Temenos Q4 2017 results call

13 February 2018

6:30 p.m. CET

OPERATOR: This is Conference # 5093439

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to Temenos' Q4 2017 Results Call. At this time, all participants are in listen only mode.

There will be a presentation followed by a question and session. At which time, if you wish to ask a question, you will need to press star one on your telephone keypad and wait for your name to be announced.

I must advise you that this conference is being recorded today, 13th of February 2018. I would now like to hand the conference over to your first speaker today, David Arnott. Please go ahead, sir.

David Arnott: Thank you very much. Good afternoon, everybody, and thank you for taking the time to join today's call. I hope you've all been able to access the results presentation, which we put up on our website, and we'll be using that as a basis for this call.

I'm going to start with some comments on our fourth quarter 2017 performance and then, in usual format, I'll hand over to Max to update you on the financials. And then I'll wrap up with concluding remarks.

So let me start now on Slide 7 of the presentation. The fourth quarter has been another outstanding performance for Temenos. The growth in our business accelerates. Our end-market continues to expand. We've seen that banks are very much alive to both the opportunity and the threat they face with open banking.

And when layered on top of the digital and regulatory pressures that we've been talking about over the last few quarters, banks have really no option now but to invest in upgrading their IT platform. And this became clearer even again in the fourth quarter.

And what we see is that more and more banks are understanding the benefit of buying best-in-breed package software to drive their digitalization and open banking strategies. I think the quote from McKinsey on the bottom of the slide sums it up very nicely. Banks simply can't afford to avoid the issue any longer.

These trends and our strong execution drove total software licensing growth of 29 percent in the fourth quarter and total revenue growth of 22 percent. We often talk, as you know, about the leverage we have in our business model, and this again was reflected in our EBIT growth of 17 percent in the fourth quarter.

Aside from the numbers, my key takeaway from the quarter is the Tier 1 banks that we've signed. We've signed multiple Tier 1 deals, and I'll talk to some of these in a second on the later slide.

But the message is clear, our accretive wins with the world's largest banks demonstrate that we're the vendor of choice in this space. And the more we win the deals and take market share, the more we'll continue to pull further ahead of the competition.

Turning now to Slide 8. I want to put the performance of Q4 into context. We've now grown our total software licensing at a CAGR of over 20 percent in each of the last four years. Total revenue at 12 percent and EBIT at 19 percent.

This demonstrates not only the sustained growth in our end-market, but more importantly, the ability of Temenos to consistently execute on the opportunity across all aspects of the business.

This means not simply excelling the competition, but importantly, we're ensuring our implementations are well managed and our clients go live on time and on budget. It is the client references that are absolutely critical for driving new sales for such mission-critical applications.

We're going to talk about these trends in more detail tomorrow at our Capital Markets Day for those of you able to attend. Moving to Slide 9 now. I'll give you an overview of our sales execution for the quarter.

The performance in both the fourth quarter and, in fact, the full year 2017 has been broad-based, and we delivered strong double-digit growth across all geographies for the full year. As I mentioned earlier, the most notable point this quarter is the contribution from Tier 1 and Tier 2 banks.

Software licensing sales to Tier 1 and Tier 2 banks contributed 71 percent of the mix in the fourth quarter, driven by a number of new Tier 1 signings and 59 percent of the mix for the full year as we continue with our track record of winning all the largest deals in our markets.

We continued to see robust growth across both our installed base and with new clients, with 19 new customer wins overall in the fourth quarter. For the full year, competitive and new deals contributed 41 percent of software licensing, which is in line with previous years and the trend we expect to see going forward as well.

And lastly, we've been consistently investing in sales and marketing over the last couple of years, and we're going to continue to do so, in fact, at an accelerated rate going forward as we see a significant market opportunity ahead of us.

On Slide 10 now. I'd like to focus for a couple of minutes on a few of the deals that we signed in the fourth quarter. And what's tracking here is the range of banks, the deal structures, the underlying strategy, the new objectives across these deals, and they all reached, for different reasons, the same conclusion that they could best achieve their objectives by partnering with Temenos.

Openbank is a digital Bank of Santander, which collected T24 for their core banking system and got very significant growth plans and needed a solution that could enable them to operate as a bank at the forefront of digitalization and to cope with significant scaling of the business given that they're public growth plans.

