Temenos Group

Q2 2019 Results

2019-07-17 at 6:30 PM CET

Duration: 49 minutes

COMPANY REPRESENTATIVES

Max Chuard – *Chief Executive Officer*

Panagiotis Takis Spiliopoulos – *Chief Financial Officer*

PRESENTATION

Operator

Ladies and Gentlemen, welcome to the Temenos Q2 2019 Results Conference Call and Live Webcast. I am Moira, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the Conference is being recorded. The presentation will be followed by a Q&A session. You can register for questions at any time by pressing * and 1 on your telephone. For operator assistance, please press * and 0. The Conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to handover to Mr. Max Chuard, CEO. Please go ahead, Sir.

Max Chuard

Good afternoon and thank you for joining today's call. I hope you have been able to access our results presentation on our website or through the webcast which we will be talking through on this call. I will start with some comments on our Q2 performance, and then I will hand over to Takis for an overview of the financials before giving some concluding remarks.

Starting on slide 7, we delivered a strong second quarter across all our KPIs. In Q2, we grew total software licensing by 21%. Total revenue grew by 17%, EBIT by 20% and EPS by 18%. This builds on the momentum from the first quarter, I mean, that for the first half we have delivered total software licensing growth of 24% and EBIT growth of 23%. I am very pleased with this strong set of results for the first half of the year.

We hosted our Capital Markets Day in May where we outlined the market dynamics and our 6 drivers of growth. We are in the strongest position we have ever been, both from a market perspective, our leadership within that market and our product portfolio. All of these factors are contributing to the success we've seen this quarter and in the previous quarters, and our sales momentum is underpinning our confidence in 2019. Our clients are engaged as ever if not more so and consistently tell us that IQ innovation is not an option, but it is essential to the future of the businesses.

Our leadership position across all our products was once again recognized by both Forrester and IBS. We were the number 1 ranked vendor in both the Forrester and the IBS League Tables.

And Forrester also recognized Temenos Infinity as a leader in the latest assessment of digital banking engagement platforms. These third party endorsements reflect our belief that we have the best products in the market.

On slide 8, I'd like to give you some insight on our sales performance in the quarter. Our clients continue to make buying decisions to solve the intense digital regulatory and cost pressure they are under. They are facing new competition and need to adapt the approach to IT applications and infrastructure in the area of open banking. Demand was broad based across all geographies in Q2 with Asia and Americas particularly strong. I was very pleased with our U.S., performance where we had significant license sales across all our products.

In the last 12 months the Americas have contributed 25% of the mix compared to 20% in the LTM 2018 with most of the growth coming from the U.S. We cannot announce or name all the deals we signed in any one quarter, but I'd like to highlight a couple in particular. We sold Temenos T24 Transact to a European based payments company that is expanding into banking services.

We also sold Temenos Infinity to 2 global Tier 1 banks, 1 in the U.S., and 1 in Europe. We had strong sales into this installed base in the quarter, reflecting our focus on growing a wallet share in our existing client base. And finally, we also had 20 new customer wins in the quarter and we continue to invest in sales and marketing to support the 6 drivers of growth across our products.

On slide 9, we had 22 new implementation go-lives in the second quarter. Key go-lives included ABN Amro who implemented Temenos WealthSuite to power the international operations for private and corporate banking. The bank has initially gone live in Belgium with a robust roll out across other countries.

We also took Grasshopper Bank live in the U.S., on the Temenos Cloud. Grasshopper is the new challenger bank targeting high growth entrepreneurial companies for SME banking services. The bank highlighted our cloud native package software, our APIs first strategy and our open architecture as key to the decision to work with Temenos. Finally, we are driving growth in the number of third party consultants available to implement Temenos software with over 6’000 in total including our own consultants.

Moving to slide 10, I'd like to share some of the highlights from our Capital Market Day which we held in May.

This was a great event with a huge amount of detail on our market and products, as well as, an excellent presentation from our client bank Leumi on the digital bank paper. I would encourage you to access the presentation on our website for more details.

In summary, we have a very significant addressable market today of around 57 billion globally, and this is growing. 80% of this is still spent in-house on legacy software, and so there is a massive opportunity as more banks move to package software as we've seen in other industries to benefit from economy of scales.

