Temenos Q4 and FY 2016 results call

February 14, 2017

17:30 p.m. GMT

Operator: This is conference # 63937135.

Operator: Thank you for standing by. Welcome to the Temenos Q4 and Full-Year 2016 Results Conference Call.

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

I must advise you that this conference is being recorded today, Tuesday February 14, 2017. I would now like to hand the conference over to your CEO, David Arnott. Please go ahead.

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

Hopefully by now, you've all found the presentation on our website, and I'm going to start with slide 7, where I'd like to review our progress during 2016, which is another year with outstanding performance across all of our KPIs, made all the more impressive coming on the back of a landmark 2015. Some of the key metrics I'd like to highlight include growing total software licensing by 21 percent and growing total revenue by 16 percent to $635 million. We were able to do this while also expanding margins, delivering an EBIT margin of 29.4 percent for the full year 2016.

Beyond the financials, which Max is going to take you through in more detail, I'd like to step back and consider our overall position in the market. It's clear now that banks are under intense pressure on costs, regulation and customer demands. They are increasingly responding to this by embarking on IT renovation with digital at the heart of their strategies. And in this context, we won all the large deals in the market in 2016 and we've become the vendor of choice to top tier banks undergoing progressive renovation. And this progressive renovation and the growth in our overall pipeline that's helped drive our revenue visibility and confidence for 2017. Our growth in other words is clearly becoming more predictable as we continue to take market share in a growing market.

On slide 8 now, I'd like to look at our sales performance for 2016. We've had license growth in all geographies with Asia and Europe standing out as regions for 2016. This was driven by both large deals such as Bank of Ireland and Standard Chartered, but also by focusing on the installed base and signing a high volume of deals across client tiers and segments. Our value proposition of vertically integrated suites, embedded analytics and the ability to deliver a true digital experience is a key differentiator and enables us to dominate the Tier 1 and Tier 2 space. We sold 52 percent of our licensing to Tier 1 and Tier 2 banks in 2016 and we expect this trend to continue into 2017 and beyond. Given the strength of market growth, we continue to invest in sales and products to ensure we are positioned to capture the market opportunity.

On slide 9 now, I'd like to give you an update on our US strategy. You may remember we announced the signing of Commerce Bank in December for their core banking renovation. Commerce Bank has a fantastic brand and reputation in the US. This win and the (go-live with) Ally Financial earlier in the year has given us credibility in the US market and we're leveraging this now with other prospects in our pipeline. What's becoming apparent is that we have a clear differentiation in product offering from the US incumbents, which combined with our global expertise and innovation with the local focus clients are increasingly appreciating. Our partner relationships in the US are working very well and we continue to work closely with them to target specific opportunities as and when they arise.

On slide 10 now, I'd like to focus on our services business and partner relationships for a second. In terms of go-lives, we've had 95 client go-lives with full implementations in 2016. To put this in perspective, this equates to one client every four days going live for the first time on new software, which is a testament to the strength and professionalism of our services model and our deepening relationship with our partners. I'm pleased to say that our partner ecosystem has continued to mature throughout 2016. This slide shows our strategic partners have been involved in winning and delivering our largest deals, and we're confident that this pattern will continue to accelerate as we continue to work with these organizations.

In slide 11 now, I'd like to look at our competitive positioning. We've retained our position as the only vendor to top both of the Forrester pyramids for new-name business and for new and repeat business as well as continuing to rank number 1 in the IBS League Table. What the league tables don't show is the traction we have with both Tier 1 and Tier 2 banks. The deals which we have won give us very strong credentials in this segment of the market and this gives us critical references for future deals. Through our track record of large deals, we've created significant barriers to entry for the competition, making it harder for others to break into the space.

Moving to slide 12 now, I'd like to discuss the proposed acquisition we're announcing this evening. Rubik is one of the largest financial services companies in Australia. We've had a successful partnership with them for nearly a decade. They have built their model bank and digital platform using Temenos' core banking channels as the backbone and have successfully sold these products to a number of customers. Rubik has significant expertise and product offering in the wealth space that we can leverage to increase our penetration in this fast-growing segment of the market. And we're particularly excited about the fund's administration opportunity given the size and growth in the domestic investment market, which is the fourth largest market in the world. Rubik also have a fantastic client base both in Australia and across the Asia Pacific region and we see strong revenue synergies from cross-selling to the clients of both Rubik and Temenos for our respective products.

