TEMENOS

THE BANKING SOFTWARE COMPANY

Financial results & business update

Quarter ended 31 December 2019

12 February 2020

TEMENOS
THE BANKING SOFTWARE COMPANY

Disclaimer

Any remarks that we may make about future expectations, plans and prospects for the company constitute forward-looking statements. Actual results may differ materially from those indicated by these forward-looking statements as a result of various factors.

In particular, the forward-looking financial information provided by the company in the conference call represent the company's estimates as of 12 February 2020. We anticipate that subsequent events and developments will cause the company's estimates to change.

However, while the company may elect to update this forward-looking financial information at some point in the future, the company specifically disclaims any obligation to do so. This forward-looking information should not be relied upon as representing the company's estimates of its future financial performance as of any date subsequent to 12 February 2020.

Non-IFRS Information

Readers are cautioned that the supplemental non-IFRS information presented in this presentation is subject to inherent limitations. It is not based on any comprehensive set of accounting rules or principles and should not be considered as a substitute for IFRS measurements. Also, the Company's supplemental non-IFRS financial information may not be comparable to similarly titled non-IFRS measures used by other companies.

In the tables accompanying this presentation the Company sets forth its supplemental non-IFRS figures for revenue, operating costs, EBIT, EBITDA, net earnings and earnings per share, which exclude the effect of adjusting the carrying value of acquired companies' deferred revenue, the amortization of acquired intangibles, discontinued activities, acquisition related charges, restructuring costs, and the income tax effect of the non-IFRS adjustments. The tables also set forth the most comparable IFRS financial measure and reconciliations of this information with non-IFRS information.

When the Company believes it would be helpful for understanding trends in its business, the Company provides percentage increases or decreases in its revenue (in both IFRS as well as non-IFRS) to eliminate the effect of changes in currency values. When trend information is expressed herein "in constant currencies", the results of the "prior" period have first been recalculated using the average exchange rates of the comparable period in the current year, and then compared with the results of the comparable period in the current year.

Agenda

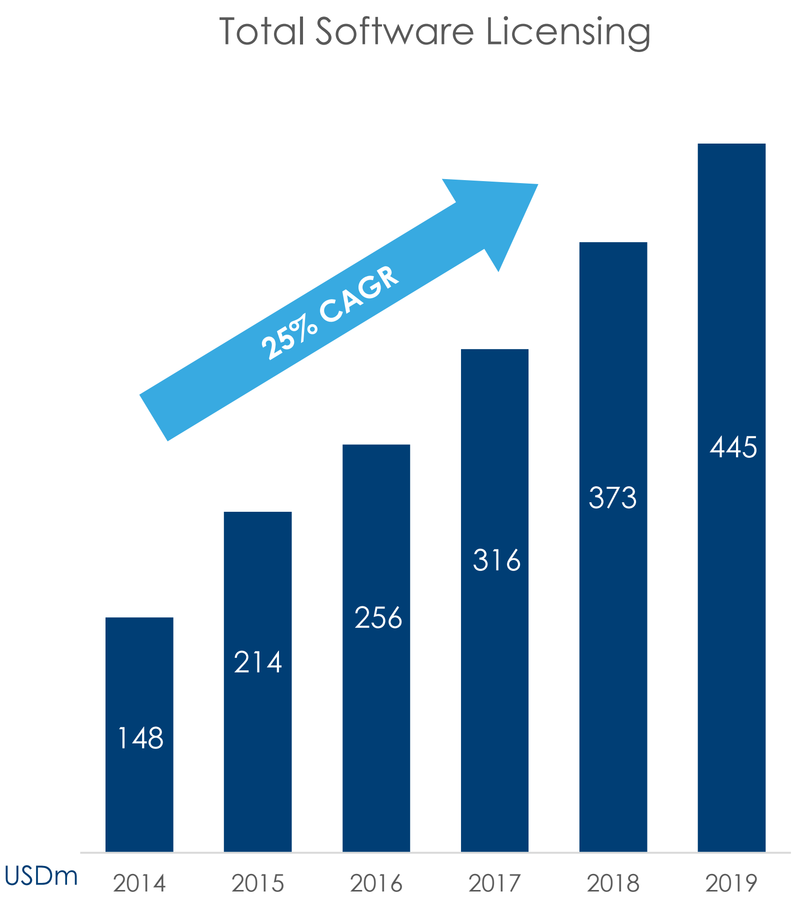
1. Business update…………………………………………Max Chuard, CEO
2. Financial update…………………………………… Takis Spiliopoulos, CFO
3. Summary……………………………………………..Max Chuard, CEO
4. Q&A

