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Temenos Group
Q3 2019 Results

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COMPANY REPRESENTATIVES

Max Chuard – *Chief Executive Officer*

Panagiotis Spiliopoulos – *Chief Financial Officer*

PRESENTATION

Operator

Ladies and Gentlemen, welcome to the Temenos Q3 2019 Results Conference Call and Live Webcast. I am Sandra, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the Conference is being recorded. The presentation will be followed by a Q&A session. You can register for questions at any time by pressing * and 1 on your telephone. For operator assistance, please press * and 0. The Conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to handover to Max Chuard, CEO. Please go ahead.

Max Chuard

Thank you. Good afternoon and thank you for joining today's call. I hope you've been able to access our results presentation on our website or through the webcast. I will start with some comments on our Q3 performance and then I will hand over to Takis for an overview of the financials before giving some concluding remarks.

So starting on slide 7, we continued our momentum from the first half to deliver total software licensing growth of 15% in the quarter and we have now delivered total software licensing growth of 20% year-to-date. In particular, we've seen strong momentum in our SaaS business with revenues up 93% and ACV up 164% in Q3 on the back of a number of new signings across regions. Overall, total revenue grew 12% in Q3 and 17% year-to-date. EBIT was up 16% in the quarter and 20% year-to-date. And EPS is up 18% in the quarter and 19% year-to-date, as we continue to deliver strong margin expansion through the operation leverage in our business model.

We closed the acquisition of Kony at the end of Q3 which we are integrating with Temenos Infinity to enhance our digital front office product as well as bring significant SaaS and cloud expertise and increasing significantly our presence in the U.S. market.

We have updated our 2019 guidance following the acquisition of Kony which Takis will take you through shortly. I am pleased with the continued momentum in the business and the growth we've delivered so far in 2019.

On slide 8, I'd like to give you some insights on our sales performance in the quarter. Our end market continues to be driven by the significant digital, regulatory and cost pressures.

In particular, the competitive environment for banks is evolving rapidly with numerous neo-banks, challenger banks and new entrants offering a range of financial products through digital channels with customers expecting an Amazon-like experience. These new players are setting the benchmark for traditional bank and are struggling to compete with the legacy IT systems.

We go... we saw good sales momentum in Europe, Asia and the Americas in Q3. The U.S. in particular had good momentum across a number of different product lines. Key wins in the quarter included Tier 1 U.S. banks for fund administration, a Tier 1 Austrian bank for Infinity and a number of fundings with existing Tier 1 European clients as we continue to increase our penetration of our existing client base.

In terms of products, Temenos T24 Transact continues to perform very well and we expect continuous double-digit growth in this product going forward based on the level of our pipeline development. We've also seen a significant acceleration in demand for Temenos Infinity particularly on the back of the acquisition of Avoka and Kony, which significantly enhance the product functionality.

We had a weak sales execution in the Middle East and Africa in the quarter. This should be put in perspective though as a region delivered very strong growth in 2018 and so was against a strong comparative. Our Middle East and Africa sales growth has grown significantly in the recent quarters. However, I think we need to strengthen our sales management in the regions to ensure better execution. We've put appropriate measures in place and expect to have it resolved by early 2020.

On slide 9, we've had very strong performance in SaaS in Q3. Banks are becoming increasingly sophisticated around the understanding and use of the cloud, and we are very well positioned to capitalize on this with our cloud native and cloud agnostic products.

Key SaaS signings in the quarter included a high profile challenger bank entering into the Australian market, a UK challenger bank focusing on the SME space and a number of wins across different countries in Europe for both neo-banks as well as new entrants. The acquisition of Kony is also increasing our SaaS and cloud expertise and we've already started to develop pipeline and seen some early customer successes in the first weeks of Q4.

In term of SaaS metrics, ACV grew 164% year-on-year, SaaS revenue is up 93% and TCV increased by 183%. It is important to note that so far the growth in SaaS is incremental to our business.

Moving to slide 10, we had 21 implementations go-live in Q3 2019 including multiple go-lives in Europe with ongoing Tier 1 and Tier 2 continuous renovation projects. We also had 7 neo-banks going live in the cloud in both Asia and Europe. Our implementations are very well supported by the global network of trained third-party consultants. There are now over 6’000 experienced third-party and Temenos consultants available to support our clients in the implementation projects.

On slide 11, I’d like to give a quick overview of the Kony acquisition and integration. Temenos acquired Kony at the end of Q3 for an enterprise value of 559 million Dollars and an earn out of 21 million Dollars. Kony is a leading vendor of digital banking software in the U.S., as you know one of our key strategic markets.

