TEMENOS Q4 AND FULL YEAR 2015 RESULTS TRANSCRIPT

February 11, 2016

17:30 GMT

Operator: This is conference #40979283

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Temenos Q4 and Full Year 2015 Results.

During the conference all participants will be on a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question via the telephone lines, please press star one on your telephone keypad and wait for your name to be announced. I must advise you all that the call today will be recorded on Thursday, the 11th of February 2015 – sorry, 2016.

And I shall now hand over to David Arnott, your first speaker for today. Please go ahead, sir.

David Arnott: Thank you. Hi everybody, and thanks for joining today's call. As usual, I'm going to start with some comments on our fourth quarter and the full year performance in the market backdrop, and then I'll hand over to Max for our financial update.

So hopefully, you've all found the presentation on our website and I'm going to start on Slide 7, where I'd like to give you a summary of the fourth quarter and full year. 2015 has been a landmark year for Temenos, and we've performed exceptionally well across all of our KPIs. I'm pleased to report that we achieved our full year

guidance, which as you, I'm sure remember, we increased twice during the course of the year.

We've seen growth across all our revenue lines, and this growth has been broad-based across geographies and customer segments. In particular, total software licensing is up 63 percent in the quarter and 31 percent on a like-for-like basis. It's clear to us that market conditions continued to improve during the fourth quarter, and our value proposition enabled us to capture the opportunity.

We've made good progress, both in signing and progressing larger deals in Q4, as well as the U.S., both of which were important growth drivers for us going forward. We've always said we'll invest in the business to position us for the market opportunity ahead of us, and that is exactly what we did in 2015, investing in both product and sales and marketing, which has put us in a great position for 2016.

We've been very focused at the same time on the quality and strength of our balance sheet and have delevered significantly during the course of the year; grew 2.3 times post the acquisition of Multifonds to 1.3 times at the end of the year. And of course, this is critical for us going into 2016 as we're in a strong position to capitalize on any future M&A opportunities as they arise, and we've ensured the company starts the year with robust financial health.

Looking forward, with the strong growth in our pipeline in Q4, which has continued to rise up until today, the incremental revenue visibility from Tier 1 progressive renovations and our high recurring revenue, we're starting 2016 from a position of strength. Our revenue visibility is at the highest level we've ever had, with total revenue visibility for the year ahead, up from 50 percent four years ago when we started, to over 80 percent for 2016. It's a great position clearly to start the year, and it gives us confidence in our guidance, which Max will walk you through shortly.

Turning now to Slide 8. In 2015, we've seen banks beginning to respond to reality, with mobility trends forcing them to address their IT infrastructure. Thanks to

realizing that to become a digital bank requires a real-time customer-centric core banking system, with banks having to cope with ever-growing numbers of customer interactions.

Our strong sales performance was broad-based, as I've said, but Europe in particular stood out as having an outstanding year, driven by both high deal volumes as well as Tier 1 banks coming to the market for core banking renovations.

However, the year was not only about Europe, with Asia also seeing good growth. This was driven by the traction we had, in particular, with our wealth offering, particularly in more developed Asian economies. Our strong performance in developed markets meant we were able to absorb the weakness in emerging markets, with emerging markets contributing 22 percent of total software licensing in '15, down from 46 percent in 2014. And as such, despite the global emerging market weaknesses towards the end of '15 and beyond, we've been able to convincingly deliver our full year guidance.

We've also had great momentum in the U.S, having built critical mass in our U.S. domestic operations and gaining key references during the course of '15, which is crucial to winning more deals in '16 and for which we have a strong pipeline.

We continue to invest in our products, and this has been reflected in growth across Temenos product suite in particular. In particular, private banking channel was particularly strong, and we're very focused on the cross-selling opportunity moving into 2016, which is particularly important for larger banks and for the progressive renovation story.

In terms of the competition, I think we can truly say we have an exceptional win rate across the board, with some close to 100 percent. For example, against our key wealth competitors, we achieved 100 percent win rate in the key deals. Our product and technology gives us a serious competitive advantage in all the segments that we operate in. We've had 30 new customer wins in the quarter, up

from 12 in Q4 2014, which is a reflection, both of our competitiveness, as well of course, of our expanded product portfolio.

