Final Transcript

InterCall

Date: 21/02/2012	Time: 17.30	Name of Conference: Temenos Q4 and Full Year 2011 Results Duration: 46 minutes

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Corporate Participants

Ben Robinson
Temenos UK Ltd

Guy Dubois
CEO, Temenos UK Ltd

David Arnott
CFO, Temenos UK Ltd

Presentation

Operator

Thank you for standing by and welcome to the Temenos Q4 and Full Year 2011 Results Conference 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 *1 on your telephone. I must advise you that this conference is being recorded today, Tuesday 21st February 2012. I would now like to hand the conference over to your speaker today, Ben Robinson. Please go ahead, sir.

Ben Robinson

Thank you, operator. Good afternoon everyone, good morning, good evening. Thank you very much for joining us to discuss Temenos's fourth quarter and full-year 2011 results.

Firstly, we'd just like to apologise for having to put back the start of the call. We had a technical issue and people weren't able to access the results presentation.

The earnings call today will take the same format as normal. There'll be prepared remarks from our CEO, Guy Dubois, and then from our CFO, David Arnott, and then we'll have a Q&A session. However, owing to the ongoing discussions with Misys PLC regarding a possible merger, we face more restrictions than normal about what we can say on this call.

The proposed transaction with Misys PLC is subject to the UK Takeover Code. As a result, we are not able to give any specific outlook for 2012, nor are we able to give any additional information regarding the proposed transaction over and above what we communicated in our press release of 7th February. The full disclaimer statement is on page three of the presentation.

To make sure we strictly adhere to the takeover panel rules we have here on the call with us a representative from our financial advisor, Lazard, Giles Corner, and he may have to intervene at some point on the call.

We thank you very much for your understanding and now I'd like to pass over to Guy who will give us the update.

Guy Dubois

Thank you, Ben and thank you all for joining us even a bit later than expected on the call today. I would like to begin my section with an overview of 2011 and we are on slide number six.

Well, the macro conditions were tough all year long. The European debt crisis rolled on without resolution and since banks were sitting on billions of dollars of government debt, the market started to worry about the solvency of banks again. So funding markets dried up and once again banks were in difficulty.

Against this backdrop it was very difficult to get banks to commit to big new tactical projects and we saw sales cycles lengthen. This impacted our licence forecasts and profits. Nonetheless we saw no material change in the competitive environment; we weren't losing much business, just banks didn't want to kick of the projects. And almost all decisions were postponed rather than cancelled, so we anticipate a good pickup in licences when the macro conditions normalise.

We did see pockets of growth in 11. We were able to take up the level of licensing to our existing base, selling them additional modules and products like our business intelligence offering, Insight. We saw growth in the Middle East where we built on our leadership position to sign several new name banks, including Samba, the second largest bank in Saudi and the seventh largest bank in the Middle East. Demand for new systems in Asia remained buoyant in 2011 and we signed a number of new name customers in trying to take the Asia share of licences up to 17% in 2010 to 30% in 2011.

We took action on costs. The action we took on costs was too late in the year to have a massive impact on margins but in Q4 our cost base was lowered and we entered the New Year with a lower level of fixed costs which will help us to drive margin improvement however the topline develops.

In the year we also conducted an extensive strategic review; this resulted in a very detailed action plan for the next three years to restore the business to sustain growth in revenues and profits. Some parts of this plan were shared with you at our investor day in London in last December.

So in short, 2011 was a difficult year for us. It was a very tough environment in which to sell software and profitability suffered. Nonetheless, we go into 2012 with a lower fixed cost base with momentum in a number of important markets like Asia and with a very detailed strategic plan to expand our market leadership.

Over to slide number seven, I share some of the operating highlights from the year. As I already noted, we saw strong growth in the Middle East, Asia, and within our existing customer base. We had significant new releases of our flagship products, T24, Wealth Manager, Triple A and Insight. The high level [?] release of T24, for instance, featured the standalone customer component, the first milestone in the full componentisation of the product.

Despite a difficult environment, we were still able to sign 40 new name customers. In line with our strategy of sourcing more licences through partners, partners brought us 12% of our full year licences, up significantly from 5% in 2010.

