I did not quite capture it. So we did sign Volt. That's not the reason we're excited about Australia. We'd sign deals beyond Volt that I'm not at liberty to talk about at the moment. That's why it's just more than just Volt. And can you just repeat the last bit? I didn't capture that.

Michael Briest: Yes, it's just the main Middle East, Africa. It does look like it had a very strong quarter year-on-year. Are there no sort of single banks you can name or big deals you can reference that contributed? Or was it just generally lots of little deals coming in?

David Arnott: Just across the board, really. If I were to single out one subregion performing extremely well within there, I would say Africa. Africa is coming back. It's been quiet for a while, periods of the cycle, not only the end of – who migrated to third-party systems 10, 15 years ago when there was the last replacement cycle of (inaudible) getting out, then coming to market.

The lion's share are coming to Temenos, some of the big names, nobody probably I'm allowed to mention. So – and we're also upselling to our existing customers. We've been there a long time so across the board that I would – is that one hint I can give you is that Africa is growing really well.

Operator: Your next question comes from the line of Laurent Daure with Kepler.

Laurent Daure: I also have 2 questions. The first one is regarding the strong run of your stock price. Can we have kind of an indication of the stock option charge we're expecting for the full year, a new assumption (in your) guidance?

And my second question is back to the question that was asked about the sales and marketing costs because it's been quite erratic from one quarter to the other.

So does it have to do with provisioning of (inaudible) of the (inaudible) before? Or is it more the timing of your equipment and more generally, how do you – how is the market (of booking) sales at the moment? Do you see inflation? Any comment, any color on that would be very useful.

David Arnott: OK, maybe let me take the second one. (Max will answer question after) the first one. There's a lot of variable cost, clearly, going through quarterly sales and marketing. There's a – the (recruit) of bonuses, (recruit of) sales commissions. And then it has a different timing to the relicensing, which is revenue adjusted for variable pay. (The variance) is quite lumpy. It's quite seasonal.

Often, it's attached – the payments are attached to things you don't see because the revenue recognition may not be perfectly aligned. But if you cut through the variability of that, I would say we are fairly steadily increasing our underlying sales and marketing headcount in dollar terms by about 25 percent. And then that's very steady. Every quarter we're bringing on, we bring on a bunch of new people.

There is a (lump in) September when our sales (of heavily intake) comes through. That's the only one nonlinear amount, I'd say. So very slow and steady 25 percent increase over the year and targeting to get that up a bit in the medium term. But that's more an issue of sort of a capital market strategy point.

So we're executing on the strategy that we laid out in February, which was to invest disproportionately high in sales and marketing. And we've been able to start finding the right people. The rest is just (terrible) timing.

Max Chuard: The stock option charges, it's – yes, it will be slightly higher than last year, but this is fully taken into account through the guidance. So it's a part of the guidance we gave at the cost and the profit level. So slightly up on last year, obviously.

Operator: Your next question comes from the line of – sorry, there are no further questions.

David Arnott: OK, thank you very much everybody for giving up your time to spend with us this morning, this afternoon. We look forward to speaking to you after the third quarter, if not before. Thank you very much.

Max Chuard: Thank you.

Operator: That does conclude your conference for today. Thank you for participating. You may all disconnect.

END