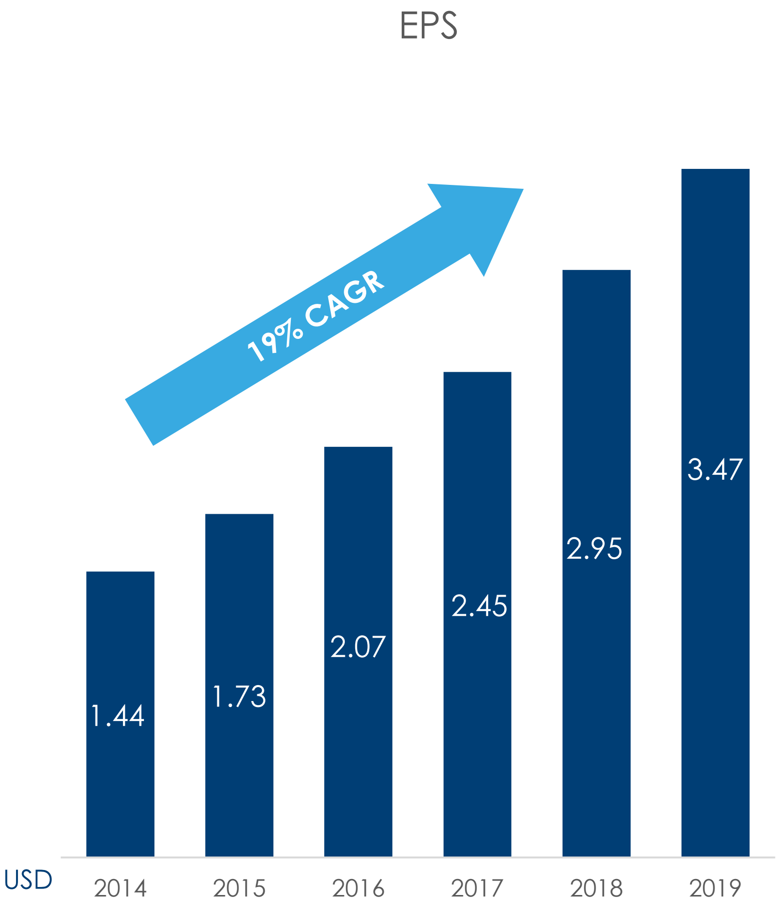
Business update

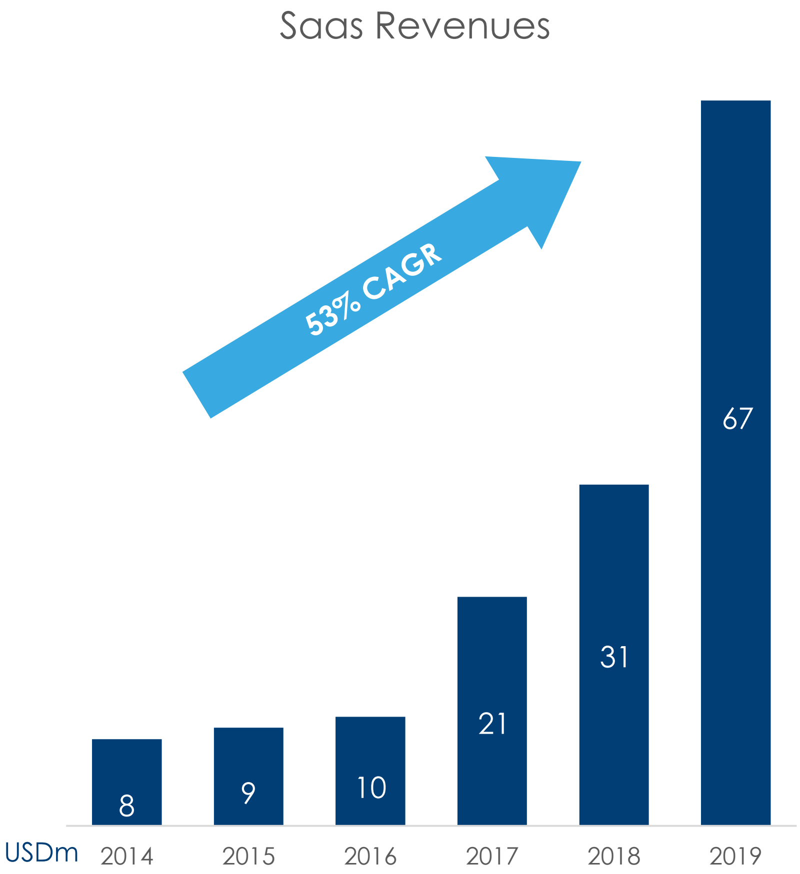
Max Chuard, CEO

THE BANKING SOFTWARE COMPANY

Excellent performance across KPIs in Q4 and FY 2019







Note: figures are non-IFRS c.c. growth rates unless otherwise stated. Historical SaaS revenues adjusted for estimated IFRS15 impact