Turning to Slide 9 now, our partner ecosystem continues to evolve. We've increased our level of joint go-to-market activity, which is a very compelling value proposition, particularly for Tier 1 accounts. In Q4, we onboarded a select number of new partners to meet needs in specific geographies or specific skill sets.

Our focus on delivering successful client implementations and strong added value to expert services continues to be reflected in services profitability, where we had a 340 basis point in services margin year-on-year, with premium services. So training, consulting, et cetera, contributing 24 percent of total services revenue for the full year.

We've continued to deliver for our customers, with a total of 10 implementation go-lives in the quarter. The strength and resilience of the business is underpinned by our recurring revenue streams, which in 2015 contributed over 50 percent of our total revenue. We're, in particular, very focused on our maintenance revenue growth, which continued to accelerate in 2015, growing 7 percent on a like-for-like basis for the full year. So overall, it was a strong quarter operationally, and we continue to focus on delivering success for our customers.

If you turn to Slide 10 now, I wanted to give you some insights into our products and technology and how a differentiated offering is enabling us to win against our competitors. It became increasingly clear as we went through 2015, that our product and technology is pretty much unrivaled in the market. It was the key differentiator in us winning the major deals in the markets, and we expect to continue that in 2016 and beyond.

We're the only vendor that offers truly packaged, upgradable software, minimizing cost of ownership for our customers. Our front-to-back vertically-integrated products suites ensure that we can help banks in all segments, modernize and adapt

to today's digital landscape. Progressive renovation allows banks to minimize risk when modernizing legacy systems. The products themselves are highly scalable, suitable for the world's largest banks as well as smaller macro finance institutions and credit unions, and of course, everybody in between.

Our architectural framework makes it easy for banks to maintain APIs and reduce ongoing support costs and provide the open architecture that's essential to adapt to the new reality of banking. We've got the only viable proposition in the market today; we clearly believe that. And as I mentioned, this becomes increasingly obvious in our win rates through '15, and we expect this to continue. You'll hear more about our product and technology investments and products as we – at our Analyst and Investor Day tomorrow.

On Slide 11 now, I wanted to reinforce the position that we've built in our market. Time and time again, the independent industry analysts such as Forrester and IBS place us at the top of their league tables for our product excellence and sales execution. This is reinforced by the number of clients going live on our software, which across all implementations reached 137 in 2015.

One of the equity research analysts covering our stock recently stated that he thought we were on our way to becoming a category killer in our vertical. And this mirrors the strong belief we have in our ability to execute on our strategic plan, and to become the leading provider globally of software for banking and financial services.

On Slide 12 now, I'd like to give you an update on Multifonds and the fund administration opportunity. It's been nearly 10 months since we announced the acquisition of Multifonds, and I'm pleased to say it's been very successful. It's given Temenos' exposure to the fast-growing third-party administrative market, where there are strong trends of moving to external software.

The company has exceeded the financial targets we set out at the time of acquisition and built a strong pipeline over the course of 2015, which gives us confidence for the coming year. As part of the Temenos group, Multifonds has been able to raise its visibility and profile in the market and leverage the Temenos global footprint to gain access outside of Europe.

On Slide 13, I'd like to update you on the U.S. We've got a great opportunity to capture market share, given the market is dominated by a handful of incumbent vendors with largely legacy technology. We now have critical mass on the ground. First, the acquisition of Akcelerant, and we strengthened our distribution capabilities in 2015.

We're gaining traction with top-tier banks and credit unions as demonstrated by some of the wins we announced during '15, which gives us great references to use going forward. We've built material-qualified pipeline in '15, and our joint venture market strategy with our partners in the U.S. is beginning to bear fruit.

I'll now hand you over to Max to update you on the financials for the quarter.

Max Chuard: Thank you, David. On Slide 16 now, we'll find the highlights from the fourth quarter on a constant currency. It has been an outstanding quarter for us across all line items. In particular, total software licensing growth was up 63.5 percent year-on-year and 52.1 percent for the full year.