Our cashflow was strong. For the third year running we converted more than 100% of EBITDA into operating cash, helped by very strong maintenance, related inflows in Q4. We continued to hit an important milestone in the integration of the Odyssey and Primisyn acquisitions, like the 12-core sales we made of ODC derived product into the Temenos installed [?] base.

All in all, our performance was resilient in the context of the extremely tough macro environment. Over on slide number eight I set out some of the operating highlights from Q4. We added nine new customers in the quarter, including the deal with Leong [?] Bank in Hong Kong, a large retail bank and a subsidiary of China Merchant Bank.

Our sales to new customers were strong in the quarter with in particular very strong growth in Insight. We took seven institutions lines [?] on our software in Q4. We added IBM as a new global services partner, building on our existing technology partnership. This is clearly great news for the company. It's a key endorsement of our product capabilities for tier one and tier two retail banks and we believe it will open the door to a number of opportunities in this space.

Lastly, we continued to generate significant new business leads. At the end of the quarter our pipeline of deals stood at record levels. In short, we are executing on our strategic priorities, growing the share licences from existing customers, growing our exposure to growth markets like Asia and laying the foundation to penetrate the tier one and tier two retail markets. And we are obviously turning around our services business as well.

In terms of financial highlights from Q4, these are on slide number nine. Well, we generated $125 million of operating cashflow in the quarter. This was underpinned by maintenance cash inflows and on a 12-month basis maintenance now stands at $197 million. The strong cashflow saw a significant reduction in net debt, which excluding treasury shares stands at below $100 million; this is less that 1x [?] of our projected EBITDA.

The services business was profitable in the quarter, helping to narrow the full year loss in the division. Normal seasonality played a part in this return to profit but we firmly believe that the turnaround in this business is gaining some traction. We began to implement the restructuring programs that we communicated at Q3 and this will have a material impact on our fixed cost base, allowing us to improve margins going forward.

So the business is generating cash in the way that it should and we have prepared the business to deliver better profitability in future, irrespective of how revenue develops.

I wanted to finish my section with some more diagnosis of what happened in Q4. All of you are aware that there continued to be significant uncertainties in the banking sector in Q4. But what I want to make clear is that the licence weakness we experienced didn't owe this to execution or to changes of competitive dynamics. Quite simply, a significant amount of new customer business failed to close in the quarter but was not cancelled or lost.

We made up some but not in the [unclear] for better sales to existing customers, but overall licences were still down year on year. Our like for like pricing was better, but our average deal size was impacted by the change in the mix towards existing customers. We experienced no material change in win rates year on year, only that the denominator was much smaller because of all the delayed deals.

Lastly, our funnel grew our pipeline significant in the quarter by much than the value of the delayed deals. Actually it grew by over a quarter. In short, we continued to execute as well as we could in the circumstances and all business fundamentals, win rate, pricing, funnel, point to a quick rebound in growth as and when sales cycles normalise.

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

David Arnott

Thank you, Guy. If you turn now to slide 11, I've shown here the different revenue lines and the profit metrics for both the quarter and the full year 2011. I'm not going to go through the whole thing, as Guy has already walked you through a lot of these performance metrics, but there are a few things I'd like to highlight, which are the numbers I've circled on the page.

Licensing was down 33% in the quarter, due to a weak performance on the new business side. Outside of Asia and the Middle East and licensing from existing customers, all of which performed very well.

However, our dependence on new business from the rest of the world, to lap a very strong comparative for that part of the business, meant that we were reporting lower licensing that anticipated. We did not see the usual Q4 signings peak with a number of deals being delayed, although importantly, as Guy has stressed, neither lost nor cancelled but rather subject to a continued longer sales cycle. As a result, reported licensing in the full year was down 9%.

Maintenance grew strongly by 28% in the quarter as we grew our cumulative client base, and with the impact of acquisitions, maintenance has now reached $197 million. Services declined 13% in Q4, although sequentially revenues are up in line with our expectations, as I outlined in Q3, where we anticipated we wouldn’t see the usual Q4 seasonal spike that we've done in the past.

