TEMENOS GROUP

Moderator: David Arnott
February 10, 2015
5:30 p.m. GMT

Operator: Thanks for standing by and welcome to the Temenos Q4 and full-year 2014 results conference call.

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

I must advise you this conference is being recorded today, Tuesday 10th of February 2015. I'll now turn the conference over to your speakers today, David Arnott, Chief Executive and Max Chuard, Finance Director. Please go ahead.

David Arnott: Thank you, Malcom. Hi everybody, and thanks for joining tonight's call. As usual, I'm going to start with some comments on our fourth quarter and full-year performance for 2014 and the market backdrop, as well as talking about the acquisition of Akcelerant that we announced earlier this evening. Then I'll hand over to Max for the financial update, and then I'll come back to conclude before we open up the call for Q&A.

So if you turn now to slide 4 of the presentation that hopefully you've all managed to find, disappointing software license revenue in Q4 impacted full-year growth and I'm going to talk about the reasons for this and the actions we've taken in a few minute's time. Despite the disappointing Q4 performance, the fundamentals of the business remain firmly on track and we expect strong growth in 2015.

We made good progress in Q4 with many of the strategic initiatives. 2014 saw a strong execution of our services strategy, with a significant improvement in services margins. The variability of our cost base allowed us to protect profit and deliver good growth for the full-year non-IFRS EBIT and EPS with significant margin expansion. And we once again delivered strong cash flows in conversion with DSOs materially down.

Finally, today we've announced a highly strategic acquisition in the US, which brings us additional scale in North America, expands the product portfolio and increases the momentum we're seeing in the credit union in the States.

If you turn now to slide five, all regions preformed as we expected in Q4 with the exception of APAC with no significant deals lost to competitors in the quarter. Our software licensing growth in Q4 suffered from us being overly focused on new business in a recovering market, although the positive effect of the focus was that the value from competitive deals won in 2014 increased by 50 percent, clearly evidencing the market share gains we're seeing.

However, a lack of focus on the install base, particularly in Asia, led to us not signing as many deals as we would have expected.

2014 saw good progress on wealth and very strong growth in channels. We also saw a very strong tier 1 performance, laying the foundation for future growth, including signing a tier 1 Swiss private bank, which is continuing the progressive renovation in its domestic business, as well as a tier 1 Western European bank and a UK bank replacing competitor systems.

There was, however, a marked contrast in regional performances. Q4 saw strong growth in the Middle East and Africa and the Americas, with lower growth in Europe as we failed to close large deals during the quarter, including Julius Baer, which I'm sure you'll see since that we announced last week. The lack of larger deals signed in Q4 in Europe also didn't impact our guidance as these larger deals were not included in our forecast, as we said at the end of the third quarter results.

And to close the loop on the larger deals we referred to in Q3, since I'm sure that's of great interest to everyone, they're all progressing well and they're all either signed with initial commitments to start our journey together or expected to sign in Q1. And the rollout plans with these large banks gives us great multi-year revenue visibility. We didn't lose any deals to competitors in the fourth quarter from the large ones we talked about.

As we said when we pre-announced our Q4 results, the region that didn't perform as well as we would have expected was Asia, which frankly was a surprise. And having now taken the time to understand this in detail, it's clear that there's nothing fundamentally wrong, we just lacked focus.

In our business, only maybe 15 percent of the deals that we compete in and forecast to close have a real compelling event in the quarter. In other words, the banks do need to do something but they don't need to do it in say the fourth quarter versus Q1. I mean we're to decades, another month isn't going to make much difference to them and therefore we have to create our own closing momentum, which frankly doesn't allow much room for failed executions.

So even in Asia, we didn't lose deals, we were just, to be honest, naive on the length of the sales cycle in too many cases and weak in the closing mechanics in the last few weeks of the year. The recently appointed management team are now very clear what it takes to work in a public company with quarterly targets, having done very clear account planning and granular closing plans and they won't be doing it again.

