Temenos Q4 and FY 2018 results call

12 February 2019

5:30 p.m. GMT

OPERATOR: This is Conference # 4995217.

Operator: Ladies and gentlemen, and thank you for standing by, and welcome to the Temenos Q4 2018 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 need to press “star,” “one” on your telephone keypad.

I must also advise you that today's conference is being recorded, Tuesday, 12 February, 2019. I would now like to hand the conference over to your first speaker for today, David Arnott. Thank you. Please go ahead.

David Arnott: Thank you, operator. Good afternoon, everybody, and thank you for taking the time to join today's call. I hope you've all been able to get a hold of our results presentation, which is on our website and that we'll be using as the basis for the call we're having now. But before we run through our outstanding fourth quarter and full year results, I'd first like to comment on the announcement that we made as part of that press release regarding the changes in management.

I'll be stepping down as CEO on the 28 of February. It was a very tough decision for me to make. I have been with Temenos since before our IPO back in 2001, first as CFO and then as CEO since 2012. I've seen the business fundamentally transform over this time and I'm incredibly proud of the company as it stands (today). We’ve never been in better shape than we are today and we're getting stronger every day. I'm absolutely certain that Temenos will continue to be the leader in our sector and will be one of the leading software companies globally over the next few years.

After discussions with my family and after 18 years with Temenos, I have decided now is the best time for me to step down to spend more time with my new family and our new baby. In fact it's been playing on my mind since the end of last year when my family expanded. It's tough to leave so many colleagues who've become such close friends, I'll have to say, I've worked very closely with Max for many, many years and have absolute confidence that he'll continue to deliver outstanding success for the company and for all of our stakeholders. And I wish the new management team all the best for the future.

I'd like to hand over now to our Executive Chairman, Andreas Andreades to say a few words.

Andreas Andreades: Thank you, David. On behalf of the board, I'd like first to thank David for his commitment and dedication to Temenos. He has been a key part of the growth and success of the company and leaves Temenos in the strongest strategic financial and operational position it has ever been.

I hired David myself 18 years ago, and actually Max 17 years ago. Everything we have achieved with Temenos over the past 17 years we did together. I know David has been thinking about his position since he started his new family several months ago, which brings me to the announcement we made today. On behalf of the board, I'm also pleased to announce that Max Chuard will become CEO, effective 1 March, '19.

Max is the natural successor to David and has been so for several years, given his extensive experience in the business and the strength of his leadership. The board is confident he is the best person to continue executing our winning strategy and to drive the next phase of growth in the business. As I've said, Max has been with Temenos for 17 years with responsibility for strategy, M&A, finance, operations. He became CFO in 2012 and also COO in 2015. He is integral to our client business, both selling and delivery, and was instrumental in our expansion in the U.S., running the acquisition and integration of both Akcelerant and Avoka as well as Multifonds, which has been a very successful business.

I'm also pleased to announce that Panagiotis Spiliopoulos is joining as CFO from 31 March, 2019. He joins us from Vontobel, which is a leading Swiss bank, where he headed research and was a member of the Investment Bank's executive management team. He brings a unique skill set across technology, finance, operations and strategy. He followed the – as he followed Temenos since IPO in 2001 and has always believed in our strategy and potential, and the board is confident he is a strong cultural fit for the organization.

I've been working with David and Max for nearly two decades and together we've built Temenos into a global leader that it is today. With our new leadership team in place, I'm confident we'll continue to successfully execute our strategic plan. We have a massive $50 billion market opportunity to capture. And I'm fully committed – personally committed to the business for at least the next five years as we enter this next phase of growth. And with that, I'd like to hand back to David to run through the Q4 results.

David Arnott: Thank you, Andreas. So turning now to the fourth quarter results presentation. And we'll start with some comments on our fourth quarter performance, and then I'll hand it over to Max for an overview of the financials and to give you some concluding remarks. And I'll start on Slide 7.

