**TEMENOS**

**Q3 2017 results transcript**

**18 October 2017**

**6:30 p.m. CET**

OPERATOR: This is Conference #99668199

Operator: Good afternoon, ladies and gentlemen, and thank you for standing by, and welcome to today's Temenos' Q3 2017 Results Conference Call. At this time, all participants are in a listen only mode.

There will be a presentation followed by a question and session, at which time you will need to press star one on your telephone and wait for your name to be announced.

I must advise you, the conference is being recorded today, on Wednesday the 18th of October 2017. And I would now like to hand over to the company CEO, David Arnott. David, please go ahead.

David Arnott: Thank you very much, (Mel). Good afternoon, good morning, everybody, and thank you for joining today's call. I'll start with some comments on our third quarter performance, and then I'll be handing over to Max for our financial update.

Hopefully, by now, you've all had a chance to get your hands on the press release and the presentation which accompanies this call, which, if not, is on our website.

I would like to start straight off with Slide 7, where I'd like highlight that we had a very strong performance across all KPIs this quarter, continuing the momentum we experienced in the first half of the year.

Activity levels amongst banks were accelerating as they start to realize the urgency with which they have to address their technology debt in the face of rising competition.

Against this backdrop, Temenos has been executing very well, continuing to take market share. We grew total software licensing by 23 percent and total revenue by 16 percent, with EBIT up 19 percent in the quarter.

To put this in -- this growth in context, we saw in Standard Chartered in the third quarter of 2016 and Nordea in the third quarter of 2015 to serve comprehensively lapped up to largest Q3 comparatives with no large deal contribution this quarter. We were able to do this through growth base growth across all of our markets and across all of our tiers and across all of our segments during the third quarter.

Given the high level of (inaudible) and pipeline generation during the quarter, our revenue visibility for the rest of 2017 and into 2018 has increased significantly, and we therefore raise our full year 2017 guidance to reflect this. And Max will talk you through the revised guidance later in the call.

On Slide 8 now. Digging a little bit into sales. The sales momentum this quarter was across all our geographies. We saw strong sales momentum in every region in the third quarter, which is really encouraging. We had robust levels of activity with Tier 1 and Tier 2 banks in the last three years, and this continued in the third quarter and early into the fourth quarter.

Now signed 4 large transformational deals in September 2015 across Nordea, Standard Chartered, Bank of Ireland and most recently, Santander's Openbank, which we found earlier in the fourth quarter 2017 as well as, of course, the thousands of progressive renovation journeys in other Tier 1 and Tier 2 banks.

To put the big ones in context, we only highlight this for the sheer scale of commitment made from the outset, but it's important to how to highlight that the journey of other Tier 1 and Tier 2 clients are going through is also very significant strategically and financially over the renovation journey this given that give effect more and more starting journey without losing their confidence. And we shouldn't lose sight of this as we talk about Bank of Santander as we are today.

We expect this (inaudible) of momentum to continue as more large banks across the whole segment, spectrum realize the importance and need to embark in IT renovation to prepare for their digital futures. We know the banks new competition for many other players, including technology companies, Telcos and Fintech firms.

We also see the sustained drive of challenger banks, the banks unencumbered by legacy technology, customer service and (inaudible) shopper and target typically younger demographics. Many of them like Starting and M26 are open banks, giving customer and access to a broad range third-party services across their platform.

Many of these challenging banks are also gaining critical mass. More of our clients EBA is now the largest bank in Africa by a number of customers and cross-selling fast. McKenzie said last year that banks have 3 to 5 years at most to become digitally proficient.

We expect more banks to wake up to this and respond by renovating their core IT platforms, front to back, driving our market growth. To ensure that we are ahead of the market as it grows, we're continuing to invest in sales and marketing, and we'll keep up this investment over the coming quarters.

On Slide 9 now, a little bit of dig into services.  Our services organization has had a very good quarter.  We had a total of 29 clients going live for the first time on Temenos' software.  All our key implementations remain on track, and we reached an important milestone, the Commerce Bank implementation during September.

We're very pleased with our services activity of working closely with partners to deliver successful implementations.  As each of these key projects, each key messages and go-lives have become a benchmark for their peers opening up the market further, driving incremental growth.