It's a shame, frankly, because the overall story could have been spectacular with all the big deals globally coming in the market to Temenos, proof points in the Americas with wins in go-lives, growth in the Middle East and Africa and LatAm. Sound fundamentals in Europe as the North starts to recover and becoming the undisputed leader in the wealth space on the back of winnings in huge tier 1 accounts in Q4 January, which we would argue gives us a leadership position that nobody can catch in wealth.

Still you can't get everything right every quarter and we'll pick ourselves up, learn from our isolated and fixable mistakes and move on.

Turning now to slide 6, 2014 was a good year for our services and partner strategy, which is delivering results and remained unchanged. In 2014 we saw more go-lives than ever before, premium services accounted for 27 percent of services revenues compared to 19 percent last year and 11 percent in 2012, contributing to a significant improvement in non-IFRS services margin.

Implementation times were also further reduced, freeing up resources and contributing to the important reduction in DSOs. And we also saw a significant improvement in the non-IFRS services margin and expect a mid single digit margin that's fully loaded for 2015.

Our partner ecosystem is growing stronger every day. We've now over 2,000 partner consultants at the UN, up from 1,700 this time last year. Partners are supporting on an increased number of deals on the sales side and we've also received increased sales commitment in terms of headcount from our strategic partners.

Looking now at slide 7, I'm delighted to announce today that we've concluded a highly strategic acquisition of Akcelerant, a market leading provider of collections software to US credit unions with a client base of around 600 financial institutions, including very importantly 18 of the top 25 United States credit unions as customers.

Following the firm progress we've made in the US over the past few years, we'll be able to hit the ground running with Akcelerant by leveraging our existing Canadian credit union experience where we have a very large market share, together with Temenos' US model bank that we've been working on since we acquired TriNovus and went live with our first customer in December. And that's going to provide a quick route to market as we mix that US product readiness with our credit union experience with a new product offering.

We also expect to benefit from revenue synergies from selling T24 credit union model banks together with the full Temenos product suite in channels, BI and so forth into their installed base.

The acquisition also adds scale and accelerates our route to achieving critical mass in North America, as well as bringing with it an impressive management team with deep experience at the US credit union market.

I'll talk in more detail on the acquisition tomorrow, but I'm also going to be joined by Jay Mossman who's the Founder and the CEO of Akcelerant who's going to be remaining with Temenos with his management team.

Turning now to slide eight, we've laid the foundation to capture the multiple structural drivers of growth. Each region's got its own dynamics and it's critical for us to understand these variances and I've tried to put them all on one page for you. I'm not going to read out the whole slide to you, it's pretty self-explanatory, but I just wanted to put this in ahead of tomorrow's analyst and investor day because when you look at the different market drivers in each geography we're operating in a market with real pains and very different pains.

Emerging markets are struggling to handle growth without modern cause. The US needs modern software that isn't available from the local vendors. Europe is recovering strongly and particularly in the North, which is decoupled from the South, and is starting to bring up some really big deals at the early stages of selection.

Private banking is lower cost in modern platforms. All banks, private and others, need rich Internet and mobile solutions out of the box to provide a digital way. And progressive renovation has broken down the challenge of multi-year implementations with risk in long payback into digestible business wins.

It's extremely rare to be sitting on four or five totally different structural drivers all at the same time. Most technology companies are lucky if they're sitting on one or two. And when you map it onto our positioning today as we push ahead, it's really quite compelling. But I'll leave you to read the slide in detail yourselves.

With that, I'd like to hand you over to Max for an update on 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.

Like-for-like software licensing growth was down 9 percent in Q4, taking the full-year growth to 2 percent. Maintenance growth was 6 percent in 2014 on a like-for-like basis, which supported growth impacted by foreign exchange movement in the year.

Q4 saw a 14 percent point improvement in non-IFRS service margin, taking the full-year margin to an healthy 5 percent, a 9 percent point improvement over last year.

