# Final Transcript

| Date 13/10/2011 | Time 18:00 UK | Name of Conference: Temenos Third Quarter Results Conference Call<br><br>Duration: 60 minutes |
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# Corporate Participants

**Sarah Bowman**

*Temenos UK – Investor Relations*

**Guy Dubois**

*Temenos UK – Chief Executive Officer*

**David Arnott**

*Temenos UK – Chief Financial Officer*

**Max Chuard**

*Temenos UK – Head of Corporate Finance and Investor Relations*

# Presentation

**Operator**

Thank you for standing by and welcome to the Temenos Third Quarter Results Conference Call. At this time all participants are in a listen-only mode. There will be a presentation followed by question and answer session at which time, if you wish to ask a question, you will need to press *1 on your telephone keypad. I must advise you that the conference is being recorded today, Thursday, 13 October 2011. I would now like to hand the conference over to your first speaker today, Sarah Bowman. Please go ahead.

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**Sarah Bowman** – *Temenos UK – Investor Relations*

Hello, everyone, and thank you for joining the conference call today to discuss Temenos's Q3 results, particularly as it is on such short notice and we apologise for any inconvenience on your part. On the call with me is our CEO, Guy Dubois, also David Arnott, CFO, and Max Chuard, Head of Corporate Finance and Investor Relations. You can download the slides for the results presentation from the Investor Relations section of our website. As usual our prepared remarks will be followed by a Q&A session and 48 hours from now you'll be able to download a transcript of the entire call from our website.

Before I hand you over to the speakers, I just want to make you aware of the legal disclaimer on slide three of the presentation. Various factors may cause actual results to differ materially from company estimates and, indeed, may cause company estimates to change. Therefore undue reliance should not be placed on the forward-looking statements made during this call, which reflect the company's opinion only as of today.

I will now hand you over to Guy who will give an update on the business and strategy.

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**Guy Dubois** – *Temenos UK – Chief Executive Officer*

Thank you, Sarah, and good evening, everyone. We really appreciate you taking the time to join us for this call, especially given obviously the short notice. No need to say that as soon as we had conducted a review of our Q4 deals and understood the revised picture, we needed to communicate as soon as possible. In brief, the key message from these results is that the business is performing robustly but the environment remains highly unpredictable and until predictability improves it's very difficult for us to give a credible outlook for licences. We are tracking a very healthy pipeline of deals for the quarter, all of which have a compelling reason to replace systems. But this pipeline contains many large transactions which in essence are even more sensitive to macroeconomic conditions. So, we removed our licence outlook for the balance of the year and give instead a revised outlook on revenues and adjusted EBIT.

If we turn to the presentation slides, on slide 6 I wanted to set out what are the key takeaways from these results. Frankly, taking into account the deterioration of the market, I feel pretty good about the quarter. We all read the same newspapers. We are all aware of what's going on in the banking industry and, taking that into account, I believe we've delivered a solid quarter. It's even more the case when we recall that Q3 last year was an exceptionally strong comparative quarter. In the quarter we signed 11 new banks, which demonstrates that the replacement drivers remain intact. Nevertheless, we withdraw our licence outlooks for the balance of the year.

Since we last reported figures, the environment has worsened. Sales cycles have continued to lengthen, so even though we are tracking a healthy pipeline there is an increased risk attached to our forecast and we make no longer any formal statement regarding licences for the year. We do continue to give outlook across the remaining metrics and later in the call I will share our revised outlook for the year. In uncertain and difficult times we need to protect profitability. So, to safeguard Group profits and going forward, we plan to initiate a new efficiency programme resulting in a charge in Q4.

Let's go to slide 7. I wanted to share some of the income statement highlights. Overall licence revenues of USD38 million were flat against Q3 2010, which is a solid performance, given the environment. This is even more the case when we recall that Q3 2010 was up 41% against the prior year. Our maintenance revenues are trading towards USD200 million on an LTM basis and now comprises 40% of our total revenue mix, improving the visibility of the business and underpinning cash flow and margins. Services revenues of USD34 million in the quarter were up 15% on last year and the losses continue to narrow. Our total revenue for the quarter was USD121 million, which was 16% higher than last year. We continue to manage costs very tightly. In the quarter like-for-like costs were 1% higher and in the year-to-date they are flat. As regards EBIT margins, these were eight percentage points lower year-on-year due, again, to the strong comparative in which exceptional licence growth produced an unseasonably high margin.

On slide 8 I cover the operating highlights. Our level of new business activity was very strong in the quarter. We signed 11 new customers against nine in Q3 2010. This figure includes two Tier 1 banks. Highlighting our software leadership, we reported three competitor replacements with T24. Europe evidently is the centre of the banking crisis and, not surprisingly, this is where we saw the biggest disruption in the quarter. If you exclude Europe, the licence growth would have been 40%. In particular, Asia showed very strong momentum as we tapped into the general market growth and the rise of Asia as the centre for private wealth management. We'll see that on an LTM basis Asia now represents 27% of all licence revenues. We took 15 customers live on our software in Q3, six of these coming from the PWM division. We went live with our first ever full Java deployment on T24 at Swiscot. The partner programme continues to advance. Partners brought us 8% of our licence revenue in the quarter and partners were responsible for two of the 15 go-lives. Lastly, we have integrated the Primisyn functionality into our overall business intelligence offering and this continued to be the fastest-growing product in Q3.