KBC has been a longstanding client of Temenos, in particular in Ireland, build a good relationship, and they've continued with the progressive renovation now of their international operations and are working with Temenos to roll out our software across multiple other geographies. We're delighted that KBC are going to joining us at our Capital Markets Day tomorrow to give you some more color on their plans.

Banco Itaś, the largest bank in Latin America, selected Temenos WealthSuite for their international private banking operations, really speaking to the strength of our software and operating across countries and the ability to implement and deliver in the public cloud.

And lastly, we signed a U.S. Tier 1 bank in the fourth quarter, who, unfortunately, has been not allowed to name, but it's a very, very prestigious brand for their global cash management platform.

This was a critical decision for the institution and a significant step forward for Temenos as we continue to focus on expanding into the key U.S. market.

On Slide 11 now. A little bit of flavor on our implementation performance for 2017. This is crucial for the business. As I've said earlier, our client reference is absolutely key in giving us competitive advantage when pitching for new business.

In 2017, we had 104 clients going live on our software for the first time, which is equal to 1 every 3.5 days. If you include all implementations, including clients taking modules in upgrading their software, the number moves to a client going live every 1.5 days.

And this demonstrates the cadence we've got in our implementation, the strength of our services business, the methodologies and the robustness of the partner program. We work very closely with our partners and are putting a lot of focus on increasing the training available and the support we provide to grow the broader Temenos talent pool.

All our key projects are progressing well, and partners are involved in a majority of the implementations we work on. I'm confident that our implementation track record in 2017 is going to support our sales effort into 2018.

On Slide 12 now. I would like to look at our competitive positioning. We've retained our position as the only vendor to top both of the Forrester pyramids, the new-name business and the extended business, by which we mean sales to existing customers as well as continuing to rank first in the IBS League Table.

The league table's measure of performance is based on a number of deals signed. Whilst we've signed significantly more deals than the closest competitors, what the league tables don't capture is our wallet share.

Given the number of large deals we've signed with Tier 1 and Tier 2 banks, we know that on a deal value basis, we're even further ahead of our competition. And again, coupled with the references, these are two absolutely vital data points as banks make their evaluation decisions.

And we'll talk about this further tomorrow at our Capital Markets Day. On Slide 13 now. I'd like to look forward a little bit into 2018 and what we expect for the year ahead.

Whilst digital and regulatory pressures continue to be the underlying drivers of banks' spend on IT, the new dynamic of open banking is clearly creating new demand for Temenos' products as banks plan and execute new IT strategies to mitigate the risks and plan for the opportunities that this change creates.

And it's clear that IT spend for banks is not discretionary. It's winning the competition for CapEx inside banks at the most senior levels, as they've got IT renovation at the heart of their strategic plans for the future.

For Temenos, our installed base is going to continue to be a key driver underpinning our growth as we felt the clients would understand and have benefited from this whole Temenos value proposition.

As the league table showed, we're the market leader in our vertical, and our Tier 1 and Tier 2 references have created a significant barrier to entry for the competition enabling us to continue to pull ahead.

Very important point, we've had a strong start to the first quarter of 2018, with the highest ever revenue visibility we've had at the start of the year, driven by pipeline growth and committed spend from existing clients. So with that, I'm going to hand you up to Max to update you on the financials.

Max Chuard: Thank you, David. Hi, everyone. Starting with Slide 15, I'd like to run you through our performance in 2017 versus guidance for that year. To remind you, we increased our guidance twice in 2017.

I'm very pleased to report that we've achieved the top-end of our revised 2017 guidance. We grew total software licensing at 22 percent versus a revised guidance range of 20 percent to 22.5 percent. And total revenues grew by 15 percent, exceeding the revised guidance range of 13 percent to 14.5 percent growth.

Finally, we exceeded the top-end of our EBIT guidance, achieving an EBIT of $223.5 million for the full year as we continued to drive revenue growth and expense margin simultaneously. This is an excellent set of results, in particular, given the strong growth we saw in '15 and in '16 as well.

On Slide 16 now. 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. The key figure is our total software licensing, which has grown 25 percent in the quarter and 22 percent for the full year 2017, reflecting our consistently strong execution and leadership position in our market.

The Q4 performance reflects as well the acceleration we've seen during the year. The contribution of Tier 1 and Tier 2 clients to our growth in 2017 has been particularly impressive with the strength of our references enabling us to win all of the large deals in the year.

