TEMENOS Q3 2016 results conference call

October 19, 2016

6:30 p.m. CET

Operator: This is Conference # 96581163.

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Temenos Q3 2016 Results Call.

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

I must advise you that this conference is being recorded today on Wednesday, October 19, 2016.

And I'd now like to hand the conference over to Mr. David Arnott, CEO. Please go ahead, sir.

David Arnott: Thank you very much, operator. Hi everybody, and thank you 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 then I'll hand over to Max for the financial update.

So kicking off with Slide 7, hopefully you will have found the presentation by now. In the third quarter, we sustained the momentum we've been building with the business continuing to perform very well. Given the level of revenue growth and visibility we have today, we've raised our guidance for the full year. Max will walk you through the new guidance later in the call.

Focusing on the third quarter, we grew total software licensing against a very tough comparable, which includes the announcement of Nordea, our largest ever deal and this performance takes us to a growth of 32 percent in the last 12 months, even without the contribution of Bank of Ireland. It's clear that we continue to execute well and are taking market share across client segments in a growing market.

Banks are focused on moving to customer-centric models with the structural presence of digitalization and cost reduction driving their strategies. The multiple deals we've announced in the last 12 months demonstrate that we are the technology partner of choice for systems modernization. We've had a very strong start to the fourth quarter with the announcement of BOI, and our pipeline into 2017 is looking very healthy.

On Slide 8, the growth in Q3 in down to the ability of our sales force to execute, which they've been doing very well across geographies, tiers and segments. Whilst licensing revenue in Europe was down year-on-year due to the Nordea contribution in Q3 2015, the underlying business performed extremely well. The BOI win announced in October is testament to our strength in the region and traction we have with the world's largest banks.

Our vertically integrated suites are a key point of differentiation for Tier 1 and Tier 2 banks. And as a reminder, BOI and Nordea both want retail suite and corporate suite and Standard Chartered want WealthSuite, demonstrating our strengths across all three segments.

Asia also continues to grow with multiple deals closed, in addition to Standard Chartered, which was announced at the start of the quarter. Given the strength of market growth, we continue to invest in sales and product to ensure we're positioned to capture the market opportunity.

On Slide 9 now, I'd like to talk a little bit about the market and pipeline. Banks continue to face increasing pressure of cost, digitalization and competition, which means IT renovation is not discretionary spend. They realized the need to move to customer-centric models and they're putting digital at the heart of their strategies.

As banks are significantly better capitalized today than they were in 2008, they are in a much stronger position to withstand macro shocks and unless banks' balance sheets get fundamentally impaired, market volatility is the new norm and banks will continue to execute their strategic plans, including IT renovation. We've not seen any slowdown in client engagement post Brexit and all deals in the pipeline are closed, as expected, with no change in scope.

From an internal perspective, our pipeline continues to grow and it's diverse across geographies and segments. We've got record levels of revenue visibility going into the fourth quarter, underpinned by Bank of Ireland and this is reflected in the revised guidance.

On Slide 10, I'd like to give you a quick overview of the BOI deal, which we recently announced. They've bought UniversalSuite and retail, as I've said, which is a complete front-to-back solution for their retail, commercial, and corporate banking requirements.

The drivers for BOI are pretty much as I described on the last slide in relation to the overall industry, so the need for a modern, scalable platform that leverages real-time analytics and digital channels to enhance customer engagement. For large banks, flexibility and scalability are clearly critical. We've proven our software can scale to run the world's largest banks.

We got a clearly a defined vision of the future of banking and we significantly outspent our competition on R&D to achieve this. We invest in products and functionality today that banks are probably not going to need for another three to five years, but it is the very investments that give our customers the confidence to work with Temenos today.

On Slide 11 now, we've got multiple strategic partners engaged in the deals we've announced recently and the number of partners who are clearly involved in the Bank of Ireland win. We're pleased to see our maintenance growing at 10 percent and our services business continues to be very busy with 18 full go lives in the quarter compared to 10 in the comparative.

Our partners are really riding our success now to generate very significant revenue streams in a number of geographies and our technology partnerships like the one with Microsoft are raising the profile of Temenos in a big way.

