Temenos Group AG

Moderator: David Arnott
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17:30 p.m. ET

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Temenos Q4 and Full Year 2013 Conference Call with David Arnott and Max Chuard. 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'll need to press star-1 on your telephone.

I must advise this conference is being recorded today on Tuesday, the 18th of February 2014. I would now like to turn over to Mr. David Arnott to start the call. Please go ahead, Sir.

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David Arnott: Thank you very much. Hi, everybody, and thank you for taking the time this evening to join the call. As usual, I'm going to start with some comments on the fourth quarter and then the full year performance and the market backdrop, and then I'm going to hand you over to Max to an update on the financials, and then I'll come back just to close out before we open up the call to Q&A.

So, hopefully you've all managed to find the deck; it's on our website. I'll start on slide four of that deck. So, let me start by saying we are absolutely delighted to be able to report on such a strong fourth quarter, which has helped us achieve our targets for the full year. The performance for 2013, if anything, has given us even more confidence in our ability to achieve the medium-term plan we laid out to you this time last year.

Looking at the year in total, we saw strong license growth, every quarter got stronger than the last, and we're taking market share. Europe, our largest market, grew strongly with some high profile wins and the return of larger deals, especially towards the end of the year. And as expected, we also saw strong growth in the Middle East and Africa and Asia-Pacific regions.

Core banking was strong, supported by the multi-product offering, with several important wins in the year coming as a direct result of being able to offer this, what we call full product solution to our customers. Our services strategy is delivering, with a lower contribution to Group revenues and a significant improvement in the year in the services margin. The non-IFRS IBIT margin was above the top of the guidance, with our focus on cash also delivering strong cash conversion and DSO reduction for the year.

We announced the acquisition of TriNovus at the beginning of the year, a highly strategic acquisition. And I'll be talking more about that tomorrow. And finally, 2013 saw some significant new product launches, including the launch of the Temenos Payment Suite back in September. So, all in all, I'd say at this stage I'm very happy with the way the year progressed and, in particular, the way it finished.

If you'll turn now to slide five, the strong operational performance we saw throughout the year translated also into strong financial performance. And I'd just like to give you a few of the metrics here. Software licensing growth was 10 percent, at the top end of our guidance.

We saw a significant improvement in non-IFRS services margin, which contributed, along with a better revenue mix and lower cost base of services, to the non-IFRS EBIT margin of 24.1 percent, above the top of the guidance.

Our cash conversion at 119 percent of EBITDA was also above our target of 100 percent, driven by a material reduction in DSOs, which were 28 days down in the year. We're committing to returning value to shareholders, and

I'm pleased to report a 25 percent increase in the annual dividend, which follows our successful 2013 share buyback program.

If you'll turn now to slide six, we delivered strong growth in software licensing in Q4, which was also on the back of a very strong Q4 2012, if you remember, as we saw the fruition of sales investment made at the start of the sales cycle.

So, around the end of 2012 I was putting the regional structure in place; and therefore, with a 12-month sales cycle, as I said in Q3, we would expect to start to see the real benefit of that from the fourth quarter onwards, and also the multi-product offering, which accelerated demand for core replacement.

Q4 saw good sales to new customers with 14 new customer wins, in total taking the total to 33 for the year. We also saw some high profile wins and the return of larger deals, especially in Europe, such as KBC Ireland and Aktia.

Just as the larger deal sizes for core banking replacements, we increased our focus on these deals in the latter half of the year as they started to gain a momentum with around three-quarters of our software licensing sales in 2013 coming from core banking and around a quarter coming from all our other products. We'd expect our multi-product offering to contribute around 30 percent to total licensing in 2014, so up from 25 percent.

We saw continued growth in sales to our existing customer base as the multi-product offering expanded the ability to cross-sell with a focus on strategic accounts reaping rewards. We also saw the start of relicensing in 2013, with customers brought to the table.

And what we found is that in engaging with discussions over relicensing and the smarter banks come to you a couple of years early ... earlier than they need to contractually to give themselves strategic options, the discussions sometimes led the way to the ability to sell more modules to existing customers in addition to the license renewal, and sometimes to simply normal renewals, which means that it's hard to distinguish between relicensing and new business.

We have decided, therefore, it's not something we'll be specifically reporting on splitting going forwards because it's very difficult to split out clearly the value from the new business. As a guide, however, relicensing contributed mid single digit percentage to software licensing revenue in 2013 and it is expected to contribute a slightly lower amount in 2014 before accelerating from 2015 onwards.