This acquisition significantly accelerates Temenos Infinity, our award-winning digital front office product by combining Infinity with Kony’s digital banking and multi-experienced development platform to create the most advanced digital banking product in the market. Kony has a global team of 1’500 people with strong digital and cloud expertise, which are key for banks in this... investing in this area.

Kony is also transformational for our presence in the U.S., as we are gaining additional scale, digital banking expertise and clients in that market specifically. Tom Hogan, who was the Chairman CEO of Kony, has joined Temenos as our President for North America and will be responsible for driving our U.S. strategy and growth across all our products going forward in the U.S.

The integration of Kony and Temenos is progressing well, both from a product and people perspective with a very detailed integration roadmap in place including combining the product over the next 18 months and cross-training of the sales teams. We have already started developing pipeline and have seen some early success with clients.

So on slide 12, I’d like to give a quick overview of Kony. Kony was founded a decade ago and established itself as the global leader in digital banking and low-code development platforms. It has a very strong mobile development application, capabilities in particular which has been recognized by third-party industry and analysts including IDC and Forrester who both rank Kony as a leader in its market. Kony has a global client base of over 100 banks with U.S. banks and credit unions making up around half of the client base.

The majority of the U.S. clients' base are large financial institutions with assets of 10 billion and above.

Kony is headquartered in Austin, Texas and has around 230 employees in the U.S. with broad sales coverage in the market and a strong understanding of the digital requirements of U.S. financial institutions.

Globally Kony has 1'500 employees with a strong culture and understanding of digital and cloud solution. It has a very similar R&D model to Temenos, with a large center of around 1'100 employees focus on digital development in Hyderabad, in India. And this will become the Temenos R&D hub for digital for Temenos as a large group.

The Kony business model is also highly compelling, with certain revenues contributing over 60% of its total revenue and a very high retention rate among its client base. You can find a summary of the transaction metrics in the appendix of this presentation.

So, with that, that I will now hand over to Takis, to take you through the financials for the quarter.

Takis Spiliopoulos
Thank you, Max. I will walk you through on slide 14, the financial highlights of the quarter. We had good momentum in Europe, Asia and the Americas driving total software licensing growth of 15% in Q3, with SaaS revenue growth particularly strong. We have now delivered total software licensing growth of 20% year-to-date, well above our sustainable annual target of at least 15%. Our maintenance revenues grew 12% in the quarter and 12% year-to-date, and total revenue grew 12% in the quarter and 17% year-to-date.

EBIT grew 18% in the quarter and we delivered strong margin expansion of 127 basis points, reaching an EBIT margin of 34.5% in Q3, this drove EPS growth of 18% in Q3. We generated U.S. Dollar 50 million of operating cash in Q3, and have now generated U.S. Dollar 382 million of operating cash over the last 12 months. DSOs ended the quarter at 123 days, 9 of which are due to the acquisition of Kony, meaning the underlying DSOs were flat year-on-year at 114 days.

Our leverage at quarter end was 3.1 times net debt to EBITDA and we collect as you know a significant portion of our cash in Q4, linked to our recurring maintenance revenue stream which is billed and collected annually in advance and which will bring down our leverage to below 2.5 times by the end of the year. Lastly, our services business continues to perform very well with our services margin reaching 12.2% in Q3, up 121 basis points as we continue to focus on project governance and are billing more of our services on a time and material basis.

Moving to slide 15, I will highlight some key figures for the quarter. As a reminder, with the adoption of IFRS 15 at the start of 2018, we are showing year-to-date rather than last 12 months comparison as we did not restate our 2017 actuals under IFRS 15.

Our total software licensing grew 15% in the quarter and 20% year-to-date at constant currency, reflecting the underlying momentum in the business and in our end markets. Our license growth continues to drive our maintenance which grew 12% in constant currency and total revenue grew 12% in the quarter and 20% year-to-date also in constant currency.

Our business model continues to drive operating leverage in the business with our EBIT growing 16% in the quarter and 20% year-to-date, and our EBIT margin expanding 127 basis points in constant currency to reach 34.5% in the quarter.

Moving to slide 16, we show like-for-like revenues and costs adjusting for the impact of M&A and FX. Our last acquisition before Kony was Avoka in December 2018, which is expected to contribute U.S. Dollar 50 million of revenue for the full year 2019. Kony closed at the end of Q3 and so far has had minimal impact on the quarter.