If we go to slide number 9, I would like to update you briefly on my agenda. In my first 90 days I've been in the field meeting customers, partners, employees and investors. Just to give you a flavour, I have met something like 35 customers and partners and held more than 30 investor meetings. Actually the good news in a nutshell is that our customers like our product. They like our model bank. But, as you can expect in this environment, they would like us to make them live faster.  They really want to get the benefit of their investment as soon as possible.  They validated our business model and they simply expect from us a market-leading product, a deep service domainal edge and a strong partner ecosystem.  So, clearly these discussions helped me to better frame our issues.  For now my biggest focus is on improving sales executions, optimising the services delivery model and bringing greater organisational alignment across the world business.  So, my priority for the business is organic growth.  I make no mistake on my priority but we do continue to track a number of M&A opportunities.  Lastly, we'll present the strategic plan for the business at our Investor Day on December 2 in London.  Sarah will give more details about the event at the end of this call and I hope as many of you as possible will be able to join us.

With that I pass you over to David for a more in-depth look at the financials.

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**David Arnott** – *Temenos UK – Chief Financial Officer*

Thank you, Guy.  If you turn now to slide 11 of the presentation, that's showing the different revenue lines and the profit metrics for the quarter in the last 12 months.  I'm not going to go through the whole thing as Guy has already walked through a lot of the key performance metrics but there are a few things I'd like to highlight which are the numbers I've circled here.  Licensing was flat in the quarter, just by challenging market conditions, and 16% up in the last 12 months. Maintenance grew strongly by 41% in the quarter as we grow our cumulative client base and with the impact of acquisitions maintenance has now reached USD195 million.  Services once again returned to growth, growing 15% in the quarter against Q3 last year.  This is driven by better change control revenues as we increasingly focus on project governance.

We expect services revenues to stay flat to slightly up in Q4 compared to Q3 and we'll not see the usual Q4 seasonal spike in services revenue that we've done in the past.  This is because our attachment ratio of services to licensing continues to decrease as we pass more and more business to partners and this was again the case in Q3 deals.  Total revenue is now moving rapidly towards half a billion dollars of revenue and this scale will continue to drive further revenue and profit growth going forward.  Given the strength of the comparative margin after a very strong Q3 2010, our margin declined 800 basis points in Q3 despite the resilient licensing as a result of the higher cost base post the Odyssey acquisition.

On slide 12 now I'm showing the underlying business performance for both revenues and costs by adjusting out the impact of foreign exchange in acquisitions. Both like-for-like total revenues and total costs increased by 1%. Licensing was down 5% in the quarter. Maintenance grew 5% and services grew 2% as we execute our partner strategy. We continue to demonstrate very good cost control and I've shown this over on the right-hand side where you can see that like-for-like costs were up only 1% in Q3, despite declining 5% in the second quarter. This is because we were able to leverage our acquisitions to fund our growth initiatives. For the full year we expect like-for-like costs slightly down on 2010. Note that like-for-like profit margins improved, even in a challenging year, and this did not come across out of the adjusted profit view because in the adjusted reporting we do not adjust the 2010 numbers as if we'd owned Odyssey for the whole of 2010.

Turning now to cash flow, I've shown on slide 13 our EBITDA conversion into cash which is at 104% in the last 12 months. Despite the seasonally weak Q3 conversion, the last 12 months is still above our targeted 100% EBITDA conversion over the medium term. Admittedly, this is driven by the non-cash charges taken in the second quarter. We can achieve our 100% outlook cash flow with DSOs reducing to 105 days, which compares to 104 days at the start of 2010 if you roll back the USD28 million adjustment to our receivables that we made in the second quarter as if it had happened at the end of 2010. This is in line with our historical DSO reduction trend and, in fact, is slightly more conservative.

As I explained after Q2, we're keeping our outlook at 100% to allow us to move towards shorter supplier payment terms, specifically on partners and external contractors but also things like office running costs in return for better rates. This is a one-off shift and we can absorb this whilst delivering our third consecutive year of at least 100% EBITDA conversion. This is because our DSOs are coming down as we run shorter projects and benefit from the partner-led implementations to negotiate more cash upfront and calendar-date payment terms. We are competent to achieve this full year outlook of 100% stated EBITDA conversion and you can prove this in two ways, either by taking our year-to-date inflows and adding what we collected in Q4 last year or by taking the year-to-date operating cash flow for 2011 and the Q4 implied revenue and then adding the reversal of the year-to-date deferred revenue movement which happens every Q4 as we collect the majority of our maintenance in the fourth calendar quarter.

That ends the financial update part of the presentation. So, now I'd like to hand you back to Guy to discuss the outlook.

**Guy Dubois** – *Temenos UK – Chief Executive Officer*

Thank you, David. As I mentioned at the beginning of the presentation, again we feel pretty good about our Q3 performance. Again, a very strong industry in macro headwinds, not to mention an extremely tough comparative. We signed 11 new customers, including two Tier 1 banks. However, as the macroeconomic picture has worsened in the quarter, the failure to resolve the sovereign crisis has now dragged banks into the centre of the storm. We are tracking a healthy pipeline of deals but this uncertain and deteriorating picture means it's no longer appropriate for us to give an outlook for licences. As such we have moved to a revised outlook that covers only revenues, EBIT and cash conversion.