On slide 13 now, gives a quick snapshot of Rubik as a company, a (realistic) company, so you can find more information on their website. In short, Rubik reported AUD43 million of revenue for their year ending, which is June year-end, June 2016 with more than 70 percent of this revenue recurring. They have 930 clients using their software, of which 95 percent are in Australasia and five across Asia and the Middle East. And as you can see, their clients include some of the largest financial institutions in these regions.

Turning to slide 14 now, I'd like to spend a minute on the Australian market. Clearly, banks in Australia are facing the same pressures as the clients we have around the rest of the world, which is driving their IT renovation programs. The spend on banking software is estimated to be growing in line with the global market at an 8 percent CAGR. And on top of this, it's one of the largest investment markets in the world due to the superannuation system, which makes it a very attractive market for our fund administration business.

The market is currently dominated by a couple of legacy vendors, and we're confident with the combination of Temenos and Rubik, we can create a market leader that will compete very well with these incumbents both on technology and on innovation.

On slide 15, I'd like to summarize the outlook for 2017. Banks are still facing multiple existential threats and these are really intensifying. However, compared to the last financial crisis, it's very important banks have significantly more robust balance sheets and are in a position to withstand these pressures as long as they act now to address them. IT spend is, therefore, for our products at least not discretionary but rather essential to deliver the bank's strategy going forward.

From a Temenos specific perspective, we continue to see growth in recurring revenues and progressive renovation driving our revenue visibility and the predictability in our overall business. On top of this, we had a significant opportunity to cross-sell into our installed base. We've got strong pipeline growth across all geographies and client segments and this gives us the confidence as we come to propose our outlook for 2017. So with that, I'll hand you over to Max to update you on the financials.

Max Chuard: Thank you, David. Starting with slide 17, I'd like to run through our performance versus guidance for the year. You may remember that we increased our guidance for 2016 at the time of our Q3 results announcement, reflecting the revenue growth and visibility we had at that time. I'm pleased to report that we exceeded all of our revised 2016 guidance targets, in particular growing total software licensing by 21.3 percent versus a revised guidance of 15 percent to 20 percent. We also grew total revenues by 15.5 percent, exceeding the revised guidance range of 12.5 percent to 14.5 percent.

Finally, we exceeded the top end of our EBIT guidance as well reaching an EBIT of $186.5 million for the full year. This demonstrates the leverage in the business and our ability to drive revenue growth and expand margin at the same time. To put these results in perspective, we have now grown total software licensing by a CAGR of 22 percent and EPS by a CAGR of 19 percent over the last three years, and therefore very pleased with the strong growth we've achieved.

On slide 18, I would like to highlight some of the most important numbers for the quarter and the full year.

I will focus on the constant currency growth rates now. The key figure is our total software licensing, which has grown 21 percent both in the quarter and for the full year 2016. We benefit from both strong underlying growth in banking spend and the leadership position within our market. We have capitalized on these by winning all the large deals and take some market share.

Our maintenance revenues grew by nine percent for the full year compared to five percent two years ago, which reflects the strong growth in our license revenues over that (previous) time. We are very focused on protecting our maintenance revenues (and enjoy) growth and profitability for the coming years. As such, I'm very pleased with the growth rate we achieved this year.

Overall, total revenues grew by 13 percent in the quarter and 16 percent for the full year. We grew our EBIT by 18 percent in the quarter and 19 percent for the full year, which we were able to do through leveraging our cost base and through the incremental contribution from our recurring revenue streams. We achieved an EBIT margin of 29.4 percent for 2016, an expansion of 128 basis points, which is in line with our medium term target range of expanding margins between (100 and 250) basis points.

Lastly, the services margin for the full-year expanded by 64 basis points to 9.1 percent and represented circa 20 percent of total revenues, which is in line with our strategy.

On slide 19, I'd like to spend a minute just talking about the services business. We have significantly improved the profitability in our services business over the years through a clear strategy of working closely with our partners, who are now involved in the majority of implementation.