This is because the attachment ratio of services to licensing continues to decrease as we pass more business to partners.

Total revenue is now moving rapidly towards half a billion and this scale will continue to drive further revenue and profit growth going forwards.

On the operating costs, you can see that now we've moved beyond the 12 months after the acquisition of Odyssey in October 2010, our costs in Q4 are showing good, underlying cost control which will start to flow through now into the last 12 months numbers.

In fact, if you turn to slide 12 where I'm showing the underlying business performance for both revenues and costs, by adjusting out the impact of forex and acquisitions the key point to note here, obviously alongside the translation of the revenue stories just described into comparable like for like trends, is that costs remain firmly under control.

We continue to demonstrate very good cost control and I've shown this on the right-hand side where you can see that like for like costs were flat in 2011 because we were able to leverage our acquisitions to fund all our growth initiatives.

Turning now to cashflow, I've shown on the next slide our EBITDA conversion into cash, which is at 228% in the last 12 months on a reported basis, and 109% on an adjusted basis, driven by the usual strong Q4 inflows from maintenance.

DSOs are now down to 103 days and we've forecast continued reductions. Our cashflow story remains very compelling and will drive considerable free cashflow generation going forwards.

On my final slide I've shown the items below operating profit that go into EPS and will briefly explain the key trends here. Financing has now reached its run-rate of around $2 million to $2.5 million a quarter and forex losses on balance sheet hedges and non cashflow hedges are well within the parameters of our hedging program, given the volatility of currency movements that we hedge out on a rolling 18-month forward basis.

Probably the key thing to note from this slide is that in 2011 we've absorbed the majority of the one-off swing towards our long-term tax rate of 17% to 18% with the majority of the charge in the year arising from the unwinding of deferred tax assets from our IP, so this swing is probably now somewhere around a half to two-thirds behind us and will be complete in 2012. We do have tax planning opportunities and I'll update you on these at the right time.

That ends the financial update part of the presentation so now I'd like to hand you back to Guy to close.

Guy Dubois

Thank you, David. On slide 17 I want to give you an update on my CEO agenda. Our strategic review has been completed and we're implementing its findings. We shared some of the key points of our strategy with our investors in London last December. In addition, we have conducted an internal roadshow to make sure the whole organisation is aligned around these goals.

We have revamped the organisational structure; especially we have simplified the organisation, bringing together disparate groups into more coherent functions to improve accountability and alignment. So, for example, we have put the whole R&D organisations together for the first time to drive consistent and high levels of quality, productivity and reuse, as well enabling us to prioritise resources across all products.

We have brought into the business new experienced management to help us to implement our strategic priorities. We have improved the tooling in our sales force and implemented a new territorial model to drive improved productivity and performance.

Lastly, we have reenergised our service organisation and we have strengthened our partnership, adding IBM as a global service partner. We are clear about where we are heading and I now believe that we have the structure, the people and the tools to be able to deliver our mid-term objectives.

In terms of mid-term objectives, I reiterate on slide 18 our commitment to the mid-term financial goals that we shared at our investor day last November. Over the medium term this is a business that can sustainably deliver 10% to 15% annual licence growth. It’s a business that can produce double digit annual services margin.

We continue to want services to be a meaningful part of our business, delivering customer success. Our plan is for services to continue to contribute roughly a quarter of our revenues. We believe we can increase margins by an average of 100 to 150 bips a year over the medium term by exploiting scale economies and through improving the profitability of services. And this business should remain highly cash generated, if converting 100% or more of EBITDA into operating cash. Over the medium term and if conditions normalise, this business will generate significant and sustained growth in revenues and profits.

Now, over to slide 19, while we cannot give any additional information today, I did just want to remind everyone of the compelling strategic rationale for an old share merger between Temenos and Misys. On February 7th we announced that we were in merger discussions and these discussions continue. The announced exit ratio is 4.1 Misys shares for every Temenos share and the combination would create a very significant shareholder value. The new group would benefit from much enhanced and scale to drive efficiency and growth prospects. The new group would have a truly global blue-chip customer base across banking and capital markets. You can imagine the cross selling opportunities.