This new outlook is set out on slide 15. We now guide for a total revenue growth of 5% to 14%, giving an implied range of USD470 million to USD510 million. To reiterate David's points, this new outlook assumes the continuation of the trend for maintenance and a flat sequential development of services revenue from Q3 to Q4. For adjusted EBIT we now expect margins of between 18% and 26%. We continue to expect to convert 100% of EBITDA into operating cash and we still expect the full year tax charge of 10% to 2% of adjusted profit before tax. Lastly, as I said at the start and following my 90-day review and taking into account the market uncertainty, we'll conduct an efficiency programme in Q4 resulting in a charge of between USD15 million to USD25 million. This efficiency programme will have minimal impact this year but will give an annualised cost saving of at least the same amount as the charge next year. It will cover all aspects of the business and shouldn't affect our ability to grow quickly when market conditions improve.

I now conclude by reiterating my key takeaways from the quarter. Q3 was a solid quarter when we take into account both the deteriorating market conditions and also the tough comparative. We signed 11 customers in the quarter, which is an encouraging figure and demonstrate that the structural drivers for the core replacements are intact. Nevertheless, we have decided to withdraw our licence outlook for the balance of the year because of the high level of uncertainty around the macroeconomic environment. We have, however, given a new outlook for all other metrics which we are confident we can achieve in spite of the difficult market conditions. Lastly, to protect the future profitability of the business we intend to conduct an efficiency programme which will result in a charge in Q4.

So, with that I would once again like to thank you for joining this call. I will now open the call to Q&A.

# Questions and Answers

**Operator**

Thank you. We will now begin the question and answer session. If you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel that request, please press the # key. Your first question comes from the line of Michael Briest of UBS. Please ask your question.

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**Michael Briest** - *UBS - Analyst*

Good afternoon. In terms of the savings programme, can you say a little bit about where they will come from and also whether you plan to reinvest those savings in 2012 or should we be factoring in a better profitability performance in light of it? Also, when I look at your guidance, it's a very wide revenue range but if I look at the implied margin, the costs are very similar, depending… regardless of what revenue you get. Can you not talk a bit about the natural cost levers which would reverse this if revenues were at the bottom of the range rather than at the upper end? And then, finally, David, just on the R&D capitalisation, it's a pretty big number this quarter. Can you talk about why that is and also what maybe happens in Q4? Thanks.

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**Guy Dubois** – *Temenos UK – Chief Executive Officer*

All right, Michael, thanks for your questions. You know, it's a bit early to tell you more about our restructuring charge but in a nutshell, as you can expect, I conducted an across the board analysis of my business and obviously taking into account at the same time the adverse conditions, I do intend to, as announced, run an efficiency programme. We have different options and depending on the results of our work, which is going on as we speak, we may see a bit of a different profile on our whole executive programme but in a nutshell we are looking at all dimensions, building in particular, and obviously different activities which are just not essential in our organisation so far. We should be able to give you more in terms of profile of this when we meet in December during our Investor Day.

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**David Arnott** – *Temenos UK – Chief Financial Officer*

Very good.  Michael, let me take the other two questions.  Just to clarify also, we will link back to your last question in the Investor Day in terms of the impact on the medium-term margins from the cost cuts we're talking about now.  So, the remaining two questions are cost flex and the R&D capitalisation.  You're right, that if you take the implied cost base from our new outlook, they're very similar to what we announced previously and the reason for that is because we took the variable costs out already in the second quarter.  If you run a model for Q2, you'll find that costs came down by about USD20 million from the full year, which was stripping out all the discretionary variable costs other than, clearly, the sales commission that links to the actual deals.  So, there was very little left to take out this time.

In terms of R&D capitalisation, you are right, it is slightly up on the second quarter.  For the full year we're forecasting USD35 million.  The rationale for that, clearly, is just building more IP, especially post the acquisition of Odyssey.  There's a lot of work going on in the private wealth management area.  There's a lot of work going on in the development organisation to deliver things like extensions to model bank country platforms.  And apologies if we weren't clear in the modelling earlier in the year on this but, just to be clear now, if you use a number of USD35 million for full year capitalisation, that will be about right.

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**Michael Briest** - *UBS - Analyst*

That's great.  And then just maybe if I could come back, Guy, on the pipeline.  You said it was very strong.  You obviously weren't here on 1 October 2010 but can you sort of compare the size and quality of the pipeline today versus then.  Is it similar, just with lower close rates?

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**Guy Dubois** – *Temenos UK – Chief Executive Officer*

The pipeline is bigger than the last time we talked.  The pipeline is stronger, particularly when you look at the well-qualified deal, and we have more larger deals into the pipeline.

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**Michael Briest** - *UBS - Analyst*

But, to be clear on your very wide guidance range, are you just factoring in macro uncertainty or were the outcomes of Q3 closed rates something you factored into that guidance range?