On Slide 12, I'd like to give you a brief update on the US. We announced the opening of a new US headquarters in Pennsylvania during the quarter to support our expansion in the region. We've been investing in our sales organization and with this now in place, they're working hard to build the pipeline on the back of our first big live reference client, who still won't let us formally name them, but they're very happy to take and give good reference visits, which frankly, is more important from a market development perspective.

We continue to work closely with strategic partners to target specific opportunity as they arise and we are in advanced negotiations on a number of key campaigns, which I'll be able to give more color on in due course.

I'll hand you over now to Max to give you an update on the financials.

Max Chuard: Thank you, David. Starting with Slide 14 now, I'd like to give you a quick overview of the key financial highlights of the quarter. The figures on this slide are in constant currency. We grew total software licensing by 5.5 percent year-on-year, which is a great achievement given the tough comparative which up 95.5 percent, including the contribution from Nordea. The growth was driven by Standard Chartered Bank and our strong delivery in Europe and Asia.

Maintenance grew 9 percent year-on-year on the back of six strong quarters of license growth and continues to underpin our increasing revenue visibility. We achieved an LTM EBIT margin of 28.7 percent and are confident in delivering margin expansion in line with our medium-term guidance of [450] basis points per year. Finally, our cash flow continues to be strong with Q2 operating cash of $40 million, an increase of 8 percent year-on-year. Our

DSOs ended the quarter at 129 days, down 40 days, significantly ahead of our targets.

On Slide 15, the key figure is our total software licensing which has grown 5.5 percent in the quarter and 32 percent in the LTM in constant currencies. With six consecutive quarters of license growth, we have clearly demonstrated our leadership position, our ability to execute well in a growing market.

We continue to see strong growth across all new lines, with total revenues growing 9 percent in the quarter in constant currency and 22 percent over the last 12 months. This was reflected in our profit with EBIT growing 17 percent in constant currency. The decline in the LTM EBIT margin is due to the exceptional comparative, which included a reversal of accrued variable cost in Q4 2014 due to a weak sales performance.

Finally, the services margin in the quarter expanded 3.9 percentage points, as project began to ramp up and we expect to deliver services margin for the full year in line with 2015.

On Slide 16, we show like-for-like revenues and costs. As we had no acquisition in the third and only one very small disposal, the adjustments are almost entirely on FX.

As you can see in the appendix, on Slide 28, we have a natural hedge within our currency and we hedge a large part of the remaining currency exposure on the rolling basis. Our profit is, therefore, less exposed to currency movement.

In the quarter, there was a negative impact on the revenues of around $2 million coming across various countries, and an equal positive impact on costs of around $2 million in the quarter coming mainly from the weakening of the pound. As such there was no impact at the profit level.

Q3 like-for-like revenues are up 10 percent, including total software licensing growth of 6 percent against a comparative which was up 44 percent on a like-for-like basis. Maintenance grew 10 percent like-for-like in the quarter, taking into account a small disposal of the energy division acquired with Financial Objects in 2008.

With no acquisition in the last 12 months, I'm very pleased with the level of organic growth in our business. Total like-for-like cost increased 7 percent in the quarter, which was split across services, R&D and sales & marketing. Given the level of present growth, we continue to invest in both sales and products to position ourselves for the market opportunity.

On Slide 17, we show the growth we've had in maintenance. The LTM like-for-like maintenance growth rates have nearly doubled in the last two years from 5 percent in Q3 2014 to 9 percent in Q3 2016. As shown on the first slide, like-for-like maintenance growth in Q3 2016 reached 10 percent now. This has been driven by a very high retention rate of [over] 97 percent and the growth in total software licensing, which has grown, on the CAGR basis of 15 percent on a like-for-like basis over the same period of time.

On Slide 18, we saw continued growth in net profit and EPS, with an increase in LTM net profit of 15 percent and an LTM EPS of $1.93, up 8 percent. The difference in the LTM net profit and EPS growth is due to the increase in fully diluted share count, which is 71.5 million shares in Q3 2016 compared to 67.5 million in Q3 2015.

Moving to Slide 19, we have continued to outperform on the cash conversion with LTM cash conversion of 125 percent, significantly above our target of 100 percent. We continue to benefit from high level of upfront license collection and the progress we are making on implementations. Our DSOs reached 129 days at the end of the quarter, a decline of 40 days year-on-year and we expect the DSOs to decline further by the end of the year.