In terms of FX, the weaker Euro continued to be a headwind on revenues, while our cost base benefited from a number of currencies weakening against the U.S. Dollar. Taking into account, currency movements and hedging, FX had a minimal impact on EBIT in the quarter.

Total software licensing delivered 8% like-for-like growth this quarter and maintenance grew 11% with total like-for-like revenue growth of 17... of 7%. Total like-for-like costs increased only 1% in the quarter in particular due to lower variable costs linked to the weak sales execution in the EMEA region. Like-for-like costs have increased 6% year-to-date, versus 11% like-for-like revenue growth.

On slide 17, we look at below the line items. Net profit grew 20% in both Q3 and year-to-date. Our tax rate was Q3... our tax rate for Q3 was 12.1% which was lower as we continue to benefit from deferred tax assets. We now expect our fiscal year 2019 tax rate to be between 14% and 15% down from 15% to 16% previously. Our medium tax... medium term tax rate remains at 18% to 20%, which is a normalized run rate for the business. Finally, EPS grew 18% in the quarter to reach U.S. Dollar 0.90 cent Dollar and grew 19% year-to-date.

On slide 18, we look at DSOs. DSOs ended the quarter at 123 days, 9 days are due to the acquisition of Kony, meaning the underlying DSOs ended the quarter flat at 114 days.

We expect our DSOs to continue declining driven by our strong cash collection, more business with Tier 1 and Tier 2 banks and an increasing amount of services we bill as time and material. We plan to continue decreasing DSOs to reach our long term target of less than 90 days.

Turning to slide 19, our Q3 LTM cash conversion was 107%. This continues to be significantly above our target of converting 100% of IFRS EBITDA into operating cash.

Moving to slide 20, we show the key changes to group liquidity. We generated U.S. Dollar 50 million of operating cash in the quarter. The biggest movements in the quarter were driven by the acquisition of Kony, which we paid for mostly with debt. We ended the quarter with U.S. Dollar 77 million in cash on balance sheet. Our total borrowings at the end of the quarter were U.S. Dollar 1.2 billion and our net debt was U.S. Dollar 1.1 billion with our leverage at 3.1 times. Given that Q3 is our strongest cash quarter our leverage will be below 2.5 times by yearend.

Now on slide 21, we have given a revised 2019 guidance taking into account the impact of Kony. The guidance is on a non-IFRS basis and in constant currencies; you can find FX rates in the appendix. We are now guiding for full year total software licensing growth of 19.5% to 22.5% versus 17.5% to 22.5% previously.

The change includes roughly 200 basis points of headwinds from FX, roughly 200 basis points of additional total software licenses from Kony and the remaining delta is due to the sales execution issues in EMEA which we highlighted. For total revenue, we are guiding for growth of 18% to 20%, up from 16% to 19%. This change also included roughly 200 basis points headwinds from FX, 200 basis points of additional licenses from Kony. The remaining delta is due to the sales execution in EMEA as well as the lower services revenues in Q3 due to the strength of our partner program.

Finally, our EBIT guidance remains in the range of U.S. Dollar 310 to 315 million which implies a full year margin of around 31.9%. We expect Kony to reach group margin within 3 years and we expect it to be EPS neutral in 2020 and accretive from 2021. Our organic EBIT margin expansion is expected to be 150 basis points excluding the impact of Avoka and Kony. Finally, we expect conversion of over 100% of EBITDA into operating cash and as mentioned a 2019 tax rate of 14% to 15%, revised down from 15% to 16% previously.

On slide 22, we reconfirm our sustainable annual growth targets.

We expect to deliver compound growth at these rates sustainably in the long term beyond the usual 3 to 5 year period we would consider for medium term targets. We have introduced a new lower DSO target of 90 days, and an EBIT margin of 36% plus in the long term. We also expect our tax rate to move up to towards 20%.

Our other targets remain unchanged as well with total licenses expected to grow organically at 15% plus per annum, total revenue at 10% to 15% per annum and EPS at 15% plus per annum. We have also retained 2, 3, to 5 year targets of expanding the EBIT margin at 100 to 150 basis points per annum and a tax rate of 18% to 20%. With that, I will hand back to Max.

Max Chuard

Thank you, Takis. So to conclude on slide 24, banks are under intense pressure from digital regulation, cost and open banking and they view investment in the IT platform as essential to the businesses. We continue to invest in sales and marketing to support the 6 drivers of growth and to grow our market share across all of these. We had good sales momentum in Europe, Asia and the Americas this quarter with the U.S. in particular performing well. We also have strong momentum in SaaS with multiple signings in Q3. And finally, the acquisition of Kony will enhance Temenos Infinity, strengthen our SaaS and cloud capabilities and significantly expand our presence in the U.S.