On Slide 7, the business has delivered another outstanding set of results in both the fourth quarter and the full 2018. Our end market continued to expand as banks increasingly understand the urgency, with which they have to address their IT deficit and Temenos is capitalizing on this increasing demand as a leader in our market. We grew total software licensing by 15 percent, total revenue by 12 percent and EBIT by 15 percent in the fourth quarter.

For the full year, we grew total software licensing by 21 percent, total revenues by 14 percent, and EBIT and EPS by 21 percent. We continue to hear from banks every day that IT spend is not strategic. It's strategic, but not discretionary and they will continue to increase spending on IT, irrespective of the economic environment. Fundamentally, banks no longer have a choice. If they want to do more than just survive the next decade then they have to invest in IT renovation. And this is reflected in our outstanding growth in 2018 and the robust outlook for 2019.

On Slide 8, I'd like to stand back from the quarter and look a little bit at the momentum in our business over a few years. We've now grown our total software licensing at a CAGR of 27 percent for the last four years, and EBIT and EPS at 20 percent. We were only able to achieve this by having the right strategy, the best talent and the world's leading banking software products. The company has demonstrated it can execute at a consistently high standard over many years, delivering strong growth and returns for our shareholders.

On Slide 9, I would like to give a little bit more insight into our sales performance for the fourth quarter and for the full year. We saw a broad-based demand across all segments, tiers and geographies, with digital and regulatory pressures continuing to be top of mind for banks, as is the inevitable adoption and disruption from open banking. We had great momentum in the U.S. as we signed a strategically very important deal with a top-tier U.S. bank, for Temenos Infinity, our independent digital front-end product.

We also signed a deal with PayPal for loan management in the cloud. We demonstrated that we can beat the domestic U.S. competition and gained recognition rapidly in this market. We had a very strong performance in the Middle East and Africa in 2018 with demand from top-tier banks across both sub-regions.

We won a significant number of new name clients as well as having strong sales into our existing client base. There's been a significant increase in demand for SaaS and cloud adoption in 2018 with Total Contract Value increasing by over six times in

2018, to reach $59 million of order book signed in the year, very little of which, of course, is flowed through our P&L. This demand is incremental, bringing new banks to market and driving incremental growth for Temenos.

We continue to see very good demand from Tier 1 and Tier 2 banks, which contributed 53 percent of the mix in the full year and an even higher 66 percent in the fourth quarter. The banks are undertaking multiyear projects with Temenos as their trusted partner and are a key part of our revenue visibility and pipeline growth going forward. We have robust growth both across our installed base and with new clients with 28 new client wins in the fourth quarter, giving us a total of 76 new customer wins for the full year. Lastly, we consistently invested in sales and marketing over the last few years to ensure we've got the right team and individuals in place to capture the market opportunity, and this investment accelerated in 2018.

On Slide 10, I'd like to give some color on the growth of our SaaS and cloud adoption. We've seen strong incremental growth in demand for SaaS and cloud, which has exceeded, frankly, our expectations. By deploying in the cloud, banks benefit from cost savings through elasticity as the infrastructure automatically scales up and down to meet their high end of the day and end of month's batch demands.

We also benefit from world-class security as provided by our multiple cloud partners as well as unlimited scalability enabling banks to deal with the exponential growth in transaction volumes, that they forecast in areas like payments. By consuming software-as-a-service, banks also benefit from significant reductions in operating cost and also reduced implementation time frames as they tend to stick to more standardized out-of-the-box solution in the SaaS world, making them easy to deploy as we've been demonstrating. And finally, of course, SaaS allows you to more easily stay current as we automatically upgrade them as soon as new versions and modules become available.

We are seeing a growing appetite across all geographies today, with even Tier 1 and Tier 2 institutions looking to optimize their implementation projects by leveraging not just cloud-based implementations and testing, but real cloud-based ongoing deployment. We are a highly differentiated offering with the launch of our new products, which combines market-leading banking functionality with true cloud-native technology compared to our traditional competition who lacks the depth of cloud expertise. And compared to the newer cloud-based vendors, who have got more limited banking functionality and certainly nothing like our pedigree of packaging country models up over a 25-year time frame.