On Slide 10 now, I'd like to spend a minute on our approach to implementations.  We give our class flexibility and choice having went to start their IT renovation and how to implement our software given the complexity of overall change in one go, they quickly want to start from different positions all the way to the end result, of course.

Some are responding to the competition I talked about earlier by putting new systems into their existing franchise.  Others starting at the front like Credit Suisse.  We're innovating the core first like Bank of Ireland.

Others are adopting a build-and-migrate strategy, building a stand-alone digital challenger bank but then becomes the IT platform for the entire bank with the rest of the business migrating onto it over time.

We're unique in being able to offer all these solutions to our packaged scalable and component-type solution with the flexibility of taking it out on-premise, either private or public cloud, with a very rich country platform packaged pretty installed to make the software quick to deploy.

On Slide 11 now, I'd like to give some color on Openbank deal we signed earlier this month.  Openbank is a digital bank of the Santander Group, one of the first fully digital banks in the world with a complete range of products offered through their platform.

They bought our core banking solution for retail and SME banking to replace their legacy platform domestically and will use it to drive domestic and international growth trends.

We were selected based on the need for highly scalable modern platform and their focus on getting a deeper understanding of their customers and speed to market. This is hugely disruptive and strategically important, and we're very excited to be working with the bank as a leader in its field.

I'd like to refer you to the presentation made by the charity of Santander Bank and at last week's Capital Markets Day, which is on their website where she presented upper a very comprehensive strategy going forward for the bank and how IT plays a role in that.

Turning to Slide 12.  I'd like to give you an update on our U.S.  progress where we continue to make great strides.

We won a core banking deal for a Greenfield digital bank with a similar strategy and ambitions to where we've seen in other digital challenger banks in recent years.  The incumbent U.S.  software vendors were not considered as the bank quickly realized their legacy technologies will not be able to support a fully (inaudible) digital bank.

We competed also against pure cloud players and were selected on our breadth of functionality and the strength of our architecture.  Unfortunately, we can't name the bank at the moment and hope to be able to do so in due course.

As I mentioned earlier, the Commerce Bank implementation is progressing very well and we hit a key milestone during the month of September and are well on track with the milestone for that project overall.

Our momentum in the U.S. is reflected in the growth of our pipeline quarter-on-quarter, including domestic core opportunities, campaigns with Tier 1 banks and further opportunities in the digital banking space.

On Slide 13 now. I'd like to give a quick update on our progress in the Australian market after the acquisition of Rubik during the second quarter. We've rebranded Temenos Australian and are making investments in sales and the country model bank.

We see excellent growth in our pipeline for core banking renovation and wealth within Tier 1 and Tier 2 banks as well as smaller institutions, with the market being driven by digitalization as well as wealth players looking at integrating their businesses onto a single IT platform which of course, in both cases played exactly to our sweet spot. So with that now, I'd like to hand over to Max to give you an update on financials.

Max Chuard: Thank you, David. Before I start, I'd like to say that I'm very pleased with our performance this quarter given the fact that the last two comparatives included contribution from large transformation in Tier 1 deals, which we did not have in Q3 this year.

Starting with Slide 15, I'd like to give the financial highlights of the quarter. This has been a very strong quarter of growth, with total software licensing up 23 percent.

The growth has been driven by broad-based market momentum across all our geographies, tiers and segments, which translated into strong deal signings and pipeline generation. The strong license performance drove total revenue growth of 16 percent and EBIT growth of 19 percent.

We delivered and LTM EBIT margin of 30.3 percent, an increase of 1.6 percentage points year-on-year. EPS was also up 17 percent in the quarter. Our services business has continued to execute very well, with margin reaching 10 percent on an LTM basis, up 2 percentage points on last year.

We continue to have strong cash collection with operating cash inflow of USD 40 million and a reduction in DSOs by 5 days to reach 1 24 days by quarter end. Lastly, we've announced a new CHF 150 million share buyback, which I will give you more detail shortly.

On Slide 16, there are a couple of numbers I would focus on. Our total software licensing grew 23 percent in the quarter and 20 percent LTM as banks respond to digital and regulatory pressures by investing in packaged software.

