TEMENOS Group AG

Moderator: David Arnott
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Operator: Ladies and gentleman, thank you for standing by, and welcome to the Temenos Q3 Results Call.

Your hosts today are David Arnott, Chief Executive Officer, and Max Chuard, Chief Financial Officer.

At this time, all participants are in a listen-only mode. And there will be a presentation followed by a question-and-answer session at which time, if you do need to ask your question, you need to press star one on your telephone keypad.

I would now like to hand it over to David to start the call. Please go ahead, sir.

David Arnott: Thank you very much. Hi, everybody, and thanks for taking the time to join today's call. As usual, I'm going to start with some comments on our third quarter performance, and I'll hand over to Max to update you on the financials. And then, we'll return back to me to look at current market conditions, and a bit more of a deep dive onto the U.S. and our other markets before we open it up the call to Q&A.

So, moving swiftly along, I hope that you've all been able to find our presentation on our Web site. I'm starting on slide 4.

If you start on slide 4, our Q3 results were solid. We saw 2 percent like-for-like software license growth in the quarter and made further with discussions for larger deals, which are now moving towards closure.

The strength of our pipeline at the moment and the progress we're making are on the larger deals, in particular, underpins our confidence to the strong fourth quarter and momentum going into 2015.

We're continuing to execute strongly on our services strategy and the non-IFRS margin was both positive in the quarter and on the last 12 months for the first time in four years since we started out the program. We continue to be highly focused on cash, as you can see, and we saw strong cash inflows in the quarter, with good cash conversion and DSOs materially down again.

The strength of our cash flows, together with the financial flexibility we have on our balance sheet, allows us to initiate a share buyback program at the end of the second quarter and we've made good progress with that during the third quarter.

Our strong pipeline continues to support the full-year guidance, with a better revenue mix driving improved non-IFRS EBIT margin guidance than previously, and we remain on track to delivery another successful year.

If you turn over to slide 5, the quarter saw particularly good sales to new customers, which is unusually impacting the third quarter, accounting for just below half of license sales. Europe grew in the quarter, augmenting good growth over the past 12 months.

The Americas continued to perform strongly and we also saw good growth from Asia-Pacific. Our Middle East and Africa region saw a slightly lower growth against a very strong comparative in the third quarter of last year.

Our SaaS business continues to grow very healthily, with a 30 percent increase in the quarter.

It's particularly pleasing to be able to report our second sale of the Temenos Payment Suite with the European Bank. ABN AMRO, who will continue the payment (scheme), is also now happily providing references to new customers.

As we reported at the time of our second quarter results, we're continuing to see encouraging levels of customer activity across all geographies. Having a multiproduct offering remains absolutely key to the discussions as it allows us to touch upon all the bank's pain points in the general order they fancy and end up with an overall comprehensive new solution.

Turning now to slide 6. I'm pleased to report that Temenos is once again, during the second quarter, positioned as a leader in this year's Forrester Wave on Global Banking Platforms, with the highest score of any vendor for product and corporate strategy. We've also seen further progress with products, including enhancements to our retail, corporate and channel offerings. And the quarter also saw us deliver a full suite of SaaS products to the U.S., which I'm going to take the time to talk through in a bit more detail later in the call.

Our SaaS strategy overall is gaining momentum, with a new head of SaaS, excluding the U.S., now within Temenos who joined us from Monitise and brings a lot of experience in that area. We've got a clear go-to market strategy and, as we've said previously, we expect SaaS revenues to be incremental to our on-premise business rather than cannibalizing the on-premise license revenues.

Our services strategy continues to deliver results with premium services approaching 30 percent of services revenue in the quarter, driving a positive services margin.

A shift of implementations to our partners has not impacted customer delivery, with Q3 seeing 14 implementation go-lives, taking the year-to-date total to 42, a third higher than in the same period last year.

And finally, our partner strategy continues to gain momentum, with partners playing a crucial role in many discussions for new license sales, particularly for larger deals. The number of partner consultants is now up to over 1,900, up from 1,700 at the start of the year.

With that, I'll hand you over to Max to update you on the financials.

Max Chuard: Thank you, David. Going now to slide 8. I'd like to start by presenting the Q3 financial highlights.

Like-for-like software licensing growth was 2 percent in the quarter, taking LTM growth to 11 percent, with good maintenance growth of 7 percent. The successful execution of our service strategy has delivered a 6.4 percentage points improvement in the non-IFRS services margin, which is now positive both in the quarter and on an LTM basis.