Moving to Slide 11. We had very strong success with implementations in the year. Our products are packaged, upgradable and contain 25 years' worth of innovation and functionality that enables seamless deployment from day 1, and none of our competitors have anything close to this. We also benefit from our extensive network of partner consultants.

We've now got over 5,000 third-party Temenos consultants and our clients can leverage the support of experts across all aspects of delivery from implementation right through to testing and training. Our partner network is critical to ensuring client success as well as enabling Temenos to continue accelerating its growth. This implementation track record means we've got the best references in the market, with a number of key go-lives and milestones in the year across some of our largest implementations as well as very rapid 6-month deployment of two digital neo-banks in the U.S. and another one in Australia.

In 2018, we had 95 clients going live on our software for the first time and 233 go-lives across all implementations, including clients taking new modules and upgrading their software. And this is equivalent to approximately one go-live every one and a half days. We continue to make significant investments in training our partners and clients through the Temenos Learning Community to ensure consistently high-quality implementations globally.

And with that, I'd like to hand you over to Max to talk about the financials.

Max Chuard: Thank you, David. And before I start on the slides, I would like to thank David for all he has done for Temenos. I really enjoyed working with him over the years. We've delivered so many of these quarters together and we will all miss him. I hope he enjoys his time with his new family, a new baby, and hopefully he will not get bored too quickly changing nappies.

I am very honored and excited to be taking on the role of CEO. In my current role, I've been heavily involved in the day-to-day operation of the company as well as leading client engagement, both from a sales and delivery perspective. We have highly successful strategies that Andreas, David and I have put in place and that has delivered very strong performance. With Takis Spiliopoulos, joining as CFO, and strengthening of our Executive Committee with Jean-Michel appointed as COO; and Alexa Guenoun, our Chief Customer Officer, joining the Executive Committee as well.

I am confident we have the right team in place to ensure continuity of strategy and execution. That is as well as encasing a very mature, world-class finance organization that I've built over the last few years. The company has a massive opportunity in front of it and I am determined to capture this as we enter the next phase of growth with our new product set we announced in January.

Now starting with Slide 13, I'd like to run through our performance in 2018 versus our guidance for the year. We increased our guidance at the time of the Q3 results, and I am very pleased that we were able to exceed the top end of our revised guidance. We grew total software licensing at 21 percent versus the revised guidance range of 15 percent to 20 percent.

And total revenues grew over 14 percent, exceeding the revised guidance range of 12 percent to 14 percent. Finally, we exceeded the top end of our EBIT guidance, achieving an EBIT of $266 million for the full year with our business model enabling us to deliver strong revenue growth and expanding margins. This is an outstanding set of results and continues our very strong execution track record over the past few years.

On Slide 14, I would highlight the key numbers for the quarter and the full year. I will focus on the constant currency growth rate. Our total software licensing grew 15 percent in the quarter and 21 percent for the full year 2018. The demand in 2018 was broad based across all segments, tiers and geographies. We were able to deliver this level of growth with no contribution from mega, large transformational deals.

And we are confident we can continue delivering very strong growth without the last one of these, given our leadership position and a broad-based structural growth in our market. Our maintenance has benefited from our strong license growth with maintenance up 13 percent in the quarter and 12 percent for the full year.

As you know, maintenance is a very high margin and key to growing our future profitability. Total revenue grew 12 percent in the quarter and 14 percent for the full year, approaching the top end of our medium-term target of 10 percent to 15 percent. Lastly, we grew our EBIT by an impressive 21 percent in 2018 to reach an EBIT margin of 31.5 percent for the full year, an expansion of 1.1 percentage points.