Our strong license growth continues to drive our maintenance, which grew 10 percent in the quarter. Our total revenues grew 16 percent in the quarter and 13 percent LTM as we continue to take market share in a growing market.

We had very strong performance and revenue growth was reflected in our profit, with EBIT growth of 19 percent reported both in the quarter and LTM. Our EBIT margin reached 30.3 percent for the 12 months, an expansion of 160 basis points.

Lastly, our services margin continued to improve, which reached 10.4 percent over the last 12 months, an expansion of 200 basis points as we continue to close our deals with our strategic partners to deliver projects.

On Slide 17 we have our like-for-like revenues on costs.  As a reminder, we closed the acquisition of Rubik in Australia in the 22nd of May and so had a full quarter contribution from this acquisition in Q3.

The stronger euro was a tailwind for revenues in Q3, and FX had a small net positive impact on our EBIT.  Total revenues are up 10 percent like-for-like in the quarter reaching total software licensing growth of 12 percent.

Total like-for-like costs increased 7 percent in the quarter as we continued to invest in both sales and marketing and products to drive our organic growth in 2018 in the medium term.

On Slide 18, our strong revenue growth has continued to drive growth and profitability.  Our net profit was up 19 percent in the quarter and 23 percent LTM.  Our Q3 LTM EPS is at ($2.35) an increase of 22 percent.

Increase in tax in the quarter is largely driven by the increased profitability with a small impact from a growing tax rate.  We expect the tax rate of circa 14 percent to 15 percent for the full year 2017.

Moving to Slide 19.  Our cash conversion remains significantly ahead of our target of 1 percent (inaudible) in EBITDA.  EBITDA for the last 12 months our cash conversion was at 1 11 percent.  We had an operating cash inflow of $40 million this quarter, and DSOs decreased another 5 days to reach 124 days.

We continue to expect DSOs to decline around 5 to 10 days per annum to reach 100 days in the medium term, driven by increased contribution from Tier 1 and two clients and the positive impact of our partner in our services business.

On Slide 20, we show the changes to the group liquidity this quarter.  We paid back (107 million) in debt.  The majority of which was repaid CHF (1) million, bonds that matured at the end of July.

We ended the quarter with $161 million of cash in the balance sheet and with a net debt of $278 million with a leverage of 1.1x EBITDA.  On Slide 21, we outlined our revised 2017 guidance.

We've increased the guidance reflects both the strong market momentum and high level of revenue visibility we have in the business, following the Santander Openbank win, which we signed early in Q4.  The guidance within constant currencies on the (inaudible) basis, and you can find the FX rates in the appendix.

We are guiding for full year total software licensing growth of 20 percent to 22.5 percent, up from 15 percent to 20 percent and total revenue growth of 13 percent to 14.5 percent, up from 10 percent to 13 percent.

Our revised EBIT guidance is at $219 million to $223 million up from $210 million to $215 million, which implies a full year margin of around 30.4 percent, an increase of 100 basis points from last year.

We continue to expect a tax rate of around 14 percent to 15 percent this year.  With the acceleration in our pipeline growth and our high level of revenue visibility, we are very confident in both 2017 and the medium term.

Turning to Slide 22.  I'm pleased to announce a share buyback of (CHF 250 million), which we intend to launch in Q4 funded by our strong cash flow generation.  I expect our debt leverage to remain at around 1x EBITDA by the year-end.

The buyback is subject to regulatory approval, the board, but shares will be used to cover employees ownership plans or for M&A.  With that, I will hand back to David.

David Arnott: Thanks, Max.  So in conclusion, hopefully, you would agree that we had a very strong performance in the third quarter across all of our KPIs.

If not, to say all geographies, the tiers, the segment, from retail to wealth to corporate are all performing strongly.  The underlying pressures to reduce costs to be digitally relevant to open up your system in the face of regulatory pressures and competition remains unabated.

And the more banks jump on the bandwagon of changing their course, the more the rest are following.  And this momentum is building quarter after quarter, and it's good to see this again in the third quarter this year.