Total revenue grew 18 percent in the quarter and 15 percent for the full year, driven by the strong license growth as well as sustained growth in maintenance of 10 percent for 2017. We grew our EBIT by 15 percent in the quarter and 17 percent for the full year, reaching an EBIT margin of 30.3 percent for 2017, an expansion of 98 basis points.

Finally, the services margin expanded by 57 basis points to 9.7 percent as we continued to improve the profitability of the services line by working closely with partners and focusing on the governance of our projects.

On Slide 17, we show like-for-like revenues and costs, i.e., removing the impact of M&A and FX. As a reminder, we closed the acquisition of Rubik in Australia in Q2 and so have had two full quarters of contribution in Q3 and Q4. We continued to benefit from the weakening of the dollar against major currencies. However, FX gave us a small tailwind of $1.5 million on the EBIT in the quarter.

Total revenue up 14 percent like-for-like in the quarter and 12 percent like-for-like for the full year. This includes total software licensing growth of 17 percent in Q4, and we expect our license growth to continue accelerating in 2018.

Total like-for-like cost increased 10 percent in the quarter and 13 percent in the full year as we continued our strategy of investing in sales and marketing and product to drive our future growth.

On Slide 18, we've had strong growth in the net profit and achieved an EPS of $2.45 per share for the full year, growing 18 percent on last year through our efficient management of below the line. Our tax rate remained below our normalized target of 17 percent to 18 percent, as we continued to benefit from some utilization of tax assets.

Moving to Slide 19. Our cash conversion for the full year was at 114 percent, well above our target of 100 percent of IFRS EBITDA. We generated operating cash of $300 million for the full year, an increase of 16 percent year-on-year. DSOs ended the quarter at 119 days, a decrease of 8 days year-on-year.

Going forward, we expect DSOs to continue to decline at around 5 to 10 days per year, and we're expecting DSOs to reach 100 days in the medium term.

On Slide 20, we highlight the key changes to the group liquidity of 2017. In the course of 2017, we generated $300 million of operating cash, paid out $40 million of dividend and bought back a total of $190 million of shares.

This was a combination of finishing of the buyback launched in Q4 2016 and completing the buyback launch in Q4 2017. We also used $50 million for the acquisition of Rubik.

We announced a dividend of CHF 0.65 per share for 2017, an increase of 18 percent of last year. The dividend will be paid in May after AGM and subject, obviously, to shareholder approval. We ended the year with a net debt of $272 million, equal to a leverage of 1x EBITDA.

Our leverage was at around 1.5x post the acquisition of Rubik in May, and we have since decreased our leverage to 1x through our strong and predictable cash flow generation. (inaudible) affecting 2018 in a way (inaudible) position with a strong balance sheet.

Turning to Slide 21. I'd like to spend a couple of minutes on the impact of IFRS 15. We adapted IFRS 15 on the 1st of January 2018, and we'll transition using the modified retrospective methodology. This means that we'll not be restating our 2017 financial, but instead we will provide our 2018 financial under both the old standards and the new IFRS 15 standards.

Our full year 2018 guidance will only be under the old standards, which make it easier to compare to prior years. From 2019 onwards, we will provide financial results and guidance only under the new IFRS 15 standards. The most significant change is for our subscription contract.

Instead of the revenue being recognized prorated over the life of the contract, the revenue will be split between an upfront license payment and an ongoing maintenance payment. This will have a net impact of USD 5 million being reallocated out of our total software licensing into maintenance.

We're not expecting IFRS 15 to have any material impact on total revenues or EBIT. We have provided a detailed presentation and explanatory video on IFRS 15 on our Investor Relations website, and I will encourage you to look at these for further information.

Moving to Slide 23. We are starting 2018 with our highest ever product revenue visibility. We have strong visibility on around 85 percent of our product revenues for 2018, by which we mean our maintenance, SaaS and subscription, and software licensing. This slide shows a breakdown on how we look at our visibility.

Our recurring revenues of maintenance and SaaS and subscription are paid annually in advance and, therefore, locked in for the year. For software licensing, we know how much licensing we will have in the year as well as the level of committed spend from Tier 1 and Tier 2 banks undergoing progressive renovations.

Lastly, we have a very good visibility on sales to our existing customers as we've assessed the historical behavior in the context of our pipeline today. This very high level of revenue visibility means that we are starting 2018 in a very strong position.

Turning to Slide 24. We have seen a strong acceleration in the business over the course of 2017. This is evident in the acceleration in our pipeline over the last 4 years, driven by growth in volumes of deals we are tracking across client tiers, segments and geographies.