In particular, our strategy is to focus on the governance of our project with our partners leading the day-to-day implementation work, and our (theme is) to focus on product expertise, which tends to be of higher margin. At the same time, we've increased the number of full client go-lives every year. Our investment in the (feature rich) model banks together with our (five-year string) program have led to quicker go-live and greater client success. So I'm very pleased also with this success.

On slide 20, we show like-for-like revenues and cost which adjust for ForEx and M&A. As you know, we've had no M&A in 2016. We need to get our asset exposures through a natural hedging of revenues and costs and we actively hedge a significant part of the remaining currency exposure on a rolling basis, which minimizes the impact of FX movement at the profit level.

Total revenues are up 14 percent like-for-like both in the quarter and for the full year. This includes total software licensing growth of 21 percent in Q4 against a comparative, which was (in fact up) 31 percent like-for-like. The business has demonstrated very strong organic growth over 2016. And finally total like-for-like cost increased 11 percent in the quarter and 12 percent for the full year.

On slide 21, we saw very good growth in net profit and EPS, reaching 2.07 percent for the full year growing 20 percent on last year through our efficient management of below the (line-off). Our tax rate was again below our normalized target of 17 percent to 18 percent as we continue to benefit from the recognition of tax losses relating to our services turning profitable in seven countries. For 2017, I expect the tax rate to be in the range of 14 percent to 15 percent and then to slowly normalize towards the 17 percent to 18 percent.

Moving to slide 22. Our cash conversion for the full year was 114 percent, which remain above our target of 100 percent of IFRS EBITDA. DSOs ended the quarter at 127 days, a decrease of 27 days for the year. Going forward, we expect DSOs to continue to decline at around 5 days to 10 days per annum, and we expect DSOs to reach 100 days in the medium term. This is driven by an increased contribution from Q1 and Q2 plans on the section progressive innovation and the positive impact from an increased partner engagement.

Finally, our cash flow continues to be strong with full-year operating cash of $258 million, an increase of 13 percent year-on-year and in fact this is despite not benefiting from an early collection from multi-fund cash that we had in 2015 and for the one that had a (close look) at the balance sheet, this is the explanation of why our deferred revenues are flattish year-on-year.

On slide 23, we highlight the key change to the Group's liquidity in the course of 2016. In terms of cash on balance sheet, we ended the year almost exactly as we started with nearly $200 million of cash on balance sheet. However, through the course of the year, we generated $258 million of operating cash, paid out $32 million in dividend and bought back $62 million of shares.

Our net debt is now down to $178 million equal to a leverage of 0.8 times EBITDA versus 1.3 times in Q4 2015. We're starting 2017 with a very healthy cash position with a strong balance sheet. And finally, as you've seen, we've announced a dividend of CHF0.55 per share for 2016, which is an increase of 22 percent on last year. The dividend, which is obviously subject to shareholders' approval at the May AGM will be paid in May as well.

On slide 24, we've outlined our 2017 non-IFRS guidance. Excluding any future impact from the acquisition of Rubik, obviously, the guidance is in constant currency and you can find the FX rates and the restated 2016 P&Ls in the appendix. We are guiding for full-year total software licensing growth of 10 percent to 15 percent, and total revenues growth of 7.5 percent to 11 percent. Our EBIT guidance is for $210 million to $215 million, which implies a full-year margin of around 31 percent. As I said, we expect the tax rate in the range of 14 percent to 15 percent. We continue to expect conversion of at least 100 percent of our EBITDA into operating cash for the year.

We are confident in achieving this guidance given the level of revenue visibility we enjoy today and the strength and quality of our pipeline and therefore I expect 2017 again to be a year of strong growth.

On slide 25, we've shown our (medium) term targets compared to what we achieved in 2016 and over the last three years. Obviously, those will be discussed in more details tomorrow during our Investor Day. Our medium term targets are for total software licensing growth of 15 percent on a CAGR basis, our total revenues growth of 10 percent on a CAGR basis and we continue to expect margin improvement of between 100 basis points to 150 basis points per annum and a target EPS growth of 15 percent over the (period of time). For DSOs, we are now targeting a reduction of between 5 to 10 days per year with a goal to reach one days in the medium term.