The new group would benefit from highly complementary customers and products, combining the presence of Temenos in banking, wealth management and business intelligence with Misys's experience in core and transaction banking, treasury capital markets and lending. Lastly, there is a potential to realise very significant cost synergies.

Ben Robinson

We're now going to hand over the call to Q&A. However, please can I just remind everybody that under the restrictions of the UK Takeover Code we're not able to give any specific outlook for 2012, nor can we comment any further on the ongoing discussions with Misys PLC. Operator, please could you now open the call to Q&A?

Questions and Answers

Operator

We will now begin the question and answer session. If you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the # key.

Your first question comes from Michael Briest from UBS. Please ask your question.

Michael Briest - *UBS*

... the Q4, clearly it came in towards the low end of your expectations. Can you talk about the linearity firstly, whether December was particularly poor, and also it's Middle East and the Americas which are very disappointing? Clearly Europe's the eye of the storm. Why do you attribute sort of Eurozone issues to the weakness in the Middle East and Americas?

And then David, just for you, long-term debt seems to have gone up year on year and quarter on quarter. Can you sort of put some context on that? And then depreciation and amortisation has gone down quarter on quarter. I'm just wondering what's behind that and what the R&D amortisation charge was. Thank you.

Guy Dubois

It's Guy speaking. Just on the first part of your question and then I will let David answer the second part, if you don't mind.

In Q4, as you rightfully said, we were in the middle of the storm in Europe and, as you know, our numbers are extremely driven by Europe because approximately 50%, 55% usually of our numbers are coming from Europe. America is always a bit a lagging behind territory for us. We've got a strong presence in Canada, we have a presence in America but it didn't contribute that much this quarter, rightly so. What happened is Asia, as you said, grew considerably, and Middle East and Africa as well, so that's what happened in terms of breakdown across the different geographies.

David, do you want to take the next part?

David Arnott

Certainly. Okay, so Michael, there's two questions here. One is the long-term debt and there are two questions about depreciation and amortisation. You're right that on the balance sheet long-term debt has gone up. I really wouldn't read too much into this. If you go back 12 months, to be honest, our processes around linking the business reality of project go-lives to the split between long-term and short-term, which frankly was something that went in the annual report without probably the governance it should have done around it.

It's been tightened up a lot as we've put processes in services and we've probably been more prudent this year in anticipating events around Q4 2012 and in the services business put better governance processes which would possibly suggest that they would take slightly longer. I honestly think if we'd have had these governance processes in place a year ago, the number would have been very comparable, so don't read anything across from that increase other than improvement in our services alignment with the external reporting.

The last two questions are around depreciation and amortisation, which you're right, is down slightly over 2 million Q3 to Q4. This is coming from the reduced amortisation from the acquisitions which, as you know, we carve out the fair value of identifiable intangible assets, especially from Odyssey, and that has quite a steep ramp down which per our own internal forecasts continue to ramp down in Q4 and in fact will continue to ramp down into 2012. I think the number you were looking for specifically was the capitalised development amortisation in the quarter, which is $4.1 million. Okay?

Michael Briest - *UBS*

Thank you.

Operator

Your next question comes from Josep Bori from BNP Paribas. Please ask your question.

Josep Bori – *BNP Paribas*

Oh, hi, good afternoon. Thank you very much for taking my questions. If I may, I'll ask a couple. Just trying to understand the underlying growth. You've made some positive commentary about the strong sales growth in some regions and a strong funnel of kind of a pipeline. Should we assume that this growth is in the backlog and you're taking a little bit longer to convert that? Should we read maybe that deal sizes are shaking or alternatively that maybe you're being a little bit more conservative in how you recognise upfront [?] revenues, some of these deals coming through?

And if I may, a kind of a second question, just a more kind of a big picture one. Can you help me understand what is different in 2011 versus 2008, explain the current kind of decline in licences. When we look at the wider tech space it looks like these ongoing economic weaknesses in the sales cycle in 2008, 2009, so what is different for Temenos today? Is it something structural or maybe early distractions on the back of the Misys discussions? Could you help there? Thank you.