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**Guy Dubois** – *Temenos UK – Chief Executive Officer*

Yes, we did. Actually, the sales cycle lengthened, as you can expect, and we factored that in but the pipeline, as I said, is a key element to monitor our business. We feel good about our pipeline, frankly speaking. We are just not feeling that good about the uncertainties coming from the industry. That's the part which makes me more worried.

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**Michael Briest** - *UBS - Analyst*

Okay. I'll let someone else ask a question. Thanks very much.

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**Operator**

Your next question comes from the line of Chandra Sririman of Bank of America. Please ask your question.

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**Chandra Sririman –** *Bank of America – Analyst*

Hi, good evening, I have a couple of questions. The first one is, again, on costs. I just want to clarify your answer to Michael's question. So, have you already taken the USD20 million available costs that are benefits that you will get in Q2? Because I see that the overall costs have been largely stable, around USD98 million and USD99 million in Q1 and Q2, so I don't see a big drop there. And number two, can you also throw some colour on the geographic exposure of your maintenance, just trying to understand how stable and sticky it is and trying to gauge the downside risk to your maintenance?

And quickly on your guidance, I understand the low end of your guidance. What I'm trying to really understand is if I calculate your guidance – in terms of licences you've sort of given services revenue guidance and maintenance – it can be reasonably calculated. So, your licence on the high end is about plus 20% growth. I'm just trying to work out the scenario where you envisage such a licence growth for Q4. Thanks.

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**David Arnott** – *Temenos UK – Chief Financial Officer*

Okay, Chandra, let me take the first two of those. Costs, okay, apologies if I wasn't clear. Yes, we have taken variable costs out of our full year outlook. We end-load variable costs in terms of our actual reporting. In other words, if we deliver a good year, typically in the second half of the year, we will accrue bonus and that would be paid, clearly, the following year. In our initial estimates at the beginning of the year, in our outlook, because we were forecasting growth, we were forecasting variable costs. Clearly, when we got to the second quarter, we took that forecast to the accruing bonuses in the second half out. So, quarter on quarter you don't see any movement in the costs, the four quarters are flat, but in the second quarter, to be clear, we have already removed from our cost outlook the USD20 million of variable costs that were there at the beginning of the year. Is that clear now? Yes, okay. Call me offline afterwards if it's not but I'll move on for the meantime.

Geography of maintenance, we don't disclose this other than clearly looking at… in the appendices of our presentation where you can see our geographical revenue mix. The one thing that I would say is that our maintenance is extremely sticky. We have something like a 98% maintenance retention. It's an initial five-year agreement, after which it becomes annually renewable. And the very rare occasion when a customer comes off maintenance is if they lose their banking licence or they get merged with or, if you look back to the six deals we talked about in the second quarter, which will not progress, but they're really a very isolated example, about 500 customers, the value proposition paying 21% maintenance, so a big customer might pay USD 3 million a year in return for a release which has something like USD80 million to USD100 million of R&D in it, is a very compelling one and is something we've seen in previous cycles, something that's very resistant. So, it's not really a geography question, it's a question of value proposition on maintenance and we find that very sticky. So, I would not expect any worsening compared to our 98/99% retention.

Max, do you want to take the last point on the costs?

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**Max Chuard** – *Temenos UK – Head of Corporate Finance and Investor Relations*

Yes, sure. Chandra, basically we take out the licence guidance purposely because of the market uncertainty, which means that the range would have been too broad, basically, which is what you are addressing in your question. As you know, the maintenance under services is very predictable and that's why we decided to guide only on the revenue side.

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**Chandra Sririman –** *Bank of America – Analyst*

Yes. Sorry, maybe I wasn't clear in my question. I realise that you guys don't guide in terms of licences but I can very clearly back-calculate it based on your overall revenue guidance, your services guidance and, to a reasonable accuracy, the maintenance. So, I'm just trying to understand the top end of your guidance. In what scenario would you assume that your licences will grow by 15% in order to achieve the top end of your guidance? Is there some kind of large deal which you hope you will sign, something like that? I'm just trying to understand it.

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**Max Chuard** – *Temenos UK – Head of Corporate Finance and Investor Relations*

As Guy said before, the pipeline is stronger. The challenge is the uncertainty in the market but there's a strong pipeline. So, depending on how the macro events will develop during Q4, clearly there is a large range of output for the licence.

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**Chandra Sririman –** *Bank of America – Analyst*

All right. Thank you.

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**Operator**

Your next question comes from the line of Takis Spiliopoulos of Bank Vontobel. Please ask your question.

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**Takis Spiliopoulos –** *Bank Vontobel – Analyst*

Good evening, gentlemen. Thank you for taking my question. Number one would be, have you witnessed any deterioration or improvement in terms of tiering, i.e. you know, have Tier 1 banks accelerated the decision process or, you know, has it slowed down, i.e. those two Tier 1 deals, were they, you know, a drop-over from Q1 or Q2 or, you know, can you give us some colour on how the different tiers behaved in Q3? Number two, Guy, would be an update on the partner programme as you, I guess, also have talked to these partners. What can you say on this subject? And the third one would be, have you witnessed any change in the competitive landscape? Thanks.