Taking our product and technology to the next level

Separation of manufacturing and distribution

TEMENOS Infinity

- Cloud-based banking distribution microservices

TEMENOS Transact

- Microservices architecture to enable continuous renovation for tier 1 banks

The leader in cloud

TEMENOS SaaS

- Cloud agnostic, active-active
- Global strategic partnership with Google Cloud
- 50k transactions per second benchmark in AWS
- US SaaS digital bank offering live in 90 days

Google Cloud Platform aws Azure

Leading in Explainable AI and analytics

- Temenos' XAI platform enables faster, accurate and explainable decisions
- Embedded with our real-time data lake
- AI driven credit scoring models available world wide
- AI powered anti-fraud solution launched in 2019

Driving innovation across product and technology

Strategic M&A to accelerate R&D and geographic presence

kony™

US #1 digital banking SaaS company

1,500 employees with **deep digital and SaaS expertise**

logical glue

SaaS patented **Explainable AI**

hTRUNK

Innovation in **big data** and **analytics**

Recognised for our global leadership

FORRESTER®

New-name clients:

Top global power seller for the 13th consecutive year
24% more deals than the next best selling vendors with more than 50 new named deals

New and existing clients:

Top global player for the 7th consecutive year

ESG recognition

- SXI Switzerland Sustainability 25® Index
- Dow Jones Sustainability Index 2019
- FTSE4GOOD Index
- Ecovadis Gold
- 5 Great Place to Work recognitions

IBS intelligence

#1 Core Banking for the last 7 years

#1 Best-selling Digital Banking & Channels

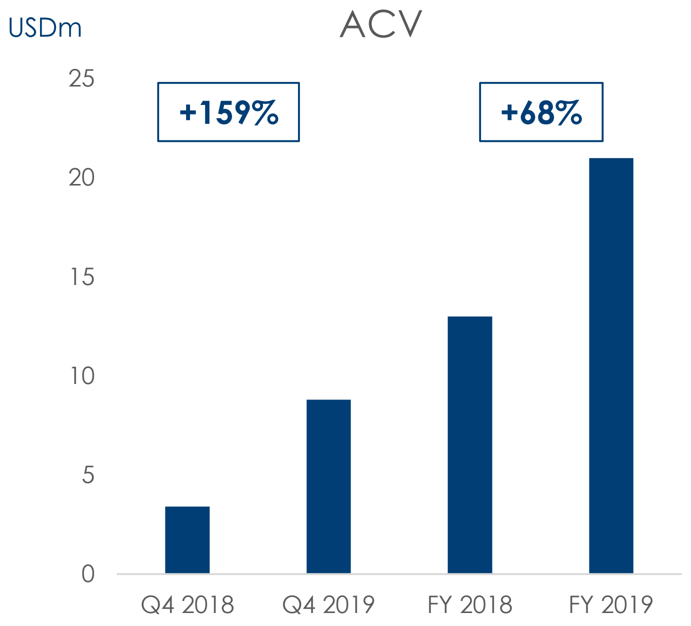
#1 Best-selling Payments system

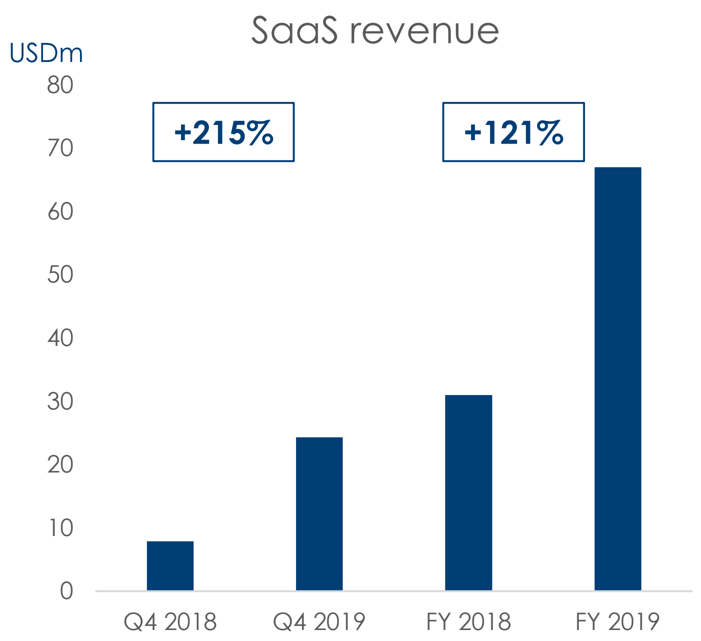
#1 Best-selling Compliance & Risk Mgmt.