Finally on slide 26, I'd like walk through a summary of the proposed Rubik acquisition, which we announced today. The offer we've made is equivalent to an equity value of around $50 million or (2.2) times the enterprise value of 2016 recurring revenues. For the year ending June 2016, Rubik announced revenues of $31.6 million of which 70 percent was recurring revenues and an EBITDA of $4.8 million. We expect to generate revenue synergies from this acquisition by accelerating our growth in the Australian market in particular across wealth, core banking and fund administration. The Rubik (asset) is highly complementary and there is an existing customer base that includes a number of the largest financial institutions in Australia. There is also an opportunity to cross-sell the Rubik products into the Temenos client base principally in Asia Pacific.

The transaction will be EPS neutral for 2017 and 3 percent accretive for 2018, it is still subject (to receipt) to the shareholders' approval of Rubik and the transaction is expected to close by the end of May 2017.

With that, I will hand back to David.

David Arnott: Thank you, Max. Just before I wrap up, a bit (sales) effort from me, if you look on slide 28, I'd just like to remind you that we are hosting our Capital Markets Day tomorrow in London and I look forward to seeing as many of you as possible at the event. The agenda is on slide 28. If you are unable to attend in person, please do register to join the live webcast, which you'll find on the Temenos website, should be a great event and we are particularly pleased to have the CIO of Commerce Bank joining us for the day.

On slide 29 now, just before we open up for questions, in conclusion, 2016 was another record year for Temenos on the back of an already very strong 2015. Digital is clearly front of mind for our customers, coupled with the cost agenda clearly driving their strategic decision making and market growth plans.

And in this context, we're executing well across segments and tiers, and continue to gain market share in particular in the Tier 1 and Tier 2 space where we've created significant barriers to entry. Given our entry point with so many flagship customers in the last few years, we're benefiting from increased predictability in our revenue stream as well. We're investing in sales and products to ensure that we can take full advantage of the good market conditions to consolidate our leadership position in 2017. And we're confident in the outlook, given the strength of our pipeline and the level of revenue visibility that we have today.

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

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question please press the star and one on your telephone keypad and wait for your name to be announced. That is star and one if you wish to ask a question. The first question comes from the line of (Felix Remmers). Your line is open.

(Felix Remmers): Yes, good evening. Three questions if I may. First one would be on implementation, can you tell us if the large deals, which you have won are on track (to) implementation, share some data points on if you're hitting the milestones here in particular I'm thinking of Nordea and Julius Baer et cetera. Then the second question would be on the guidance on the licensing side, you are talking a lot about high level of visibility. So I assume that this guidance does not, isn't really dependent that you sign a large number of large deals? And the third question would be on restructuring charges $5 million you mentioned, can you be a bit more specific what you're doing there and is that related to there has been one press article saying that you have cut costs in the US. So is that related to that?

David Arnott: Okay. Thanks, Felix, good questions. Let me take the first one and hopefully Max will take the rest of all. So in terms of the milestones on our major implementations, they are going very well. It's not for me to talk about individual projects, but if you look at the Nordea public communication network very positively about them hitting the milestones. Julius Baer also hitting the milestones and they are public about that. And again overall, you've seen a number of go lives, you've seen the reduction in working capital from services, which is a reflection of shorter projects. We're going very well, nothing to flag.

David Arnott: Let me take the other two, Felix. On the guidance yes, as we've discuss the level of activity with the Tier 1, Tier 2 customer specifically linked to a progressive renovation is bringing more visibility and as you've seen by the fact that we are growing our maintenance and our recurring revenues, again, to bring some more visibility, so, yes, we enjoyed very high level of visibility as we had to towards the end of last year. So pleased with that.

Again there are some very large, let's call them transformational (deals) that are very difficult to predict and definitely we don't think through those (function) in the guidance as we have done in the past because the timing is still difficult for us to assess. Again as we had communicated last year, those are not included in the guidance. And finally on the restructuring, the amount is a small one but we continue to, I would say, to further integrate some of the acquisitions that we've done.

I will say on the R&D side, specifically, where we continue to rationalize. We do quite a bit also on the datacenter side, which takes time to go through. So that's what we expect at this stage for restructuring in 2017. Obviously, all of that is before in your statement from Rubik, which at the time we announced, we might also have a contribution from that.