Non-IFRS EBIT was down 2 percent, impacted by the timing of investments with a non-IFRS EBIT margin of 25.2 percent on a 12-month basis. Non-IFRS EPS was flat in the quarter and is now up 11 percent on an LTM basis.

Cash was strong with Q3 operating cash inflow of $29.9 million, taking inflows on a 12-month basis to $198.1 million, up 26 percent on the same period last year.

Finally, cash conversion in the last 12 months is now 123 percent, with DSOs down 25 days versus Q3 2013 and had about 10 to 15 days annual target.

Turning to slide 9. Software licensing was up 1 percent in the quarter on a reported basis and is up 12 percent in the last 12 months. Total revenues were up 4 percent in the quarter despite the reduction in services revenues. And maintenance grew at a good 7 percent.

Non-IFRS EBIT was down 2 percent in the quarter due to the timing of investment with Q3 2014 including the full run rate of investment made over the years since the start of Q4 2013. Q3 2013 was the low point of the (cost base) before additional investment was made. Non-IFRS EBIT is up 12.7 percent of the last 12 months with an LTM margin of 25.2 percent.

As a reminder, the EBIT margin is expected by then to absorb the headwind of the increase in the amortization of capitalization development cost, which also explains why the non-IFRS EBITDA margin has improved more than the EBIT margin, as we expected.

The non-IFRS services margin was positive in both the quarter and of the past 12 months, validating the strategy we put in place three years ago. We now expect the services margin to be 40 for the full year.

Turning to slide 10. We show the revenues and the cost and the like-for-like basis. There was little impact on revenues from foreign exchange, with like-for-like growth of 4 percent, the same as reported revenue growth.

The cost was – the cost base was slightly impacted by a stronger pound sterling against the same period last year and like-for-like cost of 5 percent versus 6 percent reported. As a result, like-for-like non-IFRS EBIT was up 2 percent in the quarter.

Looking at slide 11, the EPS performance in the quarter was slightly better than the operating performance due to our continued management of the below-the-lines items.

On slide 12, we saw a strong cash inflow in Q3 of $29.9 million, which is reflected in the 123 percent cash conversion for the 12 months ended September 2014, ahead of our annual target to convert at least 1 percent of EBITDA into operating cash. Operating cash inflows were $198.1 million over the past 12 months, up 26 percent on the prior year.

DSOs were down 25 days at the end of September versus the same period last year. It's worth noting that such reduction includes a five-day positive impact from foreign exchange movements. I remain very confident that we can achieve our DSO target reduction of 10 to 15 days this year.

Looking at slide 13, we can see that our net debt position at the end of September was $162 million, representing a leverage of 1 times EBITDA, which costs $26.6 million of dividend paid in Q2 and after returning 87 million of share buyback as of today.

Taking into account treasury shares, starting through those shares we purchased for reconciliation in 2014, our leverage is at only 0.6 times EBITDA. We expect our leverage to remain in 1 times EBITDA at the end of the year after returning the full $120 million under the buyback program.

My last slide now, if you turn to slide 14, we set our guidance for 2014. Full-year guidance for software licensing revenues on total revenue is reaffirmed. Due to the acceleration of (costs thought) to reduce the contribution from our services business, we expect to be towards the bottom end of the total revenue guidance range.

Due to the better revenue mix, with increased non-IFRS EBIT margin to 25.5 percent, we're seeing a slight increase in the non-IFRS EBIT guidance range. We will also expect now the full-year services margin to be positive.

We also tweaked our currency assumption for Q4 to the strength of the dollar. These assumptions are set out in the appendix to the slides.

So our guidance is now software licensing growth of 10 to 15 percent, implying software licensing revenues of $151 million to $158 million. Non-IFRS revenue growth of 5 to 10 percent, implying revenues of $489 million to $512 million. Annualized non-IFRS EBIT margin 25.5 percent, up from the 25.1 percent, which implies a non-IFRS EBIT of $124 million to $130 million.

We continue to expect more than 100 percent conversion of EBITDA into operating cash flows and tax rate of 17 to 18 percent.

Based on our year-to-date performance and the strength of our pipeline, I'm confident on our ability to achieve our full-year guidance.

With that, I will hand it back to David.