With that, operator, I would like to open the call for Q&A.

QUESTION & ANSWER

Operator

We will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use only handsets while asking a question. Anyone who has a question may press * and 1 at this time at this time.

The first question comes from Michael Foeth from Vontobel. Please go ahead.

Michael Foeth

(Unaudible).

Operator

Excuse me to interrupt Mr. Foeth, but your line is very disturbed. I have to disconnect you. Please reconnect again.

Michael Foeth

Thank you.

Operator

The next question comes from Stacy Pollard from JP Morgan. Please go ahead.

Stacy Pollard

Hi. Thank you very much for taking the questions. Just the weaker license and the issues in Middle East and Africa, what does the pipeline look like there and maybe, you know, you said you can recover in 2020, so it sounds like the issues might be ongoing in Q4. Could you perhaps give us a little more clarity on that? I know you mentioned sales management, maybe just a little bit more detail there? Have you lost any deals from the pipeline there and then broader spectrum, how does the pipeline look in other regions?

Max Chuard

Hi Stacy. Listen, regarding the execution issue that I mentioned in the Middle East and Africa, this is a region that the last couple of years have seen tremendous growth.

And I have seen what we have seen in Q3 is the investment we have put in that region and the capabilities to deliver and close on the transaction has not been as efficient as expected. So for us, the plan is very simple. We need to strengthen the management team, the sales management team to be able to cope with the growth that we have seen in the region. Now, we started that process, so it's something that we knew we needed to do, so the process is ongoing. However, I will expect that you know, to go through and to be able to perform 100% as we've had in the past, will take probably until early 2020.

Now, having said that, the pipeline continues to be very strong in that region. We have not lost any deal. And as I said, it is a region that has performed very strongly in the past. And somehow, that success and that growth came to a point where we couldn't ended there the execution and that's what we have seen. But pipeline is strong, there is no deal that has been lost and in fact, there are some of those deals that we expect to close obviously in Q4 already.

Now globally, I would say across the regions if you remove this sales execution, we continue to see strong pipeline. I mentioned in my part that Transact which you know is the core of the business, the largest part, continues to be growing sustainably and very strongly at more than double-digit and also Infinity which is this newer product on the digital front is experiencing extreme, extreme growth. And we are very, very positive on our ability to capture that market. And in addition to that, we see the cloud part being very, very positive. I think what is very interesting on the cloud is our technology give us such an advantage compared to the more traditional vendors. That our leadership position when we compete for cloud is very much enhanced, you know, compared to them, so also seeing a very strong pipeline development for SaaS type of deals.

Stacy Pollard

Thanks. Maybe just one quick follow-up, can you give a comment around services and the weakness in the quarter there and how do you see that going forward. And then in terms of upcoming implementations, I guess you continue to leverage third party SIs more and more.

Max Chuard

Yes, that's clearly the strategy and that's why on the services side we look at it as a margin business and not as a topline as such. So for us really is how can we continue to improve our margin? In services obviously, continue to improve the services we offer to our customer and the ability to deliver, you know, a very strong competition. But it's true that today if you look at our partner network and how we have been able to grow and train our partner, this is working extremely well.

And hence you know, more and more of the deals are delivered by our partners and Temenos plays a role of governance and support to the bank, to the customer, to ensure that there is a smooth transformation of the bank yeah.

Stacy Pollard

Thank you.

Operator

The next question comes from James Goodman from Barclays. Please go ahead.

James Goodman

Yes, good evening. Thanks very much and just quickly, just elaborating perhaps a little further, just on the Middle East and Africa topic, I just wondered if you were able to be any more specific around so the countries or sub-regions there and, you know whether it’s a small number of deals I don’t know if you are clear on that or whether it’s a sort of a broader sales execution there? Whether you really encompass any sort of macro commentary into Middle East at all or is it... whether that’s still strong and it’s purely execution. And then the other question is just on the sequential change in the OPEX. I think, Takis you mentioned that there has been some lowering of the compensations or provisions. Just looking for a little bit more detail there, whether that’s the key driver or whether there is anything else sequentially there with the OPEX down, you know 10% or so? Thanks.