We are the leader in this market outselling the competition and taking market share with our cloud native, cloud agnostic, APIs first products. We have over 3’000 customers across 150 countries and they give us the credibility and references to maintain our leadership position.

We benefit from 6 drivers of growth in all areas of growing market and we've products to address each of these and to meet the demands of our clients. We also have the most dynamic community in banking supported by over 6’000 skilled consultants deploying our software and supporting our clients.

And finally, as you've seen over the last few years and even from the announcement today, we have a complimentary M&A strategy. We use M&A to accelerate our organic growth by acquiring complimentary products and to expand into new geographies and segments.

Turning to slide 11, one of the key reasons we are so excited about the opportunity is that we benefit from 6 drivers of growth more than we've ever had. The majority of Temenos growth and success today has been from core banking where we have a 16% market share of annual license globally.

Across the other 5 drivers of growth, we have a combined market share of circa 5%; we see no reason why we cannot replicate our success in core across these other drivers of growth. For each of these areas Temenos has an established and credible solution to support the segment. And so our growth in the future will come from more than just T24 Transact, it will also come from Infinity, our digital banking platform as well as from payments, fund administration, wealth and our SaaS offering.

On slide 12, I'd like to look at our competitive positioning.

IBS published the latest league table in May 2019 and Temenos was ranked the best-selling core banking system for the 14th year as well as the best-selling digital banking and channel system, payment system and risk and compliance system. We also retain our position as the only vendor globally to top both of the first parameter for new-name business and new and existing clients.

Temenos Infinity was recognized as the leading digital banking platform in the Forrester Wave, which was published last month. These league tables are very important for banks when selecting a strategic partner for renovating the IT platform. They take a lot of comfort knowing the bank...the best-selling banking software globally, which helps cement our position as the market leader in a winner takes all market.

Finally on slide 13, I'd like to discuss some and to give an overview of the very exciting acquisition we announced today with both Logical Glue, a London based provider of the patented Explainable artificial intelligence platform with clients in the U.K. and in Europe. The acquisition accelerates our AI roadmap by bringing a proven Explainable AI platform with AI credit scoring models and deep AI and machine learning expertise.

Logical Glue Explainable AI platform addresses one of the key challenges for banks using AI application. AI typically operates as a black box with minimal insight into how a decision is reached. Regulators are forcing financial institutions to explain the results of an automated decisions to customers. For example, GDPR in Europe includes a right to explain for all decision made by AI and in the U.S. Equal Credit Opportunity Act requires lenders to provide specific reasons when negative decisions have been taken.

Through this acquisition, we can help banks explain to the customers and regulators how AI based decisions are taken. We will embed the Logical Glue platform across all Temenos software including digital front office, core banking, wealth management, payments, and fund administration product. It will be available on-premise and in the cloud.

In addition to AI credit scoring models, we will use the platform for all the use cases including robo-advisors, intelligent pricing, product recommendation, real-time fraud detection, and debt collection products to start with. This is a hugely exciting and highly strategic acquisition for us and will enhance our competitive positioning in the market.

With that, I will now hand over to Takis to take you through the financial.

Takis Spiliopoulos

Thank you, Max and welcome from my side as well. Starting on slide 15, I will walk you through the financial highlights of the quarter. We had a strong performance across tiers, geographies and products in the second quarter with total software licensing growth of 21%. Our maintenance growth continues to accelerate growing 13% in the quarter. Overall total revenue growth also accelerated to 17% deriving EBIT growth of 20% and achieving an EBIT margin of 30.9% in Q2.

We had a strong cash flow in the quarter with 77 million of operating cash flow generated, an increase of 16% year-on-year and on the back of a strong Q2, '18. Our DSOs declined by another 4 days year-on-year to reach 110 days or 6 days pro forma excluding the impact of Avoka as we continue to benefit from a continued increase in partner involvement in implementations.

Lastly, our services business continues to perform well, with our services margin reaching 11.2% in Q2, as we continue to focus on project governance and are billing more of our services on a time and material basis.