We expect the acceleration we've seen in 2017 to continue in '18 and this give us confidence in our ability to continue delivering strong growth in both 2018 and the medium term.

On Slide 25, we've given our 2018 non-IFRS guidance. Please note that the guidance is based on the previous accounting standards, IAS 18.

The guidance is in constant currencies, and you can find the FX rates and (inaudible) 2017 P&L in the appendix. We are guiding for full year total software licensing growth of 13.5 percent to 18.5 percent and total revenue growth of 10 percent to 13 percent.

Our EBIT guidance is in the range of $255 million to $260 million, which implies a full year margin of around 31 percent. This equals to 100 basis point expansion on 2017 in constant currencies. We expect our tax rate in 2018 between 15 percent to 16 percent. And finally, we expect conversion of over 100 percent of EBITDA into operating cash.

I'm very pleased with the way the year started and expect to continue to see license acceleration in Q1 2018. Although we do not guide on a quarterly basis, as an indication, I expect our Q1 2018 to grow above our full year guidance range given the strong start we've had to the year.

Moving to Slide 26. I would note that our guidance for 2018 does not include contributions from new large transformational deals due to the difficulty in timing those deals as in previous years. We've benefited well from the deals like these every year since 2015, which led us to upgrade our guidance each year to reflect the contribution as well as strong market conditions.

Whilst we have an active pipeline of these large transformational deals, we continued to exclude them from our guidance due to the difficulty in timing the sales process.

Finally, on Slide 27, we show our updated medium-term target, which we've revised given the strong growth in 2017, and we will discuss those in more details tomorrow during the Capital Markets Day.

We expect total software licensing to grow at a CAGR of at least 15 percent and total revenue to grow at CAGR of between 10 percent to 15 percent.

We continue to expect EBIT margin improvement of between 100 to 150 basis points per year and EPS to grow at least by 15 percent on a CAGR basis. For DSOs, we continue to target 5 to 10 days reduction per year to reach 100 days in the medium term, and we expect our normalized tax rate to be at 17 percent to 18 percent.

And finally, we continue to expect to convert over 100 percent of our EBITDA into operating cash flow. So with that, I'd like to hand back to David for the conclusion.

David Arnott: Thanks, Max. Slide 29, just before we wrap up, I've mentioned just a couple of times, but I'll plug it one more time. Just to remind you, we're hosting our Capital Markets Day in London tomorrow at the stock exchange, and I look forward to seeing a lot of you there. If you're not going to be able to attend in person, it'd be great if you could take the time to join the live webcast, which is accessible via our website.

It's going to be a great event, interesting agenda, and we're really pleased, as I've said, to have KBC talking about their progressive renovation with Temenos, their journey so far with us in geographies in there and their plans going forward. So good session. Great if you could make it.

On Slide 30, to wrap up. We had an outstanding performance in 2017 on the back of a very strong 2016. And importantly, as we went through 2017, the year got stronger and stronger. And as Max and I have both said, we've had a great start to 2018.

Digital and regulatory pressures are clearly front of mind for our customers, and this continues to drive decision-making and market growth and, therefore, growth for Temenos.

In this context, we're executing very well across all segments, tiers and geographies, and we've had a very strong growth, in particular in the Tier 1 and Tier 2 space.

We're going to continue to invest across the business. Most importantly, of course, in sales and product to ensure that we're well positioned to capture the market opportunity and ensure that our leadership position continues and accelerates in 2018.

And given the strength of our pipeline and the level of visibility that we have today, I'm very excited about our prospects for the coming year and look forward to updating you as we go through the next four quarters. So with that, operator, I'd like to open up the call for Q&A, please.

Operator: (Operator Instructions). And your first question comes from the line of Josh Levin from Citi.

Josh Levin: I have two questions. First, as you talk to bank executives in the U.S., does the lower corporate tax rate, the recent change in the tax code, is that impacting their decision on whether or not to spend on major IT projects?

David Arnott: Josh, OK, it sounds like you've got two, but I'll take that one for now and then you can jump in with the second. Listen, the structural issue in U.S. banking is so fundamental to the almost existential business over the medium term.

The tax rate, I suppose, technically makes things easier for them to a certain extent, but it doesn't change the fundamental premise that the competition has changed and brought in all sorts of new entrants. The community banks and credit union model is really struggling against these nimble technical -- technology-based companies coming in.