Max Chuard

Hi James, so listen on the Middle East, it is still the execution and I wanted to bring transparency and to be able to explain really what happened, but ultimately if you look at it, it’s a few deals, so we are not talking of something as you know major, so it is just probably more towards the Africa region where we have seen probably most of a need to strengthen the situation, but it’s really very specific risk. We have not seen any macro events, and I have said if anything it’s really the growth that we have seen in that region which has put pressure to the team on the delivery side. And so it’s now... we have started the process to strengthen, to bring more sales management and not just people on the street delivering the (unintelligible). That’s the action that is ongoing set by early 2020. We should be back on track with the pipeline developing very nicely.

Takis Spiliopoulos

Hi James, you are correct, a large part... the largest part of that was from lower variable accruals definitely driving these lower costs, also as you all may remember, we always had said we have a tight grip especially on G&A. This we have maintained, so there are also some savings there, as we have now fully integrated Avoka, but the largest part was from the variable.

James Goodman

Okay. Thank you.

Operator

The next question comes from Hannes Leitner from UBS. Please go ahead.

Hannes Leitner

Yes. Good evening. Thank you for letting me on. I got a couple of questions concerning the updated guidance and around the acquisitions. So you mentioned 200 basis points, tailwind from the Kony acquisition. Could you identify because that there is 17 million calculated 200... makes it 200 basis points? You mentioned that some of those already booked in Q3. So how should we think about the trajectory going forward as you guide for roughly 115 million run rate next year? That's the first question.

Max Chuard

Hi, Hannes. Yes, I'll take that one. And as we said, you know, there is very limited contribution from Kony in Q3. For Q4, we would say, you know, the 200 basis points, so that's around, you know, 8 to 9 million of total software licensing and maybe around 20 million of total revenues. So the delta is obviously services. Now, keep in mind that Kony has a fiscal year end in March, so there is the usual seasonality, i.e., the calendar Q1 quarter is a strong one. So we still feel very confident with 115 million of revenues we have guided for 2020 for Kony.

Hannes Leitner

Thank you Takis. But isn't that a subscription business or we would have expected that there's less seasonality in the booking of subscription?

Takis Spiliopoulos

Well, it is, but you know, we don't have... we don't give the split, you know, what is Saas. So that's definitely included in those 8 million. And there is, you know, some still new deals to be won and it's as we have mentioned at the Kony acquisition call, there is a very strong growth in this business.

Hannes Leitner

Okay. And then, the last one is on... so if there was really a minimal contribution by Kony that would mean that the implied difference on the organic growth and constant currency would be coming from Avoka. I have year-to-date a contribution of only 30 million so far, you guided to a 50 million of business at the time of the acquisition of Avoka. So that would mean also for a very strong finish, that would result in the similar question around SaaS and software license split?

Max Chuard

Okay. On Avoka, I don't think we have given you the quarterly split and contribution from... for Avoka. Definitely, you know, with Avoka having, let's say, the normal fiscal year-end you know, their strongest quarter is Q4. And so, this is incorporated, but we haven't changed, the 50 million we see for the full-year.

Hannes Leitner

Okay. And then, if I may the last quick follow-up on the accounting. You had a deferred income also year-to-date of roughly 40 million Dollars versus 25 million. So could you help us to understand how much Kony added in Q3 to that?

Max Chuard

Okay, we'll have to come back on that. You know, most of the items we saw in terms of balance sheet changes, you know, obviously we had limited impact on the P&L, but obviously on the balance sheet, most of the changes you have seen from a quarterly and yearly change, that was all or mostly driven by Kony.

Hannes Leitner

Understood. Thank you.

Operator

The next question comes from Adam Wood from Morgan Stanley. Please go ahead.

Adam Wood

Hi, thanks for taking the question. Can you just maybe start off on the cost base increase? If we looked at the last few quarters the rate of cost base growth has been decelerating kind of generally. And I'm just wondering philosophically how you think about that against the top line growth. We now put a 35 give or take percent margin for Q3, you know, unless businesses in software slow, it's generally difficult for companies to push margins dramatically higher.

So can you just talk a little bit about how comfortable you feel driving the top line growth that you want, with the slowing cost base that we see in the business?

Secondly, could you maybe just help us... you've highlighted a very strong SaaS performance overall. If you just help us with what that would be organically specifically SaaS in the quarter? And then, just again to the environment generally, a lot of the IT services companies have talked about a weaker environment for financial services spend, I guess, we all understand that, you know, you are exposed to quite different markets to the IT services companies purely, and the strategic deals that you have might not be impacted. But with more of the business coming from add-on deals into the base, could you just talk a little bit about what you see as the risks from IT services, companies flagging, weaker financial services spend overall? Thank you.