Software licensing specifically is up 46 percent year-on-year, which was done mainly by our growth in developed markets, in particular, Europe. Emerging markets were a much smaller component of the licensing revenues in 2015, contributing only 22 percent of total software licensing in 2015 versus 46 percent in 2014. The strength of our business is underpinned by our recurring revenues, which now contribute to over 50 percent of the total revenue mix.

SaaS and subscription contributed significantly this quarter, making up 15 percent of total software licensing. Maintenance grew 13.1 percent in the quarter and 10.7 percent for the full year 2015. Our recurring revenue stream, combined with the increased license revenue vis-à-vis from Q1 progressive renovation, means we are well positioned for 2016.

Our total revenue for the full year was $559 million, a growth of 25.8 percent year-on-year, crossing $0.5 billion for the first time. We achieved this revenue growth while still expanding our margins, with the full year 2015 EBIT margin at 28.1 percent, up 80 basis points versus last year. It has been up somewhat as well, due to gathering of increased variable cost.

Our cash flows continue to be very strong, with Q4 operating cash at $161 million, an increase of 36 percent, being the strongest cash quarter of the year, bringing DSOs down by 27 days on a reported basis or 30 days on a pro forma basis. Lastly, given the increase in profitability and strength of our cash flows, we have recommended a 2015 dividend of CHF0.45, an increase of 12.5 percent on 2014 to be approved at the AGM in May.

On Slide 17, I'm pleased to report that we've achieved all of our 2015 guidance targets and exceeded most of them. 2015 was a very strong year, not only for license revenues, but across all our KPIs and give us a strong platform for 2016. Our revenue growth, in particular, has been outstanding, with total software licensing growth of 52 percent versus the guidance range of 42 percent to 46 percent.

We also exceeded our total revenue growth guidance of 20.5 percent to 24.5 percent, with total revenue growth ultimately reaching 25.8 percent. It is also important to note that we've achieved the top end of our guidance range on EBIT as well, reflecting the ability of the business to drive revenue growth whilst expanding margins.

Turning to Slide 18 now. The key figure I'd like to highlight is obviously our Q4 total software licensing growth of 63.5 percent year-on-year in constant currency. For the full year, total licensing revenue was up 52 percent in constant currency. This has been from a broad geographic base. Europe has had an exceptional year, and we also saw growth in Asia, driven by the strength of our pricewise offering, which has significant traction in developed Asian economies.

SaaS and subscription revenues totaled $40.6 million for the full year, a significant increase on 2014, driven by the contribution from the acquired businesses. In addition, maintenance and services grew significantly, contributing to total revenue growth of 36.4 percent year-on-year, and 25.8 percent for the full year. We achieved a full year EBIT of $157 million, up 23.3 percent for the full year and resulting in EBIT margin of 28.1 percent for the full year 2015.

Turning now to Slide 19. We show the revenue and costs on a like-for-like basis. Currencies had relatively even impact on both revenues and cost, with revenues impacted by around $3 million and costs by around $2 million in the quarter, driven mainly by the weakening of the euro and the strengthening of the dollar.

We've been pleased by the level of underlying organic growth in the business as we can see on that slide. Q4 like-for-like revenues are up 19 percent, which includes a 31 percent increase in like-for-like total software licensing. Maintenance is up 9 percent and services up 15 percent on a like-for-like basis in the quarter. On a full year basis all metrics are strong, with total software licensing up 20 percent, services up 6 percent and maintenance finally up 7 percent.

Total like-for-like costs in the quarter were up 29 percent. And to explain this increase, we need to remind you of Q4 2014, which was an exceptional quarter with the reversal of the accrual for the variable costs due to the weak license revenue, which accounts for the majority of the year-on-year increase. You can see, in fact, the appendix on Slide 32 that this is now normalized on 2016.

Moving to Slide 20. We've been very effective in our management of the below-the-lines. Our full year EBIT growth of 23 percent is reflected in the full year EPS of $1.73 per share, an increase of 20 percent. As we stated previously, the increasing financing charges are due to the two acquisitions we made in 2015.