Despite the weaker licensing growth in Q4, we were able to protect profit by reducing viable costs with non-IFRS EBIT of 13 percent in both Q4 and the full-year with a full-year non-IFRS EBIT margin of 27.3 percent.

Q4 operating cash flows were up $118.5 million, taking full-year cash flows to $190 million, up 12 percent on last year. Again, 2014 saw a strong cash flow performance with is strong with full-year cash conversion up 113 percent and DSO down by further 18 days in the year.

The strength of our profit growth and the cash flow supported our 2014 buyback of $120 million that we did in the year and supports 14 percent of increased dividends that were announced this year to CHF0.40.

Turning to slide 11, Q4 saw very strong growth in our SaaS business, up 34 percent, again the same period last year. The strong SaaS performance for the year contributed to total software licensing growth of 4 percent of the year.

Our services revenue for the year spent 13 percent, representing 21 percent of new programs for the year and in lines of target of services contribution of 20 percent to 25 percent of total revenues.

The non-IFRS services margin was up 8 percentage points in the year due to the increase in (prune) services activation in our partner strategy on the lower cost base.

Non-IFRS service was up 13 percent in both Q4 and the full-year with full-year margin of 27.3 percent with 3.2 percentage point improvement on 2013. The non-IFRS EBITDA margin has once again improved by more than the non-IFRS service margin, which is due to the increase in the amortization of capitalized development costs, reducing the net impact of our income statement to under $10 million.

Turning now to slide 12, we show the revenue and costs on a like-for-like basis. Q4 like-for-like revenue was own 5 percent against down 8 percent on the reported basis. Movement in the foreign exchange impacted the maintenance business in Q4, which were up 6 percent on a like-for-like basis versus 2 percent on a reported basis.

Q4 like-for-like costs were down 17 percent with fixed costs up 5 percent and viable costs down 81 percent. The reduction in viable costs was due to lower cost of fixed and viable compensations.

Turning to slide 13 now you will note that we are long the dollar and the euro and short other main currencies, with the largest revenue impact from currency movement coming from the maintenance, which is largely a euro component. With our cash flow hedging program in place and the natural balancing of the non-US currency, we are mitigating our exposure to ForEx impact.

It's also worth noting that we've been able to grow margin for many years against the backdrop of a weakening dollar. If we move into a market where the dollar strengthens, this will help and support our margin expansion.

Looking at slide 14 now, non-IFRS EBIT growth of 13 percent as maintained by efficient below the line management with a non-IFRS EPS growth of 18 percent, including profitability of the services business, as I allow the group to recognize deferred tax asset on certain tax losses brought forward resulting in a short-term reduction in the tax rates, which benefited Q4 and the full-year. The view of the tax rate is still the same for the medium-term and we expect a long to medium-term effective tax rate of 17 percent to 18 percent unchanged.

Turning to slide 15 now, cash conversion for the 12-month ended December 2014 was 113 percent up, ahead of our target to convert at least 1 percent of EBITDA into cash. The strong cash conversion was driven by strong cash flows coming from good cash collection with DSOs down 18 days and reducing (implementation times). We will continue to expect DSOs to reduce by 10 to 15 days per year.

It's worth noting that our operating cash flow has doubled in the last three years with 2014 operating cash at $190 million.

Looking at slide 16, our 2014 year end leverage at 0.6 times EBITDA offers significant financial flexibility even after returning cash to shareholders through our annual dividend and a further $420 million through buyback programs.

Following the acquisition of Akcelerant, our leverage will be circa 1 time EBITDA, still within our optimal range of 1 to 1.5 times.

Turning now to slide 17, as well as being a fairly strategic acquisition, the agreement for Akcelerant is also financially sound. The consideration for Akcelerant is $50 million in cash and there's an earnout of $5 million over three years.

Having seen strong historic growth rates, Akcelerant is expected to generate revenues of circa $15 million in 2015 with 75 percent of these revenues being recurring. Growth is evenly split between subscriptions or maintenance on historic licenses. Akcelerant's revenue model now is subscription rather than licensed base.