David Arnott

Josep, this is David. Let me take the 2008 one first because it would be a bit unfair on Guy, given he wasn't here. So back in 2008 I think the key difference is that right up to October visibility was pretty good. The markets weren't bad and then all of a sudden there was a structural shift and we saw significant banks going down and very quickly after... and that resulted in delays in Q4. If you look to Q1 2009, very quickly visibility improved again and decision making came back. So of the, from memory, eight deals that slipped from Q4 2008, six of them were signed by June 2009, so it was a much shorter, sharper shock.

What we're seeing now is banks continuing to sort of turn the screws, if you like, in terms of lower visibility, so they have less visibility and what is happening is that a project, whereas an existing customer who’s gone live on T24 knows that by buying more modules, more functionality across the bank, they can get a payback within nine to 12 months, a new bank is looking really at a two to three year payback. With the continued lack of visibility that banks are suffering today, making decisions with a two to three year payback is less compelling than it was back in 2008, because the period that was comparable in 2008 was really only three to four months long.

I would say that banks don't need, from what I've seen from both cycles, banks don't need perfect visibility or even good visibility; but when they have as little visibility as they do today, a major two to three year implementation will not pass the economic test for the bank needs.

Guy Dubois

Maybe let me go back to the first part of Josep's question, if you don't mind. Just coming back with more colourful understanding of what happened in Q4. Interestingly enough, when you look at what happened as far as the pricing is concerned, actually our like for like pricing went up but our average deal size went down.

And when you look at what happened more in detail, then when you look at the dynamic between the business coming from the customer base or [unclear] base, let's say, versus the new account, because in Q4 we transform by far less new business than expected, as a mechanical result our average deal size went down. Because when you go to your customer base, you usually sell more modules, more users, different add-on products which on average are coming across a bit lower than a brand new deal which is going to drive a bigger average deal value. So that's what happened as far as the evolution of our deals that took place in Q4.

Josep Bori – *BNP Paribas*

Okay, thank you very much.

Operator

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

Adam Wood – *Morgan Stanley*

Hi, good evening. First of all, just on the Q4 cost base, can you maybe help us understand the costs that have been taken out in Q4, perhaps versus where the budget was, and then maybe on a historic basis if you were to apply that kind of new cost base to what would have happened in 11 had it been in place for the whole year, what the cost base might have been versus, you know, what it actually was.

And then secondly, can you help us on the pipeline side of things, maybe just to understand a little bit of the mix of the pipeline between the markets where you're finding business more difficult and areas where business is stronger, so maybe between Asia, Europe and the other regions, just to try to get a feel for how the business might evolve next year with a different funnel than what you went into 2011 with. Thank you.

David Arnott

This is David. Let me take the cost question first. If you look back to our Q3 results, we did at the time talk about the cost cuts we were planning to take. Just to be clear, and I think this was either in Guy’s or my script, we have executed that restricting program in line with our plan. What I cannot do, unfortunately, because of the ongoing transaction, is give any flavour for what the underlying cost run-rate impact would have been, will be going forward into 2012, because that would explicitly give 2012 number. What I can say is that this was quite end loaded within Q4 and therefore is not reflected in the reported Q4 cost base. As much as I'd like to be able to reconcile 2012 costs at this stage, unfortunately I can't.

Guy Dubois

This is Guy speaking. If you don't mind, I will go back to the first part of your question on the nature and the evolution of the pipeline. Our pipeline remains robust. Broad based, I would say we have delayed deals coming not only but primarily from Europe and when you look at the way the pipeline is growing, while obviously there is a bit more new deals coming from Asia, but not only, I have to say, because despite in Europe we start to understand that we have a problem because the market is not moving as expected, we continue to see a lot of customers looking for new transformation initiatives.

In other words, we are facing a business where the sales cycles are getting longer but all the European, or at least the vast majority of the European banks are facing similar challenges, so [overtalking] must be addressed by reshaping totally or partially their core banking infrastructure, which we see actually a continued increase of our pipeline in Europe as well.

Adam Wood – *Morgan Stanley*

David, could I maybe just come back on the cost base question? Could you maybe just remind us of what costs you were scheduled to take out in Q3 and then maybe just help us, were there any additional actions that you took in Q4 to take costs out versus what you've spoken about already at the third quarter stage?