On Slide 21, we've outlined the key change to the group liquidity position over the course of the year. In terms of cash on balance sheet, we've ended the year almost exactly as we started, with $193 million of available cash. We were able to tap the debt market in 2015 for financing – at investment-grade financing levels to fund our M&A while simultaneously extending the maturity of our overall debt profile.

In a year where – in a year when we've made the largest acquisition in the history of the company and paid out a dividend, we were able to maintain a strong flexible balance sheet with stable liquidity. I'm also pleased to say we continue to significantly exceed our target of converting over 100 percent of EBITDA into cash. For 2015, our cash conversion was at 133 percent and we grew operating cash by 19 percent, although we are starting 2016 in a very healthy position.

On Slide 22 we show that we've continued our rapid deleveraging profile with our leverage now staying at 1.3 times. This is down from 2.1 times in Q3 2015, 2.4 in Q2. I had anticipated, following the acquisition of Multifonds and Akcelerant, that the goal was to go down towards the 1.5 times leverage within 12 and 18 months. So I'm pleased to report that we've achieved that in a shorter period of time.

Finally, turning to Slide 23. I'd like to outline our guidance at constant currency for 2016. We are guiding for full year total software licensing growth of 10 percent to 15 percent, implying total software licensing revenues of between $234 million to $245 million. We expect total revenue growth of 7.5 percent to 11 percent growth on constant currency, implying total revenue of between $594 million to $614 million. Our EBIT guidance for 2016 is at $180 million to $185 million, which implies a full year margin of around 30 percent. And lastly, we retain our guidance of over 100 percent conversion of EBITDA into operating cash and an expected tax rate of between 17 percent to 18 percent.

I am confident in our guidance given we are starting 2016 with our highest level of revenue visibility ever. We have visibility on 80 percent of our total product revenues, i.e., software licensing and maintenance revenues due to the high level of working revenues in the business and the visibility provided by the client and backing on progressive renovation.

With that, I'll hand back to David.

David Arnott: Thank you, Max. If you could turn back for a second to Slide 14; apologies. There's a slide I added a few hours ago to address some of the questions we expected that I forgot to cover before I hand it over to Max.

And if you find that slide, Slide 14, I'd like to briefly cover that. Having talked about the drivers of our performance in '15 and given the volatility we've seen since the start of 2016, I wanted to give you some thoughts on our outlook and the messages in this slide are very important.

As I mentioned earlier, 2015 has seen a change in our revenue mix, with 78 percent of total software licensing coming from banks in developed markets. We don't want you to generalize too much, but banks do tend to be well capitalized with strong balance sheets. Historically, we've seen disruption when banks have had to recapitalize and change their management, scenarios that today we don't see as very likely.

Banks are clearly seeing significant share price pressure due to the perceived risk of their earnings. It is exactly when banks are under this pressure and struggling to find ways to grow profits with a long and flattening yield curve, that the cost base comes under great scrutiny. Being able to deliver significant cost savings in a defined time frame to core renovation is, in our mind, not discretionary spend.

Not every bank gets this, but a large number do, and we're involved with them all. So aside from the pressure of mobility and digitalization, cost-based scrutiny is beneficial to our business case and that is born out in every discussion we're having with banks right up until today.

We're entering 2016 with the highest levels of revenue visibility we've ever had. We've committed spend for multiple clients, already embarked on progressive renovation stories, and a significantly installed base opportunity. We'll discuss these trends in greater detail tomorrow on our Capital Markets Day.

So if you move now through Max's section to Slide 25, I'm pleased to announce the agenda for our Analyst and Investor Day taking place tomorrow in London. We're delighted to welcome Nordea's Head of the Core Banking Program, who will be talking about the industry drivers impacting banks' decisions to embark on progressive renovation. We'll also be showcasing some product demos to give you a real insight into our product differentiation, and I hope to see as many of you there as possible.

Slide 26, our medium-term guidance. We've updated our medium-term targets. We're guiding for total software licensing growth of 15 percent CAGR and total revenue growth of a 10 percent CAGR. We continue with our EBIT margin improvement target of 100 to 150 basis points per annum, and we've introduced a new metric, medium-term target EPS growth of 15 percent CAGR. Our cash conversion DSO and tax rate targets remain unchanged.