The Companies expect to be breakeven in 2015 and reaching group margin by the end of 2017.

Temenos will also benefit from revenue synergies from selling T24 credit union model bank and the full Temenos product suite. And (can) from transaction is expected to be neutral from an EPS point of view in 2015 and to be accretive 2 percent in 2016.

Finally if you turn now to slide 18, we set our guidance for 2015. You will notice that we are now guiding on total software licensing growth, which take into account our SaaS and subscription business, which is appropriate to be included in our guidance as it contributes over 10 percent of our total software licensing this year and you're also seeing strong growth.

So our 2015 guidance on a constant currency basis and obviously including the acquisition of Akcelerant, we expect total software licensing growth of 15 percent to 20 percent, implying total software licensing revenues of $164 million to $172 million. It includes total licensing growth of 10 percent plus, implying total license revenue at least $149 million.

Non-IFRS revenue growth of 8 percent to 13 percent, implying revenues of $482 million to $504 million. The non-IFRS EBIT margin of 28.5 percent, which is consistent with our target of increasing non-IFRS EBIT margin by 100 to 150 basis points each year, even after such a strong margin performance in 2013 and 2014, which implies non-IFRS EBIT of $137 million to $144 million. We continue to expect to convert a little more than 1 percent of our EBITDA into cash flow and a tax rate of 17 percent to 18 percent.

Now although we don't formally guide on a quarterly basis, it is worth remembering that last year Q1 was unusual in size and hence we expect total licensing growth to be broadly flat in Q1.

With that I will hand it back to David.

David Arnott: Thank you, Max. Turn now to slide 20. As I'm sure, you're all aware by now we've got our analyst and investor event for the year in London. And we'll be talking in much further detail about the vision and strategy for Temenos going forward.

We're going to be joined at that event by Juan Pedro Moreno who is the global head of banking for the whole of Accenture, so a great person to have to ask questions. And of course we'll be joined by Jay from Akcelerant and some of the Temenos folk as well. So I hope you'll be able to join us either in person for that or by webcast.

Finally, just before we open up to questions, if you turn to slide 21, just like to wrap-up. In my view we've made significant progress in all of our strategic initiatives in 2014, tough a bit in one region at the last at end of the year but looking back very, very pleased overall with the performance.

We're pushing into the US. We've got an unassailable, I would say, franchise in wealth today. Channels are selling well and driving demand for modern cores across the globe. And our new business is growing very fast in a market that overall is now only just starting to see signs of recovery. So our 50 percent growth in new business needs to be put in context with our competitors who must have had a, frankly, a shocking year.

That leaves us very positioned I think going into 2015. We need to focus definitely better on account management and avoid the natural human instinct to chase the new big deals for which sale cycles are unpredictable and focus instead on the harder task of building cases for our clients to buy products that they haven't yet identified internally that they actually need, but which ultimately provides the bread and butter business for Temenos.

Where we do this well we're excellent. For example, we sold a channel solution for nearly $2 million to one bank, not even a particularly large bank, in the fourth quarter. And there's over another 1,000 customers out there we can sell the same products to plus all the non-Temenos customers. So there is an opportunity, we just need to stay totally focused on it.

Services is providing -- performing in line with strategy and we've seen -- had another strong cash performance with DSOs materially down to the point where our net worth with capital has actually turned negative for the first time in a number of years.

And we'd expect to see increasing levels of new business as the market backdrop improves and we've got confidence that we'll be delivering strong growth in 2015.

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

Operator: Thank you, sir. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key. Once again, that's star one if you wish to ask a question on the phone line.

Your first question comes from the line of Gerardus Vos of Barclays. Please go ahead.

Gerardus Vos: Hi, good afternoon, thanks for taking my question.

Just a few. Just first on the kind of the guidance on the kind of software level. How much of Akcelerant should I include in that? I've assumed around kind of $6 million or so, which then gives me a license dropout of 146 to 150, 154. So I was wondering if you could help me there, how I should work with that.