The acceleration we've seen not just in our signings in the third quarter, but probably more importantly, looking forward in our pipeline activity gives us great confidence that we're going to finish 2017 strongly and also position us very well for 2018.  So with that, operators would like to open up the call for Q&A, please.

Operator: Certainly, ladies and gentlemen, if you wish to ask a question please press star one on your telephone keypad and wait for your name to be announced.  Ladies and gentlemen, that’s star one for any comments or questions you may have.  Your first question comes from Gerardus Vos from Barclays.

Gerardus Vos: First off, would you mind giving us an update on your sales force?  How much you've increased that in the kind of quarter, the quota-carrying and also the kind of pre-sales force?

Then secondly, I was wondering if you could make some comments around some new startups you start to see in cloud core banking and some of the kind of contracts they've signed? And my third question is on the margin for Max.

I think in the past, the rule of thumb was always that the increase in maintenance would fall through to the margin or the profit. You guys have been running a little bit ahead of that. So I was wondering if it's time to update this kind of rule of thumb.

David Arnott: Gerard, thanks for your comment at the beginning. Now let me take the first two. So we don't publish quarterly number, specifically on the number of sales and presales hedged we've added, but let me just give you a bit of flavor overall. So clearly, we continue to invest in both sales and presales resources.

We've talked in the past about how we're overlying a geographic sales model with specializations around things like front office, Tier 1, technology, payments, et cetera. And in every geography in the quarter, we managed to bring in new resources.

At least as much activity up-skilling the sales and presales organization with value-based setting courses and collateral material coming from the product management organization in addition to the pure headcount size.

So we've made a lot of progress plus we've launched another sales Academy and take the September to feed the medium-term sales organization. So there's been a lot of sales and presales investments and focus during the third quarter, for sure.

In terms of cloud-based competitors, we've seen over time a number of small cloud-based competitors come up typically targeting a certain geography like the Netherlands, you may know, or Germany. And we've seen a couple in LatAm as well. The total cost of ownership for those solutions can be low.

They typically target the very, very bottom end of banks with a small niche line of business within a larger bank. Where they tend to struggle is rolling out the localization. This year, breadth and functionality you need.

We've been doing this for more than 20 years, building a front-to-back platform with all the banking functionality (inaudible) from loans to mortgage, deposits, et cetera, and localizing that in multiple countries. And that's a huge overhead both in skills, working capital, customer commitment.

And so far, none of them have been able to really industrialize that model bank back in the box, preconfigured parameters and expand the product beyond what has been a very, very niche offering so far. So one to watch for sure, but most likely those type of competitors will disappear into the larger players over time for their technology.

Max Chuard: Gerard, this is Max. On the margins model on a (inaudible) basis of being the licensed component will be there to fund the sales and product investment, the services with the margin business. Basically, the maintenance (inaudible) the revenues is what will be going back to the profitability.

And this is cumulative, and the cumulative impact of the working revenues will drive profitability. And this is still the case, and that's how we've been very successful, I would say predictably as well to increase margin over the years. And we continue to do so.

Now what has changed over maintenance we've added also contribution from SaaS and subscriptions, which is there is an element at the start of the year, which is already locked in, and this as well protected that equation. That's why it's not only pure maintenance, and you've got a bit of recurring coming from SaaS and subscription as well.

Gerardus Vos: So it's fair that it continues -- that the profit continues to kind of remain running ahead of the kind of maintenance kind of additions what we've seen over the last six quarters?

Max Chuard: Yes, we see how we've been learning and how we intend to continue to run. You've seen like we've (inaudible) on the license side and that the creation is going through the cost. But we do want to protect, if you want, the directing part of the business and the start to the year.

Operator: Your next question comes from Takis Spiliopoulos from Goldman.

Panagiotis Spiliopoulos: Two small ones. The Americas has had a particularly strong quarter was that rather in North or LatAm since you didn't have a large deal included. So I guess, it was a lot of smaller ones or maybe a bit more granularity. And then one for Max. Max, what was the DSO impact of Rubik if you can add this one?

David Arnott: Thanks, Takis. Good question. Yes, you're right, the Americas did grow in the third quarter. While I cannot say too much on the granularity exactly which bank it came from and so forth given it was relatively nascent, but it was north. The growth in the third quarter came from North America, and we're very, very pleased with the progress we're making in that region.