David Arnott: Thank you, Max. Turning now to slide 16. Given the recent uncertainty in the macro backdrop, I thought it would be worth spending just a few minutes talking about the drivers for the business both in terms of the fundamental underlying drivers, if you like, and the market conditions in each region.

Those of you who attended the analyst and investor day in February will recognize the chart on the right of the slide, which summarizes the drivers of the business, which are true for all of our product verticals. Thanks to facing increasing competition, our capital requirements, technology disruption, digitalization and more demanding customers and growing complexity within the businesses. And we believe today we have the solutions to help them meet all of their pain points.

Despite recent turbulence in the macro outlook, our discussion with customers, and this is very important, suggests that banks currently have better long-term visibility and they are continuing to be able to make the right strategic decisions to address the issues facing them in the medium and long term.

Our visibility (is pretty) but more important than tough competitors and different challenges is the ability to make multiyear payback decisions to deal with long-term strategic brands. And that is unaffected. This is reflected in the multiyear pipeline we currently have across all geographies.

Turning to slide 17 now. I'd like to dig a little bit deeper and look at market conditions firstly in each of the four regions outside of the U.S.

Starting with Europe, Europe continues to perform strongly with software licensing up by over one-third in the last 12 months compared to the end of – compared to the same period two years ago. So, a very strong growth over the last two years. Our pipeline also remains strong. And to pick out two underlying very strong drivers, I would pick out regulation as a trend and specifically private wealth are the two main drivers in the European region.

Turning to the Middle East and Africa, we remain the market leader in Islamic banking, which provides a fantastic platform for growth in the region. There's strong growth opportunity within the region and it's really with the countries that are offering the greatest potential that we're targeting.

And we've also – on the back of good momentum in the Middle East and Africa, we continue to invest in our sales team in that region in the last four or five quarters.

Our Asia-Pacific region offers huge growth opportunities, with the demographic drivers remaining strong, such as banking the previously unbanked by taking first-mover advantage, it will be in the first work, the new branches, riding technology trends like mobile and Internet banking and bypassing totally the brand rollout model, and the emergence of a middle class, a larger middle class, driving increased demand for new products such as wealth products.

Finally, LatAm offers untapped potential. We've made some headway in the region with the deals for Banesco and Banco de la Nacion Peru announced in the first half of the – of the year, as the region is benefitting from the investment we made in sales in the last two years.

Although LatAm didn't have the potential of a region like Asia, as the number of banks is significantly smaller, it can still help drive our overall growth, and our win rate in the region is good.

The pipeline is strong in the region with universal banking payments and compliance as the key drivers, although in absolute terms, there's maybe only four or five sizeable deals coming to the market in total in any given year. So we need to keep this in context.

Turning now to slide 18. It's been 18 months since the acquisition of TriNovus and it seemed an appropriate to reflect on what we've achieved over the period.

Those of you who listened to the call when we announced the acquisition in March last year will recognize slide 18, which hasn't changed at all. The pressure on financial institutions remain just as acute, such as changing customer behavior and new regulation, with a technology offered to the 18,000 financial institutions not really being equipped to deal with their demands.

I'm digging a little bit more into this on slide 19, which is a slide you should also be familiar with from the acquisition time, and it highlights that Termenos has a unique offering for U.S. financial institutions, having the broadest functionality, and we are the only vendor to offer real-time architecture with a single core.

None of our U.S. competitors have a real-time core. In fact, all of these vendors have multiple legacy cores to support with no consolidation strategy for those multiple cores. And we all know what happens when vendors try to spread their R&D dollars across few many cores.

Until now, the lack of a real-time core has not really been an issue for U.S. financial institutions, but with the impact of digitalization, and you can bet it is like Apple emerging, clients need to see their balance real-time to make spending decisions, banks need to see real-time client positions for risk management, and to be able to offer the right products at exactly the right time for those customers. And we believe that this is a big differentiator for us.

Turning now to slide 20. A little bit of a timeline for what we've been doing in the U.S. Before buying TriNovus, although we've made some good progress in the United States, our customer base frankly was very much focused on on-premise solutions for U.S. branches of our European clients.

The acquisition of TriNovus brought true U.S. core banking and compliance customers, along with SaaS expertise, as well as experienced and a deep understanding of the U.S. regulatory framework.

Over the past 18 months, we've worked hard to get Termenos product suite U.S. compliant and deployable on a SaaS basis. Our U.S. model bank has been successfully delivered to the U.S. team and we're moving towards our first go-live, which will provide important recontability in the region as we showcase our products.