On slide 20, we highlight the key changes to the Group liquidity in the quarter. We generated $35 million of net operating cash in Q3 and ended the quarter with $116m of cash on balance sheet. Our net debt is currently at $273 million, equaling to a leverage of 1.2 times versus 2.1 times in Q3 2015. Given the strength of our cash flows, we expect our rapid leveraging profile to continue and to be well below one times leverage by the end of the year, obviously, before any buyback or acquisitions.

On Slide 21, we have outlined our revised 2016 guidance. As David mentioned, we've increased the guidance to reflect both the revenue growth and high level of revenue visibility we have in the business following the Bank of Ireland win. The guidance is in constant currency and you can find the FX rate on page 27 of the presentation.

We are guiding, for full-year, total software licensing growth of 15 percent to 20 percent, up from 10 percent to 15 percent and total revenue growth of 12.5 percent to 14.5 percent, up from 7.5 percent to 11 percent. Our revised EBIT guidance is for $184 million to $186 million, up from $180 million to $185 million, which implies a full-year margin of around 30 percent, bear in mind that our full-year 2015 EBIT was 28.1 percent margin.

We continue to guide for a normalized tax rate of 17 percent to 18 percent. However, for the full-year 2016, we expect tax rate in line with 2015 as we continue to benefit from deferred tax assets. We are very excited about the market opportunity, and hence, we continue to invest in sales and products to capture this opportunity.

If I turn into Slide 22, I'm pleased to announce a share buyback of up to $100 million, which we intend to launch in Q4. The buyback is subject to regulatory approvals. The repurchased shares will be used to cover future employee stock option plans and/or for M&A.

And in fact, in my last slide, Slide 23, I'd like to run through our approach from an M&A point of view. As you know, we actively monitor the market and we have a large pipeline of possible target at various of engagement and we continue to have three main areas of focus for those acquisitions.

These are to build scale, accelerate growth in specific markets and segments, also to acquire complementary products. We currently have more than $1 billion of funding available for M&A. It is important to note that we do employ a very disciplined approach to assessing potential targets with very strict financial criterias.

With that, I would hand back to David.

David Arnott: Thank you, Max. So, in conclusion now, on the last slide before we open up the call to questions, just wanted to leave you with a few thoughts. Banks clearly are facing some structural issues today as opposed to cyclical issues. They need to get digitally ready to compete and retain customers. The only way to deliver a strategic plan that improves profit is to dealing with the costs in the areas that stands out as IT.

So there are some real strategic priorities that will not go away and need dealing with, really is an existential threat. And this today is driving this strategic decision-making that we're seeing every day in our client base and therefore, the end-market growth for us. Against this backdrop, we're executing very well across all our segments from wealth to retail to wholesale and across all the tiers, and as a result, continuing to gain market share.

The big deals we've announced so far this year underlie our credentials with the world's largest bank and the strength of our overall franchise. We're investing in sales and product, in particular, to ensure that we can take full advantage of the market conditions and consolidate our leadership position.

And with continued strong revenue growth and a great start to Q4, coupled with the strength of our medium-term pipeline, we've increased our guidance for the full-year 2016.

That ends the formal part of the slides. Operator, can we open up the call for Q&A now please?

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, please press star followed by the number one on your keypad and wait for your name to be announced. That’s star one to ask a question.

Your first question comes from the line of Chandra Sriraman with MainFirst.

Chandra Sriraman: Hi, good evening gentlemen. Congrats on a solid quarter. Just a few questions from my side. So, the US pipeline has been building up for quite a while now. Do you see them any closer to signing deals given that now you have a bigger backlog of reference customers not just in US, but also in Europe? And also, do you think they will go with a big bang kind of replacement or would it be a more piecemeal approach? That's my first question.

The second one is, now you have simultaneously multiple large deals being implemented. So, I was wondering what kind of investments should we expect in your services business or are those investments already in place? Thanks.

David Arnott: Yes, our US pipeline deals are moving closer to signing. As I said at the beginning of the year, our pipeline has been developing healthily. The key data point for us so far this year has been the go live of the top 15 US bank, which gives a real reference for prospective banks to go and visit, and they're happy to take that, as I said. And pipeline is moving through -- we're very happy with that. So yes, we do expect deal flow over the next few quarters, but as we said, we would talk about those as and when they sign.