The bigger banks are struggling with the digital disruptors coming in. And everyone, of course, is passing on their more modern costs and then will add to our platforms to take market share, drive down pricing.

Amidst this long-term specter of being marginalized by payments vendors, startups, fintechs, near banks and not being able to compete long term because they're simply too clunky, cost base is too high, too long to take products to market, not quick enough to make decisions for customers. It's the number one strategic priority, closely followed by the regulatory environment, which I think is the one difference in the U.S.

So this is -- the tax rate is a discussion clearly, but definitely doesn't drive the fundamental premise for our U.S. business. And as I've said, our U.S. pipeline continues to grow strongly.

Josh Levin: OK. On a separate note, it looks like your 2018 EBIT margin guidance implies a 70 to 80 basis point increase versus 2017, but your medium-term guidance is for 100 to 150 basis points of improvement each year. So how do we reconcile those 2?

Max Chuard: Yes. I think you need to look at, I think, on a constant-currency basis, and we've -- that was my point when I talked about in the guidance. Clearly, on a constant-currency basis, we're improving by almost 500 basis points. Now the 100 to 160 basis points is a guidance that we -- target that we gave.

And if you look at the last 4 years, we achieved around 130 basis points improvement per year. Clearly, in '17, we've been growing much -- we've been growing faster than our medium-term plan some and (inaudible) this is reflected on the margin.

But I think you need to look at it on a constant-currency basis, but I'm very pleased myself with the improvement that we see on the margins, the level of growth that we're achieving, which we continue to invest a lot in the business to capture the opportunity. So very pleased with the improvement on our margin.

Operator: Your next question is from Chandra Sriraman from MainFirst.

Chandramouli Sriraman: Congrats on another very good quarter and a good start to 2018. Just a couple of questions from my side. So you have quite a few of these progressive renovation deals ongoing now. Can you give us a sense of how successful have you been in terms of extending the scope of these implementations?

I think that is quite critical in terms of getting greater conference on the duration of many of these implementations, so that would be very helpful. And also, I noticed that the overall revenue or licensing contributions from the Americas jumped up in Q4. Was it broad-based or just the one deal that you mentioned?

David Arnott: Chandra, good questions. OK. Clearly, they're both for me. So progressive renovation, there's no real pattern. Some banks start and do something as a tactical initiative, do nothing for three or four years.

When they come to make a more strategic decision, they dig around and they find that they've had good Temenos experiences elsewhere. But it's never sort of been a stated plan from the beginning. Others rush to do a lot all in one go because they have a greater sense of urgency, and I'll put people like Bank of Ireland and Nordea into that camp.

Others start with a more measured view of geography, disclose specific problem or line of business like wealth management typically, might be going through growth pains in emerging markets or assets or maybe declines and then these lower cost base in the European context.

And they approach that, as we've said many times, in a digestible format, where they test the relationship with Temenos before they really jump in. And they move at different speeds in different ways, frankly. The only common theme that is emerging over the last few years is that those initial relationships are difficult to get going.

It's a big leap of faith for a bank to trust a third-party vendor for something so mission critical. But if you are transparent upfront, if the software does what it says, if you go live on time and on budget, the value proposition is there. It does make sense. They do deliver the business case.

And therefore, the vast majority, if not all, I can't actually think of one off the top of my head, of our progressive renovation journeys has stopped post the initial relationship. So they're all working very well.

Max Chuard: And Chandra, maybe just to add on, I'm going to discuss EBITDA tomorrow during the Capital Markets Day. So I'm not going to say too much tonight.

But if you look at the last three years, the amount of spend that we've been able to increase within our existing large customer and to spend the wallet within them for progressive renovation has increased by 30 percent per year. So clearly, we've been able to improve and to grow within our existing customer base undergoing a progressive renovation.

So I think tomorrow, we'll discuss quite a bit on that, KBC as well. We'll discuss about the own expense for the progressive renovation. I think this is very exciting because it give us a level of visibility that we did not enjoy in the past.

David Arnott: Just to finish the progressive renovation point very quickly, clearly, the second part of your question, we're addressing a very small percentage of the potential spend in these banks. Tier 3, Tier 4, universal bank, we might be addressing a larger part upfront because they're small enough to do more core replacement in one go.

By the time you get to a Tier 1 or Tier 2 bank, really, you're looking at maybe a replaced 4 percent of that spend. It will be a line of business or a geography, even a big ambitious one will be a very small subset of where we could be going.