We've also taken our experience in securely hosting our customer's information to expand our footprint with new datacenters in Texas and Georgia.

Anti-money laundering and BI products are fully U.S. compliant and we have 10 customers signed for AML, with five reference clients live already, and seven BI, business intelligence customers signed, two of them who are already live. During the time, the existing TriNova's compliance business has continued to get from strength to strength, of course, based on the pressures for compliance in that market.

So looking at where the business hits today, we've recently conducted an extensive road show with respective clients and received encouraging early-stage feedback. We expect to have go-lives in the latter end of 2014 and the first half 2015, as well as the first go-live of the conversion from Trinisys, which is TriNovus' core banking product. So all in all, I'd say a significant progress has been made.

Turning now to slide 21. In summary, we delivered solid Q3 results to build on a strong first half of the year. Customer activity across four geographies remains encouraging. We've made good progress on discussions for larger deals, which are moving towards closure. And our year-to-date performance and the pipeline underpins the confidence that we feel in achieving the full-year guidance on the back of a very strong Q4.

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

Operator: Thank you. As a reminder, if you wish to ask a question, please press star and one. That's star one to ask a question. And if you wish to cancel your question, please press the hash key. That's star and one to ask a question.

OK. Your first question comes from the line of Chandra Sriraman. Please ask your question.

Chandra Sriraman: Hi, good evening, guys. Thanks for taking my question. Three if I can. First thing is, obviously, the market is a bit nervous. I was just wondering if you have any indication as to whether the larger deals, if there's some hesitation in terms of banks to sign those large deals. Just your thoughts on that would be great.

Also, related to large deals, would you say that the high end of the guidance range is still unachievable with all the large deals? Because I noticed that it's a pretty big range. You're talking about 9 to about 20 plus percent growth for licenses for Q4, which is baked into your guidance. So I was just thinking how much is the dependence on large deals.

And finally, on R&D, I noticed that R&D costs have picked up a bit this quarter. Is that something one-off or should we model it from these levels going forward? Thanks.

David Arnott: Hi, Chandra. Thanks for those questions. Let me – let me take the first two and Max will pick up the R&D point.

We do not see any hesitation in the larger deals. And by larger deals, I need to put this in context. Obviously, in the fourth quarter of the (size) we're going into, there's a last number of you know the vanilla, larger 3 million, 4 million deals that we need to close. But that's our bread and butter and they're very predictable.

By larger deals, I'm talking about enterprise deals, multiyear, multi, multimillion dollars, significant multiples of the number I just gave, and they are moving to closure. None of them are competitive. How much revenue you get to book in the fourth quarter versus this year or versus next year or '16 is not really the point.

These are – the point of these is that they're banks who have made strategic decisions in the face of nasty competition, tough regulation, with constraints on capital to re-platform themselves in their domestic business, either because they're in private banking and the cost base doesn't support the revenue, or because they're retail banks suffering from you know all the new entrants.

And the point, really, is more strategic than about the financials. So we do not see any hesitation. These have been very structured processes. They have a long list of 10, 20 (contenders) in. We've been formally selected and we're down to the point of you know renting offices and so forth.

So I don't – I don't foresee any closure slippage rates on those. Having said that, I also couldn't tell you exactly how much revenue we'll get this year other than the total commitments, and everyone – and every one of these cases is very significant.

Probably the more relevant for modeling purposes is the – is the point about the dependents in our guidance on those deals. You heard us say last time that we will be – we're disappointed to end up at the middle, the lower to middle-end of our license revenue range, and I believe that's still the case. You know that definitely is still the case.

Certainly at the midpoint of our license guidance today, there is no inclusion of any contribution from the larger deals. So that's the basic like in our mind going into this stage of the year.

The level of cover on the deals up to the midpoint is very solid. We know our existing accounts very well. Q4 is traditionally a very existing account focused and we're very, very confident on that.

The question, therefore, is how many of these larger deals sign on, how much of a commitment to multiyear re-platforming project is an upfront commitment, and, therefore, how much is bookable. So I would say the midpoint, they're not included at all. Somewhere around the top point of our guidance, they're significantly higher than the top point. It's a potential outcome from the commitments made including those larger deals.

Max Chuard: Chandra, on the last point on the R&D, the Q3 cost was slightly high on the R&D. I will not see these as the run rate. But it's not material if you know we're talking of maybe a million. So maybe they're a million high compared to the run rate.