In terms of whether they're big bang or piecemeal, I imagine the approach -- well, what we're seeing is that the approach is very consistent with what we're seeing in the rest of the world. And the banks progressively renovate large complex IT real estate over a number of years and that's reflected in our pipeline today. In terms of services, Max, do you want to take this one?

Max Chuard: Yes, you see on the services, obviously as you know, on the larger accounts, we work very closely with partners and they do take care of the more basic, if you want to deliver implementation and we tend to focus on the governance aspect of the delivery.

And obviously, this is an area that we do invest, boosting our resources with lots of experience, the business experience, project management experience or technical experience. But overall, and as you can see, so far this year, the delivery has been tracking quite well, so we are pleased with the progress we're making both internally, but as well with our partners.

Chandra Sriraman: Great. Maybe just a quick question, if I can squeeze in one. So I appreciate that you've just recently raised your guidance, so you're obviously very comfortable. But that still implies a very strong Q4 growth.

So I was just wondering, are there any more large deals that you have included in your assumptions for Q4 or is it just a solid performance in terms of all medium-size deals as well?

Max Chuard: I think one of the comments we've made is, the level of visibility we have in Q4, it's true that the comparative is high. Remember, like-for-like Q4 was 20 percent up. However, with BOI and others, we do have a very high level of visibility, I'm feeling very confident on delivering the rate of growth implied for Q4.

Chandra Sriraman: OK, great. Thanks and all the best for Q4.

Operator: And your next question comes from the line of Michael Briest with UBS. Please ask your question.

Michael Briest: Thanks, and good evening and congratulations again, it's another knockout quarter. I guess, I would admit that I've got a lot of things wrong, but I mean, can you talk about the confidence you have on this pipeline? Because we all work in banks and we all know our IT budgets are under pressure and the theme of core banking is being present for a long time, but something seems to be flicking the switch now which makes it more pressing.

Is it something on the product side? Is it something in the competitive environment for the banks? And do you think this is a rising tide that's lifting all boats or would you feel that you're taking share? I know that Infosys on their call yesterday or last week were talking about a better quarter for Finacle, but saying that the previous quarter was quite poor. And then I've got a couple of smaller ones for Max, some clarifications.

David Arnott: Right. OK, thank you, Michael. All right, let me try and deal with this in as a succinct way as I can. So we are seeing a sustained momentum in terms of our pipeline built across geographies and segments. And again, it's the twin themes of underpinning your strategic plan by cutting costs. Cutting costs also give you modern IT platforms. You can now approach that in a progressive renovation way. So you can start dealing with a bit of your systems and deliver demonstrable business value within a relatively short time.

And that avoids the somewhat binary decisions that banks will put in pre-componentization, where you either put in the whole of core banking or you didn't. So that we on our side have made life a little easier for banks to make that decision and the pressures they are facing to remain relevant in the face of new competitors and deal with regulations. Regulations like PSD II open up their whole customer base to competitors.

Regulation, digitalization and cost cuts are really strategic, and you will work in banks and I'm sure you will do your channel checks internally, and banks are finding budget for such strategically important priorities.

Whether a rising tide lifts all boats, certainly most of our competitors are also feeling the same. Obviously, not to the extent that we are, because we do believe we are differentiated in a number of ways. Not everybody is benefiting, you need to be spending a lot of on R&D, you need to be -- you need to have a very compelling value proposition, you need to have things like the suites that we have that offer a quick-to-deploy retail suite or product suite or corporate suite. And if you've got the right raw materials, if you like, and a strong business model and a happy customer base, you can benefit from what is clearly a structural move.

Michael Briest: OK, and what investments are you putting in place then to support this growth? Presumably you need more pre-sales people, more marketing et cetera for 2017 and beyond?

David Arnott: We obviously are a firm believer in big R&D spend that's going into technology and digitalization and opening up our products as a platform play and I think we've proven we're good at that and we will continue to be so. Therefore the disproportionate investment is going in sales and marketing. Where if you look at mature application software companies, we're still quite a few percentage points below where they got to the [stuff] in Oracle in their day, if you like, and it's all on the sales and marketing.

So from a sales point of view, we've broadly got the territory coverage in place, a person covering the geography, sometimes through for a bigger geography, but we're now overlaying that with product specialist, with things like payments and digital, more pre-sale support, the sales to pre-sales ratio needs to go up, i.e. more pre-sales because the partners are selling for us.