So there's no real constraint, and that's why the two KPIs that we track are getting a foot in the door of new Tier 1 and Tier 2 banks and not letting a competitor to win any of those deals, which we're not.

And as you say, making sure that we put our best foot forward, deliver on time, make heroes of the people involved in the project so that they sponsor us for further initiatives. If we get those two things right, we'll continue to dominate the industry and so far we are.

Very quickly on your second point, U.S. licensing is broad-based. It's not contribution from the new Tier 1 deal that we signed. It's a mixture of milestones on existing projects. And there's no one number driving that particularly.

Chandramouli Sriraman: Great. Maybe a quick one on services margins. I mean, Q4 was a bit light. How should we see 2018? Still tracking double digits?

Max Chuard: Yes. Listen, very pleased with the progress we've done on the services side to reach almost 10 percent. I think now, for us, the focus is really delivering successfully to our customers, to those large Tier 1 transformation.

Clearly, we continue to expand the margin and probably through the medium term getting towards 15 percent as a target. But I think at 10 percent now, expanding smoothly towards 15 percent in the medium term, I'm pleased with this position.

Operator: Your next question is from Gerardus Vos from Barclays.

Geradus Vos: Three questions quickly. Just on the investments, I think, on the call you mentioned quite a few times that you're accelerating kind of investments. Could you give us a bit of insights where you make those investments? And if this at all is changing your kind of partner program on the server side?

And secondly on the U.S. kind of pipeline, which gives a bit of visibility, how does that pipe is shaping up? And particularly, are there any kind of large deals coming to that final negotiation stage?

And then finally, just getting up on the service margin from the kind of prior question. There was a sharp drop of around 500 basis points down in kind of Q4. Were there any kind of overruns in the quarter on large implementations?

David Arnott: Thank you for that big (inaudible). So in terms of investment, it's (inaudible) we ruthlessly leverage G&A services as a margin business and the key is to get it under 20 percent or around 20 percent of revenues.

So it's not a drag on group margins. And it's really a quality control model ensuring that we do enough services on our projects to protect the implementation quality.

And therefore, we've not, in our investments, changed that strategy. We're very clear that we're a product company and, therefore, we're not overtaking services away from partners nor giving more services to partners.

In fact, the one change you will see to services like any big software company, I think we don't do enough education services the big software companies do, and it's very profitable. It ensures that people out there are better trained. So you'll see more education revenue, more training revenue coming through over the next few years.

But in the fourth quarter, we have basically a lots of salespeople, presales people and continued product investment to follow, especially the Tier 1, Tier 2 product dynamics. U.S. pipeline, clearly, I'm not going to comment specifically on individual deals. But I would caution that we've been very clear to say U.S. is a medium-term opportunity.

It's a big market. We're not going to get there overnight. It's not -- we don't want to overhype this as some sort of 2018, '19 hockey stick. We're excited about it because it's -- basically, it's homogenous.

Local competitors don't really have a compelling offering. They have multiple cores, all of which are old. None of them are really in the view of the majority of banks, really future-proof for the digital age. So it, absolutely, is perfect for Temenos.

The key for us in 2017 was getting Ally live. We did that. We're hitting our milestones, as we've said, on Commerzbank, which is a big traditional well-regarded bank, where we're implementing the deposit suite, the asset side of the balance sheet.

And provided we continue to hit those milestones, and we also signed a couple of startup banks, as you saw, which would be very quick implementation to a digital bank. So references are absolutely key. Branding is absolutely key, with a lot of U.S.-centric research, which focuses on Temenos as a company, and the pipeline is developing healthily. I won't say anything more than that.

Max Chuard: And Gerardus, on the services margin, listen, on Q4, really, nothing to read into that. It was -- if you look at the last year, the seasonality of the margin in 2016, you could see that it was really -- back-end of it was Q4, which we feel was much more normalized in the year.

So pleased with the progress and confident that 2018 will continue to see expansion progressing in our services margin business.

Operator: Your next question is from Takis Spiliopoulos from Vontobel.

Panagiotis Spiliopoulos: Two easy ones, I guess. On the sales cycle, with the amount you have seen coming from the installed base, have you seen overall the sales cycle shrinking a bit. Or, in general, seeing the necessity of those banks, has there been any shortening?