On slide 16, I will highlight some key figures for the quarter. As a reminder, with the adoption of IFRS 15 at the start of 2018, we are showing year-to-date rather than last 12 month comparisons as we did not restate our 2017 actuals under IFRS 15. Our total software licensing revenues grew 21% in the quarter and 24% in H1 at constant currencies, which we are very pleased with and which reflects the growth demand for IT renovation and packaged software across the banking sector and across all of our 6 drivers of growth.

Our strong license growth continues to drive our maintenance which slightly accelerated and grew 13% at constant currency in the quarter and overall total revenue grew 17%. We continue to leverage our operational model to deliver growth in revenues and profits with EBIT of 20% in the quarter and 21... 23% in H1 at constant currency. Our EBIT margin increased by 64 basis points at constant currency in Q2 to give an EBIT margin of 30.9%.

On slide 17, we show like-for-like revenues and costs, adjusting for the impact of M&A and FX. Our last acquisition before today was Avoka in December 2018, which is expected to contribute 50 million of revenues for the full-year 2019.

In terms of FX, like in Q1 the weaker Euro was a headwind on revenue while our cost base benefited from a number of currencies weakening against the U.S. Dollar. Taking into account currency movements and hedging FX was a small tailwind on EBIT this quarter.

Total software licensing delivered 15% like-for-like growth this quarter and maintenance grew 13% with total like-for-like revenue growth of 12%. Total like-for-like costs increased 6% in the quarter, as we continue to invest in sales and marketing to support our 6 drivers of growth.

On slide 18, net profit grew at 19% in Q2 and 21% in H1. The higher tax was largely due to stronger profit in the quarter as well as the increase in our group tax rate the year-on-year. Our tax rate for Q2 was 14.6% and we still expect our fiscal year 2019 tax rate to be between 15% and 16%, as we continue to benefit from unrecognized tax assets in 2019. Our medium-term tax rate of 18% to 20% is a normalized run rate for the business. Finally, EPS grew 18% in the quarter to reach 80 cents and grew 21% in H1.

Moving to slide 19, our DSOs continue to decline in Q2 driven by our strong cash collection more work with Tier 1 and Tier 2 banks and increasing the amount of services we billed as a time and material. DSOs were down 4 days in the quarter or 6 days pro-forma to reach 110 days. We plan to continue decreasing DSOs to reach our long-term target of less than 90 days as announced at our Capital Markets Day.

Turning to slide 20, our Q2 LTM cash conversion was 111%. This continues to be significantly above our target of converting 100% of IFRS EBITDA into operating cash.

Slide 21, we show the key changes to group liquidity; we generated 77 million of operating cash in the quarter and paid a dividend of 52 million. We ended the quarter with 87 million of cash on the balance sheet and our total borrowings at the end of the quarter were 656 million and our net debt at 567 million with our leverage at 1.5 times. We expect our leverage to be below one time leverage by year-end based on our current plans.

Slide 22, we have given our unchanged 2018 guidance all on a non-IFRS basis as usual. The guidance is in constant currencies and you can find FX rates in the appendix. We are guiding for full-year total software licensing growth of 17.5% to 22.5% and total revenue growth of 16% to 19%. Our EBIT guidance is in the range of 310 million to 350 million, which implies a full-year margin of around 31.9%. We continue to expand our EBIT margin, which is expected to increase 150 basis points organically excluding the impact of Avoka.

Finally, we expect conversion of over 100% of EBITDA into operating cash and a 2019 tax rate of 15% to 16% as already mentioned. With our strong sales momentum, I'm confident we will deliver at least the midpoint of our 2019 guidance.

Moving to slide 23, I would like to run through our sustainable annual growth targets that we presented at our Capital Markets Day in May. The key to these targets is that we are expecting to deliver compound growth at these rates sustainably in the long-term beyond the usual 3 to 5 -year period we would consider for medium-term targets.

We are confident in this because of very significant of market opportunity and our positioning as leader in this market with our 6 drivers of growth. Even taking into account the economic cycles, we firmly believe that over 10 to 15-year period we can deliver these rates of annualized growth.

We have introduced a new lower DSO target of 90 days and an EBIT margin of 36+% in the long-term. We also expect our tax rate to move up to towards 20%.