The fourth quarter saw strong growth in Europe with good growth in Asia. Growth in the Americas was lower due to the timing of large deals. And I'm delighted to be able to announce today that Banesco, the largest bank in Venezuela, has signed to take a suite of products, including T24, to support its global strategy. The deal with Banesco is a large deal for Temenos, by which we consider to be in the range of $5 million to $10 million of licensing, and we had to beat all the competitors in our industry to win that deal.

The deal also opens up a very exciting new market for us, as well as offering further opportunities for additional sales to the Banesco group itself, both in Spain through their acquisition and also in their other Latin American subsidiaries. Although not all of these licenses are going to be recognized immediately, obviously it will contribute to a Q1 licensing growth run rate above our full year guidance, and Max will expand on that later.

Turning now to slide seven, 2013 was a great year for our services and partner's strategy, which is delivering results ahead of expectations, and the strategy, therefore, remains unchanged. In 2013, we saw more realized than ever before.

Premium services accounted for 19 percent of total services revenue, compared to 11 percent in 2012, contributing to a significant improvement in the non-IFRS services margin. Implementation times were also further reduced, freeing up resources and contributing to the improvement in DSOs. We also saw a significant improvement in the non-IFRS services margin.

Our partner ecosystem is growing stronger every day, with over 1,700 partner consultants, and our vision of our partners becoming an additional sales channel is also gaining traction, with 20 percent of the software licensing revenue in the year bought by partners, up from 14 percent in 2012. We've also improved the governance of partner-led projects, and we'll be talking more about this tomorrow.

For full year 2014, we'd expect services revenues to be broadly flat with non-IFRS services margin around break-even. That's obviously a fully loaded margin. Although not formal guidance, we'd expect Q1 non-IFRS services margin to be around minus 10 percent due to the usual seasonality.

If you'll turn now to slide eight, I'd like to talk a little bit about market conditions. And my first point here is very important, there's no doubt that packaged solutions, coupled with a progressive renovation story, is absolutely the winning business model in our space today. We've made a good start to the year with pipeline building well.

As I mentioned, we'd expect multi-products to contribute around 30 percent to software licensing revenue in '14, up from 25 percent in '13, reflecting the investment we have made in dedicated direct sales and marketing around the core.

Europe's improving on a macro level, although importantly we still remain today below the peak where we were in 2009-2010; therefore, more room for upside. And the Middle East and Africa and Asia regions remain strong. Sales momentum is building in the U.S. sales, and in South America, as I just mentioned, we've announced the signing of Banesco today.

Our good wins in 2013 are providing key product references from high profile customers, which gives us confidence in our ability to win further business and continue to take market share going forward.

So with that, I'll hand you over to Max to talk you through the financials.

Max Chuard: Thank you, David. Turning now to slide 10, I'd like to start by presenting the highlights from Q4 and the full year. Q4 like-for-like software licensing, a growth of 15 percent, drove 10 percent growth for the full year, at the top of the guidance range of 5 percent to 10 percent.

Our sales strategy is delivering with a lower services contribution to Group revenues, falling from 27 percent in 2012 to 24 percent in 2013, and a 7.8 percentage point improvement in the full year 2013 on the non-IFRS services margin.

A better revenue mix and lower costs delivered a full year non-IFRS EBIT up 30 percent with a non-IFRS EBIT margin up 4.9 percentage points to 24.1 percent, above the top of our guidance. Efficient below-the-line management drove full year non-IFRS EPS up 36 percent above the EBIT growth.

2013 saw an operating cash inflow of $169 million with cash conversion of 119 percent, ahead of our guidance of plus 100 percent. DSOs were reduced by 28 days to 198 days, well ahead of our 10 to 50-day annual target. The strength of operational performance and cash flow supported our 2013 buyback program with $54 million returned to shareholders and supports as well as a 25 percent increase in the annual dividend from CHF0.28 to CHF0.35.

Turning to slide 11, this is the fifth quarter of software license growth, up 15 percent on a like-for-like basis in the quarter and 10 percent for the year. It is also worth noting that around 20 percent of license revenue each year usually comes from licensing signed in prior years, which is booked on the percentage completed basis as we fill gaps in our product offerings through funded plan developments.

Because this product doesn't exist at the time of sales, we recognize it as we build the software, which then finds its way into the next generations of our software and is made available to all our clients.