(Felix Remmers): Thank you, very helpful.

Operator: Your next question comes from the line of Michael Briest. Your line is open.

Michael Briest: A couple from me, first, in terms of visibility, David, I think you said that this time last year, you had (80 percent) visibility over product revenues for the coming year. Clearly, you've achieved in line (above) better than that. Can you say where you are today relative to the 2017 ambition?

Max Chuard: Hi, Michael, let me take this one. I think we don't want to be starting to be specific on those numbers, but definitely what I can say is, we enjoy highest level of visibility. So last year, we were at (80 percent), we are at those levels. So I think what we've been doing over the years is a benefit of those recurring customers, as we said, remember at the Investor Day last year, as we on average large customers spend $3 million to $5 million more per year. We've got also licensing coming through. So we've got more and more bucket, which when you add all of those together give us more visibility and specifically more predictability, which obviously we like.

Michael Briest: And then just in terms of Rubik, they put a press release out on September 30 saying that they had licensed edgeConnect earlier that year and also they executed another transaction with you around T24. Can you give a sense of how large the license would have been last year and looking into 2017 presumably some of the maintenance they are paying you will disappear because it's sort of an internal transaction. Can you give a sense of that?

Max Chuard: Michael, Rubik has been a partner for almost 10 years and I think what is very exciting is Rubik (have made) and you can see that in the numbers. The last 18 months, I would say, very massive investment for the company on building an Australian Model Bank based on our product, both for the Core and both for the digital platform. I think what is very exciting for us now is being able to acquire this company, which on both on the Australian Model Bank on the digital platform the (inaudible) are using it. So I think it makes a lot of sense and that's why we believe this will be a synergistic transaction on (Sentinel) by next year in order to be accretive by 3 percent at the EPS level.

Now the detail of how much the licensing - as you know we don't specifically comment on that and the amount of maintenance, which was related to that is really not material. So, yes, there is a small element, but it's not a material amount.

Michael Briest: Okay and then just finally in terms of the medium-term targets, would you update those if you were to make acquisitions or do they embed future acquisitions, so Rubik will obviously impact on 2017 but going forward does the guidance embed other acquisitions?

Max Chuard: Listen, as you can see on the slide on the medium-term asset, we need to keep a little bit for tomorrow, as you can see on the slide, we've clearly over-achieved over the years because of acquisitions, so, I think yes based on acquisitions, we can over achieve that plan. Now obviously, acquisition tends to be dilutive at margin level and (Sentinel) the EPS target of 15 percent I think this a safe target to achieve organically, but as well as through acquisitions. So I think at the top line, we can clearly see fluctuations through acquisitions, but usually those transaction with acquisition will tend to have lower margin on (the) dilutive impact of the margin and since probably be able to deliver the same EPS or maybe slightly better

Operator: Your next question comes from the line of Adam Wood. Your line is open.

Adam Wood: A few from me as well. Maybe, first of all staying on Rubik, could you just give us a little bit more help on exactly what the business is (in a minute), is it more of a technology company than more of a distributor for technology in that market? The evaluation is obviously quite attractive, which would suggest maybe growth on margins went up there. So any more details you can give us on that would be really helpful?

And just on the guidance 2017, you're guiding to 10 percent to 15 percent software licensing versus 15 percent in the mid-term, is that just natural caution at the beginning of the year or is there anything in the pipeline that has led to that small gap between the two? Maybe just BNP Paribas is also publicly at the moment talking about a pretty significant digital renovation that they would like to go through. Again is that the type of business you'd be involved with, are you speaking to them (Paribas) about that? Thank you.

David Arnott: Hi, Adam. Thanks first of all, and then I'll take the first and the third and Max can comment on the guidance. So Rubik, I would say, is more of a distributor. We have a very, very small presence in Australia, so most of our Asia Pacific business is outside Australia and it's one of those markets a bit like the US where albeit on a smaller scale you need some kind of critical mass.

So this gives us a team of locals, who've taken a copy of our retail suite, so T24, for core banking and the channels piece at the front and they stood that up in a live environment, which they also host, they make it available as a software-as-a-service to a segment of the market. So they are primarily a distributor with good technology skills, good banking skills and it probably bypasses five years time to market in terms of building that size of organization ourselves.