So turning now to Slide 27 to summarize, 2015 was clearly a landmark year for Temenos. We have and will continue to capitalize on the market drivers. It's evident that the banks are beginning to react to reality. Our business model is meeting their needs, in particular, for larger retail banks embarking on progressive renovation, but also investors like wealth and corporate, which have got their own challenges.

Going forward, we continue to benefit from multiple growth drivers, in particular, Tier 1 and Tier 2 renovation and the cross-selling opportunity in the installed base. Wealth, both private and mass affluent remains a big growth opportunity and the need to digitalize is top of mind for most management teams today.

So the business is in a very strong position, with low leverage and growing recurring revenues. And the investments we've made in 2015 ensure that we're well positioned for the coming year. Our sales investment has been significantly ahead of our license growth through 2015, and this will continue through 2016, visibility allowing.

I'm confident in meeting our 2016 guidance, and I'm pleased that our revenue visibility has improved into 2016 and for the medium term.

So with that, operator, we'd like to open up the call for questions, please.

Operator: Thank you very much. As a reminder if you wish to ask a question, please press star one on your telephone keypad.

The first question today is from the line of Michael Briest from UBS. Please go ahead.

Michael Briest: Thank you and congratulations on the strong finish to the year again. In terms of the visibility you have, Max, I think you clarified that as 80 percent visibility over license, maintenance and subscription. Is that right, you have 80 percent of that visible today, relative to 50 percent four years ago? And then just in terms of the guidance, obviously, the market has been very volatile. A few companies have talked about softer spend, more on the services than on the software side in banks. But is this the guidance that you formulated at the end of last year? Have you changed it in any way in the last four weeks? And obviously, we have seen license

volatility quarter-to-quarter in the past. What sort of comments can you make about the first and second quarter of that, given this better visibility?

Max Chuard: Michael, listen, on the visibility point, yes, it's for products or what we call product revenues. It is on the software licensing, aside from its maintenance, and I will say it is at the highest level we have ever had it at around 80 percent; if you look back, it was around 50 percent. So clearly it has increased. It has increased through the increased contribution from maintenance and as well through the SaaS, where today 15 percent of our total software licensing is recurring in nature through SaaS and something which is clearly new to us, which is coming mainly from the larger accounts, which is what we call progressive renovation, which our customers are embarking on a global project, but do it on a piecemeal basis, if you will, which gives us also increased visibility, which we have not benefited from in the past.

David Arnott: And Michael, let me take the second part of that question. To be absolutely clear, we don't see a risk to our guidance. We've not reformulated our guidance. We've been out in the market everyday right up until yesterday in fact, and the messages are very consistent. So the way we've led our guidance is first of all, as we've said, there's very little dependence on emerging markets, down to 22 percent of the comparative. We do have installed base in the emerging markets that will give us some growth, but we don't have a dependency there.

By and large, our customer base is – they're well capitalized. The trend we saw a few years ago was very much around banks who were questioning their balance sheet, they were recapitalizing, they were changing management teams, and they frankly lost all visibility. Today, that's not the case. Management teams are in place and they're executing their strategy. As the yield curve flattens, they're struggling even more to define top line growth. And the customers we're speaking to today still believe that – this is the new customers above the existing progressive renovation stories, are still seeing that the need to cut costs remains an imperative.

If you look at the banking sector overall, there's only 3 percent exposure to total energy across the growth loans of all the banks. Banks really, as we know, are

confident stocks. They bear the brunt of any sell-off and there's not really repute to their profitability. So even if their profitability goes down, provided they're not going through wholesale change of management and balance sheet recapitalization, our customers today are telling us that they're continuing with their progressive renovation stories or embarking on a new progressive renovation story.

The pressure on mobility and digital is greater than ever, more as a medium-term strategy to survive and stay relevant, if you like. And even if that drops from being top of mind today, the only way practically for a bank in this environment to demonstrate shareholder value creation is by cutting cost. And if you can demonstrate that by putting in a package, a modern package quickly with a model bank, and you can cut significant costs within 9 to 12 months, that is getting through. So we've had a very granular look at our pipeline deal by deal, and we are comfortable that we have good momentum into 2016 even in the current market conditions.