David Arnott

We talked at the time of taking out, from memory, 15 to 20 million of costs and we have exceeded that amount. And the restructuring activities took place in broadly the same buckets that I talked about in Q3.

Adam Wood – *Morgan Stanley*

Thank you.

Operator

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

Takis Spiliopoulos – *Bank Vontobel*

Thanks. The first one would be on the sales cycle. You repeatedly mentioned that there has been a lengthening over the course of 2011, if I remember correctly you started first talking about that in Q2 and now it has substantially lengthened. Can you give us some hint of what number or percentage we're talking about? Is this from 12 to 18? Are you 50%, is it less, is it more? That would be the first one.

And the second one for David, cashflow generation was for once pretty strong. We've seen that also back in 2010, especially on the payables being reversed; should we expect something similar to happen for Q1 2012? Thanks.

Guy Dubois

This is Guy speaking, good evening. As far as the sales cycle is concerned, we are probably in the range of 12 to 18 months; that's what we are facing today.

Takis Spiliopoulos – *Bank Vontobel*

Okay, but is it, you know, between 12 and 18 months at 50%? Have we gone from an average of 12 to an average of 18 or where do we stand now?

Guy Dubois

You know, obviously it depends, sorry to tell you that; it depends on the type of product, the type of solution, the type of tier and the type of geography. Forgive me, but that's more or less what we have to deal with. When you sell a universal bank project of let's say [unclear] licence in South Asia, well it is not the same thing as selling, obviously as you figured, a tier two bank in Europe. So that's what creates a bit of a stretch on our sales cycle.

It can be even faster when you sell, for example, the business intelligence module. As I believe I said, our business intelligence business went up substantially [?] in Q4. We go to some extent faster to sell those types of products to our instilled base, or forgive me to not give a type of average that I know you would like to use in your thinking. But that's the best I can do for the time being.

Takis Spiliopoulos – *Bank Vontobel*

Okay, but if you take like, you know, an average, you know, say tier three bank in Europe, you know, and did we go up 50%, 100%, you know, just take one type of customer, let's say in Europe?

Guy Dubois

I will remain cautious to give you more detailed information so we are in the same range of timeline as I've just said.

David Arnott

Okay, Takis, let me take the cashflow question. Cashflows for the last three years, well in fact even earlier than that, have been good. I don't think it was really for once; we've consistently delivered over 100% cashflow conversion and always strong seasonality around maintenance inflows in Q4, which were absolutely robust. DSOs are down so you need to uncouple [?] any payables movement from the inflows; we continue to see a reduction in DSOs in line with our own trends, which will continue. T

he payables side is not linked to the inflows in any way. Clearly, the big payables swing is driven by the restructuring charges that we've talked about a couple of times now. And that means we have an accrual for costs which will result in outflows at a later time but again, because of the process ongoing, I can't talk specifics about 2012 cashflows. But it should be pretty easy to calculate.

Takis Spiliopoulos – *Bank Vontobel*

Thanks.

Operator

Your next question comes from Gerardus Vos from Barclays Capital. Please ask your question.

Gerardus Vos – *Barclays Capital*

Hi, good afternoon, just a couple of questions. Just on Q4 on the kind of slippage, Guy, how much do you think was pure market and how much was because of the kind of more rigid structure you have put in place around kind of signing of contracts, particularly combining the licence also with the kind of service component there?

Then secondly, on the services, the cost stayed relatively high. I think that's because you work to the kind of backlog of contracts to get them go live. How many quarters do you expect this to continue, so probably a relatively benign number from a revenue perspective but a high cost number from a service perspective? Thank you.

Guy Dubois

This is Guy speaking. Simply speaking, I will attribute primarily to the market conditions. That's what I believe is our understanding of what happened. David, do you want to take the second part of the question?

David Arnott

Okay. Gerardus, let me talk briefly about services. Clearly again, unfortunately, we're constrained about talking about specific quarters in 2012, but you raised two points. First of all, it was around the Q4 increase; we always have a Q4 seasonal increase around big go-live events in around the Christmas period, which is one of the only times the bank has the stability to switch systems. That's been a trend for a long time. Don’t assume though that the revenue trend has reversed and will therefore go up.