Max Chuard: The impact from Rubik was very small between one and two data. So that's why is not on purpose not spitted out in the appendices because it was not material.

Operator: You're next question comes from Sean Drumm share men from Maine first.

Chandramouli Sriraman: Just a couple of questions. So you had it looks like this year is going to be quite strong. You're looking for 100 basis points of margin expansion.

I'm aware of your medium-term guidance as you see the opportunity over the next three years, where do you want to be in terms of your margin expansion guidance at the low end or the high end?  And how do you balance it with the investments?

That's my first question.  And my second one is, obviously, the competition is coming up with new addition to the product (inaudible), for example.  And can you comment on where do you see the competition?  Is it the very geography specific? Or do you see a significant competitor emerging over the last, say, few months?

Max Chuard: Chandra, again, on the margin.  It's always an equation of as more growth we see, we're going to put in the business to capture that growth.  And I'm sure that you know we've said that we intend to expand margin between 100 to 150 basis points.

You can see this year we are growing faster than that medium-term target and (inaudible) to the low end because we see opportunity, and we want to capture that opportunity.  I think that's how you need to think about.  So we will be at the high end if we start sewing down on the growth and on the low end if the growth is a creating on global targets.

David Arnott: And the second part of that question, Chandra, on investment, just to be very clear, I think Max was clear in his part of the presentation.  We are making the right investment.

The margin guidance for the year allows us to continue to make the right investment in the fourth quarter with product and sales marketing, everything that we need to ensure that we're successful going forward.

And as we've been clear on -- with the length of our sales cycle, we're making investment now the really looking internally at 2019 and how we go venture success in 2019.  And we'll make all the investment we need to ensure that 2019 and beyond is a success. On competition, no, we haven't seen much change in competition in the last three months.

But just to put that in context, it's very difficult for a competitor to take any shortcuts to rolling out to share hard work of years and years of building a product, selling it, getting it reputable, localizing it, packaging it, working away from smaller banks to bigger banks from typically private wealth into retail and changes will come there and well into corporate (inaudible) any country, building in the regulation, building a partner ecosystem. We're not going to see a product coming from them, coming from their field, I don't think.

What we do see is customers, as Max mentioned at the beginning there is it an organizations are trying to set up from scratch. We've seen a few of these coming from carveouts of banks small companies.

But again, so far, we see them struggling to replicate anything like the functionality and at a very low price point. And the larger players still very services driven. You see the announcements from investors their own reference here.

But suffice it to say, it didn't make them any competitively stronger and the new regional players again the more Temenos wins, the flagship deals in the industry the more we'll continue to take our clients live and provide fantastic references to those who are looking at systems, the more we pull ahead.

So nothing to flag certainly on the negative side in terms of competition in the third quarter at all, and we'll give you a more comprehensive update in our Capital Markets Day when we finish the year.

Max Chuard: But just remember what we said, this is really a market of the winner take it all. And I think the more we win those larger banks, the more credibility we get.

And somehow these are the sales forces when you've got so many references, when you are in this is, of course, the key part the reference part is taking a prospect to around of references and where they can go and really the largest banks it will make our jobs clearly easy for us.

Operator: Your next question comes from Michael Briest from UBS.

Michael Briest: Max, just in terms of the deferred revenue, I think we've seen now in Q3 this year and last year, it looks like the impact of the multiyear renovations is about $38 million coming through this year. It was $34 million the year before, and 3 big deals it was sort of 13, 14.

So can you just remind us when the Nordea should go-live is? And we should assume that this contributions drop out? And then just in terms of the Openbank situation, is that going to be spread out over multiple periods?

Is it a single payment? And when would you expect to be live with that client? And then just finally, on partnership numbers, I think I have a number from December 16 of about 2,235 partners. Can you update us where you are now?

Max Chuard: OK. I guess, I'll take most of them. Listen, the last piece is it Nordea? Is it Open? Those are multi-years, so that's what the implementation (inaudible).

Suffice it to say that it will be between three to five years, and it can go longer than that. And I would say that it's the same for Nordea. It's the same for Open, but those are long projects and lots might be more specific for each one of them.