Michael Briest: And in terms of seasonality, I mean, last year, Q1 was a weaker quarter. Should we expect a particularly strong Q1 this year?

Max Chuard: Honestly, Q1 last year was a weaker quarter. As you know, we don't guide on quarters, so we expect a normalized type of seasonality this year. But again, our commitment is on delivering a number for the year, and this is what we want to do.

Michael Briest: OK. Thanks. See you tomorrow.

Operator: Thank you very much. Your next question today is from the line of Adam Wood from Morgan Stanley. Please go ahead.

Adam Wood: Hi, great. Thanks very much for answering the question. Also congratulations from me on a great license result in the quarter. Maybe just first one, just a quick one on the SaaS business in the fourth quarter. It looks as if that was down sequentially,

yet the deferred revenues look very strong on the balance sheet. Was there anything kind of unusual in there?

And then secondly, just on emerging markets. Obviously, you're highlighting a little bit more weakness there. I know you've said in the past that that business tended to be much more driven by necessity with, for example, not being able to open more branches, leading to spend, and so it was less cyclical than Europe. Is that changing now, or is there a different dynamic there and what's the outlook there at the moment?

And maybe just finally, you've been talking a lot more about the U.S. opportunity in the last kind of couple of quarters than previously? Is there anything specific in terms of deals in the pipeline or deals that are about to close that you can help us with to give us more comfort as that starts to come through this year or next year? Thank you.

David Arnott: OK. Thanks, Adam. SaaS, not big numbers, nothing to signify from the sequential movement. Our SaaS strategy remains intact. We've acquired two businesses with subscription revenues and our SaaS deployment model, progressing very well, and we're confident that we will see a growth in SaaS over the medium term, so we're very happy with that.

On emerging markets, I certainly didn't want to signal a slowdown. It's just that looking at the macros, you would have to say that those are the markets that are most affected. We're actually doing very well in emerging markets. There're growth pains, there's an emerging middle class that need mass affluent solutions. There's a need to cut costs and so forth. So what I was really trying to signal is that our core story is around banks that have to cut costs, not that we today see a slowdown in emerging markets; our pipeline remains healthy. But you could question how long that will take to convert. I didn't want to signal that it's an area of weakness.

On the U.S., yes, I do hope to have good news flow during 2016. We've laid the foundations in '15, which for me were getting a big U.S. bank live on our T24 working up from the smaller banks. We signed two big ones, as you know, last year. They're progressing very well. And in parallel to that, even before they're live, we've been doing a lot of go-to-market activities, which are bearing fruit. We have a healthy pipeline and I would hope to be able to announce deal flow over the coming quarters. We're very pleased with our progress in the U.S.

Adam Wood: Great, that's very clear. Thanks, David.

Operator: Thank you. The next question today is from the line of Gerardus Vos from Barclays. Please go ahead.

Gerardus Vos: Hi, good evening. Also from me, congratulations on the numbers. I have three questions, if I may. First of all, could you talk a bit about the kind of regional imbalances, what are you seeing during 2016? And how do you expect it to pan out in – sorry, in '15. How do you expect that to pan out in 2016? Secondly, on the kind of comments that you have 80 percent visibility on the kind of product side, if I do the calculations, it looks that 50 percent of your license is visible. That is clearly a lot higher than what we've seen in the past and that seemed to be because of the kind of progressive renovations. Is that contractually agreed and how does that kind of phase during the year? And then finally, regarding the kind of concerns of the overall market, how much flexibility do you have in your OpEx in 2016? Thank you.

David Arnott: Hi, Gerardus, thank you for your comment there. Let me take the first two and I'll pass the OpEx comment to Max.

In terms of regions for 2016, we do see steady continued growth in Europe. Many of the Tier 1 and Tier 2 banks we've signed up in the last two years are in the middle of very significant license opportunities over say a five-year period, with partial deployment either by line of business or in a certain geography or maybe on the

back, and then they want to do the front. And we are continuing with those and in fact, we've already started in 2016 with the continued relationship with some of those customers. So that's the driver in Europe.