Our other targets remain consistent with total licensees expected to grow organically at 15% plus per annum, total revenue at 10% to 15% per annum and EPS at 15% plus per annum. We have also retained 2, 3 to 5-year targets of expanding the EBIT margin at 100 to 150 basis points per annum and the tax rate in the next 3 to 5 years of 18 to 20%.

With that, I will hand back to Max.

Max Chuard

Thank you, Takis. So on slide 25, in conclusion we have had a strong performance in the second quarter and first half 2019 across all our KPIs. Banks are under intense pressure from digital, regulation, cost and open banking and the view investments in the IT platform as an extension to the businesses.

We are continuing to invest in sales and marketing to support the 6 drivers of growth and to grow our market share across all of these. Our acquisition of Logical Glue will significantly enhance the Temenos banking platform and keep us at the forefront of the competition in terms of our AI capabilities. The strength of our sales momentum is underpinning our confidence in 2019. And I look forward to updating you after Q3.

With that, operator, I'd like to open the call for Q&A.

QUESTION & ANSWER

Operator

We will now begin the Question & Answer Session. Anyone who wishes to ask a question may press * and 1 on their touch-tone telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use only handsets while asking a question. Anyone who has a question may press * and 1 at this time.

The first question is from James Goodman from Barclays. Please go ahead.

James Goodman

Good evening. Thank you for taking my questions. The first one's on the total software licensing guidance for the full-year. I think you said that you're comfortable from the midpoint upwards across your '19 guidance range, but given the 24% delivered in H1 that still looks pretty conservative. So if you could give us some commentary on the outlook for Q3 and phasing into the second half that would be great?

And the second question is on the EBIT costs were managed extremely well in the period. Again, could you give us a little bit more background there? And how do you expect the cost base to trend sequentially into Q3? Thank you.

Max Chuard

Okay. Thanks, James for the questions. Yes, on the guidance, as we had said in our commentary, you know, we feel very comfortable with a strong start from H1 and the sales momentum we're seeing to basically give you this kind of granularity. We feel comfortable right now with that. Please remember, you know, the first-half is usually 35% to 40%. Second half is still, you know, ahead of us. So at this point in time, I think we feel comfortable with that kind of guidance.

On the EBIT, there were a couple of factors, you know, playing this one. Yes, we are always strict on costs. However, we continue to make the necessary investments in sales and marketing, maybe 2 factors, you know, contributing or helping us this time. One was Q2 '18, on the G&A had some costs related to Fidessa, which obviously did not occur again in Q2 '19.

So that was probably, let's say, 2 million to 3 million impact and the other one was definitely on services, where we really focus on, you know, governance, time and material, i.e., you know, implementation being done by the partners. So they... that also helped the services profitability. I think these were probably the 2 main factors.

James Goodman
Very clear. Thank you.

Operator
The next question is from Mohammed Moawalla from Goldman Sachs. Please go ahead.

Mohammed Moawalla
Great. Thank you very much. I just wanted to come back on 2 things. One, you obviously highlighted a lot of the structural drivers, in terms of that are helping you and the pressures banks are facing. But you know, we've been hearing some sort of other mixed commentary regarding the financial services sector, but is there anything at the margin, in terms of customer behavior that's changing, perhaps, you know, deals are getting kind of broken up and still being done with you, but perhaps in a more phased manner, curious to getting a perspective on that?

And then on... just more generally, in terms of some of the Tier 1 customer wins you talked about, maybe if you can sort of comment on the pipeline which are the kind of products where you see this sort of strongest momentum. And any more color on the size of the size of the win with Eastern European payments vendor that wants to go to deeper into banking would be appreciated. Thank you.

Max Chuard
Hi, Mohammed. Yes, on purpose of (unintelligible) I'm bringing these different drivers of growth, because this is key for our sustainability growth for the long-term. And clearly, we make significant investment internally to drive those 6 drivers of growth. Now, when discussing with banks and we know we are in the market all the time, we've not seen if you want a change, we've not seen a change in our pipeline, we've not seen a change in behavior from banks. This is highly, you know, strategic decisions. So it's highly needed renovation that banks need to go through, is it true, because digital is at the core for what they want to achieve, is it because of the cost pressure and they want to improve the return on equity or so there are many different elements that is driving the demand out there, and we've not seen a change in behavior from the banks.