Chandra Sriraman: OK, great. Thanks. And best of luck for the next quarter.

David Arnott: Thank you.

Operator: Thank you. Your next question comes from the line of Michael Briest. Please ask your question.

Michael Briest: Great, thank you. In terms of the U.S. market, obviously, you're giving a bit more color there. Can you talk a little bit about the customer size that you're engaging with there, maybe the size of your sales and support for print in the country now?

Also on the payments customer in Europe, can you give a name or indicate the size of the bank. And then just to go back to Chandra's question about Q4, I mean, obviously, the confidence is there, but if I go back to 2008, your license business went from plus 22 to minus 28 percent in the quarter. Are you – are you literally at the point where these contracts are waiting for a signature to be signed, the zero risk that you can see that they will be signed?

It just seems that the confidence is somewhat at odds, but the ramp up is acquired in Q4. Thanks.

David Arnott: OK. Well, maybe the simple ones first and we'll spend a bit more time on the more complex ones.

So, the U.S., they're not – we're really starting – for me there are three steps to the U.S. The first is to get, even though you have PowerPoints to say that we have a modern core and we're disruptive. Ultimately, a lot of banks will sit on the sidelines waiting for a real U.S. bank to go live so they can criticize and make sure that it's solid and robust and meets compliance requirements.

So step one for me is recontability. What we've done is go to banks who have expressed to the head of our U.S. business, who is from FIS and very well-connected. We have expressed to him and his team real frustration with core vendors, waiting too long for basic fixes to regulatory changes, those that would be most ready if you like to be early adopters.

And we've demoed the U.S. model bank to them. We've then – we've talked to our roadmap. And the feedback has been, look, if it's really as is good as it appeared to be, then we're looking forward to picking up discussions once the first one is alive.

So these typically tend to be larger community banks, smaller state banks. Certainly they're not the deals I'm talking about, as including as the last deals that I'm talking about to Q4. And how the revenue comes through whether it's on a subscription basis even for the larger banks or an upfront license fee is very, very difficult to say.

But the roadmap appears solid for these banks, they appear to be in real pain, and I believe we'll start to see real traction from 2015, as well as with getting our first clients live.

So the start of the deal is very difficult to predict. I would imagine initially a typical state bank would be paying a similar size to one of our existing customers here in Europe, but let's see. I'll try and get more flavor by the time we get to February with the analyst day.

Payments, we can't name the bank. It is – it is a large European bank present in many countries and it's a continuation of the product roadmap that's been built up by IBM. For me, the most important point is it proves that we we've built for IBM can be extracted as a package and sold to other banks. It wasn't a bespoke development project.

And for me, that's by far the most important milestone. It means that we're taking into a different geography a packaged product which will continue to get the product to the next level in a space which is a massive pain point for banks at the moment, and it's a multi-country role as well.

So this will give us our payment presence in six European countries and it's a basic step forward in our – in our payments roadmap.

Hopefully that deals with those. Let me try and be crisp and give you some more flavor on Q4. So the point of me putting market slides in was exactly to deal with the fact that I don't believe there's a correlation with the short-term uncertainty, my corrections and so forth in the equity market, and the pain that our banks are in today.

In 2008, it was very, very different. It was, what, first of all, we had organization issues at the time as you know and we have too many layers between the sales force and the decision-makers, and we were slow to react in 2008 to the problem of only having really – we gave banks a choice of taking T24 and making a three, four-year decision or not.

I mean, and in a time when banks were losing visibility, they did not have the appetite to make three, four-year payback decisions.

Today, Temenos is fundamentally different. First of all, you can break up T24 and just take components of it so you can start just with lending, which is a 12-month project, be live in 12 months and extract value within your budgeting cycle almost.

You can start with a standalone frontend (lose) system, you can start with the channel solution, which can be very expensive, typically the same size with the T24 deal, and you can deal with your payment in a different way.

Secondly, we're extremely Euro-centric, European-centric in 2008, whereas almost – we've got more than – we make investments in our sales, which has gone into Asia-Pacific, Latin America, the Americas and the Middle East Africa.

So we've got a better geographical spread, we've got a portfolio of products that give shorter time to value and lower risk, and we're not closing with the sales process. And in particular, I highlighted in Europe, an underlying trend in private banking, which wasn't there three years ago, which is European onshore private banks don't have the assets on the management anymore to support their cost base and there are going to be consolidation play that they're small. Well, they have an opportunity to be a consolidator if they're big. And similarly, in the retail space for other banks.