Given the lower licenses in 2011 and 2012, the contribution in 2013 to reported licensing from these development licenses is lower, and so the headline licensing number has around 3 percent headwind for the full year 2013 and around 4 percent in Q4, which means that our 15 percent Q4 license growth is more like 19 percent. Now the majority of this headwind has now largely been absorbed.

Total revenues were up 8 percent on the quarter with a 6 percent growth in maintenance revenues. Total revenues for the year was up 4 percent on a reported basis despite a 9 percent fall in services revenues. Non-IFRS operating costs were down 2 percent in the year, which, combined with a better revenue mix, contributed to non-IFRS EBIT up 30 percent with a non-IFRS margin up 4.9 percentage points to 24.1 percent, as I said, above our guidance for the year. The non-IFRS services margin was up 8 percentage points in the year due to an increase in premium services as well as an acceleration in our partner strategy under lower cost base.

Finally, as you can see, the non-IFRS EBITDA margin has improved by more than the non-IFRS EBIT margin, which is due to the increase in the amortization of capitalized development costs. As we stated at our Q3 results, net capitalized development costs were $14 million for 2013, a fall from $19 million in 2011 and $16 million in 2012.

And we will expect capitalized development costs to remain around the same level with the amortization increasing to reduce the net impact to under $10 million in 2014 and be around zero in the following years. You can see the full details in the appendix slides.

Turning to slide 12, we show the revenue and costs on a like-for-like basis. 2013 like-for-like revenue was up 2 percent against plus 4 percent on a reported basis. Non-IFRS costs were down 4 percent on a like-for-like basis against 2 percent on a reported basis, with the majority of the difference coming from TriNovus, the acquisition we did in March of 2013.

On slide 13, we expect, as you can see, our 2014 cost base to be around $377 million, which is an increase of 6 percent compared to 2013. The increase of ... the 6 percent increase is broadly evenly split between additional investment, primarily in sales and marketing, an increase in variable costs, and finally, as I just said before, a headwind of higher net capitalization of R&D.

On slide 14, the non-IFRS EBIT growth has been augmented by efficient below-the-line management, with non-IFRS EPS growth of 36 percent above the non-IFRS EBIT growth of 30 percent in the year. Again, we rated our tax guidance for 2014 at 17 percent to 18 percent of earnings before tax.

Turning to slide 15, cash conversion for the 12 months ended December 2013 was 119 percent, well ahead of our target to convert at least 100 percent of our EBITDA into cash. The strong cash conversion was driven by strong cash inflows coming from the recovery of outstanding balance from all the project, a higher contribution of sales from existing customers, and the reduced implementation times. This drove DSOs down 28 days in the year.

2013 was a strong year for the collection of old balances, and going forward we would expect to continue our DSO reduction of 10 to 15 days. Finally, we've achieved over 100 percent cash conversion in each of the last four years, highlighting the quality of our earnings.

On slide 16, you can see our leverage at 0.7 times EBITDA, which offers significant financial flexibility even after returning $20 million cash to shareholders for our annual dividend and a further $54 million through our share buyback program.

Taking into account treasury shares, which does not, by the way, including shares repurchased under the 2013 buyback program, which will be constant, our leverage is at only 0.2 times EBITDA. As you would expect, we constantly monitor our leverage as well as the composition of our debt, which we may look to diversify further on an opportunistic basis.

My last slide for today, if you turn to slide 19, we set out our guidance for 2014, which is for software licensing growth of 10 percent to 15 percent, implying software licensing revenues of $152 million to $158 million; non-IFRS revenue growth of 5 percent to 10 percent, implying revenues of $491 million to $515 million; and non-IFRS EBIT margin of 25.1 percent, which is consistent with our target of increasing non-IFRS EBIT margin by 100 basis points to 150 basis points each year, even after such a strong margin performance we saw in 2013, which implies non-IFRS EBIT of $123 million to $129 million. We continue to guide for more than 100 percent conversion of EBITDA into operating cash flows and tax rate of 17 percent to 18 percent.

As you know, we don't guide on a quarterly basis; however, given that Q1 is a small quarter and Banesco is a large deal, I will expect the Q1 software licensing growth including the contribution from Banesco to be around 20 percent, ahead of our full year guidance of 10 percent to 15 percent. Finally, obviously, the good start of the year with Banesco gives us great confidence in delivering our full year guidance.

With that, I will hand back to you, David.