In terms of their margins, they were naturally constrained, they are just a small software company, you don't have the power of, if you like, with the largest software companies in the sales process and we believe they also can't benefit from the type of synergies that scale brings. So we believe we can - this is a way to get you to announce the impact of the transaction, but we believe we can add value there. BNP specifically, we don't comment on specific bids other than to say that we do participate in most of the world's largest core banking replacement campaigns.

I would say if a bank is looking at their own digital front end, often they do that without looking at a vendor like Temenos and our value proposition maybe to provide more real time core underneath that digital footprint. Other banks can stand up a full new digital bank front to back or they can use our product offerings underneath the digital or you can put the digital front end on top of a legacy cost. So as you know, three different ways of starting progressive innovation, we - offer alternatives in all of them and BNP is the third of those.

Max Chuard: I think just on Rubik one, one exciting part as well is on the multi-fund side on the fund administration and as you know Australia is the fourth largest investment market after the US, UK and Japan because of this granulation. So I think there is also quite an excitement on the multi-fund side on what we can achieve, and already multi-fund has two Tier 1 customers, Citi and RBC in Australia so we expect those to leverage that.

Just to come back to your point, remember how we started 2015, so we started, the guidance has worked in 15 percent and we ended up much better than that. Obviously as the year goes by, we will hopefully have more visibility and more confidence on that, but I think at this time of the year, 10 percent to 15 percent is really where we see the business. The pipeline is as we said very strong, the quality of this is very strong.

Nonetheless, today our visibility and our confidence is on the 10 percent to 15 percent and as you know when we give those range for us, we look at the midpoint of the ranges and we can see now towards the 10 percent or up to the 15 percent, more than that not at this stage.

Operator: And the next question comes from the line of Takis Spiliopoulos. Your line is open.

Takis Spiliopoulos: Thanks, well done guys again and thanks for giving the DSO targets, I won't ask that one. First one will be maybe on the SaaS subscription business. I mean we have seen here some progress but probably a bit slower than most of us expected, can you give us a bit more visibility, how we should think about this business.

Is this kind of quarter-over-quarter plus half a million and then basically a larger jump every fourth quarter for a 10 percent annual growth, or what's your view on this one? And the second one will be on the services margin, you are now already getting closer to the 10 percent target, is this one still valid or do you see upside to that one? Thanks.

Max Chuard: On the SaaS, the way bookings flow through revenues there is a time lag and maybe revenues is not the best KPI for SaaS but nonetheless, I think what we are saying is medium term, we do expect SaaS to be in the range of around 20 percent, so slightly faster than the 15 percent, which is for the total software licensing. So 20 percent, that's how we see medium term. Now if you look at Q4, we had a good growth on Q4, on Q2 as well. So I think you will see that growth coming through. Obviously, it can be lumpy because of the way it gets recognized.

So for instance, multi-fund can take a year between signings and getting the revenues through the books, and that's why there maybe - the visibility is not very high. However as I said, we do expect this business to be growing at around the 20 percent in the medium term. And on the services side, obviously, we are very pleased, I'm proud with the turnaround on that business. Remember what we said, we don't see any reason why we couldn't get through. It's a benchmark margin for embedded services within products that are around 15 percent.

So (insurance) for us definitely that's our goal. Now every point of improvement doesn't change so much for the bottom line, for us the target is still to be services of around 20 percent of the total revenue mix going along. So it doesn't make much contribution for us, what is key really to ensure that the customer's go-live strategy, as possible that the customer is satisfied with the implementation and that's why the focus on the partner program and so on. Obviously, the margin improvement has come through these product type servicing, which provides higher margin.

And as we said, as time goes by and as we increase the proportion of business coming (inaudible) premium services, which continue to increase nicely the margin. So to response clearly, the target for us would be 15 percent but I would say, the goal is really now more focused on the customer satisfaction than to get to the 15 percent services margin target.

Operator: Your next question comes from the line of Gregory Ramirez. Your line is open.

Gregory Ramirez: Two if I may, the first one just to go back on the total revenues, if I may do the calculations right, the services revenues in 2017 are probably expected to have a low increase. So maybe could you explain that. And my second question is regarding licensing, do we have to think about still 10 percent to 15 percent of total revenues or total software revenues and what do we have to expect maybe for next year as the cycle is coming - the growth cycles you had 10 years ago was coming to an end.