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**Guy Dubois** – *Temenos UK – Chief Executive Officer*

Takis, thanks for your question. First of all, do we see any noticeable changes in the tiering? Actually, we don't. We continue to see our business building up around, let's say, three or four main types of activity. On the one side you have the Tier 1/Tier 2 activities where we try to sell the modularity, the scalability and the performance of the product and it works because, again, this quarter we signed two Tier 1 banks and, frankly speaking, it makes us feel extremely proud of it. We continue to sell, and this is the bulk of our business, a fairly large number of, let's say, Tier 3/Tier 4 banks, let's call them universal banks, where the model bank approach of the company is just driving the competitive advantage and give back to the customer what they are expecting, in other words, a quick installation and a rapid return, and the numbers we get, i.e. the 11 new names, that, you can expect, is a fairly large number of these types of banks.

We see very good activities from our private banking activity. As you know, since we acquired Odyssey, we probably have today one of the largest, more comprehensive offerings available to the market and it resonates extremely well with our private banking businesses. It's not by mistake that we are seeing our Asian market growing fairly fast where you see a lot of private banking opportunities popping. You probably noticed that it represented 27% this quarter.

So, we don't see anything noticeable. What we see, as Max said, and as I said as well, we are engaged in a few larger transactions and obviously those transactions are more difficult to predict and are more sensitive to the macroeconomic climate. But at that stage nothing noticeable apart from, I suggested, a lengthened sales cycle. That's the first part of the question.

As far as the competitive landscape is concerned, and I will come back to partners afterwards, if you wish, not very much to report, frankly speaking. We continue to have a fairly high hit ratio, particularly when we are against competitors in the very large part of the sales cycle. To be honest, I believe that we have room for improvement because we are not everywhere we should. In other words, I would like to make sure we compete in 100% of all opportunities available in the market and, to be honest with you, we do not compete everywhere. And by improving our self-execution and developing our coverage, we should be able to reach a better number but when we compete, in other words, when we do have the coverage, actually we continue to be very competitive and we don't see any deterioration of our competitive landscape so far, or at least we didn't notice anything in Q3.

As far as the partner programme is concerned, for your information I met, I believe, 12 partners in Q3, so I take this activity extremely seriously. I am very committed to build an ecosystem supporting the development of the business and supporting in particular our footprint in the higher tier, Tier 2 and Tier 1 in particular, where the partners are playing a very, very strategic role with me to address this business. We are now having a bigger pool of certified resources. We are almost at 1,700 as we speak. We do see our pipeline impacted by partner strengthening.

So, so far, frankly, I'm happy with what we are building with our partners and I met many of them, as you understood, with the number I reported back to you and the feedback I received is fairly consistent. They are happy with the clarity of our strategy. They are happy with the fact that they are involved in more and more transactions. They are happy to take over step by step the revenue should be there and not ours and they like our products. So, actually we like what we are building with our partners and I continue to be extremely committed personally to talk to them and to meet them. It's a key element of my strategy and will remain a key element of my strategy moving forward.

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**Takis Spiliopoulos –** *Bank Vontobel – Analyst*

Okay. Thank you.

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**Operator**

Your next question comes from the line of Gerardus Vos of Barclays. Please ask your question.

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**Gerardus Vos** – *Barclays – Analyst*

Hi, good evening. Thanks for taking my question. Two, if I may. Just, first of all, on the kind of closure rates you saw during the kind of quarter and what you assume for the fourth quarter and, secondly, if I look at the reduction of the cost base between USD15 million and USD25 million for full year 12, it looks that you guys are roughly shooting for a revenue number for 12 around kind of USD500 million. Is that fair and how have you guys kind of built that up? Because that seems to imply just a modest decline in licence revenues. Thank you.

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**Max Chuard** – *Temenos UK – Head of Corporate Finance and Investor Relations*

Hey, Gerardus, it's Max. Let me just answer two of them very quickly. Both, you know, on the closure rates and on next year, 2012, we won't comment on that, so maybe we take your last question.

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**Gerardus Vos** – *Barclays – Analyst*

Those were my two questions, thanks.

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**Operator**

Your next question comes from the line of Oliver Girakhou of Cheuvreux. Please ask your question.

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**Oliver Girakhou** – *Cheuvreux – Analyst*

Yes, hi, guys, can you hear me?

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**David Arnott** – *Temenos UK – Chief Financial Officer*

Very well, thanks.

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**Oliver Girakhou** – *Cheuvreux – Analyst*

Okay, perfect. Just a quick one on Asia. What kind of particular signs do you see there? What has changed that you guys actually accelerated business there and what do you expect in terms of the market going forward? What kind of drivers do you see there? And also maybe a comment on the Middle East. And just quickly also on your guidance, I mean, there was a question before that if you assume USD200 million of maintenance and kind of what you guide for services, so at the low end of the guidance would be at around -7% licensing growth. Can you maybe just elaborate on the top end and the lower end and how did you come up with this number? And maybe the third one is in terms of deals. Do you take on deals and probably deals in Europe where you see actually giving some margin away?