Now, from a product momentum, as you described, I'm very pleased to say that the Transact T24 continues to be very strong, so it continues to be a very strong engine of growth.
We see Infinity, the digital front office very, very strong as well. So very pleased with, you know, how this is developing. Remember, we bought Avoka and this is clearly supporting the business and those 2 large customers that we won in Q2, clearly you know, Avoka's play the key role there.

And, then clearly (unintelligible) is one that has quite some scale, so we continue to have a very strong pipeline. And the other ones are the opportunity where, you know, we need to build more, where we need to invest more, and we continue to build pipeline. And the goal is really to have for the year double-digit growth in all those 6 drivers of growth. So that's really the growth for the year.

Now from a Tier 1 point of view. As you know, we do a lot with Tier 1; more than 50% of our business is coming from Tier 1. And we continue clearly, first to be winning new Tier ones, but as well, to try to capture more of the wallet share and to increase our penetration within the Tier 1. So hopefully I have addressed all your points, Mohammed.

Mohammed Moawalla
Yes, that's great. Thank you, Max.

Operator
The next question is from Antonin Baudry from HSBC. Please go ahead.

Antonin Baudry
Hi, good evening, Max and thank you. Thank you very much to take my questions. 2 questions if I may, will possible to have the contribution of Avoka in Q2 on, what should we expect for the acquisition you announced today? My second question is about the contract signed with the European payments company? Is it usual for you to sign with payment company or is it a new area of growth for you?

And finally, I come back on the guidance of operating profit for the year. If my maths are well, are good. If you want to reach the high-end of your guidance of operating profit, it would deserve... it would imply a decrease of the margin of the group in H2. Is there any reason to expect a decrease of margins in H2 for the group? Thank you.

Max Chuard
Yes, let me take the second of the 3 questions around the European payment company.

Again, this is a company that has... create... that has a bank and is going to use our system for the lending side and we've seen something quite similar. If you remember, with PayPal in the U.S.
So clearly, we are able to provide our solution for, you know, tech type of companies and I think that's a very exciting development.

Now, clearly know, we continue to focus 100% on the banking side. But as we see some of those tech companies having also banking license, again we, because of our technology, because of being cloud native, cloud agnostic and API first, you know, they tend to choose Temenos as a vendor, and I leave Takis to go through the other two questions.

Takis Spiliopoulos
Okay. Thanks for the questions. First on the first one, Avoka, as we said, you know, 50 million is the revenues we are expecting for Avoka for this year, the majority coming, you know, from... from the SaaS line, I think that's as much as we are... we want to give.

On Logical Glue, the revenue generated with Logical Glue will be immaterial. The company has paying customers and this is definitely, you know, something we want to expand. And on the cost side or basically the EBIT margin, yes, there were some tailwinds as we just mentioned. We still expect, you know, G&A as an example as we had guided before to grow 3 to 5%. We still plan to increase spending in sales and marketing. So, right now we feel comfortable with our 31.9% guidance for the full year.

Antonin Baudry
Thank you, very clear.

Operator
The next question is from Chandramouli Sriraman from MainFirst. Please go ahead.

Chandramouli Sriraman
Good morning, Max, good evening, Takis. Yes, I've got couple of questions from my side. Firstly, on the large deal pipeline, if you can comment something on that. And we haven't seen any news on very large deals from you for a while. Is it something that we should be tracking or has the market changed to a different form of signing large deals, that's my first question.
And maybe a quick one on the U.S, it's obviously doing much better now over the last few quarters, can you give us some more details on how big it is and is it time to revisit the 25% target for the U.S. anytime soon? Thanks.

Max Chuard

Let me start with the U.S. one. So, it's true that we see more momentum in the U.S. and already I think by the end of last year we started. I think that, we've now... we started to upscale with almost 500 people in the U.S. in different locations. We started in scale, we start also having customers across all our different products, and we are delivering successfully as well on those assets, as I mentioned for instance Grasshopper, which, you know, is a very interesting challenging bank that is using our cloud native, our cloud API first solution. So we've seen more and more traction in the US, and we have got more credibility, we've got, you know, now references as well. So, it shows that as we said, the U.S. will be growing faster than the rest of the group and we are confident that this is going to continue like that and it is going to happen.