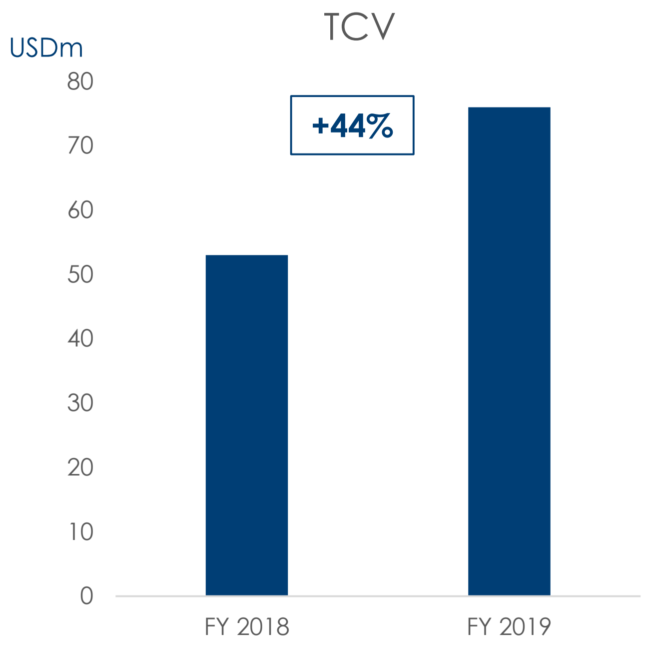
Source: IBS Sales League Table, May 2019, Forrester Global Banking Platform Deals Survey, May 2019

Outstanding momentum in SaaS and cloud

- Exceptional performance in SaaS with ACV up 159% in Q4 and 68% in FY19
- Signings across the US, APAC and Europe for both Transact and Infinity
- SaaS pipeline building well with integration of Kony and Avoka