Max Chuard: Hi, Greg, thanks for the question. So on the (licensing) questions, yes, we said that it's going to be around 10 percent to 15 percent and I have to say the fact that we've been growing is faster than our medium term targets. Probably we are more on the low-end of the range of the 10 percent to 15 percent, but yes we expect year-on-year to be within that range for (relicensing).

And then on the services, yes you are right when you do your model probably you are going to have a low growth on the services side. Now, as you've seen in Q4 really that was the case. We give more and more (inaudible) probably this will be the case. Now again it might accelerate and we're slightly faster than the way we're guiding, at this stage we don't have the visibility, clearly we are working to give most of those implementations to our partners.

We want our partners to be planning those (deals) and for us to be focusing on the governance of those projects under, as I said, the premium services. So yes to go back to your question in the outlook, the services growth - the growth is quite low.

Operator: Your next question comes from the line of (Steven Gould). Your line is open.

David Arnott: Hi, there, just a few from me. Firstly you may be planning to talk about it tomorrow. Sorry if it is a bit premature, but talking about the US opportunity, I mean how far would you say you are away from maybe getting a kind of (profit) Tier 1 deal with a major financial institution in the US, and how would you compare your solutions to what the Fiservs and the FISs are offering in the US. Secondly, just any more comments on kind of end market, whether or not you're seeing any impact of improving rate environment on your customers and willingness to spend there? And that's actually about it.

David Arnott: Okay, Steve. We'll go into these in much more detail tomorrow. But let me try and give you a relatively (quick) answer. In terms of the US, our target was never the top four banks, the top four banks are very much like the top 10, 15 banks globally, if you like, tend to do entirely their own thing and they don't work with vendors, certainly for their core solutions, but as in the segments below top four, which is 120 banks with $10 billion of assets under management, which is addressable because they are big enough to benefit from core packaged software.

But they are not so big that they become IT companies in their own right and that's our target segment. Commerce is, I would say, the first major win in that space for a full core renovation, it's the 38th largest bank where you replace the payments business in Ally, which is the 15th largest bank in the US, so both of them are right in the sweet spot of the market and we clearly have a pipeline of similar activities that came out in our target segment.

So our (revenue) is never predicated on the top banks, the strategy which we'll be going in more detail tomorrow is to answer the second part of your question, banks that are big enough to meet differentiation from our competitors, we believe that we differentiate ourselves on the really scalable technology, the US banks in our opinion have a single core that can scale for anything like the title volumes that we have or has the technology wrapped around its APIs and so forth.

We are the only vendor that makes our core available for annual releases, which are upgradable with us locking down at the core so we don't do this (both code) modifications and we have one single product offering in all of our segments unlike our competitors, who've inherited and purchased 10, 20, 30 different core systems over generation, which are very, very different.

So very different business model. I will talk tomorrow a little bit more about why we believe we're going to be continuing to make progress in the US. In terms of the market, I think it's too early and I think this is a global question not a US question, too early to call a trend in terms of the change in regulation, but the dynamics for us have a sweet spot for the bank who is suffering from low revenue visibility, they are wondering how they're going to remain relevant and compete long-term against new type of players.

They are worried about how to control their costs, it's the only real route to driving profitability and the answer to both of these is to replace your in-house (core) you've built it over 30, 40 years with the modern package, and in doing so get yourself ready for digital. So that (thesis) rides through any kind of short-term nervousness impact on your share price short term, we have always had a view that a lesser bank fundamentally loses full visibility and its balance sheet starts to get impaired.

Our strategic prerogative in the bank is to drive - to execute that strategy, cut cost and get ready for digital. That investment gets protected against all the background noise. Clearly, any flat change in regulation has made it slightly easier, those regulations would allow them to focus more on what is the number one strategic (product) for today.

I will talk a lot more about both those items tomorrow.

Operator: Thank you. So that was the last question for today, sir.

David Arnott: Thank you very much, everybody, for taking the time for joining the call. We look forward to seeing some of you tomorrow. If not, speak to you all after the first quarter results. Thank you.

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

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