And therefore, we have more campaigns to support from a pre-sales perspective. And so far, we've increased our sales and marketing investment 25 percent over the last 12 months from a headcount perspective, and that's at least in line with the level that we are expecting for licensing growth over the medium term.

Michael Briest: OK, and then Max, just in terms of balance sheet, the deferred income, both in the balance sheet and cash flow dropped about $33 million -- $34 million compared to about $17 million in Q3 last year. It's clearly not maintenance. Am I right in thinking that's a milestone payment for a software deal of about $15 million? And looking back to last year in Q4, there was a big step up in deferred and I'd assume there is probably another similar amount to come at some point in the future?

Max Chuard: You had a milestone payment, that's a fair point. I think what is key to, when you look at your deferred is, to look at the growth year-on-year and it's keeping on, even in Q3 growing more than 10 percent on last year. But yes, they were more than just maintenance on that.

Michael Briest: And just finally on the guidance on FX, when we run the math on your Slide 28 on the cost side of things, it looks like you should see about $4 million benefit on costs and you've raised the guidance, I think, by $4 million to $6 million for EBIT. But is that constant currency, so you get another $4 million on top of it? I'm a bit confused on the language there.

Max Chuard: No. In fact, the assumption that we gave in the back, those are basically the spot rates that I used. Obviously if you look at the blended rate, because we do hedge on channel. By now the last part will be hedged and especially I would say if you look at the pound, which is probably where we have the main different between the spot and our hedge rates, you will have a difference.

So if you look at the rates which we are giving, the appendixes represent the spot rates of the unhedged portion of the exposure. We're not giving and we could do that offline to give you what it is on a blended rate when you put the hedging into that as well.

Michael Briest: So is $184 million to $186 million is what you actually expect to report or--?

Max Chuard: Yes, correct. Yes.

Operator: And your next question comes from the line of Takis Spiliopoulos form Vontobel. Please ask your question.

Takis Spiliopoulos: Yeah, thanks. Hi, David, hi Max. Two questions from my side. Getting back to the sales and marketing from before, costs were actually down quarter-on-quarter, year-on-year, around 4 percent to 5 percent. How do you explain this and how does that reconcile with investments in sales? Shouldn't you do any bonus accruals for the sales people or is that still to come? That would be question number one.

And then for Max, DSOs were, again, pretty good. Now, in the past three years, DSOs were always going down 13 days to 15 days, Q3 on Q4. Can we expect a similar decline or is it different this year? Thanks.

Max Chuard: Takis, I think I'll take both of them. In fact the first part on the sales and marketing costs, remember Q3 last year was the year where we've had Nordea and this was the quarter we grew 96 percent. And hence, you had, in fact, all the viable cost related to Nordea itself, and remember as well, last year, the first half of the year was not as strong as this year. And hence, in Q3 last year, we had to over-accrue variables in Q3 due to the bad performance of Nordea as that brought into the business.

So I think Q3, [it's not a] normalized quarter as such. So that's the explanation on that point. But as David said, we are making investments both on products and on sales. The level of people that we've recruited or that are going to join through the course of Q4 is clearly there.

And finally on the DSO side, as I said in my presentation, I do expect DSOs to reduce further in Q4, not to the extent of what you mentioned. I think we've (indiscernible) and if you look at our performance on a cash flow point of view year-to-date, it's clearly outstanding and hence you could expect that some of milestones potentially have been collected earlier than expected and hence, we're still going to see a reduction on the DSOs, but not to the same level of the previous years.

Takis Spiliopoulos: Understood and thanks and well done.

Operator: And your next question comes from the line of Adam Wood with Morgan Stanley. Please ask your question.

Adam Wood: Hi, good evening David, good evening Max. Again congratulations from me on another great quarter. Maybe just a couple of follow-ups. Michael alluded to the competitive landscape and whether the rising tide is floating all boats? Maybe from another angle, are you seeing more investments from competitors in this space as they see how well you're doing and maybe try to become more competitive, maybe as Oracle coming back to the market having focused more on Packet software. So an update on what you're seeing there and whether that changing would be helpful?