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**Guy Dubois** – *Temenos UK – Chief Executive Officer*

All right. So, let me try to answer as many questions as possible. The first one, Asia, actually we are bullish with Asia because we are bringing different products which are well received and it will help you to understand the drivers behind what's going on in Asia. First of all, we are bringing solutions addressing what I would call the middle tier bench, you know, the Tier 4/Tier 3. Look at, for example… The best way to characterise that is probably what we do in, let's pick a country, Vietnam, where you have a market which is an industrial market, an economy which is booming where you have many banks having to replace a system to make them just compliant with the new economies they are in and to be able to support the business dynamics. In Vietnam, for example, we have six banks operating on Temenos products. So, we see in many parts of Asia the need for these solutions, well-packaged and addressing well their needs.

I guess the other driver which is fairly exciting is the overall private management acceleration. The creation of wealth in Asia is such that the banks now are bringing new solutions to answer their customer expectation. Which kind of products do we bring here? On the one side you will see the very traditional offering to help very wealthy people to have the expected support from their private banks and it goes, frankly, across the board in Asia.

And then you see another behaviour happening where you see banks, retail banks in particular, looking at how to address more particularly the not affluent activities, which kind of, I would say, front end self-tool they could use to help better their customers starting to make, let's say, USD15,000/USD20,000, which kind of products they need in order to answer the need of these new customers, excited with the perspective to probably get a better return on their money. So, they are the main drivers in Asia and we take advantage of those.

Obviously regarding the Middle East, it's to some extent similar on the top of it. As you know, we do have fairly robust, if not unique, Islamic banking model which brings exactly what the banks locally are expecting. So, to some extent we see some similarities with the Middle East market. Now, as far as Europe is concerned, tough environment, I believe we made that fairly clear. Do we give any margin away? Well, the answer is no. When I'm looking at the evolution of a pricing and discounts, particularly in Q3, I see virtually no change. Our prices is holding and our discounts haven't deteriorated in Europe in particular.

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**David Arnott** – *Temenos UK – Chief Financial Officer*

The last point, I believe, was another look at the revenue guidance and, as Max has previously said, we'd prefer not to discuss that at this stage.

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**Oliver Girakhou** – *Cheuvreux – Analyst*

Okay. Perfect. Thanks.

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**David Arnott** – *Temenos UK – Chief Financial Officer*

Thanks.

**Operator**

Your next question comes from the line of Mohammed Moawalla of Goldman Sachs.  Please ask your question.

**Mohammed Moawalla** – *Goldman Sachs – Analyst*

Thank you.  Guys, can you first tell us, for those 11 new customer wins, what was the regional split of that between, say, Asia, Europe and Middle East?  Hello?

**Guy Dubois** – *Temenos UK – Chief Executive Officer*

Yes, Mo, this is Guy speaking.

**Mohammed Moawalla** – *Goldman Sachs – Analyst*

Hi, Guy.

**Guy Dubois** – *Temenos UK – Chief Executive Officer*

How are you doing?

**Mohammed Moawalla** – *Goldman Sachs – Analyst*

Very good.

**Guy Dubois** – *Temenos UK – Chief Executive Officer*

I'm looking at my guys. We are seeing our revenue but I'm not sure we are seeing wins per deal but, frankly, you can imagine that it is pretty much the same. In fact, it's very similar.

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**Mohammed Moawalla** – *Goldman Sachs – Analyst*

Okay.

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**Guy Dubois** – *Temenos UK – Chief Executive Officer*

Mo, you've got that in the presentation. If you go to page 22 you will see the breakdown of the revenue per geo, Q3 and LTM, and it will give you a flavour of the way we are winning our business.

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**Mohammed Moawalla** – *Goldman Sachs – Analyst*

Okay. So, maybe if I just come back for a second to the pipeline and the close rate, can you perhaps contrast, you know, maybe by region the sort of change in pipe and close rates – clearly, you know, in Europe things are more difficult versus Asia or Middle East – just to understand perhaps the magnitude of that change by region, and has the pipeline in Europe stayed flat or has it shrunk quarter on quarter, just to get an idea of how the environment, you know, is affecting you.

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**Guy Dubois** – *Temenos UK – Chief Executive Officer*

Yes, Mo, as you know, we do not disclose the breakdown of our pipeline by geos but, as you can see, Europe remains a fairly large part of our revenue in Q3. Europe was still 50% also above total revenue but on a last 12 months basis it has reduced a bit and we are now on 40% and we obviously welcome our revenue coming from the Middle East and APAC which spread our risk differently, taking into account the uncertainties in Europe. So, forgive me to not share this type of detailed information, the evolution of our pipeline per geos. I'm afraid we don't disclose this information.

**Mohammed Moawalla** – *Goldman Sachs – Analyst*

Okay. Maybe just a final one from my end. You know, you talked about lengthening sales cycles quite a bit. Perhaps you can share with us, given the sort of discretionary nature of… and the long sales cycle of these core banking purchases, are we talking a lengthening of sales cycles by a matter of weeks right? Is it months or have some customers just come back and said, look, I have no visibility into the rest of the year, you know, let's continue this discussion sometime in 2012, just to get a sense of magnitude here?