David Arnott: Thank you, Max. We've kept this reasonably short and punchy so we can put 2013 performance behind us and focus on the future. And with that in mind, if you'll turn to slide 19, I'm sure you're all aware we've got our analyst and investor event tomorrow in London, at which point we'll be talking in more detail about the vision, the strategy, products, and so forth.

I've shown you an agenda here, and hopefully as many of you as possible will be able to join either in person or via the webcast.

If you turn now to slide 10, I set out here our medium-term targets. And again, to reiterate, these are the targets we presented one year ago, which remain unchanged. And in those targets, we expected to deliver at least 5 percent revenue growth and 10 percent license growth every year. With this growth obviously will come economies of scale around the fixed cost part of the business, sales levied through partners, services levied through partners, and so forth, and then with the higher services margins and the shift in the revenue mix. Overall, taken together, this will lead to, on average, 100 to 150 basis points of margin improvement per year.

And obviously, with more cash up front, moving more towards a pure product Company and I think partners implement and so forth, with the revenue shift and the different profile for the services business being less dependent on licensing, we're going to continue to see cash conversion in excess of 100 percent of EBITDA every year.

So, in 2013 we delivered on the first part of that plan, and we'll talk more about the reasons why we believe we not only have delivered so far but will continue to deliver on that plan tomorrow.

So finally then, if you turn to slide 22, I'm not going to read all these out, but what this is on this slide is the commitments we made o you as an investor community this time last year. I look at this slide regularly.

And whilst there's always room for improvement, there's always things we could do better, I hope you would agree that so far we've kept close to the script, we've executed on the strategy very well so far, and hopefully we'll continue to do so going forward.

And what this means one year in is that we are confident that we are able to deliver our three-year plan. It's the right plan, it's well thought through, and we've done what we said we would do so far.

So, with that, operator, I'd like to open up the call for Q&A, please.

+++ q-and-a

Operator: Thank you. If you wish to ask a question please press star-1 and wait for your name to be announced. If you wish to cancel your question, please press that hash key. Once again that's star-1 to ask a question today.

And your first question today comes from the line of Gerardus Vos from Barclays. Please go ahead.

Gerardus Vos: Hi, good afternoon. Congratulations on the strong quarter. Just a couple of questions, if I may. First of all, could you provide with an update on the kind of large deal activity? I think in the third quarter you mentioned three, four deals going into Q4. How many of those have closed, if I include kind of Banesco?

And secondly, on the kind of Banesco deal, how much of the kind of $10 million to $15 million ... sorry, the $5 million to $10 million will be recognized in Q1, how much for the full year, and how much perhaps afterwards?

And then finally, on the service margin, you guys did a great job in Q4. What kind of margin should we expect for 2014? Because as I do the calculation, I can get that the full year Group margin improvement of 100 basis points basically can be achieved by the service improvement, which, given that the mix overall will improve as well, seems that it's a little bit on the light side. Thank you.

David Arnott: Okay. Gerardus, thanks very much for that. Good, probing questions, as usual. So, let me take most of them and I'll pass the one on the revenue recognition for Banesco to Max. So, we talked about a number of deals we've announced so far ... the above-trend deals, let's call them that. We've announced Aktia in Finland, which was a very significant deal that opens up Scandinavia and CIS regions. We've announced Banesco today. And KBC Ireland was also another important deal.

So, two of them was signed in the fourth quarter, one slight after the year-end as the signing was delayed as they won a large acquisition right at the end of the quarter. But this was more of a flavor really, so I would say there's three that stand out, plus a bunch of others just under that level. These three stand out because they're all deals which we haven't seen for the last two to three years given the size of the project and their time to value for the bank.

So what we're starting to see now ... and it's not only a European trend, it's also a trend in the other markets ... is banks looking three to four years out and realizing that they need to start progressively changing their systems.

And for the first time in a long time they really are prepared to make such long-term strategic decisions, whereas especially in Europe it's been very much more tactical, a few more users here, a few more users there, maybe a bit of channels open, this intelligent senda, and this really validates to us that Europe ... European banks in particular have more visibility than they've had for a long term ... for a long time, rather.

That visibility is not particularly pretty. They're still up against retailers in the payment space, they've got new competitors like PayPal, and there's an acknowledgement that they need to do something else. So, we do have a number of larger deals in our pipeline today at various stages of maturity. But for me the fact that we can come to the end of their sales process and actually convince them to sign, pay, and start a project, was a key thing for the fourth quarter.