Then secondly, on the service margin, flat for 2015. What is driving that? And maybe just a broader question there as well, how much does need to be kind of premium subscription to hit that kind of 10 percent to 15 percent you guided to in the past?

And then finally, there was a takeoff being named capitalized R&D in Q4. It's been flat for quite a while, should we expect kind of a higher level of capitalized R&D in '15 or is this just one-off? Thank you.

Max Chuard: Hi Gerd, it's Max. For Akcelerant, as I said, if you look at what we expect from the revenues, 75 percent of that is occurring broadly the same between main contracts and subscriptions. There is no contribution from license, so actually it's quite easy for you to work out what you'd need for licensing.

On the services side, we are staying flat. As you know, flat is quite a good achievement since last year we have been able to deliver such an improvement in services margins because of basically no viable compensation due to the (Misa). And hence it should be basis for the compensation where you see an improvement in the margin to get to 5 percent. And that will take into account I will say broadly a range of 30 percent to 35 percent of premium services.

And finally on the capitalization, yes, there's been a small increase at the end of the year. I think it does reflect what we are doing in the US and Akcelerant. I will not -- an increasing trend. Nonetheless, it's true that there is a lot of probably in developing in the US and with the acquisitions of Akcelerant, this probably will come also with some additional capitalization.

Now we need to remind that Q4 there's always more capitalization so if you look at the (severity) of the consolidation, always Q4 there's a pick up, as there's a lot which is delivered for the new release which is released in Q1.

Gerardus Vos: OK, thank you.

Operator: Your next question comes from the line of Michael Briest of UBS. Please go ahead

Michael Briest: Thanks, good afternoon.

In terms of the Q4 shortfall, I think, David, you talked about being comfortable at the middle of the range for Q4. So it's about a $15 million shortfall. I appreciate maybe $4 million of that is currency, but that's before large deal contribution. And you've announced Julius Baer this quarter. I'm just surprised that with that slippage with that large deal in the quarter that there's not a better contribution both in Q1 and also your overall guidance for 10 percent plus on licenses.

Could you also then say something about the payment space and whether ABN AMRO is live now? What other the wins do you perhaps have in that area?

And then finally, just on Europe. The licenses, minus 26 percent, is still a fairly big shortfall against I think where most peoples' models would have been. It doesn't seem to ring with the comments you're making about lots of activity. Can you sort of talk to that and why you're confident of a pick up this year?

David Arnott: OK, let me try and take those. So where do I start on this? So in terms of the miss from Asia in the fourth quarter, it's very difficult to say after a couple of weeks of reviews. My feeling is that we can pick up about half of that. Definitely we've got line of sight that half of it is closeable and I would say within the first half. I wouldn't want to commit to Q1 at this stage.

The rest difficult to say. Slightly weaker compelling events. We've got to go back in and revalidate the business case internally. Certainly not loss to competitors or anything like that, but I think we were not close enough to the real compelling event and where they actually need to do something.

So at the moment we're calling half of that to come back in the first half and I'm being quite conservative on the timing, obviously having been burnt in the past quarter. So and that's why I'm saying nothing structural, just we were slightly naive in terms of bringing a sales cycle forward, getting close to the real decision makers. It's not that we're having to discount or going to competitors, but I've been burnt. I think half of that is a good assumption at this stage.

In terms of the big deals, we actually -- we flagged three, but really there were probably four significant deals in the fourth quarter. Two of them signed, one of them, Julius Baer, signed in January, as you saw. And another one is expected to sign, well they're claiming by the end of February, but let's safely assume Q1.

But the way these banks are consuming software now, there's definitely a trend to world's banks not wanting to load their balance sheet with intangibles for multiple sites. So all of these have started with commitments to clear progressive renovation. The Swiss private bank we talked about being live in Asia and the UK and a number of other locations for a number of years and it's now bringing us into their domestic business, which gives us a good chunk of revenue over the next two to three years.