The other driver in Europe is our strong and healthy pipeline of banks, who want to install T24 or channels or analytics underneath to meet the structural drivers. So we have – I would say our pipeline in Europe is, by far, the strongest it's ever been. The

Middle East is mixed; areas of growth, areas which are challenging. Latin America, broadly the same. The other area other than Europe I would expect to deliver growth, therefore, is Asia Pacific where our success in '15 was largely in the developed economies, and that's important. So Japan, Australia, Singapore, Hong Kong, and so forth, where we continue to have now the right management team in place, the right product set and a very strong competitive advantage. So we're very confident on that.

The last bucket, of course, is North America and the United States, where I would hope to show significant momentum in 2015, but let's keep that until we're able to talk about it.

In terms of the 80 percent visibility, mathematically, you're correct. A large part of that is contractually locked in. Clearly, all the maintenance and some of the license backlog is contracted. There's an element of that which is – a small element of that, which is the ongoing expected rollout of our progressive renovation stories for which, as I've said, some we've already started and some are tied to events like the pilot go-live for 50 users, even though there are 2,000 users for the rest of the banking. All of those events and mass turns are well within the year. And clearly you don't buy a system for 50 pilot users and then not use it. So the business case is signed off, the capital is committed and part of that is contracted and part of it is expected.

Max Chuard: And finally on my side, or rather the flexibility on the cost side. As you know, all these components of variable cost, which is around 15 percent of the total OpEx and – which is basically variable compensation, which is basically, as you know, our variable compensation is self-funded so it's based on a certain profitability level that needs to be achieved, which start – at which point we start paying off variable compensation.

The other element is again to say these commissions will be baked into their performance. So we do have, as I said, around 15 percent, which is not committed. As well if you remember, the way we look at the business and how we ensure improvement of the profitability year-on-year is by not spending our future – our improvement year-on-year by reaping revenues, by protecting data, and since as well, the way we make our investments in the year, that phase within the year, as we see the delivery of the license growth, which then we say fine, we can unlock some investment. So that's how we operate, and that's why we've had the comfort of delivering, if you will, the profitability in different license scenarios.

Gerardus Vos: OK. Very clear. Thank you.

Operator: Thank you very much. The next question today is from the line of Takis Spiliopoulos from Bank Vontobel. Please go ahead.

Panagiotis Spiliopoulos: Thanks. Excellent results, Max, David. I have two questions from my side. First one, if I look at your DSO performance over the last couple of years, it has always been ahead of your 10 to 15 days. I mean, is there any mid-term target that you would share with us and how low can this go, I mean, with increasing portion of implementation done by partners? That will be number one. And number two, is it still correct that your 2016 license guidance excludes any contribution from new large deal wins? Thanks.

Max Chuard: Takis, listen, yes, I'm very pleased with the product on the DSOs, and it's true that they came down faster than our own targets. I had mentioned during the past that

from here I could see a more normalized level at around 130 days for our DSOs and to be able to bring them I would say down – further down from that level, we will need our partner program to really go to the next level. I think that that comment is still there. What has changed is our component of SaaS that wasn't there in the past, so I would say that through the mix of our revenues today, I will see us in the medium term, getting to stabilize around probably, the 120 days, 115 days. And to go lower than that probably we would need, I will say, our partner model to change materially, or a much larger component to be done by partners. So I will feel confident that medium term, we'll be able to get to 120 to 115 days and probably continuing to reduce, and that's my target to continue to reduce 10 to 15 days per year.

Panagiotis Spiliopoulos: Thanks.

Operator: Apologies. Our next question is from the line of Gautam Pillai from Goldman Sachs. Please go ahead.

Gautam Pillai: Yes, thanks for taking the question, and congratulations on a solid quarter. I had a quick one on Q4 operating margin progression. And I remember you had some one-off benefits to margins in Q4 2014. But given the solid license performance you've seen in Q4, can you just walk us through what the margin dynamics were in Q4? And shouldn't you have seen a lesser contraction than the 900 basis points you have seen on a constant currency basis? Is there an element of higher discretionary spending here?