Gerardus Vos: Sorry to interrupt. Are these above average trend deals in the guidance for 2014? Because there's quite a bit of limited visibility regarding when you actually sign these deals, the sales cycles are very long.

David Arnott: Okay. To that point, well, I suppose the first point is we've got two or three of them we've got to wrap anyway even before we start to grow. But to be clear, we're not putting ourselves in a corner where the 10 percent to 15 percent guidance is based on an acceleration of these large deals.

Gerardus Vos: Okay.

David Arnott: In fact, if anything, we're trying to move more towards more of a recurring revenue model as we have more sales business and we sell more sort of stand-alone products outside the core, like business intelligence, wealth channels, and so on, to the installed base. So, the shift towards the installed base is bringing down the average deal size, but it's nice that we're starting to get these big, chunky deals coming on top. And we'll try and be as transparent as we go through the quarter as we can with the granularity around this.

In terms of services margin, I think I said that the ... we get to services break-even and probably lower this year, which you're right, if you do the math it means there's no product leverage in the guidance this year.

As we go through the year, we'll try to be as transparent as we can, but we do see an opportunity ... a significant opportunity at the moment to outplay the competition. We've got absolutely the right product offering, the market is coming back. Now, would we reinvest all that product, so licensing and maintenance growth in sales to take advantage of the market ... difficult to say now.

The model, I think we've proven ourselves a safe pair of hands for the last couple of years, to wait to have a good quarter. If we have a good quarter, we'll unlock a certain amount of the product or sales investment. If we have another good quarter, we'll do the same.

So we're not going to get over-excited and invest ahead of the curve. But given our market share gains, given the strength of the offering, and given the improved visibility in a number of markets, if we continue to see this kind of momentum, we will continue to invest. But that is not the base case and Max, tomorrow, will walk you through the cost assumptions underpinning 2014.

Gerardus Vos: Okay.

Max Chuard: Gerardus, this is Max. Listen, regarding Banesco, we are expecting Q1 to recognize a reasonable amount of the deal and the rest, I would say, in the following quarters, and probably as well some in next year.

Gerardus Vos: Okay. Thank you.

Operator: (Operator Instructions). Your next question is from the line of Adam Wood from Morgan Stanley. Please go ahead.

Adam Wood: Thank you. Hi, David. Hi, Max. Again, congratulations on another good quarter. Just wanted to focus in, maybe looking outside of Europe. David, you talked the last couple of quarters around the investments you've made outside of Europe and how you'd expect them to start bearing fruit. We've maybe seen that coming through in Asia. There's obviously some jesters around emerging markets in the investment community, and also there's been some big FX moves.

Could you maybe just give us a little bit more color on as you see ... how you see the pipeline moving through? Do you still see a good flow of RFPs, RFQs, and are they processing along the pipeline as you'd expect? And on the FX issue, I think you mainly sell in harder currencies outside of Europe. Is that starting to make you a little bit more expensive versus the competition? And do you see that as an issue?

And then, maybe just on the U.S. side of things. Your actual reported numbers have been flattish for the last couple of quarters there, but we've seen some announcements of banks moving on to T24. Again, could you give us a little bit of a flavor for what's going on with the pipeline in that business and when we might expect to see some acceleration? Thank you.

David Arnott: Okay, fair enough. Thanks, Adam. Okay, so you're right, I've probably focused on Europe because it's the one thing we've been sitting on the fence for the last few quarters. And again, I don't want to over-extrapolate the recovery in Europe, it's just that we've had some good data point in the quarter.

Outside of Europe, the pipeline continues to grow strongly. Middle East and Africa ... to give you a bit of flavor by region, Middle East and Africa, we did a refresh of our Islamic offering back in the second half, and subsequent to that, six deals came to market in the whole of the Middle East in the second half and we won four of them and the other two were relatively small. So, I think we have the product offering and the right sales organization now in the Middle East and Africa as well to take advantage of a market that is doing very well.

Asia, it's 12 months on since we put the organization in place. That organization has now built a pipeline, and we saw in the fourth quarter some good cross-selling to the installed base, but also a number of sales cycles for new business coming to an end. And personally, I believe over the medium-term Asia is the market ... notwithstanding the macro concerns over the region, it's a region with major, major growth pains.