Our attachment rate between services and licensing is probably two-thirds to three-quarters of the way down in terms of where it will be with the long-term partner model. And in terms of looking forward, all I can really do is guide you towards what we've stated as our services revenue mix over the medium-term and I think before we've stated that we expect to reach industry standard margins over the same period.

Gerardus Vos – *Barclays Capital*

Okay, thank you.

Operator

Your next question comes from Stefan Gachter from Helvea. Please ask your question.

Stefan Gachter – *Helvea*

Yes, hello, actually all my questions have been answered in the meantime, thanks a lot.

Operator

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

Oliver Girakhou – *Cheuvreux*

Yes, good evening, gentlemen. I have two questions actually. One would be I mean given...

Guy Dubois

Oliver, we cannot hear you. Could you speak up, if you don't mind.

Oliver Girakhou – *Cheuvreux*

Can you hear me now?

Guy Dubois

Thank you, that's better, thank you.

Oliver Girakhou – *Cheuvreux*

Fantastic. Given what you are saying regarding your kind of project pipeline, some growth coming from certain markets, Middle East as well as Asia, you don't seem to be too surprised about current developments. I mean just if I ask boldly, I mean would you be surprised to see negative year on year licensing growth next year and what needs basically to happen to see this kind of surprise for next year going forward, just to get your opinion on that?

And the second question would be on Asia. Could you give us a bit of an update on the dynamics in the Asian market and maybe follow up with the other growth markets? Thank you.

Guy Dubois

Yes, Oliver, I cannot say anything close to any looking forward outlook or view or recommendation, sorry for that. The second part of the question, what was the second part of the question, about Asia?

David Arnott

There were two more questions. I think one was about reiterating the demand drivers and the second one was about Asia specifically.

Guy Dubois

Yes, let me go back to the demand driver, if you don't mind. When you look at what's going on here in this industry, you have an industry which dropped its return on equity dramatically from the 15%, 14%, 17% ROI. We dropped to a single digit. And we know why obviously, the bad debt, the cost, so many reasons that we've well identified. So the drivers remain very much the same. The banks need to better serve their customers, which means that the front office activity is extremely dynamic, understanding the customer behaviour, giving interactive tools, better tools to their customers is essential. It’s not by mistake that we are growing our business intelligence business factor.

The second point is they have to reduce costs. Overall the IT expenditure against their total costs is probably in the range I would say of 15% or so, 16%, 14%, let’s call it 15%. And we know that this number needs to drop, to drop very fast and significantly. We are targeting something like 7% because they have to save money at operating their businesses and their IT infrastructure. Their competitive landscape, their own competitive landscape is changing dramatically, which means that they have to be extremely creative at introducing new offerings, new products.

For that, by the way, we have a specific product, including a product configuration which is extremely powerful, which helps the bank to configure real-time their new offering faster that our possible competitors. So they are the indicators or the triggers driving the change of this industry and the need for this industry to continue to invest, so that's where we are at as far as those key indicators are concerned.

David Arnott

And the point of that was related to 2012, that's probably as close as we can get to 2012.

Guy Dubois

Yes, I cannot say, unfortunately. Our chaperone is making me a big wave, saying actually to stop here, so I would stop as far as 2012. Now you said, you had two questions about Asia, what's gone on in Asia. Well, we know what's going on in Asia; it’s a fast growing economy which has been less impacted to the Euro crisis than probably any other geography. Obviously we are looking at the urbanisation of the Asian countries, for example we have I believe seven large banks in Vietnam, for example, because obviously they had to cope with the new infrastructure.

And the other reasons why we see a movement, and obviously there is an imbalanced population which is having more and new requirements, suggesting new offering as well. So when you take all of this into account, you have got here probably a few indicators helping us to understand what's going on in Asia.

Ben Robinson

Okay, I don't think there are any further questions for this stage now, so thank you everybody for participating and apologies again for the late start.

David Arnott

Thank you.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.