And maybe then to follow up a little bit longer term on the DSO question. Is there an area where you would see as normalized for you Max, because obviously, you've been benefiting over the last three or four years from drawing down on the working capital that had built up previously is a level that you'd say, that's where we can get to and that would be a normal level for the Company going forward? Thank you.

David Arnott: Thanks Adams for those comments at the beginning. I'll take the first one on competition and it's just clearly very difficult to give a single answer that covers all segments and geographies. But let me try and give you some overall thoughts. Overall, we are not seeing that competition have got much stronger this year, frankly, different reasons in different markets. So in the US, the competitors have multiple legacy cores, they're not batch.

They have very different relationship with their customers, because they have not been able to upgrade them for a long time and there is a strong disenfranchisement which we are playing into against our core competitor in the core banking space Infosys, Oracle and Tata. Oracle, themselves are in a sort of great period between formally sun-setting their old core banking product which was the i-Flex inherited product and their first real reference is from OBP where they are a good couple of years away from having a real reference, an even the early adopters for OBP are quite heavily bespoke code set. So they're not exactly cut and paste into other banks.

So, we've got a window of opportunity against them. SAP, really are focused on the technology strategy, which is a must-win battle, it's a corporate priority and we're not seeing a huge focus on banking. And in the private wealth space, we had a very good win rate because our competitors are really two private software companies, who for a number of reasons dropped a little bit behind.

So overall, we're very, very happy with the competitive position. And other than those, those organizations I've named, really there is nobody else playing in the market today certainly for a new name business.

Max Chuard: Adam, as you know, my target was to get to around 130 days by 2018, so we got there earlier than expected. I believe the levels where we are, are sustainable and I believe as well we'll be able to continue to reduce them. Now to tell you the next, I would say, level of where it could get -- if you don't mind, we discussed mid-term targets and expectation in February.

But I do believe that for the medium term, we will continue to generate more cash than profit, and hence we will continue to see our DSOs going down. But I'll give you -- I'll be more specific once we meet in February.

Adam Wood: That's very helpful and best wishes from me for Q4 as well. Thank you.

Operator: And as a reminder press star one to ask a question.

And your next question comes from the line James Goodman from Barclays. Please ask your question.

James Goodman: Good evening, thanks very much for taking my questions. A couple on the guidance please, on the upgrade. The incremental margin on the revenue upgrade seems perhaps lower than I'd expect. Wondering if you could help us understand the relationship here and what's pulling some additional cost through there?

And also, if I look at services, which has been growing strongly, the implied Q4 guidance, I believe, suggests that the services slows considerably. Wondering if you can add some detail to that as well, and then, a quick follow-up operationally as well please?

Max Chuard: On the guidance margin, if you look at -- as we increased our total software licensing. At the midpoint, we saw an increase of $5 million. And basically what we're saying is that, that $5 million is invested. The investment goes, I would say, in two areas. The first one is variable compensation and I would say commissions and so on, so it's not direct cost if you want.

And then, the second part which would be investment in sales and marketing, and probably the investment in sales and marketing and product is maybe half of that or slightly less than that. So that's, [if you will], on the point on the margin. And the remaining of the increase of the guidance is mainly on services. Obviously, the maintenance impact is minimal, under $5 million for one quarter. So the remaining is services. Services is a margin business, as you know. And as we discussed, we do also invest on the governance capacity and so on.

Now, on the services, Q4 -- services as you know, sometimes we try and sometimes we give this directly to partners. So, since the level of activity of what business can be done is a bit more difficult to focus and that's why we go with ranges. But I think what is important is the level of margin, which we expect to be able to get the same level of what we did last year. And when you take into account the last years, we are delivering right now, we are pleased with that. And as well, we continue to add more strategy. So around 20 percent of our revenue is coming from services and I think we're closely linked with that as well.

James Goodman: In the operation side, just one on the Nordea implementation. I think you recall from the last quarter you're talking about an initial module perhaps being implemented our rolled out. Just wondering if you could give us a quick update on where we are on the flagship implementation?

David Arnott: Sure James. So, Nordea overall is a five-year program with a huge number of milestones throughout that. All I would say is that we are hitting the milestones. We're well on track with the project, it's going extremely well. I don't think we can probably comment on specific milestones as they -- I guess we'll be able to talk about them as they hit, but it's going fine. Milestones, we're delivering the milestones.