I remember, it faced a very big opportunity the U.S. and also with Infinity remember in the past, our focus was really the top 150 banks more or less and now with Infinity, we've broadened that to a much larger size of the market. So, we can address really now banks from 3 billion and above, which really before we were focused really on the 10 billion and above. So today, our addressable markets in the U.S. is, you know, anywhere between 1’200 and 1’500 banks. So, I think that as well is playing a role. So, I think the U.S. continues to be highly strategic, continues to be highly exciting because there is clearly a need to renovate and we see digital front with Infinity doing extremely well in that market.

Takis Spiliopoulos

Let me take the one on the large deals, as you have seen, 53% of licenses were from Tier 1 and Tier 2 in the last 12 months. And we are confident that this will continue to be similar like that. Now, the pipeline without giving you a number is still growing, you know, in some markets, you know, clearly double digit or even more. So, we are clearly not dependent on those very large transformational deals to deliver our growth. And, you know, any of our Tier 1 and Tier 2 clients can be very significant in terms of license sales over a certain period of time. We have seen this in the past already. So, in terms of those very large transformational deals, we exclude them clearly from our one-year guidance as they are very complex and you know, unpredictable sales processes, you know, we don't really have a control on this one. And I would also highlight, you know, last year we delivered full year guidance also without those large transformational deals which shows actually the strength of our base business and, you know, the broad diversity in our customer base.

Chandramouli Sriraman

Great. Thank you very much.

Operator
The next question is from Hannes Leitner from UBS. Please go ahead.

Hannes Leitner
Yes, good evening. Thank you for letting me on. I have got 2 topics to discuss, the first one is on service margins, can you elaborate on how much Avoka contributed or was a headwind. So, basically, analyzing the organic margin expansion. And then also where do you see the margins in the long... over the long-term. And the second one is, can you breakdown your customer wins, you are tracking well ahead on yearly comparison. On H1, can you break that down between cloud and on premise and also on the potential overall deal pipeline volume? Thank you.

Max Chuard
Hi, Hannes. Okay, on the services margin the impact from Avoka was very slightly dilutive, okay. It's still a small number, you know, the service contribution from Avoka as we had said the majority of Avoka revenues are, you know, the basically the SaaS and license part. On your second question, you know, we at this point in time we actually don't want to give, you know, that level of granularity.

Hannes Leitner
And what is the long-term margin, you can reach in the services business?

Takis Spiliopoulos
I think, that remains unchanged, we are still very comfortable with our long-term targets of getting there into the mid-teens. So, now we are at 11%, so mid-teens is I think the one target we are planning to achieve.

Hannes Leitner
Okay. Thank you.

Operator
The next question is from Michael Foeth from Vontobel. Please go ahead.

Michael Foeth
Yes, good evening. I have 2 questions from my side. You showed strong growth in the Americas in the quarter again, any particular product categories that you can highlight supported that growth.

And second question would be, you mentioned the revenue impact from Logical Glue is immaterial near term, can you maybe give some sort of view on the long-term potential that you see there, will it be sold as a separate sort of product or is it going to be just integrated in your basically new standard offer and not separated out? Thank you.

Max Chuard

Hi Michael, it is Max. Listen on the Americas and most specifically in the U.S., as I said, we have seen a lot of structure on the Infinity product and as we said we had one of the two Tier 1 global account that we signed with was for Infinity, so that's really our digital front office platform and we see lots of traction. We see the largest bank. We made significant investment in digital. We see, if you want, the Tier 2, Tier 3 and below that needs to catch up and that are going for package software. So that's I would say today where we see a lot of traction on the U.S.

Now, about Logical Glue as we said this is very exciting because clearly we are going to embed Logical Glue into our platform, into every product of Temenos and some of the product that we sell, if you want... you have got to have today very advanced AI capabilities and the fact that we bring this extendibility as well is clearly going to enhance the value of what we are selling.