On Slide 15, I've summarized our other key financial metrics for the quarter and for the year. We had strong growth in earnings and achieved an EPS of $2.96 per share for the full year, an increase of 21 percent. We generated $365 million of operating cash in the full year 2018, up 22 percent on 2017. This represents cash conversion of 117 percent well above our target of 100 percent of IFRS to EBITDA.

DSOs ended the quarter down nine days organically, but the acquisition of Avoka added four days of DSOs. So overall, we ended the year at 114 days as we had the impact of Avoka on our balance sheet at the year-end without any revenue contribution in the P&L. Going forward, we expect DSOs to continue declining at around 5 to 10 days per annum to reach 100 days in the medium term.

The strength of our cash flows enabled us to launch buyback, to acquire Avoka, to make a minority investment in OBP and pay a dividend in 2018 and still end the year with our leverage at 1.6 times. This give us significant room to pursue growth opportunities, if they arise. Lastly, I'm pleased to announce a dividend of CHF 0.75 for the full year 2018, an increase of 15 percent from last year. That is, obviously, subject to shareholders' approval at our AGM in May.

Moving to Slide 17 now. We had a very strong start to 2019 with several very exciting announcements. In January, we launched our two new cloud-native, cloud-agnostic products, Temenos T24 Transact and Temenos Infinity. These are the next generation of Temenos products, and I'll give some more details on this on the next slide.

We recently announced the acquisition of Avoka, a U.S.-based company specializing in customer onboarding and customer acquisition. This has strengthened our digital product as well as giving us further momentum in the U.S. market. We also announced a minority investment in NuoDB in Q4, which provides a cloud-native distributive database and enables our clients to maximize the benefit of running in the cloud by allowing significant scalability.

Lastly, we announced a very exciting deal with Bloomberg, who we have partnered with to offer contingency net asset value calculation to the buy side through Bloomberg's global terminal network. This allows asset managers to generate net asset value estimates independent on the fund administrators to facilitate daily oversight and ensure continuity of operations in case of an outage. This opened up a whole new market to Temenos and has the potential to be significant revenue stream in the future.

On Slide 18, I'd like to introduce our new product and technology. This new product combines the most complete banking functionality in the market, leveraging 25 years of functionality from 3,000 banks with the most advanced cloud-native, cloud-agnostic API-first technology and design-led thinking. This technology is cloud native, enabling our clients to take full advantage of elastic scalability, activated resilience across multi-cloud.

This on-demand model means that banks only pay for the resources they use, which we estimate could save them up to 10 times on the infrastructures costs. Our technology is also cloud agnostic, continuing Temenos traditional strength of offering our clients a choice of platforms upon which to run our software. Temenos was the first mainstream provider to launch core banking in the cloud back in 2011 and we've continued to show innovation.

Last year, launching the first payment having the cloud. We've put more banks in the cloud than any other vendor with real success stories from challenger banks to large, incumbent banks like Itaú. Our new products are revolutionary in our market and will open up significant incremental demand as a faster, cheaper and lower risk route to digital transformation. It will bring banks to market that had previously been reluctant to embark on IT renovation.

Moving to Slide 19 now. I'm pleased to introduce our next-generation, independent, cloud-native, digital-banking solution, Temenos Infinity. Temenos Infinity is a comprehensive omni-channel, digital-banking product with best-of-breed customer acquisition and onboarding, ready to be deployed independently or integrated with Temenos T24 Transact.

This is the next major step in an award-winning Temenos Digital Front Office product, which has over 300 banking clients. Temenos Infinity is powered by APIs, enabling banks to easily connect Temenos Infinity to any core banking system. APIs enables banks to plug and play quickly to other systems, partners, developers and FinTechs to innovate on top of our software and extend the functionality.

Temenos Infinity is designed around the bank's customer using design-led thinking, user journeys and single-country to support banks across all the customer platforms. Today, Digital Front Office is almost entirely in-house, with banks building up layers of legacy code in an attempt to respond to the customers' demands. The composition is a mix of channels and UXP vendors and platform toolkit. With Temenos Infinity, we have a highly differentiated product, and we are confident we will capture significant demand with this.