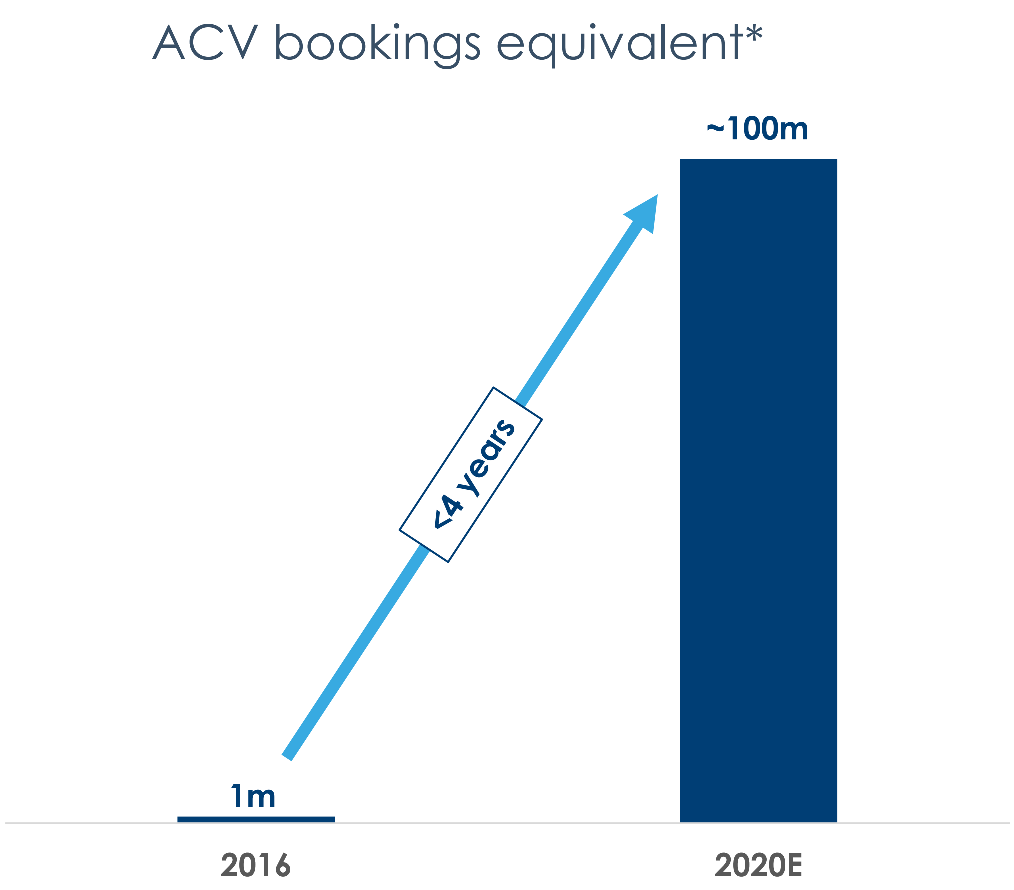






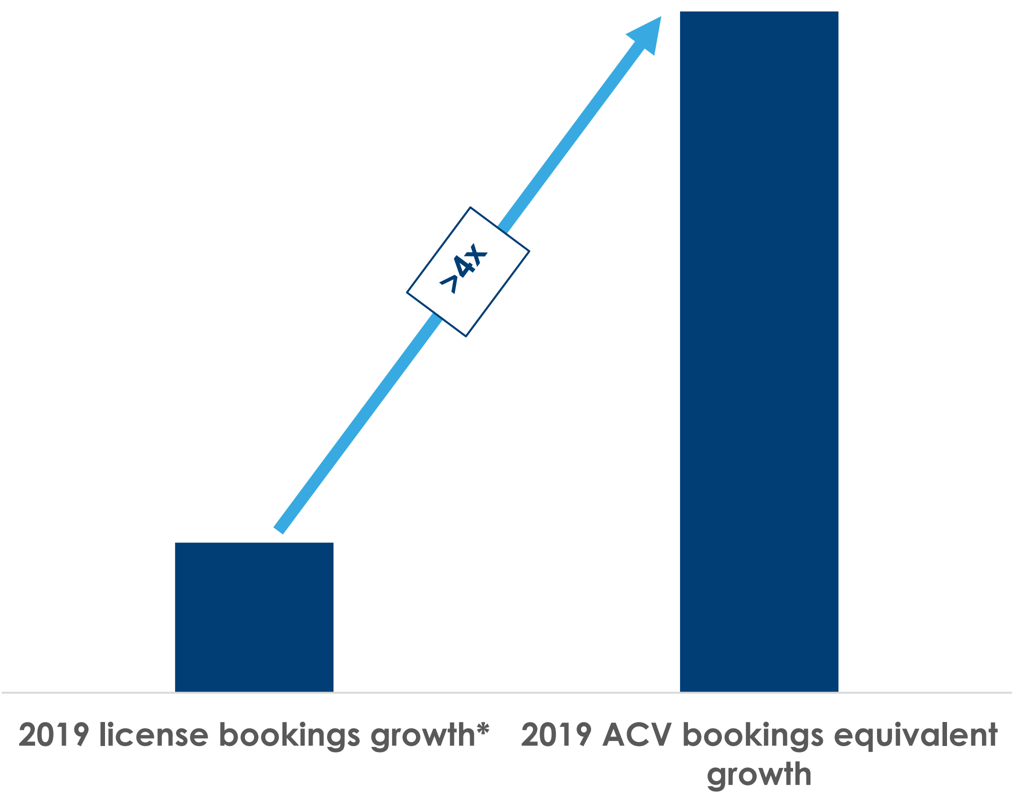
Note: non-IFRS c.c. growth rates

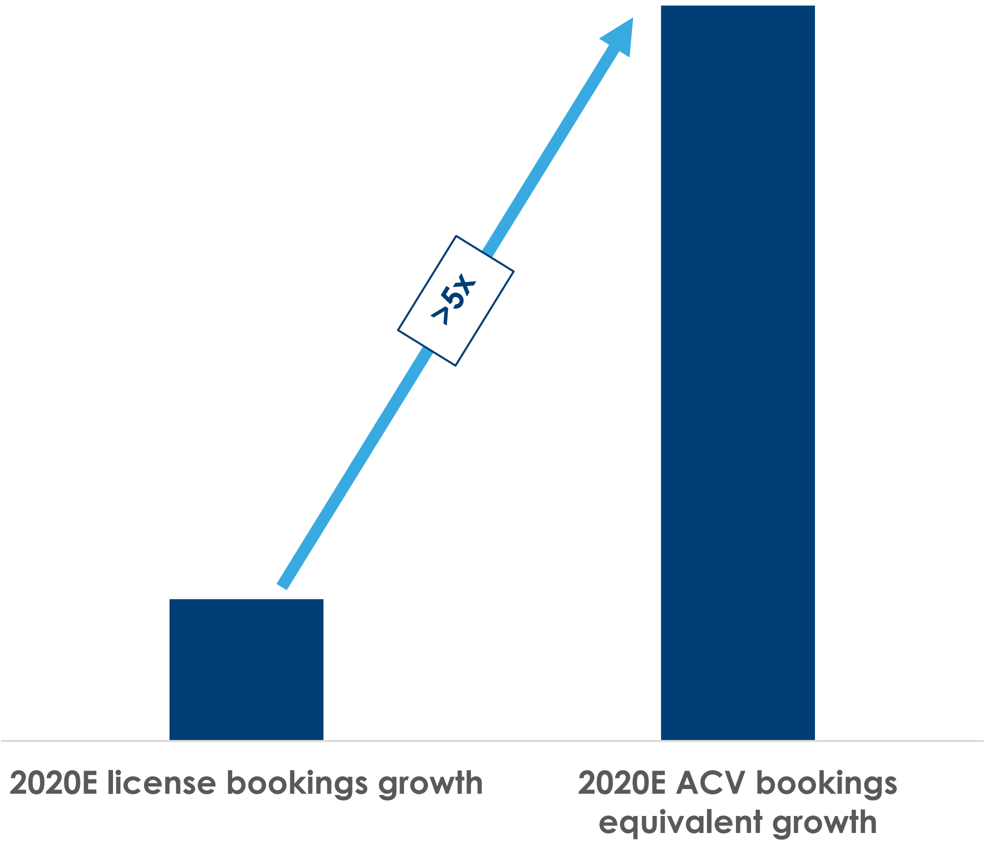
A tectonic shift in growth acceleration



*see appendix for definitions

ACV bookings growth set to accelerate further





*run-rate Q4 2019

Enhancing our global technology partnerships

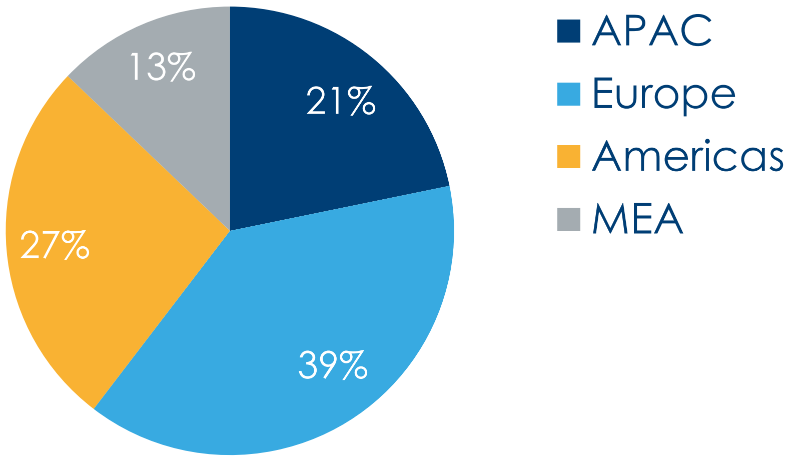
Partner	
Google Cloud	**Global strategic partnership** to accelerate banks' digital transformation in the cloud
aws	**Benchmarked** Temenos Infinity and Transact on AWS at **50,000 transaction per second** on a single instance
Microsoft Azure	**First cloud partner** for Temenos Transact and Infinity
NUODB	**Strategic investment in** cloud-native distributed database provider

Q4 and FY 2019 sales review

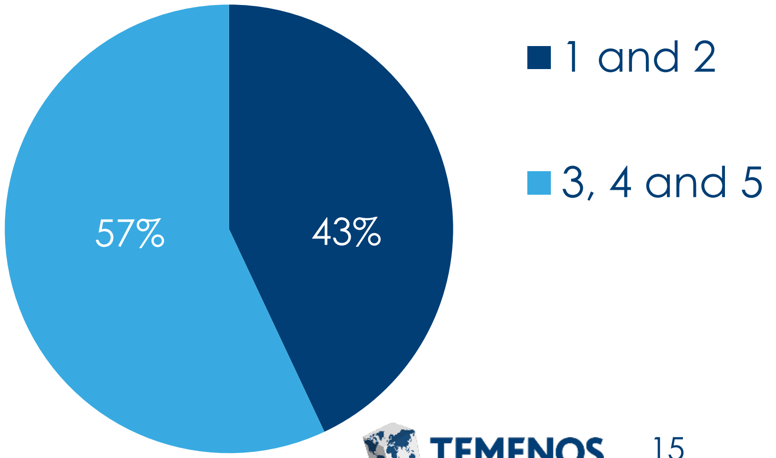
- Digital, regulatory and cost pressures and move to open banking continue to drive market growth
- Banks and new entrants are evolving their business models, separating manufacturing and distribution
- Double digit growth in Temenos Transact, Temenos Infinity grew multiple times faster
- Exceptional growth in SaaS across geographies and client tiers
- Strong sales momentum in Europe, Asia and the Americas
- MEA performed well in Q4 with multiple new client wins
- Continued traction with tier 1 and 2 banks contributing 43% of total software licensing in 2019
- 33 new client wins in Q4, total of 93 new customer wins in FY 2019

FY 2019 total software licensing

Geographic split



Tiers



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Q4 and FY 2019 operational overview

Q4 and FY 2019 update

- 24 implementation go-lives in Q4 2019
- Total of 330 go-lives across all clients in FY19
- Canadian digital bank, EQ bank, first client to migrate its core from on-premise to the public cloud
- Increasing partner involvement across implementations globally

Global partner network

6,500+ experienced third party and Temenos consultants globally supporting client success

Cognizant accenture

Capgemini Deloitte.