Will be question number one. And question number two, with the acceleration you have seen in license growth, especially from Tier 1 and Tier 2 banks, can you please update us on the partner model? Do they have enough implementation people to cover all those projects?

David Arnott: Takis, good questions. Thank you. I'll take the first one. Sales cycle, in a nutshell, have -- they've never made a change. If I were to pick two slight trends, I would say that they're becoming crisper and a more senior level dialogue. So these are strategic plans driven through a sales process.

The more the landscape clears up to a smaller number of vendors, the less you need to do workshops and evaluated with multiple vendors. And therefore, as a Temenos-controlled element, we're getting better references.

There is an urgency in the customer base as the digital -- the open banking challenges come on top of the -- restoring your P&L challenges. But I wouldn't say it's -- I wouldn't say a major change. It's still a massive decision, and it's still typically around the 12-month mark to make a decision like this.

Max Chuard: Takis, listen, as we said last in 2017, every 3.5 days, a new bank went live on our software. So clearly, we are skill out to deliver on projects. Clearly, we are working very closely with the partners. In fact, we are taking that really on a regional basis.

We're more and more with our strategic partners we build together which type of skills in which regions we need. So we have taken this into the regional model, and it's very efficient, and we're making good progress. So I'm confident that we can deliver on that growth. And clearly, the partners are excited about taking on those projects for us.

Operator: Your next question is from Michael Briest from UBS.

Michael Briest: Thank you very much for the slide; I guess, it's 23, on visibility. Just looking at 2017, I sort of calculate the maintenance and SaaS subscription get you to nearly 60 percent of product revenues, so it's probably similar in 2018.

Just looking at the relicensing and progressive renovation components, not much 2018, but in 2019, you'll be lapping a decade ago when we had the financial crisis and licenses without nearly 20 percent. So should we assume that the relicensing element takes a hit there?

And then also, on the progressive renovations, 2015, you announced Nordea, and I know you don't want to talk to individual customers, but is that block, if you like, going to continue to be growing into 2019 and '20 and beyond?

Or do you need to backfill that? And then just on the pipeline chart below that, can you give some sort of quantum on the level of increase in the pipeline that you've generated in the year? It's not really visible from the blocks that we have there.

Max Chuard: Michael, thanks for the questions. Listen, if we take the -- on the progressive renovation first, which probably is the one we just want to address, I think, like I said before, we've seen these growing on average by 30 percent and, really, we continue this to expect to be growing in the medium term.

So I think we are confident, and you'll see tomorrow when we talk about the medium term. We are pleased with our level of visibility for '18, obviously, but as well in the medium term. And as you know, we are growing our existing customer base faster than in the past. We are seeing the (inaudible) resource that would be reflected in that visibility. And…

David Arnott: And just on the relicensing point, no, there's no -- it's not absolutely linear that you sign exactly what you signed 10 years ago.

Some banks come to you one or two years ahead, some of them leave it even a year later. And you give them a fair execution (inaudible) on the budget. So the trend for progressive -- for relicensing is very, very steady, and you won't see a dip in 2019, obviously.

Max Chuard: And the bottom of the pipeline was really to show that it's not always obvious when you look at the financial statements. And we saw that it was quite material to show how we've seen acceleration of that pipeline.

And the purpose was not to quantify or to give amounts, but for you to see that there is clear acceleration, and this is what has been reflected towards the end of the year. And we are saying, we continue to expect this to continue in Q1 and onwards.

David Arnott: And I think, to add a bit of flavor to that, the point was the consistency. We spent a lot of time at the start of the year and, obviously, every quarter going through all the geographies with all the regional teams. We look at the segments, the wealth, the retail, et cetera, and we validate that bottom up and apply historical conversion ratios.

And the point I made in my statement was that there is a consistency that is a broad-based, driven by different dynamics in different geographies with different speeds, clearly, but there's momentum that we thought was worth highlighting.

On your big deal milestones, if your concern is that we're kind of running out of steam because the big deals have hit that big milestones and that there's nothing left. Let's deal with that head on, absolutely not. As I said, we are 3 percent to 4 percent through the progressive renovation journey of big banks, and that would, obviously, be everything.

But even the best, they plan to do, even the business plans come to the board. We're dealing with only a few of the milestones. So there's a lot left of milestones underpinning the Tier 1 business that we've been signing.

And as we had Tier 1 banks, like we did the three new ones just in the fourth quarter, they themselves have a chunk of different milestones spanning two, three, four years out. So no, we're not running out of milestones for sure.