Julius Baer, I can't talk specifically of it, but that is the start of what is a very significant relationship both domestically and internationally over the medium term.

The other two that we signed in the fourth quarter, again give us good revenue visibility and very good license numbers over, I would say in their cases between 2015 and 2016. These are large scale multiple site. The domestic or big international multiple location deals either around the wealth side or in the retail banks on the T24 side.

And I wouldn't see a spike in Q1 from Julius Baer for example. We've been quite conservative in the way we've approached that. But if you take a two or three year view and you ignore the December to January cutoff, I'm very, very pleased with the way all these big deals are turning up.

And we've been ably supported by the likes of Accenture and getting into the C suite of these big accounts. And if I had to pick one differentiator, it's the gravitas that those type of organizations can bring in very, very large complex political accounts.

ABN specifically. Our live is part of the system, there's a full phase go-live and in fact based on that I would expect a continuation of that relationship in 2015, but I can't really say more than that at the moment.

Michael Briest: Thank you.

Operator: Your next question comes from the line of Chandra Sriraman of MainFirst Bank. Please go ahead

Chandra Sriraman: HI guys, thanks a lot for taking my question.

Just one question on FX. I'm looking at your slide on -- I'm in presentation on slide 23. Looks like a big part of the margin expansion you're talking about comes from FX. Can you talk more about the underlying operating margin expansion? I mean it looks like even if I exclude the impact from Akcelerant you are talking about 50 basis points or so you kind of just -- is this just conservatism or are you expecting some kind of huge costs because of these large leads which at least I'm not modeling at this moment? Thanks.

Max Chuard: Yes, definitely if you look at the re-statement on the ForEx it does not increase the margin on last year. Now, if you – but if you do a pro forma with Akcelerant you'll still get more or less 1 basis point improvement in the margin. So as we said, the Akcelerant is breakeven and hence it is dilutive to our margin and since there is an improvement (files) 1 basis point this year.

David Arnott: And specifically on the point of costs related to the large deals, there are no significant costs. The largely partner deployed implementations, which will bring us a services margin and the product is largely the product we already have out of the box, so there's no significant development requirements or anything else that come with these big deals. It's just deploying our existing software partly with Temenos, but there's also partner resources.

Chandra Sriraman: Maybe a quick follow-up. I know you haven't mentioned a lot on the relicensing opportunity. I was just wondering you gave us a high level guidance for 2014. Any thoughts on 2015?

Max Chuard: On 2015, again as we said, we don't want to go into too much details. We expect relicensing to contribute 10 percent to 15 percent of total software licensing.

Chandra Sriraman: OK, all right, thank you.

Operator: Your next question comes from the line of Sid Mehra, Morgan Stanley. Please go ahead

Sid Mehra: Hi, thanks a lot. Most of my questions have been answered, but just a quick one on the high level of tier 1, tier 2 bank signings in Q4. Do you see that as more of a one-off event or have you seen a pretty market shift over the past couple of months in the buying decision at some of these larger banks? And do you expect that to continue into 2015?

David Arnott: Okay, I don't want to overplay the upside, but the important fact is throughout our big banks are starting to make decisions again. It's definitely North Europe is decoupled from the South, so if you look at the amount of deal flow coming into the market in terms of new RSPs, there's a clear upswing in Northern Europe, but we've also seen large universal deals in North America, in LatAm, in the Middle East and even early signs in parts of Asia. So there's definitely a trend.

Much more important for us is that our win rate of those big deals, the very big deals, is well frankly, 100 percent. We're not losing any to competitors. And if you look at the pipeline of these deals going forward, whether these banks finally make decisions or start in a part of the business is difficult to say.

But consistent with the macros I suppose in the bank in North Europe, banks are definitely aware now that they have to do something about their problems and that's leading to a very healthy pipeline in all geographies.