Tech Mahindra | SOFGEN BANKING IT WORLDWIDE

A bank going live every day of the year

Financial update

Takis Spiliopoulos, CFO

Performance vs. revised 2019 guidance (c.c.)

	Initial guidance	Revised guidance	Delivered	
Non-IFRS total software licensing	17.5% to 22.5%	19.5% to 22.5%	**23%**	✓
Non-IFRS Total revenues	16% to 19%	18% to 20%	**19%**	✓
Non-IFRS EBIT	USD 310 to 315m	USD 310 to 315m	**USD 318m**	✓
IFRS EBITDA conversion into operating cash flow	100%+		**100%**	✓

Strong performance across KPIs in 2019

Q4 and FY 19 non-IFRS financial highlights

Revenue and profit

- Total software licensing up 27% in Q4 19, 23% in FY19
- Maintenance growth of 17% in Q4, 14% in FY19
- Total revenue growth of 23% in Q4, 19% in FY19
- EBIT up 18% in Q4, 19% in FY19
- FY EBIT margin (reported) of 32.4%, up 87bps
- EPS growth (reported) of 18% in FY19

Operating cash flow

- FY19 operating cash flow of USD 364m
- FY19 operating cash conversion of 100% into IFRS EBITDA
- DSOs at 120 days, 114 days organic

Debt and leverage

- Net debt of USD 982m as of 31.12.19*
- Leverage at 2.6x at year end

Dividend

- 2019 dividend of CHF 0.85 announced
- Subject to shareholder approval at 2020 AGM

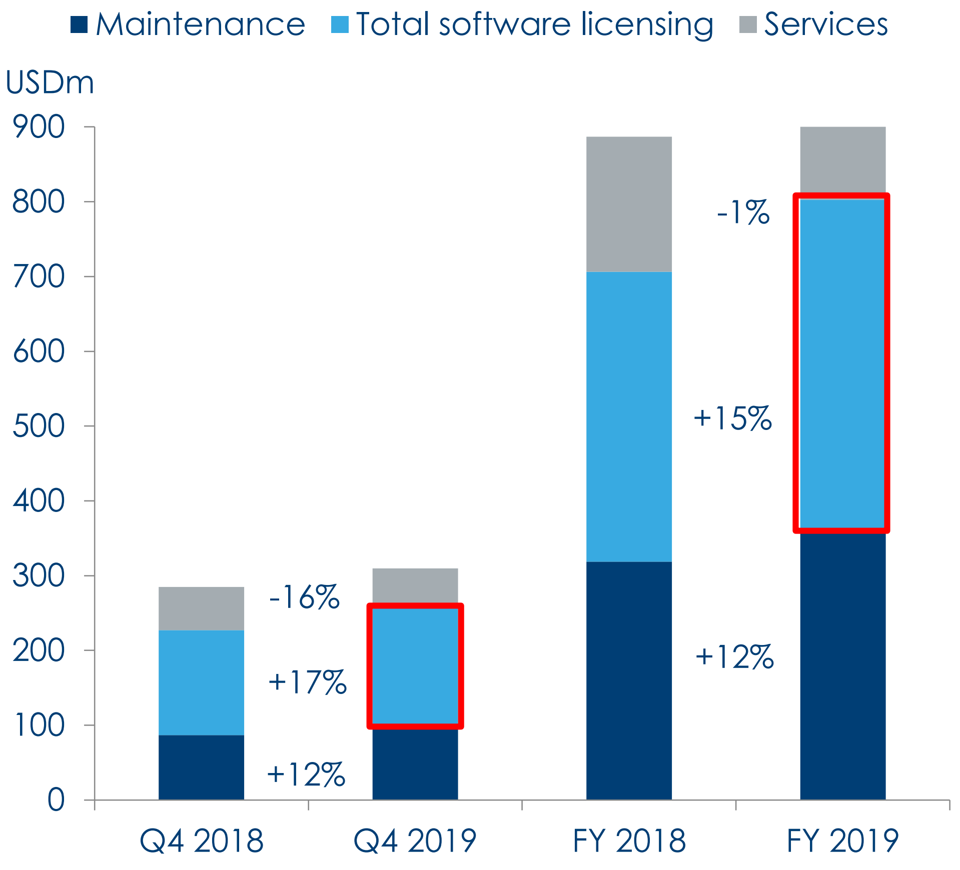
Note: figures are non-IFRS c.c. growth rates unless otherwise stated
** proforma non-IFRS EBITDA adjusted for lease expense now reported under depreciation and amortization under IFRS 16, net debt includes cross-currency swap and excludes leases reported as borrowings under IFRS16*