Moving on to Slide 20. I'd like to introduce Temenos T24 Transact, our next-generation core banking product. Temenos T24 Transact takes the deep and extensive banking capabilities of Temenos T24 Core Banking and re-platforms them onto a new cloud-native and cloud-agnostic platform. Temenos T24 Transact gives banks continuous deployment, meaning they are able to test and deploy changes like new products and IDs in a matter of minutes. This currently takes banks with legacy solution months or years to do that.

Developers are able to build in the morning and deploy in the afternoon, giving them freedom to create and to experiment. Temenos T24 Transact shares the same APIs technology with Temenos Infinity. So it also can plug and play quickly to other systems, partners and FinTechs, including other front office digital solutions.

Existing clients can upgrade to Temenos Infinity and Temenos T24 Transact seamlessly using the same upgrade technology you used for previous upgrades. Temenos T24 Transact is a product that allows banks to transform faster, innovate quicker and reduce cost.

On Slide 21, I'd like to give an update on our U.S. strategy. We signed a number of key deals in 2018, including PayPal for loan management system in the cloud as well as the strategically important deal with a top tier U.S. bank for Temenos Infinity, which will be integrated with a third-party banking system.

After the acquisition of Avoka, we now have a total of 460 employees in the U.S., giving us critical mass and traction on the ground. The U.S. contributed 16 percent of our total software licensing in 2018. And with the addition of Avoka, we expect our growth in the U.S. to accelerate to reach 25 percent of total software licensing in the medium term.

Avoka is a U.S. headquartered leader in customer acquisition and onboarding, which we acquired in December 2018. It has over 85 clients across the U.S., Europe and Australia. It's enabled banks to create simple customer experiences to improve conversion rates. Integration is progressing very well, and the product has already been integrated as part of Temenos Infinity.

We bought Avoka for USD 245 million, and we expect it to grow 30 percent in 2019 to reach $50 million of revenues. We expect it to be non-IFRS EPS neutral in 2019, accretive in 2020 and to reach group margin in two years. Turning to Slide 22. We've seen significant incremental demand for SaaS and cloud adoption, which we expect to continue to accelerate going forward, driven by a highly differentiated cloud-native and cloud-agnostic product set.

Our total contract value increased over six times in 2018 to reach $59 million by the end of the year, and we expect SaaS revenues to double in 2019. The growth in SaaS is driven by a combination of neo-banks, larger institution looking to renovate for Digital Front Office and banks looking to launch services across multiple countries. We expect this growth to continue accelerating in 2019 and in the medium term.

Moving to Slide 23. We are starting 2019 with very high product revenue visibility. We have strong visibility on around 85 percent of our product revenue, and this slide shows how we did this. You'll see in the appendix a definition – a more detailed definition of our revenue visibility. Our recurring revenues of maintenance and SaaS are paid annually in advance and locked in for the year.

Our software licensing includes subscription under IFRS 15, so there is an element of this actually recurring as well. It also includes relicensing as the number of clients contracts come up for renewal each year, and we know the expected contribution from these. We also know the level of committed spend from Tier 1 and Tier 2 banks undergoing progressive renovation.

Lastly, we have very good visibility on sales for existing customers, as we have assessed the historical behavior in the context of our pipeline today. This level of strong visibility put us in a very strong position at the start of 2019. Turning to Slide 24. We've had a very strong pipeline growth in 2018.

This was broad-based across all tiers, segments and geographies. We are expecting double-digit growth across all geographies in 2019, with demand driven by our leadership position for Banking with Temenos T24 Transact as well increased market share in Digital Front Office with Temenos Infinity. So obviously, these give us also high level of confidence in the outlook of the business.

On Slide 25, we have given our 2019 non-IFRS guidance. Please note that the guidance is based on IFRS 15, and we've provided the 2018 full year-based numbers on the IFRS 15 for investments. The guidance is in constant currency, and you can find the FX rates and the restated 2018 period in the appendix.