Max Chuard

Okay. Adam, let me take the last one. And I will leave the 2 first for... to Takis. On the environment, clearly you know, we monitor the environment on the macros on a continuous basis. So far we've not seen an impact of, you know, of the macro elements. So far the discussion we've got with our customers that what we do is really highly strategic, it is mission critical. We ultimately support to improve the profitability and the performance of those banks. So we've not seen any change in conversion in pipeline, except as I mentioned, very specifically for the Middle East, but that's... it is really not related to macro. But you know, obviously, we are very conscious and we tried the pipeline with conversion rates, we tried to assess if there's any changes. But so far we've not seen any impact from any worsening environment from our customers, but we will continue to monitor that and make sure that we are tracking very closely.

Takis Spiliopoulos

Hello. On the cost side, you know, yes, correct. We have been, you know, like-for-like up 1%. And on revenues of plus 7%. There is still quite some investments, you know, we planned for Q4. So we think, you know, a double-digit cost increase for the full year is probably, you know, what we are going to end up with. Obviously, there is quite a bit of discretionary spending. We're not saving on R&D; we're not saving on sales and marketing. So that was largely G&A you know, where we reap some of the benefits from the integration of Avoka.

On the SaaS organic growth, we used to give guidance and this is still valid, we say we expect the SaaS revenue to grow 30% to 35%. So you can assume that the organic growth in Q3 was also in that ballpark.

Adam Wood

Right. Thank you very much.

Operator

The next question comes from Chandra Sriram, from Main First. Please go ahead.

Chandra Sriram

Yes, hi, good evening Max. Good evening Takis. Just a couple of questions from my side. So I noticed that maintenance growth has dramatically slowed, it's still strong in double-digits, but just wondering is there anything to it or just more timing related? And my second question is DSOs of the underlying business have also increased after declining for a very long time. Is there anything to read into this or it is just again one-off? Thanks.

Max Chuard

Okay. So on the DSOs first, you know, we are at 114 days. And if you look at the cash flow statement obviously you know, with licenses not growing as strongly as in the previous quarter, you know, there was also some headwind on the cash side. So this is you know, just basically momentary view, I would not read anything into that. We expect this to revert basically in Q4.

Now, in maintenance revenue, you know, we have 12% on a constant currency basis. Again here I wouldn't read you know, too much into one particular quarter. You know, we see that you know, growing you know, 12%, 13%, 14%, you know, slightly slower than you know, total software licenses, so no change in terms of guidance for the maintenance revenue line.

Chandra Sriram

Perfect. And maybe a quick one on the SaaS business, I thought it is supposed to dip a bit in this quarter due to sun-setting of some of your products in Australia, has that happened or is it pushed to next quarter, just for modeling purposes.

Takis Spiliopoulos

No that has really happened, you know as we had indicated what surprised us on the positive was as Max mentioned you know, the strong you know, underlying business in SaaS, so that was basically more than offsetting you know, what we expected to lose in terms of revenues from that.

Chandra Sriram

Perfect. Thank you.

Operator

The next question comes from Charles Brennan from Credit Suisse. Please go ahead.

Charles Brennan

Great. Thanks for taking my question. Can we just get back to the Middle East? I am not entirely sure what the reason for the weakness is. I think the way in which he described it was a successful team struggling to manage growth that they've delivered, but if I look at the numbers, it looks like software licensing was down about 30% in the period that makes it feel a little bit more significant than that. Have you lost some sales people or they have been changes of management that have driven that underperformance? And inevitably I think investors are going to be focused on the recovery of that software licensing in Q4. I am not quick enough to calculate what's implied in your Q4 guidance, but can you just help us with your expectations for software licensing growth in Q4? Thank you.

Max Chuard

Hi Charles. Listen, regarding... to give more color on the Middle East and Africa, as I said, this is the reason that the last couple of years I have seen very strong growth and it's true that when you look at it just specifically on '19, the performance is not where I would like it to be. Now, if we look at it over those two years, this is still bringing significant growth to the company. What has happened is the fact that we have been able to grow that business so much. We have invested a lot and the sales force has grown of around 30% in the territory. And probably as I mentioned, we had not sufficient sales management to be able to qualify, to be able to close the deals that the people were working on. So it's really about sales execution in that region. There is nothing more than that. We are already working on that and you know, as I said by early 2020, this will be resolved. But don't look at the performance within the first 9 months. It's clearly, if you look at it over 2 to 3 years, you will see how that part of the order has contributed to the growth. On the guidance question, I will give Takis to respond to this one.