In addition to that with the Logical Glue platform, will be able to generate much faster use cases on different models as we discussed for instance the credit scoring which is already available. So we say this will clearly be, you know, incremental to Temenos so it is very... that's why I am saying it is very exciting, it is highly strategic and our goal is really to infuse AI in everything that we do and really to lead and to be way ahead of competition on that technology side. So I hope that answer your question Michael?

Michael Foeth

Yes. Thank you.

Operator

The next question is from Charles Brennan from Credit Suisse. Please go ahead.

Charles Brennan

Great. Thanks very much for taking my questions. I have got 2 quick ones actually.
The first is just to circle back on this discussion on margins and costs. It feels like an underlying 6% increase in cost is relatively modest.

I know you called out some one offs like the Fidessa costs that are distorting that, but was that cost growth in line with your plans or is there any suggestion here you are struggling to recruit high-caliber people fast enough?

And then secondly on a separate matter, can you just give us some insight into the seasonality you are expecting for Q3 and Q4. If I look at the comps, it looks like Q3 is a tougher comp than Q4. Does that mean we should expect the second half to be back-end loaded to Q4? Thank you.

Takis Spiliopoulos
Hi Charles, ok on the margin again. I think you know, there are various bits and pieces, you know moving around between quarters. I would not read too much into that, you know there are, you know, option costs and social charges, you know, which depend on, you know, the exercise of stock options which has an impact. So right now, I think, yes, you know cost may look, you know, a bit low but still we have got plans for sales and marketing to deliver our growth and so we feel comfortable with our guidance right now.

Then on specifically Q3 and Q4, you know we obviously give no guidance on specific quarters as, you know, for all software companies, Q4 is the most important quarter. You know, is it you know, more backend loaded than any other year? We simply don't know. What we can say is the sales momentum is good also into Q3, so we have not seen any changes to let's say normal patterns.

Charles Brennan
Perfect. Thank you.

Operator
The next question is from Alex Tout from Deutsche Bank. Please go ahead.

Alex Tout
Yeah, hi guys, thanks for taking the question. Firstly, just on the absence, the relative absence of large transformational deals in recent quarters. Does that... is that reflective of any kind of change in the way that Tier 1 banks are engaging with you?
Is it simply that you have signed them, but you just can't announce them, I mean, is there any change in the pipeline or the structure of the pipeline that's behind that? And then secondly is the Commerce Bank implementation still on course for late 2019 go live? Thanks.

Max Chuard

Hi Alex, it's Max. Listen, on the second one which is very short one. Yes, it is still on track, you know the implementations that we are testing right now so it is really going extremely well and we are still on track for the end of the year.

On the first question, what we are trying to communicate, and we are trying to tell you that we do a lot with Tier 1 banks, and we have done a lot, we continue to do a lot with new Tier 1s and with existing Tier 1s. And I think we want to remove this (unintelligible) the large Q1 or not. It is not about that, you know, all our Tier 1 deal that we signed are huge deals over time. I mean, that I think the message is, you know, for us those Tier 1s are our role as a partner... as a strategic partner to those banks is overtime to deliver 50, 100, 200 million of license over the time and to progressively and continuously renovate the banks and this is why we are moving away from that communication around the transformation deals, because I think it is not the right way to look at it. The way to look at it is, we first want to expand our valued share with our existing Tier 1 because there is so much more we can do with them. It is huge and we have, you know we only capture less than 5% today and we want to continue to win those large Tier 1 banks because we then... we can deliver massive amount of license over a period of time, and that is the strategy and this is where we are focused and the pipeline reflect that, and that has not changed and we continue to have a lot of opportunities for Tier 1 banks, both in Europe but as well on a global basis.

Alex Tout

Thank you.

Operator

Ladies and Gentlemen, that was the last question. I would now like to turn the Conference back over to Mr. Max Chuard for any closing remarks. Please go ahead, Sir.

Max Chuard

Well, thank you very much for joining the call and I look forward to updating you all on the back of Q3. Thank you.

Operator

Ladies and Gentlemen the Conference is now over. Thank you for choosing Chorus Call and thank you for participating in the Conference. You may now disconnect your lines. Good-bye.

- END -