And -- but what's great about those last deals is the visibility they give us because what we've seen these last years over the years with more and more with us. As soon as they're engaging to I think part of the business that's (inaudible) on modern technology, we are going to increase further the use of technology and packaged software.

And that we see consistently over the years. Remember, last Investor Day, we mentioned that every last customer will repeat around $3 million to $5 million of license every year. So it becomes a very predictable, a very sustainable revenue stream that is going for us. Finally, on the partner side, it's progressing well. Probably, we are around 3,000 partners today.

I think what we are doing spending quite a bit of time and investment is to strengthen the way we can train those partner, the education side, if you want. And there is quite a lot of happening on that side.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, it’s star one on your telephone keypad. Your next question comes from Adam wood from Morgan Stanley.

Adam Wood: I've also got a few. Just had of coming back to the U.S., is there any way you can give us any feel for the Greenfield scale of that deal?

Or maybe that's too specific when Greenfield banks, start-up banks make these deals with the with software providers, do they tend to provision for quite small volumes of us? And then, there's upside for you over time or the provision they are going to be somewhat successful already at the beginning?

And then maybe second one also linked to the U.S. and following up from before, I think your strategy has moved to focus more on the larger banks in the U.S. you would have in-house software.

Does the emergence of some of these clouds players that probably go after the very smaller banks and in a market where it's quicker for them to build up the regulatory compliance rather than having to do it across multiple countries, does that change your thinking at all on the smaller banks in the U.S. and how quickly you need to move to try to address them?

And then just secondly away from the U.S., on the guidance upgrade, could you give us any feeling for how much of that is Openbank versus the market strength please?

David Arnott: Adam (inaudible) in a way that badly I'll make a quick recovery. OK. I'll take the first two of those. That is the first one greenfield? Yes, that was the U.S. bank that we talked about. OK.

So typically they're air quite small. You look for some kind of in the game so a level of license commitment to make sure that you're not (inaudible) betting the whole of our implementation on their business case.

So you do get a good element of license fee upfront. But more importantly, exactly as you say, give you ideas to share in their revenue case as they develop.

So what's important about this one is the management team is setting this up a very high profile, and we're building out a lot of functionality in what will be quite a flagship marquee account for us. And it's great that you chose Temenos, and they're quite public in saying why they chose Temenos.

So it's not going to move the needle usually in day one in terms of numbers, but a great partner going forward like the Commerce, et cetera, bank as we enter the market. We've overplayed all a bit on this call the threat of these cloud competitors.

I certainly get (inaudible) trend as a couple that have been there, but frankly, they made more noise two or three years ago than they do now. So I don't want to suggest that there's a new breed of competitor coming up. Absolutely not.

They tend to die on the vine as soon as they hit the second or third projects and ran out of working capital basically. And our strategy towards the smaller U.S. banks remains the same. We don't particularly say that have of our key strategy because they're so small that they really need a much bigger service.

You need to refill the ATMs, man the helpdesks, all sort of things (inaudible) they shouldn't be doing it. Our competitors in the U.S. tend to provide us more of an overall services offering, and we'd rather focus on big banks. So our strategy remains firmly focused on the top banks.

We've got a great pipeline that's going well. Everybody's watching our early adopters. I referenced twice the Commerce milestone. It's a big milestone, even for prospective customers waiting for us to deliver that and they're aware of now that we hit that.

So our strategy is unchanged in the U.S. it's going to -- and again, to reiterate what I've said in the prior quarters, this is not an overnight market. It's a big market. It's a media menu disruptive competitor.

We seem to be have the right business model, and we're winning the right deals to win that, but this is not going to happen over the next 12 to 18 months we're very excited about the medium- to long-term opportunities.

Max Chuard: Adam, on the guidance points, as you know, we don't include Tier 1 transformational deals in our guidance since as we won one, we are increasing the guidance to reflect that.

But at the same time, the fact that the market momentum is very strong, for us it gives us confidence to increase the guidance but we do scale at a lot of activity. So I wouldn't be more specific than that. But clearly, as you know, we -- on purpose, we don't include Tier 1 transformational deals. Those are difficult to predict.