**Guy Dubois** – *Temenos UK – Chief Executive Officer*

Actually, we see different behaviours but in general all the banks we are talking to, and personally I've talked to many banks over the last few weeks, I have to tell you, tell us the same. Our industry is not in crisis but in massive transformation and this transformation will take time but this transformation requires the banks to change many of their systems. Where we see sometimes a doubt is when to decide investment. That's why actually we see a lengthened sales cycle. I guess it's fair to say that we see an increased sales cycle over several weeks. That's what we are contemplating as we talk and obviously, coming back to your questions related to the pipeline, no need to say that Q4 is always by far the largest quarter.

As you know, historically our quarter in Q4 is always in the range of about 40%, right, roughly speaking? That's what we did historically, which means that when you see an environment becoming less predictable, when you see a sales cycle starting to change and when all this is happening almost the last few weeks only, because we noticed this deterioration starting, let's say, after the summer break in Europe, right? But when you comb back all this, we feel it's actually inappropriate to give you a licence guidance because the swing is quite large and that's the reason why we tried to give you the maximum information we can to help you to understand better our business.

**Mohammed Moawalla** – *Goldman Sachs – Analyst*

Okay. That's great. Thank you very much.

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**Operator**

Your next question comes from the line of Adam Wood of Morgan Stanley. Please ask your question.

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**Adam Wood** – *Morgan Stanley – Analyst*

Hi, everybody. Thanks for taking the question. Just a couple of kind of housekeeping ones and then one bigger one. Just on the cost-cutting plan, when we look at our cost-cutting over the last couple of years, our calculations show that Temenos has been one of the companies that's taken, you know, the most costs out, around 20% in 2008 and… sorry, in 2009 and then in 2010 and 2011, if we adjust for the M&A, there's not really been a huge amount of costs gone back into the business. You talked about the quality of the product and you talked about maybe trying to cover more area in Sales and Marketing to make sure you're catching all of the deals.

Can you just maybe reassure us, as we go through another round of cost-cutting, that this is still fat that you're cutting in the business and it's not going to impact the R&D that's going into the product to keep you competitive on that side or your ability to cover the market on the Sales and Marketing side? And then the kind of smaller questions were just we talked about R&D capitalisation earlier. Could you give us the same number for the amortisation charge so we can calculate what the net benefit to the P&L is? And then just to reassure us on the cash flow, could you tell us what the maintenance cash inflow will be in the fourth quarter? Thank you.

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**David Arnott** – *Temenos UK – Chief Financial Officer*

Okay. Good housekeeping questions, Adam. Let me take them one by one. I thought I'd got off too easily then. So, cost-cutting, if you go back three or four years, we were really focussed on growth and it's only probably the 2008/2009 cost cuts when we started to really focus on rationalising costs and we did things like set up shared service centres, focus on non-performing people across the business. I can be very clear, though, today that the… And I have to be careful because this is not fully launched internally. I can be very clear that nothing we are planning on doing will impact our ability to grow next year.

So, to give you some buckets, for example, offices, we have 56, if not more, offices around the world from when we had a direct sales and implementation model. The more the partner channel accelerates, the more we retrench into being a pure software vendor, the less we need to be sitting everywhere and being seen to be locally present. There's a second wave of packaging, if you like, in some of the offshore support processes developed – IT, finance, processes and things like that – as we gain scale. Clearly, in the Sales area, as Guy has alluded to, first of all there's productivity issues in individual cases but, secondly, there's geographical issues in that people are simply sitting in markets where in the short to medium term we don't feel that it's worth having people there.

And then on the services side, as we continue this shift towards partners on the attachment ratio, as I talked about in my script, there's a further round of people who are falling off projects, rolling off projects, who can be passed into the partner channel. And then the last big bucket is on the R&D spend when, if I'm being honest, we've not been as good as we could have been at cutting costs out of some of the non-core, non-T24 areas post-acquisition and therefore there's more to be done on that. So, that's an overview, if you like, and none of that will impact our ability to grow into 2012.

Amortisation. From memory I don't… I'm not going to try and pull up a spreadsheet now but if you assume about a USD10 million delta between your capitalisation and your amortisation for the year, you shouldn't be more than one or two million off. I'll try and find the number and e-mail it to you afterwards.

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**Adam Wood** – *Morgan Stanley – Analyst*

Thank you.

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**David Arnott** – *Temenos UK – Chief Financial Officer*

And then remind me what your last question was.

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**Adam Wood** – *Morgan Stanley – Analyst*

It was basically the benefit you get from the maintenance cash inflow in the fourth quarter, just to kind of help us understand the cash flow movement.

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**David Arnott** – *Temenos UK – Chief Financial Officer*

All right. Okay. So, the model there is pretty straightforward. If you take the Q4 implied maintenance revenue, which will be a couple of million more than the Q3 reported, and then you take the deferred… The deferred revenue will grow by about six to seven million for the year, so about 5%, and therefore if you take your year-to-date reversal of deferred revenue, which is – USD42 million, add on the full year growth, it means that deferred revenue will reverse by something like USD48 million in the year, so if you add that to your Q4 revenue, you'll pretty much come to your inflows within a couple of million.

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**Adam Wood** – *Morgan Stanley – Analyst*

Okay.

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**David Arnott** – *Temenos UK – Chief Financial Officer*

I've been saving the big one for Guy, I think.