We are guiding for full year total software licensing growth of 17.5 percent to 22.5 percent and total revenue growth of 16 percent to 19 percent. Our EBIT guidance is in the range of $310 million to $315 million, which implies a full year margin around 31.7 percent. We continue to expand our EBIT margin, which is expected to increase by 130 basis points organically, excluding the impact of Avoka.

Finally, we expect conversion of over 100 percent of our EBITDA into operating cash and 2019 tax rate of between 15 percent to 16 percent. With the strength of our pipeline and our very high revenue visibility, we are confident that our guidance for 2019 is very achievable.

On Slide 26, we are also reconfirming our medium-term guidance. We expect total software licensing to grow at a CAGR of least 15 percent and total revenue to grow at the CAGR of between 10 percent to 15 percent. We expect EBIT margin improvement target of between 100 to 150 basis points per annum and EPS growth of at least 15 percent on a CAGR basis.

For DSOs, we are targeting 5 to 10 days reduction per annum to reach 100 days in the medium term. And we expect our normalized tax rate to be around 17 percent to 18 percent. Lastly, we expect to continue to convert over 100 percent of our EBITDA into operating cash flow. We've been able to deliver growth at or above this level over the last three years, and we are confident we will continue to do so going forward.

On Slide 28, I'd like to highlight, we are holding our Annual Temenos Community Forum in The Hague on the 2nd to the 4th of April. This is an amazing opportunity to meet our clients and partners, FinTechs, the thought leaders, and of course, the executive team. If you'd like more information on attending, please do get in touch with us, as this will be a fantastic event.

So in conclusion, 2018 has been an outstanding year for Temenos. Our clients are under significant digital and regulatory pressure, which combined with a move to open banking is driving demand for our products. We see SaaS and cloud option driving incremental demand, and we expect to capture this with the launch of our two new could-native and cloud-agnostic products. In 2018, we saw the ongoing investment we've made in sales and marketing paying off, with very strong sales execution across geographies.

We've had a strong start to 2019 with the acquisition of Avoka, the announcement of our deal with Bloomberg and the launch of our new products. We continue to benefit from multiple (structural) drivers. And the strength of our pipeline and revenue visibility means we are confident in delivering another strong year of growth. We have a very clear strategy that has driven our growth over the years. And as CEO, I will continue executing this winning strategy to deliver exceptional shareholder value.

Operator, please, we can move on to Q&A.

Operator: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press “star,” “one” on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, you may press the “hash” key.

And our first question comes from the line of Josh Levin from Citigroup. Thank you. Please ask your question.

Josh Levin: Thank you. Good evening. First, David, I want to wish you the best of luck. I can't think of anyone who deserves a break more than you, given how hard you've worked building Temenos. And congratulations to you, Max, as well, well deserved.

My first question, your medium-term guidance is well below your '18 results and your 2019 guidance. What's holding you back from raising your medium-term guidance?

Max Chuard: (Right on). Thanks, Josh, for a very good question. Listen, the guidance, we – the medium-term guidance that we are giving is what we believe we can deliver sustainably. And clearly, we've seen that in the last few years, we've been growing faster than that.

And I think you are raising a fair point on the fact that now we see the cloud adoption being faster than we expected. I think at this – at some stage, we are going to see that going through our medium-term target. I think it's too early to do that today, and I think we'll provide more information during our next Capital Market Day, but thanks for the question.

Josh Levin: OK, one more, if I might. You've spoken before about this being the part of the cycle where you need to invest in sales and marketing. Your sales and marketing cost, I think – it looks like they increased around 23 percent in 2018. Should we expect a similar trend in 2019?

Max Chuard: Yes, Josh. Clearly, we've been investing in sales and marketing, we've been investing in specialization within our sales and marketing, and we'll continue to do that. And clearly, as you said, we grew sales and marketing around 25 percent in '18. And clearly, the goal is to continue to invest in 2019 to capture this amazing opportunity, which is in front of us.