So I don't want to overemphasize these you know describe as mega deals. They're much more from lead indicators of the visibility that banks have. Far more enforced is the – certainly to the midpoint of our guidance, we have a very robust concept of forecast and cover, with all deals in both forecast and cover being weighted and having to have compelling events.

This has run through to just once in the past in 2008. So I do believe that the different portfolio of products that I talked about just now, coupled with the geographical hedge, the focus on account management in the last two years was – the land grab of trying to get into new banks and sold them (open heart surgery), which is where we were at the time. We are a very different company.

So I'm not sure I can do it more justice than that on the phone other than to say we are comfortable at the midpoint and somewhere between the midpoint and the upper – the upper end and beyond is the range of outcomes.

Michael Briest: OK. That's very clear. Thank you, David.

David Arnott: Thank you.

Operator: OK, thank you. Your next question comes from the line of Adam Wood. Please ask your question.

Adam Wood: All right. Thanks for taking the question. Evening, David. Evening, Max. Maybe just first of all on the commentary around the cost base, and we're obviously lapping up again – lapping against the low point of that cost base.

As we look for over the next kind of 12 to 18 months, how do you think about the operation leverage in the business? Is there any start to put a lot more investment in or can we continue to see maybe not quite the same operating level you've seen as over the last 12 months for certainly at these levels? So any guidance you can give, that would be helpful.

And then, maybe, I apologize the risking of doing the fourth quarter to death, but it does sound as if that kind of more vanilla deal is actually where the risk in the quarter is. There's a number of those to get over the line. You talked about good coverage and good pipeline there, David.

Could you maybe give us any metrics versus last year versus a normal Q4 just to help us get comfortable with the metrics there that there is the coverage and the comfort there on that pipeline? Thank you.

Max Chuard: Yes, let me take the first one. I would say from a margin point of view, we are clear on the dynamic on the service improvement. I think you know we're very clear with what we've achieved this year and you know to be able to say that this business would be profitable in 2014. I think there is room to improvement on that next year.

I think the message, as we've said, on improving the margin, to us, one, it's on a 50 basis point is still something that we expect to be able to deliver. So there will be this (key some) investment that will go back to the business. But we believe the maintenance equation improvement of the cumulative maintenance, we'll be able to deliver margin improvement next year again.

Adam Wood: Great.

David Arnott: OK, maybe take the second point. Let's kind of (put that into focus). Promise I'll be quick.

For me, there's four real drivers going into the fourth quarter that's certainly, internally, the important ones. And the total pipeline doesn't really do justice with that.

So our pipeline is very high, but it has been even right through the end of the 2008. And I'm not – increasingly, the more I understand it, the less is relevant, frankly. So the pipeline is good, but I think you need to look one level server down to understand the dynamics of how Q4 could – Q4 outturn and going into next year.

But first of all is your market share. We have been clearly getting market share. Our market has been growing between 4 and 5 percent for the last two years. Last we grew 11 percent, this year we'll grow at a good double digit.

And so we've been gaining market share, we're top of the lead tables, the Forrester pyramids, the Gartner's, all the people that banks go to and then choosing a vendor. I mean, there's a flight to quality, but it's leaving local players behind, it's leaving private equity owned players behind in a big way, and it's leaving services business model behind.

So, our market share has continued to grow and I believe we'll continue to grow even further, certainly in Q4 and beyond.

We're not seeing pressure on pricing. If anything, the flight for quality means banks want to buy from a company that is able to spend $100 million a year plus on R&D. So pricing is not an issue, certainly not for the year-to-date deals and certainly not for the Q4 deals I've talked about.

Let's take the big ones off the table for a second, but the rest, pricing is done, pricing is negotiated and then we're ramping up teams of consultants, start to trade off for Christmas. So I believe pricing will be robust.

So that really leaves us with slippage. Our banks are going to get spooked. At the end of a long sales process based on dealing with structural issues in their markets, competitors, regulatory change, are they going to get spooked or are they going to continue to make that commitment? I think the answer is somewhere in the middle.

There will be those – and that's why I put in those slide that talked about the fundamental drivers. I do believe, from the conversations I have every day, and I'm very close to the sales process, that the bulk of those deals have a compelling event, which means that a decision has to be made.