The challenge that I was trying to somewhat (frankly) say before is when you see a higher level of RSP activity and when you win eight out of ten deals that come, it's natural as human instinct to chase them because even with if we win eight out of ten, let's assume six out of ten decide for somebody in the end and you win 80 percent of those, you just pretty much have to follow that process and win.

So in a recovering market, and we're seeing this not in all geographies but in all our key markets, it's tempting to follow those, but the sales cycle could be unpredictable, it can be long. There's definitely a trend towards banks not wanting to buy everything they're ever going to need for the next four years in one go like they did pre-crisis.

They're much happier to spend the right amount for the first users and then when they're ready they buy the more users for the next rollout sites in countries and modules and so on, which is what I was referring to as good visibility rather than loading $20 million, $30 million intangibles on their balance sheet and risk a change of strategy or impairment or whatever. There's definitely a greater focus there.

So our win rate's high. We're not having to discount. We're being brought into those accounts by our strategic partners and the technology road map, especially on the framework side, is compelling for even the biggest bank. More than that at this stage, I think it's too early to say.

Sid Mehra: Great, thanks a lot.

Operator: Your next question comes from the line of Takis Spiliopoulos of Bank Vontobel. Please go ahead

Takis Spiliopoulos: Thanks. Hi David, hi Max.

I still struggle to reconsolidate your very optimistic words with the guidance for software licenses of only -- or let's say at least 10 percent. I mean you're talking about large deals coming up, Europe improving. That Asia Pacific should be only delayed in coming up here. We've got the relicensing coming up as well, which 10 percent to 15 percent was based on a higher number in the past. I mean is this just being rather conservative to not run a risk to disappoint investors after a long good track record? Or I still struggle with that despite the negative impact from FX. And maybe you can shed some more granularity on this.

And then another one on BPO and China, you had promised us something by the end of last year what you're planning to do to kind of move into that area with a partner or by other means.

David Arnott: I can certainly take those. First of all, I don't want to appear overly optimistic and naively optimistic. Ultimately we just missed our fourth quarter. There's probably an element of being cautious. But the world is not entirely rosy. If you take even one of the three banks we've alluded to, you can spend two years and ultimately two years in a sales cycle or four years in the case of Julius Baer, and still only end up with what is a bookable quite low value, the equivalent of an amount you might get out of a small universal bank out of a six to nine month sale cycle.

So there's a move towards spreading out the purchasing decision over a number of years, not just for subscription but definitely a smoothing of the revenues, which we don't fully understand yet. It gives you more money over the long-term with these organizations, but it's very difficult to predict you're going to get the big chunks of revenue that you would have done pre-crisis.

So until we understand the move to -- the full impact of that, we've effectively from our own internal process removed every single large deal or a large percentage of the value of each those deals because banks are procuring in a different way and I don't want to end up being in a position of spending all our effort like we did on tier 1 banks in Q1 and either not quite getting there because the sales cycle's too long or because you get there and they end up doing exactly what they said throughout the process, which is taking a couple of sites off or part of the solution procuring as they go along.

So overall the pipeline is healthy and I wouldn't overplay the optimism just yet. The world can change very, very fast, as we saw in the fourth quarter. Far more important for me, if you hear me optimistic it's because for me the key KPIs are whether we're holding price and taking price up, our win rate compared to competitors and our ability to engage the likes of Accenture and (Kaplan) Cognizant in the big accounts which are going to feed them with tens, even hundreds of millions of dollars and therefore be transformational over the medium-term.

The rate at which banks procure and the rate that the exact timing of the cutoff for me is a third or fourth priority. So it's the underlying KPIs that will drive the strategic vision for Temenos if you like that are far more important and that's what I'm positive about rather than specific financials in any one quarter or any one year.

BPO and China, it's interesting you mention that because the management team we have in Asia are extremely strong and strategic and they put a lot of effort into things like our China and Japan strategy. We'll be able to hopefully update you on China relatively soon. And the challenge is to balance being strategic with a focus on the tactical force your way into a bank and get them to sign a contract at the end of the quarter.