Josh Levin: Thank you.

Operator: Thank you. And our next question comes from the line of Paul Kratz from Jefferies. Thank you. Your line is now open.

Paul Kratz: Good evening, everyone. Just two questions on my end. Regarding the front office deal in the U.S., I think you mentioned that you're integrating it with a third-party banking – core banking system. Is that a system that was internally developed? Or is that from a competitor?

And secondly, when it comes to the U.S. deal that you're currently implementing, how – to – or to what extent are you relying on your own services team to implement those versus third parties?

Max Chuard: Yes. The strategic deal that we won is on the back-end side, let's call it, one of our competitors that we see in the U.S. And we're very pleased that they selected us on the front-end. And clearly, that's part of having this Temenos Infinity, which is totally independent from the back-end.

And currently, in the U.S., we've been so far delivering our project mainly by ourselves, but clearly in parallel, we've been building up the same governance and the same partner structure that we've got internationally. So you'll see now that we are getting more scale in the U.S. and we've got much more activity. We are going to start deploying the same model as we do internationally with partners as well.

Paul Kratz: And just maybe one quick follow-up on your mid-term guidance. When I look at the 100 to 150 basis points and then I look at the margin trajectory of Avoka, is it fair to say that maybe over the next two to three years, you should see your margins expand at a rate that is significantly higher than what you have in your mid-term guidance?

Max Chuard: I think expanding our margins between 100 and 150 basis points is very acceptable and reasonable assumption, and I think this is what we are planning to do. Clearly, we want to continue to invest and will be investing heavily in sales and continuing to invest in the product as well.

And – but at the same time, as you know, we've got amazing stream of recurring revenues, which is highly profitable, and that will continue to drive margin expansion. But for time being, let's continue to – we continue to target this 100 to 150 basis points improvement.

Paul Kratz: Thank you.

Operator: Thank you. And your next question comes from the line of Charlie Brennan from Credit Suisse. Thank you, your line is now open.

Charles Brennan: All right. Great. Thanks very much (for) taking my questions. I've got two quick ones if I can. Firstly, can I just touch on a subscription versus license debate? It's one that we see across the sector. But the way in which you described subscription, sounds like it's all incremental business for you. I'm just wondering at the margin whether there's any cannibalization of traditional licenses moving to subscription? And is that something that's holding back your revenue growth?

And then secondly, on a completely separate matter, one of your partners, Cognizant, has been talking very optimistically about the size of the Samlink deal for them. I was just wondering if you can give us any color from your point of view on that deal. Thank you.

Max Chuard: Yes, let me – if I start with the first one, we don't see a (cannibalization). We see that this is opening up a new market, I think, that probably the market has gone the traditional way. So I think we don't see a cannibalization, and we continue to be – to see our traditional license growing fast, double digit as (during the past).

On the Cognizant one, we've clearly seen what was disclosed, and we were very positively pleased with this announcement. As I said, we started well the year. We are very confident in 2019, and I will be pleased to update you during our Q1 results.

Charles Brennan: And you've touched on a good start to the year. A couple of investors have been commenting to me on the tough comps that you seem to have in Q1. Is there anything you want to say about the seasonality of this year to help us with our modeling?

Max Chuard: Listen, as you know, we look at the business on a yearly basis. We give you a guidance that we believe we can deliver because of the high level of visibility we get in the business as well as the very high level of pipeline as usual. And so on that basis, there's nothing for me to flag. We are confident that we are going to have a very successful 2019.

Charles Brennan: Great. Thank you.

Operator: Thank you. And the next question comes from the line of Hannes Leitner from UBS. Thank you. Please ask your question.

Hannes Leitner: Yes. Good evening. Thank you for letting me on. Two questions (order). The first one is regarding Julius Baer. Julius Baer announced at their conference call that they will not proceed with – or they will stick with the in-house solution in Switzerland.

May you comment on that? And the second one is, in terms of the TCF increase, how much of that is Avoka? And then a quick follow up.