Those decisions will be made for us in the cases where we're likely to win and we know the ones where we're going to lose. And there's always some of those for various reasons.

What I – I do believe, unless there's you know a wholesale sort of Ebola risk or something that really spooks everybody in a major way, I do believe that enough momentum to finish Q4 certainly at the midpoint, and I would hope towards the top-end with serious backlog from enterprise licenses going into '15.

But the truth is, you don't know. You know a bank can have good intentions until the last minute, and that's why I left the guidance range wide. So, for me, far more important is market share against pricing holding and the structural issues that underpin banks, driving continued deal flow right through from RFPs, the workshops, the reference visits.

And then the most difficult thing at the end of all of that to read is the day they'll actually sign. I think it's quite good. There's certainly a number of years that I've been – long, long time ago that we've been comfortable enough to guide to at least our midpoint, and (consistently) held to it. We were around the top-end or beyond in mid-October of the year.

So we (thought we'd be good to go).

Adam Wood: Great.

David Arnott: Always nice – it's always nice to have every quarter perfect to the (nearest) million, but you know unfortunately, that's what it is.

Adam Wood: No use flogging the dead right horse. And thank you very much for your answer.

David Arnott: Thank you very much.

Operator: OK, thank you. Your next question comes from the line Takis Spiliopoulos. Please ask your question.

Takis Spiliopoulos: Yes, thanks. Hi, David. Hi, Max. And maybe a question another on Q4. We have seen some of the bigger players in the software industry coming out with comments about transition to a cloud, to (soft module) happening losses unexpected. Have you seen any similar interest in the banking space?

I reckon you always said you know it's 5 to 10 years, like, until European banks move to, let's say, more of U.S. model. Have you seen any changes in the last couple of weeks, months, or is this still the same? Thanks.

David Arnott: Hi, Takis. This is David. I'll answer this one quick and say we need to differentiate between payment terms and cloud-based deployment.

Predominantly, outside the U.S. banks, one, to pay for their software upfront and they don't want to pay you monthly and therefore sharing their growth.

So, subscription pricing means you pay more as your banks grow and banks, with a lower cost of capital than us, typically prefer to pay one off to a backoffice vendor and be done.

So that really leaves us with different deployment models specifically cloud. I don't believe that existing banks are at the point yet where they – and even in the next few years – where mission-critical banking data will be – they will be happy to put in the public cloud.

In fact, the recent survey that we did after our TCF showed that possibly on the backs of leakage, information leakage over the last few months from companies like Apple, in fact, they're more nervous than ever about bringing data into public domain.

So I – the reason I say that I believe SaaS revenues will be incremental is because we do see two advantages. One is smaller microfinance-based organizations (pitied their) lenders, they talk with people, so they're starting from scratch, will want a very quick – cheap and quickly deployable option, and we're seeing a lot of demand in that area.

In fact, our first go-to market plans for SaaS is in microfinance, and some of these organizations are pretty big. That's the most important point, I think.

Secondly, the emergence of new entrants with cloud-based banking systems, you're going to spook the rest of the banks into action. But predominantly, I would see good steady growth of microfinance-led SaaS revenues and a stickiness of banks who perform to keep their currently on premise.

Takis Spiliopoulos: OK, thanks.

Operator: OK, thank you. Your next question comes from the line of Mohammed Moawalla. Please ask your question.

Mohammed Moawalla: Thank you very much. David, I wonder if you can just elaborate a bit in terms of the geographic profile of the fourth quarter and you know while you feel pretty comfortable at the midpoint, are there any of these sort of larger deals in any particular regions where some of the current kind of geopolitical issues are conspiring?

And second question was just around the U.S. strategy. You're fairly comfortable right now sort of pursuing this sort of largely organic approach or do you think at some point you know you also will need to step this up via (M&A route).

David Arnott: OK. Mo, thanks for those questions. So the mega deals I'm talking about, and again, this started very much as lead indicators to the market's visibility and less about our Q4 guidance. But they are – they are in Europe.

We have a number of also chunky deals in Asia-Pacific, Latin America, the United States and the Middle East. We don't have any for Africa. We have one in Central Europe. These are the sort of $3 million, $4 million deals.

So the mega deals that we talked about, which would take us above the midpoint, are predominantly European banks, both private and retail.

Mohammed Moawalla: OK, great.