Operator: You're next question comes from Mohammed Moawalla from Goldman Sachs.

Mohammed Moawalla: David and Max, congratulations. And second, in terms of the -- I noticed acceleration being use quite frequently in your comments. Perhaps you could give us a bit more flavor around that. I mean, how much of this is sort of bigger pipeline?

And how much of it is sort of conversion of that? And maybe you can give us a sense that by region around that and if you can, give us some numbers on that kind of more optimistic for you on the acceleration because he also then say that visibility is also quite good.

So just help us maybe triangulate that kind of more optimism. And then secondly just a clarification, have we kind of have any kind of relicensing impact? Or are we kind of past that now for a few quarters?

David Arnott: OK (inaudible) thanks for that. Good question. I apologize if we overused the word acceleration. We certainly didn't intend to do that. Listen, this is an industry that has not changed in decades. It is slowly waking up to the pressure of competition, the regulatory-driven pressures and opportunities.

But there's a huge amount of resistance, cultural, technical definitely need to overcome and find a way to finance this innovation. So we are certainly not signaling a situation not all. And if we did, we'd be (inaudible) company multiples (inaudible) what we are today.

What we are saying is that we go through quarters, we have another data point that the banks are saying this is a structural problem or have a cyclical need to spend. The type of deals we are seeing are not a bank in a corner we needs to do something specific like ask the geography and need a certain bit of software or enter new line of business.

The deals we are signing is for the quality of the revenue that we are focusing on today.  These are banks that are executing strategies, board approved, top-down, which are absolutely key to their survival.

And that's why I referenced the Santander presentation in the website.  You can feel a momentum building, but the market itself has got a consensus growth if you look at people like (inaudible) (8 percent).

We believe we can grow faster than that.  But I don't want to suggest that this is a whole capitulation of the whole industry.  It doesn't need to be.  Temenos deliver very significant value over the next few years.

The pipeline comment, we don't share pipeline numbers, but we are now looking at comment I believe beyond 2018 and 2019 number of leads coming through the markdowns on our progressive renovation journeys the banks of done something and carrying on what they said they would do next.

We triangulate this about this time of year for the next year and the year up so by geography, by segment, we do that for a number of reasons, least of which is to make sure our investment goes in the right area.

We just finished our process, and we're very pleased overall with the strength, depth and breadth of our pipeline, which gives us confidence into the medium term, frankly, but I wouldn't overhype that.  It's this another good solid quarter, and we feel very well positioned as we go into 2018.

Max Chuard: Mohammed, on the relicensing, as I said relicensing now as part of, let's call it, our trend should business. And we expect every year, more or less, 10 percent to 15 percent of license to come from licensing.

And as we are growing faster than, let's say, our midterm targets, probably we'll be more at the low end of the tranche, but we are still within that tranche we usually expect this to go forward.

Operator: Your next question comes from Steven Goulden from Deutsche Bank.

Steven Goulden: I just wanted to talk about the U.S. again. So obviously, you've won the Greenfield digital bank. You can't say too much more about that. But just in terms of the original strategy, which is addressing the 120 banks, over 10 billion, I think so you alluded to the fact that maybe 1,500 banks with $1 billion to $10 billion of assets.

I mean, what would you say are the key challenges for you there? And do you feel that mid-market really is addressable? And I'm sorry, by mid-market I mean, that $1 billion to $10 billion segment.

And then just secondly, we touched on it earlier on and I'm not sure whether you can say anything about it but just wondered if you had any color on the impact of the changes of InfoSys management recently and whether or not that's improved the competitive environment for you at all.

David Arnott: OK, Stephen. Thank you very much for that. So yes, we do believe there is an opportunity to play in the $10 billion-plus banking market because the social play in those banks are facing is significant.

We believe that the local players don't really have an offering which deals with anything like what the bank needs. And our pipeline in that top end of the market (is like $10 billion-plus) remains very, very strong -- or not very strong.

There's a lot of activity in that end of the market and again it will take a while to come through, but we're putting a lot of focus on to it. I think your question, though, Max is more about the mid-market, the 1 to 10. Is that right?

Steven Goulden: Yes, correct. I mean, (inaudible) $10 billion before.