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**Guy Dubois** – *Temenos UK – Chief Executive Officer*

I understand that was the big one.

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**Adam Wood** – *Morgan Stanley – Analyst*

It was the cost programme that was the big one. That was what I wanted to focus on. Thank you.

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**David Arnott** – *Temenos UK – Chief Financial Officer*

Okay. Thanks, Adam.

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**Guy Dubois** – *Temenos UK – Chief Executive Officer*

Thanks, Adam.

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**Adam Wood** – *Morgan Stanley – Analyst*

Thank you very much.

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**Operator**

Your next question comes from the line of Hoi Lam of Deutsche Bank. Please ask your question.

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**Hoi Lam –** *Deutsche Bank – Analyst*

Hello, guys. Thank you for taking my questions, three, if I may. The first one is a follow-up on the sales cycle. You mentioned that, you know, the sales cycle itself had been lengthening by a couple of weeks. Can we potentially see a scenario that's fairly similar to the end of 08 and the beginning of 09 whereby, you know, a number of Q4 deals actually deferred into Q1 and as a result the seasonality merely changed but the deal flow itself, in terms of volume, is, you know, kept constant. So, that's the first one, on the sales cycle.

The second one is the sales organisation. Guy, are you happy with the current shape or form of the service organisation? Because previously I think the… you know, after a couple of years of acquisition and also, you know, adding additional modules such as anti money-laundering and payment, I think that there was a plan to refocus the sales organisation, you know, from hunting to more farming the existing customer base and I'm keen to, you know, hear your thoughts on that shift.

And then just, finally, on the geographical rebalancing, you know, in Asia, you know, you are seeing growth and in Europe you are seeing concern. Do you see a point maybe sometime next year where the growth in Asia will be offsetting you by so much that you will perhaps regain the certainty on, you know, how the business will grow?

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**Guy Dubois** – *Temenos UK – Chief Executive Officer*

Hoi, thanks for these questions. Beginning 2008… Well, as a matter of fact, I was not here in 2008, so it's not that easy for me to compare but obviously I talk to my people in length about different analogies. What I would say is that, first of all, the company Temenos is extremely different than what it was in 2008. You know, since 2008 we became a multi-product company or we are becoming a multi-product company, a multi-channel company or we are becoming a multi-channel company, we are a multi-tier company, we are a multi-market company, which means that even we may have a few banks not in a position to close transactions with us because of reasons we've been talking about, we remain very confident to our ability to manage as much and as well as possible the challenges that the industry will be facing because, as you suggested, okay, we are not happy with what's going on in Europe, I mean, no need to talk more about it, but we are happy with what's going on in the Middle East or what's going on in Asia because we have now a better coverage.

We are not happy with what's going on, for example, as we said, in Europe, again, but we are happy to see our business intelligence business becoming a very, very critical business for us and obviously this business became a very nice, growing part of our activity. We are very happy to see, I don't know, a product like Wealth Manager or a product like Triple A for private banks driving the momentum. So, what you can see, we have those options in front of us now, as well as actually talking to Tier 1 and Tier 2 banks, because the componentisation of the product gives us the opportunity to talk to these banks because since 2008 the performance and the scalability of the product is completely different and on top of it, as you know, we are 35 on the () of IBM which is, again, another way for us to address new businesses.

So, I'm trying just to say that we are not comparing between 08 and now in terms of industry because it will be probably too complex and I'm, for sure, not competent enough to explain what's going on in this industry but what I know is the company I'm leading is a strong company. It's a company having many weapons, able to address many opportunities, which is the big difference between 2008.

Now, regarding the sales organisation, by just covering what I've just told you, no need to say that our sales organisation is becoming more sophisticated but, first of all let me tell you that I'm proud of my sales organisation. The sales organisation is competent, the sales organisation is aggressive and the sales organisation is focussed. You know, I've been talking to many banks and each time I was going there with the Account Manager and I was in general very pleased to be with them and to see how well we are able to articulate the value proposition. Now, we need to improve our self-execution and we need to improve our self-model. Let me give you a few directions.

The tooling of the sales organisation will be replaced. Actually, we introduced a new CRM system and the training started last week. We will have to address our productivity and cost of selling our solutions through alternate channels. The telesales organisation will have to be improved to address, for example, many deals, lower value which could be addressed by a less expensive sales channel. The marketing will have to be improved because we need more and more leads to address many of the opportunities that we do not cover well enough. So, there are three ideas to help you what we need to address in terms of sales improvement.

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**Hoi Lam –** *Deutsche Bank – Analyst*

Thank you very much.

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**Operator**

We have no further questions at this time, sir. Please continue.

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**Sarah Bowman** – *Temenos UK – Investor Relations*

Thank you so much for all participating today. I would like to just remind you before you leave, and I know it's very late, that on 2 December we will be holding our Investor Day in London at the

London Stock Exchange. Management will speak on a number of key initiatives and their execution as well as our product and partner strategy. The focus will be on demonstrating how Temenos intends to translate market potential into growth and we very much hope to see you there, so please feel free to reach out to me if you have any questions regarding the Investor Day or any questions that may remain unresolved from the call. Thank you so much.

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**Operator**

This does conclude the conference for today. Thank you all for participating. You may now disconnect.