There are sub-trends, like the emergence of a middle class that wants specialized banking products. There's a clear need for business intelligence. There's a clear need for growth-led core banking replacement to put in a modern core so you can open branches quicker. I personally have high hopes for Asia over the medium-term, and we've now got the right organization to deliver on that.

Latin America is a market that frankly doesn't have that many deals in it a year, so I wouldn't expect it to set the world on fire the way other emerging markets could, but I don't see any reason why we couldn't win more than our fair share of deals. In fact, only two deals came to market last year ... one was Banesco; the other one resulted in a non-decision.

So it can be, for my mind, a good $10 million to $15 million of licensing out of Latin America over the medium-term across all the products if you look, say, four or five years out.

Forex, let me deal with that point. We do well in hard currency. We have something like 70 percent of our revenues coming in in ... signings coming in in dollars; predominantly the rest is euro. And it's not such much a price-sensitive decision.

If a bank has decided they can't grow without a modern core or they need business intelligence or channels or wealth or whatever it is, they tend to find the extra money to buy from the vendor that can go live quickest with the best reference ability and the lowest risk implementation.

If you do that, I cannot think of any deals, either in the fourth quarter or even the deals that are progressing through the pipeline now, where other than the normal (inaudible) around a small discount for optics at the end, I cannot see any greater price sensitivity.

In fact, if anything, the fact that our reference ability in most countries means we've got more live clients than all of our competitors means we're holding the price even better, and that comes down to sales execution rather than markets, I would say. So, Forex is not a concern for us in the market that we operate in, for the type of software we sell, to be clear.

The U.S. is very much a rental model business. It's a size business where we've signed five clients onto the T20 portal for four platforms so far. We're getting all of our other products ready, so business intelligence, anti-money laundering, and so forth. But you will not get the step-change in revenue that you would get from pushing into, say, an on-premise market like Latin America or Asia.

It will be much steadier, much slower, but the traction is clearly there. We'll talk more about tomorrow, the opportunity to dislodge the incumbents, the three or four large players who have aging software and who we believe we can outcompete on price and strength of offering.

In North America, there are only a number of on-premise markets, predominantly Canada and the Caribbean and a little bit of private wealth in New York that can give you chunks of license revenue up-front more analogous to rest of Temenos. They're doing well, but they're not huge markets, frankly. And I would expect that over the medium-term, as we said, that the size business and all the data points so far suggest we're doing exactly what we said we would do, will contribute significantly to revenue in the medium-term.

So, the market is there. The U.S. is 40 percent of total IT spend for core banking. And so far, we're doing everything that we said we would to capture that market, but it won't be a sudden jump.

Adam Wood: That's great. Thanks very much, David.

David Arnott: Okay.

Operator: Thank you. Our next question is from the line of Takis Spiliopoulos from Bank Vontobel. Please go ahead.

Takis Spiliopoulos: Thanks. Well done, gentlemen. Also, from my side, just two small ones. The one question on the payment solution, can you give us an update? You still expect, let's say, second half '14 to see some initial deal wins or announcements? And the second one, you mentioned taking market share. We have seen some lower growth rates from some of your peers, so what has happened? Who has been losing market share? Is it more the Indians or the local players? What is happening in the marketplace? Thanks.

Max Chuard: Hi, Takis. Let me take the first one. On the payment side, I would say we expect a smaller contribution towards the end of the year; those are also long sales cycles. But we do expect a small contribution towards the end of the year, and obviously an acceleration of the contribution towards '15 and onwards. But you'll see we'll discuss more on that topic tomorrow.

Takis Spiliopoulos: Okay.

David Arnott: Takis, let me take the one on market share. It's difficult to gain a real feel for market share because a lot of our competitors don't split out banking; and if they do, they don't split out licensing from services and maintenance. The closest we can get to so far as a proxy is that total license, maintenance, and service across our peer group declined 1 percent. Now, with that, services will be growing and, therefore, licensing will be declining even faster.

So, it's clear we've gained market share. What we need to do is wait for the IBS League Table to come out in March, which is the annual audited list of deals where you have to send your contracts to the organization and they call the banks and make sure they really did buy software. And that's gives us a lot more data points by competitor to really quantify how we're doing. And therefore, as usual, on the back of our Q1 results we'll give a much more granular feedback on our competitors.

One thing I would say so far is that if you have a package and you get the same package as every other bank and other banks in your country are using that software, and all the partners and the help desk and everybody's supporting the same package, that gives you a comfort feeling which is very, very different to getting a bunch of people in to do bespoke development for you and build you your own system.