Operator: Gautam Pillai, Goldman Sachs.

Gautam Pillai: Yes, thanks for taking my questions and congratulations from my end as well on a great quarter. Firstly, can you comment on the underlying license growth in Q3 excluding Nordea and Standard Chartered? Is it fair to assume that the underlying growth is broadly in line with the LTM growth of around 15 percent and how should we think about it going into 2017 and beyond? And also, can you please confirm if there was any contribution from the Bank of Ireland deal in Q3?

Secondly, can you comment on the cross-sell opportunity you have between retail and corporate banking products? Is this something which you are actively pursuing with customers whenever you're pitching for deals? And finally, can you provide some additional color on the [MU] strategy. Are there any specific gaps in the portfolio which you need to address currently? Thank you.

Max Chuard: Hi Gautam. Listen, I think we've been clear -- there is no contribution of BOI in Q3. BOI as of last year (indiscernible) which is great. And obviously as we have increased also the guidance that we'll have contribution in Q4. So that's for BOI.

Listen, I don't want to comment on the underlying because we don't really give details on specific deal size. So I prefer not to do that. However, I think one of the slides that I've shown between the maintenance growth growing from 5 percent to 9 percent, you had as well the total software licensing growth of 15 percent.

I think for the next page of that slide was that we grow on a like-for-like over that period of time, so 14 percent to 16 percent -- at 15 percent and I think we are very pleased with that. And maybe I'll leave the crosshead to David, but I'll think the M&A one. Listen, on the M&A, we've been very consistent over the years now. Of course, we are looking for clearly scale and scale is important in software. And for instance, we will be looking at acquiring competitors that we could then migrate on our platform. So those are type of activities that we have done in the past and we continue to be in discussion with.

We are looking to accelerate growth in specific markets as we've done successfully in the US. So that as well, we continue to assess market where we could further penetrate. And finally, on the product side, we look at complementary offering, product that would complement our product portfolio. So, those that we say are the ones that we are actively looking at, there is no -- if you want a preferred option, the three are on the table and we've got discussion on all of those, some more advanced and some are less advanced.

David Arnott: OK, Gautham let me take the point on cross selling. It's very rare you come across a pure play just retail bank or corporate bank. Most banks tend to be, to some extent, universal banks and a key part of the Temenos business model is doing account planning with our partners to identify the opportunities across different areas of the bank and to find an entry point, typically to deal with either a specific pain a bank has, like wanting to launch a private bank in a new market or being non-regulatory compliant in retail, something like that and use that as an opportunity to get in, impress them and cross sell and I think we've been quite successful at that.

And obviously, with the close relationships we have now with partners, who are frankly better connected to the [free suite]. We're getting much more structure and process-driven. And if you look at the big deals we've signed this year, they've come from exactly that. So Nordea started by impressing them with a quick go live for private banking in Luxembourg and for Central Europe and that was key to winning the retail deal in the domestic market. Bank of Ireland had challenges both in retail and Universal at the same time, and they decided to stop both projects with different work streams really concurrently.

So yes, cross-selling across the industry segments with broadly the same product set, just very different positioning going to market is key to Temenos' sale strategy.

Gautam Pillai: And David, if I can quickly follow up on that one. Would you say that, especially in the Tier ones, the decision makers in retail and corporate are different? So the cross sell is a bit of a tough sell up the Tiers and it's much more easier down the Tiers?

David Arnott: The smaller the bank, clearly the more centralized the decision making. There is no single rule, some big banks will have a very centralized decision-making policy and there you can have a strategic dialog at the very top level and almost impose bank level CEO decisions on individual business lines and geographies. Sometimes the real authority sits at the regional level and you effectively can win one deal in one geography and have to start the hard work of impressing some other budget holder in another division or geography totally separately with the sort of lift service from the very top.

So, I think there is no size that fits all, but I think we've got a lot smarter over the last years in understanding the softer decision-making process within the individual institutions and playing to that with the right level of connections, either direct or with our partners. I'm not sure whether I'm picking up the point. So maybe we'll discuss it separately, but I think we 're OK.

Operator: We have no further questions.

David Arnott: OK. In that case, thank you very much everybody for taking the time to join the call this evening. Much appreciate it. Look forward to speaking to you after our fourth quarter, if not before. Thank you.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

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