So the strategy for Asia overall, and China in particular, is coming together very, very nicely. And there you've really got three dynamics I would say in Asia. One is the emerging markets into which I will put China. High growth, a need for modern systems, unable to handle the account volumes and open new branches. And you get a definite wealth trend for the private banks holding overseas money and also mass affluent retail banks wanting to capture money before they lose it to people like HSBC and so on. And that is a trend definitely within China.

And then you get more mature markets like Japan that once you're in, and we've gone live with SMBC now, what's good enough for SMBC tends to be good for a very significant portion of banks who've got a lot of money to spend.

So China is going to be a twofold strategy. It's going to be a wealth strategy and it's going to be a universal banking regional strategy. And we're working with a number of partners to go to market so they can front our delivery and our sales process. And that, as you would expect, is quite a protracted process.

Takis Spiliopoulos: BPO?

David Arnott: That was – sorry that was my (comment) on BPO. So we'll hopefully be able to talk about a BPO partner for China or at least a delivery partner for China hopefully over the next one to two quarters.

Takis Spiliopoulos: OK. Thanks.

Operator: Your last question comes from the line of Gerardus Vos. Please go ahead

Gerardus Vos: Two follow-ups if I may. Just what's the relicensing in 2014 as a contribution of license revenues? And then secondly, at the time you made the TriNovus acquisition I think you indicated that you would expect that this would contribute between 5 percent and 10 percent of revenues three years out, so around 2015.

If I back out over -- actually back in the service revenues, it looked that you're running a bit short of this kind of guidance. What has driven that and is that the reason why you have to make a second purchase in the US or is this a separate kind of position from that?

Max Chuard: So under licensing side on 2014, the contribution was slightly below 10 percent. And now 2015 we expect between 10 percent to 15 percent. Or if you want, we expect (down) 3 points of growth coming from new licensing in 2015.

David Arnott: On the US point, let me take that one. Certainly we didn't buy Akcelerant because we're behind on previous acquisitions. They're very different markets. In the US community banking is a very specific segment and very, very separate from credit unions. So the TriNovus acquisition was based on getting -- Americanizing our products, so creating what we call a US model bank, which is a lot of feature function you need to do to build out to get ready to sell to those community banks. So TriNovus, their experience is selling to community banks.

We are, I think it's fair to say, probably about nine months behind in terms of having built out that US model bank. I would like to have had it early 2014. We did a GAAP analysis when we bought the business to understand what it would need to Americanize T24 for the community banking market. And we underestimated a bit. It took us a bit longer to build and we've gone live with our first customer in December, which now is a proper reference.

But I also hoped that we'd be able to pre-market a proof of concept, if you like, to US community banks ahead of a go-live. And we did do that, but ultimately they said fine, it sounds good. We like the real time and the lack of batch and channels and so, but we'll wait to see a live client.

So we're about probably, if you take the delayed sale cycle and the delayed product delivery, about a year behind. But the fundamentals remain intact, the pricing is good, the pipeline is starting to come through. It's going to be more of a subscription model than an upfront model, so it'll take a while to come through the revenues. So our acquisition plan is still very firmly intact, but very much focused around the community banking market. Whereas Akcelerant is the credit union space. Very, very different.

Now having done the hard work of Americanizing our product for the community banking space, there is a lot that will be directly replicable for the credit union space. And we now just need to layer on top the specific functionality for the credit unions, which is probably a 9 to 12 month process.

Let's assume they're slightly slower again like we were last time. Let's say it's 12 to 15 months, we should be going into the credit union space with our first live client.

And we've identified already three live (beta) clients, probably say mid-2016. So we'll have a go-live then and we'll accelerate and go after the other credit unions I would say early mid-2016. So we'll talk about more on the analyst day tomorrow.

So I'm overall positive, it's just frustrating we took slightly longer to Americanize the product, but we are where we are and we're very positive about the overall US strategy.

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

END