Takis Spiliopoulos

Yes, hi Charlie. If you look at the let's take like-for-like total software license growth which was 14% year-to-date and if you basically look at our... or the implied Q4 guidance that's clearly, you know in the double-digit space you know. If we deliver then the midpoint, you probably will get to what's the range we usually guide for the year, so you know, clearly double-digit. We expect a clear improvement of the like-for-like total software license growth for Q4.

Charles Brennan

And just a quick follow-up and a clarification. Did you say that Transact grew double-digits during the periods, then you had very strong growth from Infinity and clouds? Given that Transact's the biggest chunk of the revenues that implies considerable weakness elsewhere. Have I got that right or have I misinterpreted the comments on Transact.

Max Chuard

No, you got it right. In fact, it is something that in 2018 one of... in fact 2017-2018 one of our... probably our second largest business line which is the fund accounting, had a very, very strong performance. And we knew that we were facing with a comparative on the fund side, so this was not if you want a surprise to us. We knew that we were lapping on the fund side, a very high comparative. I wanted to mention Transact because clearly for me this is the largest contribution to growth. I wanted to make sure that you understand that this continues to be growing significantly and as you know at a double-digit, as I said. Then we've got this new product line with Infinity which is very exciting, which is now strengthened with the acquisition of Avoka and Kony that we've done. And finally, you have Multifonds which I just mentioned and then if you look at our drivers of growth, you have 2 more products which is wealth and payment and those are smaller... very small contributors to the group, so I would not spend too much time. So yes, the one that we knew though we are (unintelligible) a large comparative was on the fund side.

Charles Brennan

Perfect. Thank you.

Operator

The next question comes from John King from Bank of America. Please go ahead.

John King

Yes, good evening. Thanks. Just one question actually. Just in relation, obviously it has been a long time since I guess Temenos has adjusted, tweaked down the guidance based on execution issues. It has been sometime anyway I think. I am just wondering why you would say that. Has there been anything changes to the kind of the visibility of the business, I mean I know last quarter you were talking about not relying on large deals, but do you feel as confident as you might have done 12 months ago let's say if we look into the next 12 months, the deals are there, the deals are closing pretty predictably. This is a very isolated issue. And it maybe just gives, I know, if you've already addressed it a little bit Max, but maybe you can look at it through that prism. Thank you.

Max Chuard

Yeah no, listen. It is really taking a... let's call it a more conservative view on what we can deliver in Q4 in the Middle East and Africa. That's really about it and on reflecting of what happened in Q3 which was disappointing in that specific region and taking a more prudent view of what that team will deliver in Q4. Now, it is very tactical, it is very... we actually understand where the need for improvement is. There is nothing more than that. Now, across the board, as I said, the Transact business continued to be growing strongly. The Infinity is clearly the one where we see the fastest growth. From a territory point of view, we see the U.S. clearly being very strong and with now the enhanced scale with Kony, we see a very strong opportunity. And I would say digital is really top of mind in... specifically in the U.S.

Customers... banks today are in the need of personalized customer experiences and specific in the U.S. if you were to... if you look at the largest bank, they build very competitive offerings themselves, the largest banks, the top 5 banks. And you will get the whole market that needs to be able to offer a similar type of experiences to the customers and they cannot be themselves and they can go for packages and this is why we see specifically in the U.S. a clear window of opportunity for the next 2 to 3 years and that's why Kony is so strategic to that opportunity. So that's... so overall, as I said, the conversion and the execution remains strong except you know in that very specific situation.

John King

And then... finally you have done the Kony deal. Does that signal that, you know, maybe your conviction that actually, I mean, I know not maybe for all of the applications, but we may see a more consorted shift towards SaaS and cloud in the market. I mean, is that something that you are starting to say that could play out more meaningfully then perhaps it has done, you know, maybe and, I guess, would that change of view is to what you could deliver in terms of on premise licensing growth, I guess, you know, are you going to see a faster shift towards SaaS essentially?

Max Chuard

SaaS is very exciting as an opportunity and, you know, the ability that, and the cost benefit that the infrastructure, if that provides to banks, you know, we are quoting that cloud can bring the infrastructure cost up to 10 times, because really you use the environment for on-demand really with what you need and when you are a cloud native vendor like Temenos you can really optimize and get the benefit from that. So this clearly, you know, is appealing to banks that probably, you know, we are not able and we are not willing to take more traditional on-premise solutions.