Michael Briest: And just on currency, Max. I think you're implying about $1.18, $1.19 for the year. Clearly, (inaudible) currencies by any means, but conceptually, if we are a $1.23,

$1.24 for the year, would that be something that actually hurts your margin? We shouldn't be surprised if that does come about, you get better revenue growth with lower margin.

Max Chuard: Listen, obviously, as you said -- as you think about the rates and the volatility that we've seen in the market, I took a blended rate at the end of the year, which I thought was maybe the best way to look at it. Listen, I don't think that it will have a material impact on the margin. We are hedged.

So at the EBIT level, there would be minimal impact on movement on the currencies. Clearly, as you know, we are along the dollar, and we are along the euros, but on short most of the major currencies. But other than that, we do take hedge in places to protect our EBIT guidance or our EPS dollar amount, if you want.

Operator: And your last question is coming from the line of Steven Goulden from Deutsche Bank.

Steven Goulden: Just wanted to ask about the open banking opportunity, which you talked about in the deck. If you could sort of expand on that and maybe within that, whether you see PSD 2 as a contributor this year and whether you think that could move the needle.

And also, you pointed to the IBS figures in terms of number of deals won, and you said that, obviously, in terms of value, you were doing better than by volume. Maybe if you could just give us a bit of color there and some recent comment on the competitive landscape, that would be great.

David Arnott: Sure. OK, Steve, let me take those. So the open banking point, we're going to spend a lot of time on this tomorrow on the Capital Markets Day, but just in a nutshell today.

So what we're seeing is the banks -- as banks adopt strategy to deal with the openness of banking with the legislation like PSD 2, which forces them to provide their customer data effectively to anybody with an open API layer fundamentally changes the landscape from a proprietary model of the grudgingly selling your own products to truly being a platform players of bank. And if you can be a platform player and offer other people's products by taking advantage away from banking, that's good.

On the other hand, other people will also have product platform and play with their own distribution channels, like Amazon and so forth, and the fintechs and the near banks, and they will take advantage of this forced open banking, which is a global phenomenon, similar legislation coming through in the U.S., as you know.

So again, it's an acceleration of this trend towards banks no longer having a, clearly, position, where they can press products as they like, and there will no new entrants.

It's forces -- as we've said, it's one of the 4 forces that change banking fundamentally: the regulator (inaudible) bringing pressure to banks to be more competitive, to open up the competitive market, at the same time, if the customer behavior is changing and the technology is out there to allow new entrants to come in and take advantage of it. So it's the convergence of those three trends, which is, absolutely, the sweet spot for us clearly. And we'll talk about that in more detail tomorrow.

OK. So I just can read my own notes here. So IBS League Table. What I was trying to say there was, the IBS League Table tracks the number of deals signed, but it's literally a number.

So a Tier 1 bank, like Santander, accounts the same as a Tier 5 bank. And whilst we've won the majority of the -- or the -- by far the largest number of deals in the market, what that doesn't take into account is the fact that we've been winning all the larger deals in the market.

So if you were to overlay the value of deals signed, our lease position would be even stronger. In terms of the competition, again, we'll talk about this tomorrow, but we don't see any particular competitor coming through.

We see some private equity roll-ups, with a very different approach to life. We see some of the people who have more of a services development shop model, which, in our view, has never been the winning model in application software.

We see local players, who increasingly are unable to invest at the right level in their product set to compete against giants like Temenos when they're spending $150 million, $200 million in R&D.

No, we don't see any of the new startups really gaining enough traction in terms of building up the functionality and the references to capture. So we feel -- and the U.S. spend, as we talked about, we'll talk about again tomorrow.

So no major changes in the competitive landscape. The more we win the big deals and also the majority of the bread-and-butter deals, the easier it is to compete. And the challenge, frankly, now is to turn that clear beachfront house position into pricing advantage.

There's lot there on the market to make sure that the true value that we bring to customers comes out through the commercials. And I think that's the next big challenge for Temenos over the next few years.

Operator: There are no further questions. Please continue.

David Arnott: That's all, operator. Thank you very much, everybody, for taking the time to join the call tonight. Look forward to seeing some of you tomorrow at the Capital Markets

Day. Otherwise, look forward to updating you at the end of our first quarter. Thank you very much.

Operator: Ladies and gentlemen, this does conclude your conference for today. Thank you very much for participating. You may now all disconnect. Enjoy your evening.

END