David Arnott: OK. Thank you very much for that. Before we go to that, we omitted to answer the second half of Takis' question. To be very clear, we do not include large deals in our outlook for 2016. Though we do expect new banks to start some kind of progressive renovation. It might be a small low single-digit contribution from what would be a very, very significant contribution over the next few years, so there is a component of a start of new relationship, but not material.

In terms of the margin drivers for the fourth quarter, let me try and spell this out as simply as I can on the cost side. In 2014, we had three very strong quarters, those accruing variable costs. After the weakness in Q4, we reversed a lot of that variable cost to take the full year to reflect the performance. And therefore, we had a negative variable cost in Q4 2014. In 2015, we finished very, very strongly; therefore, you have a high contribution in the fourth quarter of the full year variable costs. So when you compare Q4 to Q4, you've got a negative in the comparative and a big positive in 2015.

And if you look at the slide that Max has put in his deck – you can back that out. Underlying that, what you see outside the variable costs in the fourth quarter is a continued investment predominantly in sales and marketing, but also in product to get ready for 2016.

Max Chuard: And let me add to that. I think what's also important is that this normalized now in '16. So if you want, we will not – we've absorbed this one-off in '15 and hence, 2016 variable costs, as you can see in the appendices, is lower than '15 as such.

Gautam Pillai: All right. Understood. Thank you so much.

Operator: Thank you very much. As a reminder, if you do wish to ask a question, it's star one.

The next one is from the line of Milan Radia from Jefferies. Please go ahead.

Milan Radia: Good evening. Thank you. The first question was, so I was struck my comments that Cognizant made earlier in the week about their short-term spectrum on banking activity, and they signaled a weak start to the year. I couldn't quite work out whether – well obviously they have been in the past, the key partner for you. And I couldn't work out whether this was something broader that perhaps you might see a little bit of as well as the year progresses? Or are they simply losing share to Accenture and other partners within your partner ecosystem? And as well,

related to that, within the kind of software – total software license revenues, say $240 million for the year, how much of that would be dependent on an additional signature from your customer or a decision to go from a pilot to a larger rollout, i.e., there is some potential scope for the board to say not now. Thank you very much.

David Arnott: OK. Let me try to answer this as quickly as I can. So I won't comment on Cognizant's market positioning specifically. What I would say is that the large SI's have a big discretionary component in bank spend, so many of our customers have anything up to 300, 400, and even more, full-time consultants from people like Cognizant camped in the bank permanently doing all sorts of things like running end-of-day, doing process monitoring, and it's a quick thing to stop. It's a quick thing to turn that variable tap on and off. Very, very different business model to us where we go in, we take a modern package within a very short time frame, you go live, and you extract something like two to three times the cost of installing that package in perpetuity. Very different value proposition. So I wouldn't say there's a read across – from comments – from Cognizant's comments on the industry compared to that to what we are saying.

Milan Radia: And the second piece around the license revenue?

Max Chuard: Listen, on the second part, as we said, there is no large deal as such. Yes, we expect progressive (renovation) to start, and from that it's not the way we've been guiding. I've seen some – at least last year, is excluding any abnormal type of read-throughs into our guidance.

David Arnott: Let me also explain progressive renovation very quickly. This is not, and I apologize if this wasn't clear. This is not banks doing a pilot who may or may not continue. It's a mixture, for example, some banks will start with line of business. They might change their payment system. And having done that, they will move to mortgages, they will move to loans. Some banks will start by changing the back end with a view to replacing the front end like Julius Baer. Credit Suisse are doing the opposite. So these are signed off, board-approved, multiyear commitments to change the system, starting with their most immediate pain.

And those journeys are continuing, as I've said, right through the fourth quarter, into the first quarter and coming up in the second quarter as well. Those banks who've started on progressive renovation have a clear view to get to a modern core across all lines of business and those journeys are continuing. OK.

Milan Radia: Thanks a lot.

David Arnott: Thank you very much, everybody, for joining the call. Look forward to seeing as many of you as possible in the Investor and Analyst Day tomorrow. For those that can't make it, the presentation will be available in the morning on our website. Thank you for your support.

Operator: That does conclude our call for today. Thank you all for participating. You may now disconnect your lines.

END