So, I would say there's a watershed developing between the application software vendors, both the local players in the various verticals like private wealth and so on, and ourselves, and the services companies. I think we'll find the services companies have not done very well at all.

And the other trend, I would say, is that the bigger you are, the easier it is to defend value and to win against the best in-country players, if you like, those with maybe $50 million or $100 million of revenue, maybe $5 million or $10 million of R&D. If you present a picture where your $100 million, $120 million of R&D over time is going to protect the bank's investment, it's really quite easy to beat a competitor who simply cannot have that compelling of product roadmap.

So, those are the two general trends. And I'll be as pleased as you to see the IBS League Table in March and hopefully give you some more flavor on the individual competitors at the time.

Takis Spiliopoulos: Maybe as an add-on, you mentioned Aktia in Finland, KBC Ireland, Banesco. Who was basically the ... kind of the very short list names you encountered, or who did you win against?

David Arnott: Okay. All right. So, very briefly, to speed my answers up, in the U.S. we competed against SAP, Oracle, Fidelity, Fiserv, and I believe Misys. The closest competitors were the U.S. players, to be honest. In Aktia, we were short-listed against Misys. In fact, at one point it was rumored that Misys possibly had won with BankFusion, which would have been their BankFusion win for a while. And we won that back in September and closed the deal out early in the fourth quarter.

So, really ... and again, on the Aktia short list was the usual players ... Oracle, the Indian vendors, the offshore development shops, but it came down to a short list of us and obviously Misys. And for KBC, again, it was all the usual players, but our reference ability in Ireland and the fact that we've already got a number of clients there and a number of users in the bank had, in fact, previously been T24 users in previous lives meant that it was competitive, but very much a Temenos show from the beginning.

And that really vindicates the value of reference ability from people moving from one bank to another and so forth.

Takis Spiliopoulos: Thanks a lot. Well done.

David Arnott: Thank you.

Operator: Your next question is from the line of Mohammed Moawalla from Goldman Sachs. Please go ahead.

Mohammed Moawalla: Yes, thank you very much. Guys, I was just thinking what your thoughts are in terms of deploying the balance sheet and M&A given kind of the recovery in the market. You're talking about kind of multi-product becoming a bigger part of the mix. Are you looking at adding a lot more coverage's and categories and products to further kind of enhance that offering?

Max Chuard: Hi, Mohammed. The approach we were taking, which, I would say, is one that we've followed for quite some time now, is three-fold. And one of them is, as you said, is to buy complementary products; on that we are looking on the different segments that we find interesting. And one of them could be the payment space with what we are doing organically on the payments side. So yes, we continue to look at complementary products.

But at the same time, we look as well at potentially entering new territories where we can gain growth faster through buying local vendors or just finally, as we've done in the past, consolidation of players. So I think those are really the three types of transactions that we are engaged and we do have a pipeline of discussion ongoing at any point in time.

And I think it's (inaudible) for us ... the best use of our capital is through M&A. But as you know, we've been quite disciplined in our approach with strict criterion as well ... financial criterion ... on how we want to engage. But it's clearly one of the topics for us.

Mohammed Moawalla: Okay. That's great. Thanks.

Operator: Thank you. As a reminder star-1 if you wish to ask a question. Your next question is from the line Chandra Sriraman from Mainfirst Bank. Please go ahead.

Your next question is from the line of Chandra Sriraman from MainFirst Bank. Please go ahead.

Chandra Sriraman: Thanks for taking my question. Congrats on the solid results. Just a couple, if I may. First thing is on the bonus payment, I was just wondering, in term of your costs ... quarterly costs, I did not see a big jump in Q4. So I was just wondering how that will ... you had a very good year, so you delivered on all your guidances, so I would have expected a bigger jump. So, what am I missing here?

And the second question is, in terms of the sales force productivity, I felt that given the license performance I would have expected, again, a bigger jump in sales and marketing. So, I was just wondering, is there some kind of restructuring of the sales force incentives, or is just the relicensing opportunity that's helping the productivity? Thanks.

Max Chuard: Hi, Chandra. Listen, I would say that mainly to ... to address both of the questions ... related. The explanation is if you look at last year, on the way we report the numbers for you, you cannot strip out the restructuring charge that we had last year. So, that is, I would say, one element of the equation. And especially in sales in Q4 of last year we had quite a large restructuring for sales.