At the same time there is a perception that to do on the cloud through more, let's say, flexible environment, faster ways to implement, there is also a view that the timing and the risk evasion for some banks is seen lower on the cloud. And finally the level of resilience, performance, and the security level as well... has been significantly enhanced over the years. So overall those attributes are making lots of progress, and we see more and more banks, and even in some territories, for instance in Q3 we signed a SaaS deal in a country in Europe where we've not able to penetrate for the last 25 years, and you know, through our cloud and SaaS, we were able to bring this.

So to summarize, I continue to believe that SaaS will remain incremental that there is still and there is clearly an increased demand for those types of solution and deployment. And that, you know, the market for traditional on-premise is still there, because you still have, you know, many banks that, you know, are not yet ready to move to the SaaS. And so far, we said at this stage are continuing to see the SaaS has been complement... incremental to the business.

John King

Okay. Thank you.

Operator

The next question comes from Alex Tout from Deutsche Bank. Please go ahead.

Alex Tout

Yes, hi guys. Thanks for taking the question. Am I right in thinking that the organic cut to revenue and in FY'19 is about 10 million? And if so, are you assuming any net catch up in license sales in the fourth quarter? I think you know, the short fall versus consensus this quarter was about 7.5 million, and you are only the guiding down by 10 million for the year at the mid-point. So are you assuming some catch up, some resolution of those this issue in the fourth quarter? And then secondly, could you just update us on Commerzbank in the U.S., is the go-live still on track for the end of this year. And also, perhaps if you could update on the other major rollout that were in progress notably in Nordea? Thank you.

Takis Spiliopoulos

Hi, Alex. Okay, on the guidance yes, this is about correct, the underlying, let's say, reduction or revision related to Temenos or the MEA situation is about 10 million. So that's about correct. What was the other question?

Alex Tout

Yes, so... it's a 10 million write-down.

Takis Spiliopoulos

Yes, okay.

Alex Tout

You missed by about 7 million in the quarter. So you are expecting any net catch up in licenses in the fourth quarter?

Takis Spiliopoulos

No, as Max pointed out and, you know, I think the consensus we put in our website is about, you know, around 6 million miss. So that's definitely as Max explained not something we expect to catch-up. We remain prudent in our assessment what the Middle East and Africa region can deliver by the end of the year. So overall, I think, you know, that the 10 million you alluded to is about the right number.

Max Chuard

On the large deals, on the progress of implementation I have to say that, if you look at Commerz, if you look at Nordea, if you look at open bank, those start progressing extremely well. It's exciting times because for all of those projects we are getting you know, in the next... let's say 6 to 12 months a lot of those will go... will start to go live on the... I think and I'm hopeful that we will be able to make some very interesting announcement and to have... then also to communicate more and more. So all those projects are on track progressing very well, in fact, we are doing more stuff with them and remember our strategy with largest banks it is one of increasing our wallet share with those, and that's really our continuous goal is how can we continuously renovate the banks, and that you know is applying as well to those ones. And so, I am very pleased with the relationship and the progress we are making on the go-live base.

Alex Tout

Okay. Thank you.

Operator

The last question comes from Paul Kratz from Jefferies. Please go ahead.

Paul Kratz

Hi, everyone. Just kind of looking at your numbers and stripping out is the... I guess, the declines in the Middle East and Africa, it suggests when I take out your acquisitions you have done this year, that your growth in all the other regions is basically in single digits, I mean, could you maybe explain or maybe clarify as to why you are seeing such a slowdown in those regions ex-acquisition?

Takis Spiliopoulos

Hi, Paul. Okay, so the one thing I can say is the calculation is not quite right. So we have very strong double-digit you know, growth in most of the regions, yes, Middle East and Africa we highlighted, but clearly you know, especially the Americas and also Asia Pacific are very strongly in the double-digit range, you know, and if you do the math in Europe it's still growing quite nicely. But, as we... as you would expect you know, from the largest region, you know, the growth is a bit lower than what we have the Americas and Asia Pacific. So the culprit both on Q3 but also year-to-date is definitely on Middle East and Africa.

Operator

We lost connection with the questioner. Ladies and Gentlemen, that was the last question. I would like now to turn the conference back over to Max Chuard for any closing remarks. Thank you.

Max Chuard

Thank you very much for attending the call and looking forward to talking to you and seeing you, you know, very shortly. Thank you.

Takis Spiliopoulos

Thanks.

Operator

Ladies and Gentlemen the Conference is now over. Thank you for choosing Chorus Call and thank you for participating in the Conference. You may now disconnect your lines. Goodbye.

- END -