Max Chuard: Listen, on Julius Baer, obviously, I cannot comment on that – I will not even though I would love, but I cannot. On the total contract value, there's no contribution on that from Avoka. So it's without any contribution of Avoka. And that's why I think we are so excited about the traction received in cloud and SaaS, and we continue to expect this to continue to grow in the future.

Hannes Leitner: OK. And just a quick follow-up on – in regards to the investment in equity and the cash flow, can you specify what those ($50 million) are for?

Max Chuard: We did mention that we've done an investment in NuoDB, which is on this cloud specialized distributed database, and that's the only investments we've made in 2018.

Hannes Leitner: Thank you.

Operator: Thank you. And the next question comes from the line of Jacob Kruse from Autonomous. Thank you, your line is now open.

Jacob Kruse: Hi. Thank you. I just wanted to ask if you see any additional opportunities or challenges in the U.S. with – following the Fiserv and First Data (deal that was) announced a couple of weeks ago? Thank you.

Max Chuard: Listen, we've seen there's been a lot of momentum in the U.S. in the last few years. 2018 was by far our best year in the U.S. We are gaining much more credibility in the U.S. The Avoka transaction as well is bringing momentum in the U.S. It's a U.S. company. We've got, as I said, almost 500 people there. So I think that for us is the main point.

Now when you've got such a major transaction and the one that you mentioned, clearly, it can bring some disruption. And what will it mean, difficult to say. What I can say is Temenos is in a great position right now to continue to execute extremely well in the U.S., having built the last two to three years' momentum, and I think we are going to continue to see that in 2019 and onwards.

Jacob Kruse: Yes. Thank you.

Operator: Thank you. Once again ladies and gentlemen, "star," "one" if you wish to ask a question. And the next question comes from the line of Chandra Sriraman from MainFirst. Thank you. Please ask your question.

Chandra Sriraman: Hi, (yes). Thanks for taking my question. (Good evening), Max. And (good evening), David. Congrats on your new roles. Just a couple of questions from my side. So I remember you just showing us a slide where large deals led to your beat in the last three years. Obviously, this year again, has been very strong, but without any large deals.

So can you give us a sense of how strong your backlog is with regards to the progress of renovation deals to give us a sense of how independent your top line performance is with respect to the large deals that you would sign in future? That will be very helpful. And secondly, if you can give – I know it's difficult, but if you can give any sense of how much you have already included in your 2019 guidance from the Bloomberg deal, that will also be quite helpful.

Max Chuard: Chandra, thanks for the question. On the large deal front, I think the main point here is that we've delivered an outstanding 2018 without any contribution from (large deals). I think the point I tried to highlight is the demand was really broad-based, the momentum broad-based.

And that was, as we've seen in 2018, is what we see as sustainable in the future and does not require any contribution (of those mega deals). Clearly, everyone likes those big deals, but the point is how do you build a business, which can sustainably grow at this level without a contribution of those one-off deals. Now clearly, we continue to have discussion of very strategic deals, but those are – they are unpredictable and timing is very difficult (to predict).

And that's why we don't comment on them, and that's why we don't add them as part of our guidance, because we cannot predict and we cannot guide on a sustainable and predictable basis. That's why we remove them. Now Bloomberg, this is very, very exciting, and we expect to start to go to market in early Q2.

As I said, this opens up a totally new markets for us, really the capital market, which we've not been there so far. We do it as well in a very interesting way with Bloomberg who clearly now leads the way there. We'll be able to leverage their distribution channel.

And as Mike noted, we've got around 2,000 salespeople. And so we are going to train some of them on our product. I expect to see – starting from Q2, we're going to see contribution from Bloomberg, and we'll update as it goes. It's a new initiative. And I think it's a very exciting initiative for the medium term.

So with that, I think that was the last question. Thank you very much for attending the call, and see you soon on the road.

Chandra Sriraman: Thank you very much.

Operator: Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you all for participating. You may now disconnect.

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