And secondly, on the viable ... on what we call the profit share, this is something that we accrue as well over the year. Obviously, there is a larger part in Q4, but it's also something that is accrued during the year. But I think the main explanation, for instance, on the sales and marketing, is if you were to look at the comparative, the restructuring charge that we had in the P&L.

Chandra Sriraman: Okay, perfect.

Operator: And your last question today is from the line of Michael Briest from UBS. Please go ahead.

Michael Briest: Great, thank you. I think in the last few years we've seen, in the accounts after the year end, a hit from bad debt expenses, which you've taken above the line as an operating cost. I think last year, 2012, it was $12 million or so. Could you say whether there was any similar impact this year or in 2013?

And then secondly, you're targeting the non-T24 products to grow from 25 percent to 30 percent of revenues. Is there any particular product within that that's going to do well? Or maybe can you say, in 2013, how Odyssey did, how BI did, etc. within that 25 percent? Thanks.

Max Chuard: Hi, Michael. Let me take the first one. Listen, as we've said ... as we've said many times, we see as a normal run rate at around $10 million to $15 million of bad debts per year, and we accrue, if you want, on a quarterly basis at that level. So, we are in that range as well for 2013 and the full disclosure is going to be made at the time of the annual report. But that has been the case as well for 2013.

David Arnott: Okay. Michael, let me take the points on multi-products. It will probably be easier tomorrow to go into more detail, but just as a flavor, there are three, really four now, very different products, very different segments. Let's take them very briefly one by one.

So, payment is new. It's only just been launched. We've got a proof of concept ... proof point, rather, with ABN. Personally, I think it will be ... if we're lucky, we'll start to see some momentum from payments at the end of the year because people are going to want ABN to go live and stabilize before we ... before they engage in a real way. Now, whether we've got time with a long sales cycle ... and you'll hear more about this tomorrow ... to get payment deals done in the year, I would not expect that to be the main driver for growth.

Private wealth is very much around the progressive renovation story of banks who have got far too expensive back end for today's world of private banking. And at the same time, they need an efficient, modern front end to really manage their customers in the private banking space and the mass affluent space in a very different way based on service, efficient reporting, and so on.

So, private banking for us grew nicely in 2013, but I believe we've got a lot more to come as we get things like Nordea live. Credit Suisse is a big upgrade that's going on, which, again, both of those projects prove the benefits of our stand-alone Odyssey front end, T24 business intelligence and channels. And I think those two data points will accelerate private wealth in the next couple of years.

And that leaves channels, which for me ... channels got off to a slow start, frankly, in 2013. Should have been more, but I believe channels, of the four, over the next couple of years at least can be the most disruptive because it's the biggest pain for banks today.

The fact that most of their touch points are now outside the branch, they're failing to monetize the internet, mobile opportunities from a younger generation, and I think we have the products now with the model banks and the demo systems and the now in place ... the dedicated sales force that we didn't have this time last year, we were relying on generalist sales people to sell that, and typically they were entrenched in their comfort zone of selling the core banking system. We can talk more tomorrow, but I personally believe, of the four, channels, over the next couple of years has got the best short-term opportunity.

And then the last is business intelligence. And again, to put this in perspective, what we are not trying to do is compete with enterprise BI players, which are very well established, horizontal products, which have two ... a couple of billion each.

What we are trying to do is to position ourselves as thought leaders for the analytics you need to run your bank. So, preconfigured reports coming straight out of T24 so you ... T24 and the other products in the wealth space so you can quickly use the system when it's live to make meaningful decisions based on your data.

So, a very different proposition to the covenances and so on of this world. Lower value, obviously, and really just a sell ... a cross-sell to the installed base. And again, I think it can be a good, solid, maybe $5 million to $10 million of licensing per year.

It was, in fact, quite a good driver in 2013 and will continue to be a good opportunity to sell a preconfigured reporting package alongside the T24 (front low) and wealth system, but I don't think it's got the same momentum, frankly, as payments and channels and wealth can have over the next few years. Quite a long answer. Maybe we can discuss this in more detail tomorrow if you fancy.

So, operator, I think that's all the calls in the queue for now. You know where to find us if you think of anything else tonight. Otherwise, look forward to speaking to you, as many as possible, tomorrow at the Investor Day or, if not that, then after the first quarter results. Thank you very much, indeed.

Operator: Thank you. That does conclude our call for today. Thank you for participating. And you are now free to disconnect.

David Arnott: Thank you.

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