David Arnott: In terms of the U.S., we have everything we need now, and as I said, by far the most important thing is to be able to take a bank to another real bank running the system's ride. So organically, we have enough to give us good growth. Beyond that, possibly, we'll need M&A or maybe we'll just – maybe we'll just partner with people who can offer more of a comprehensive solution.

Mohammed Moawalla: OK, that's great. Thanks.

Operator: OK, thank you. And your last and final question comes from the line of Gerardus Vos. Please ask your question.

Gerardus Vos: Hi, good afternoon. Thanks for taking my question. Just two if I may. First of all on the third quarter. It looks like you know you signed quite a bit of deals with kind of new customers, which is – which is normally an indication that the demand is pretty good there because it's more difficult to kind of sign your customer and then the existing. And I was just wanting how you bridge that to the kind of weaker Q3 license.

And then, secondly, if I – just for the large deals in kind of Q1, the Banesco kind of deal, you have been growing around kind of single digit from a license kind of perspective. Now, Q4, the midpoint, which you indicated without the kind of large deals, you need to grow kind of 18 percentage. It's a massive run up there, which I won't ask questions about the things that that's being done.

Now, but how should we think about that going into 2015? Do you think you have enough kind of visibility to kind of believe that you can do that kind of double digit, right, as indicated for the midterm guidance? Thanks.

David Arnott: OK. As I – as I was kind of clumsily trying to say before, probably, we had the three-year best, the one year, second best, and the quarter, it's really challenging even going into the last couple of weeks, because the cutoff around you know what (presumably) gets some, whether it's very different, and then your win rate and your pricing and so forth. So I tend to decouple the two in my mind.

I'm thinking – I think you're right, the new business, it's good that in the summer months, we're able to sign so much new businesses. I think if I'm honest in terms of account management, there's no – that is where we probably could have been more focused coming out of the summer. All of that is good.

There's no real compelling event. It's entirely internal execution, why software companies are going to do so much in the last calendar quarter.

I think we could have been better on that if I'm frank. You have to create your own compelling event in September. It's no different to October and I think we got to be – we got to be complacent, definitely.

Having said that, we always seem to find our energy in the fourth quarter and, in fact, most quarters, we farm the existing accounts in Q4. So I think – I think we really have to compliment going into account management, existing customers to Q4.

Gerardus Vos: OK, thank you.

David Arnott: And on 2015, listen, that's why we're trying to break it out into win rates. That's why in the last point, very importantly, Banesco, Banesco was not all booked in the first quarter. The Q1 license revenue is a mixture of that. And so, don't take Banesco as – you don't need to strip Banesco out. We haven't actually said at all how much, if any, of Banesco we booked so far. That is very little. So you don't need to normalize for that.

We are going into a quarter requiring 16 percent growth. On the – broadly it’s (almost) Q4 of last year in terms of the percentage growth, slightly ahead. And I guess we're all going to have to take if there's a bit of a leap of faith until we get to the fourth quarter. I'm really not sure what I can say beyond that other than that we're in a good position.

The largest deals are not competitive. Pricing is agreed when the real flow is in singles like project manager CVs and you know renting office space and who gets to (convert) from which department to the project for year and so forth.

And beyond that or below that, the smaller $2 million, $3 million, $4 million deals have got their own momentum and the depths of cover that gives us confidence both on the fourth quarter and 2015. But I don't want to ever – I get nothing – the truth will be in the pudding after Q4. I think we'll be able to have a lot more meaningful discussion for '15 then.

But from where I'm sitting today, the structural issues are there, the pipeline is growing, banks are in real pain. They've got growth pains in emerging markets and they've got very different survival if you like or margin pains in Europe, and very different dynamics.

A very strong management team, it's only just now starting to jell its teeth because it's been put in place over the last 18 months or two years, which is the length of our sales cycle. And yes, it would have been nice to you know have the perfect Q3 as another million and a half. But we are where we are and hopefully we can – we can give you more confidence on the back of Q4.

I think we lost you, Gerardus. So is that – was that the last question (on there)?

Operator: OK. That was the last question that came through.

David Arnott: OK, very good. Listen you know where to find us if you have any follow-up questions. So, thank you very much for taking the time this evening, and look forward to speaking with you on the back of full-year results.

Max Chuard: Thank you.

David Arnott: Bye-bye.

Max Chuard: Thank you.

Operator: That does conclude our conference for today. Thanks for participating. You may all disconnect.

END