David Arnott: Inevitably, when we go into a geography you have to start lower down, where banks are less complex. We build out localization. We get our references and then we go up.

Our strategy, therefore, was to ignore the sub 1 -- probably $1 billion to $3 billion because they're too small, and they won't sell this by service providers, find it in that mid-Tier and then move up.

What we are quite surprised by was the fact that two Tier 1 banks, Allied and Commerce, well above that number, came straight to us because they're paying is such that a wanted to start our progressive renovation journey across payments and deposits, respectively.

And we thought it would take us a while to get up to that end of the market. So where our pipeline is a mixture of banks above $10 billion, but also a number of banks within the $1 billion to $10 billion segment.

Above that $3 billion to $5 billion, frankly, they're as complex as each other anyway. It's more the governments modeling midsize banks more manageable, less politics, easier to navigate and so forth. But broadly, they're the same.

So I will probably redefine that as $3 billion to $5 billion plus. Anywhere above that sweet spot is nice for us, and we're putting a lot of that into pipeline generation activity. In terms of Infosys, clearly, I'm not going to talk about the competitor.

Negatively, we compete healthily against them. We want to talk about names we compete in the third quarter. But every time we met them this year, we had an exception I believe our model packaging focusing on reusing things we find into a rich country platform layer (inaudible) over and over again.

It's disruptive. It allows quicker deployment. We allow partners in the sales channel because we leave the money to implement our software and we have fundamentally different approaches to like them.

If you read to the Infosys announcement of anything the gap between ourselves culturally is going to get bigger with the changes that are happening. So I think we'll see them less and less.

Operator: Your final question comes from Laurent Daure from Kepler.

Laurent Daure: I have three questions. You gave us a nice data about Temenos Australia. I was wondering if you have opportunities of (inaudible) in the region.

And also at the time of the acquisition, I remember you needed some sales (inaudible) for margin to recover. So where do you stand on the momentum on sales innovation?

That's the first one. The second is on the buybacks you have announced, it represents a significant part of your free cash flow. So does it mean that you're struggling to find M&A even if I understand that some of it was used for M&A?

And finally, on the competitive landscape in Europe and on the deal you won with Santander, you still have competition from the U.S. guys?  Or are they completely out of the game on the European market?

Max Chuard: Laurent, Max.  Listen, on Australia, I think since we did the acquisition, we are extremely pleased with the progress that we made.

And the interest we received on a sales point of view and the momentum and the quality of (inaudible) to say that large deals that we're in discussion in Australia, so very pleased with that.

And overall, remember, we gave you some guidance when we went on to production.  I think we are confident that we will deliver and potentially do better than what we told you at that time.  So very pleased with the progress that we are making in Australia.

Now regarding the buyback, I think of as you said, the use of funds of the shares will be either for acquisition or for ensuring that we don't dilute shareholders' for stock options planning.

So there is activity and also on M&A, we want to continue and we've been very clear what segments we are looking for, and that will continue to be that.  So I wouldn't read anything into that.  The only thing is trying to manage a little bit liquidity.

As said, I like to be in leverage position of around 1 to 1.5x before the end of the year without any buybacks actually be around (0.5x) leverage with the buyback probably around 1x so we thought it was the right thing to do.  And would still give us plenty of means to do acquisition.  So I want really into that.  And the last one was...

David Arnott: Let me take the last question. I think the last question was whether we see the U.S. spend is competing in Europe. Is that correct?

Laurent Daure: Yes, correct.

David Arnott: No, not really. We occasionally see them in the U.K. but really the Bank more of a banking service and more analogous to what they do in the U.S. They may look at them, but outside of that, would not let them I don't think in the last (few) years.

They're really focused on their own domestic strategy in protecting themselves and acquiring new products FIS for SunGard, for example, more buying things in their own in-store base is publicly what they remain (inaudible) we're strategy rather than trying to reach international banks. I think that's all the questions so -- and less in but he has anything else. Anything else?

Operator: That is all, sir. Please do continue.

David Arnott: Thank you very much, indeed, everybody, for taking the time to join today's call. Look forward to speaking to you with our fourth quarter results, if not before. Thank you.

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

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