Non-IFRS income statement – operating

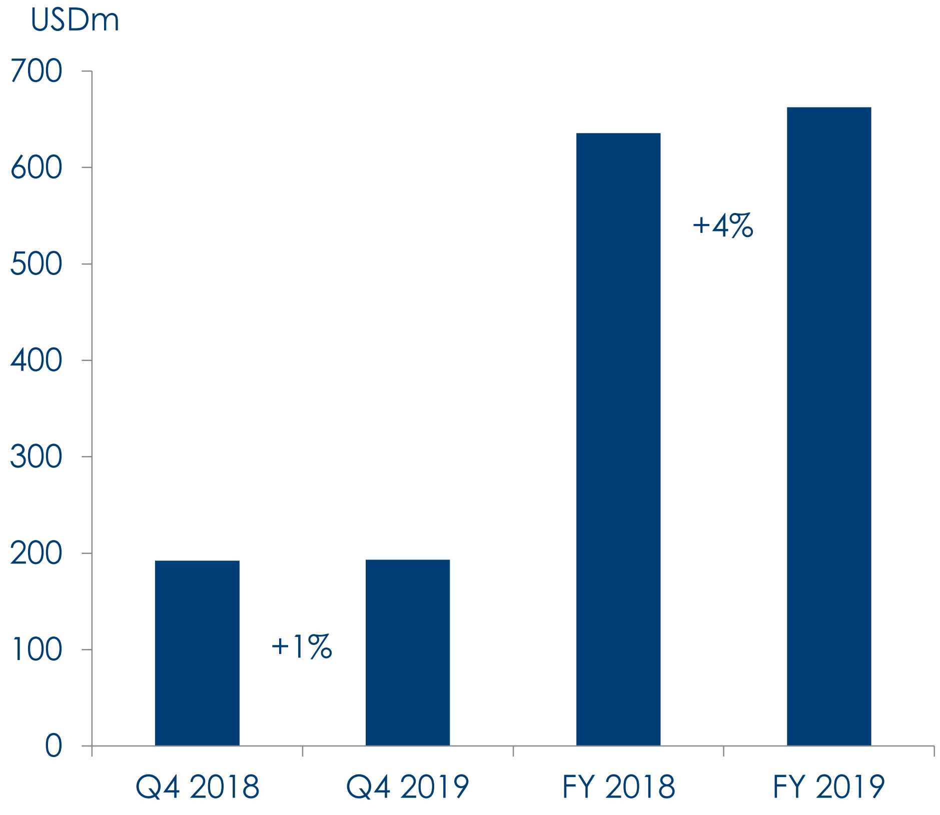
In USDm	Q4 19	Q4 18	Y-o-Y reported	Y-o-Y c.c.	FY 19	FY 18	Y-o-Y reported	Y-o-Y c.c.
Software licensing	139.1	123.4	13%	15%	378.4	341.6	11%	14%
SaaS and subscription	24.3	7.9	209%	215%	66.6	31.4	112%	121%
Total software licensing	**163.4**	**131.3**	**25%**	**27%**	**445.0**	**372.9**	**19%**	**23%**
Maintenance	97.5	81.9	19%	17%	357.7	314.4	14%	14%
Services	48.7	41.0	19%	20%	178.0	153.7	16%	19%
Total revenue	**309.6**	**254.2**	**22%**	**23%**	**980.6**	**841.0**	**17%**	**19%**
Operating costs	193.4	156.2	24%	26%	662.7	575.7	15%	18%
EBIT	**116.2**	**98.0**	**19%**	**18%**	**317.9**	**265.3**	**20%**	**19%**
Margin	37.5%	38.6%	-1% pts	-2% pts	32.4%	31.5%	1% pts	0% pts
EBITDA	**136.9**	**112.6**	**22%**	**21%**	**393.3**	**320.8**	**23%**	**22%**
Margin	44.2%	44.3%	0% pts		40.1%	38.2%	2% pts	
Services margin	11.5%	16.0%	-4% pts		11.0%	10.1%	1% pts	

Like-for-like revenue and costs

- Q4 19 LFL non-IFRS revenues up 9%
- FY19 LFL non-IFRS revenues up 11%



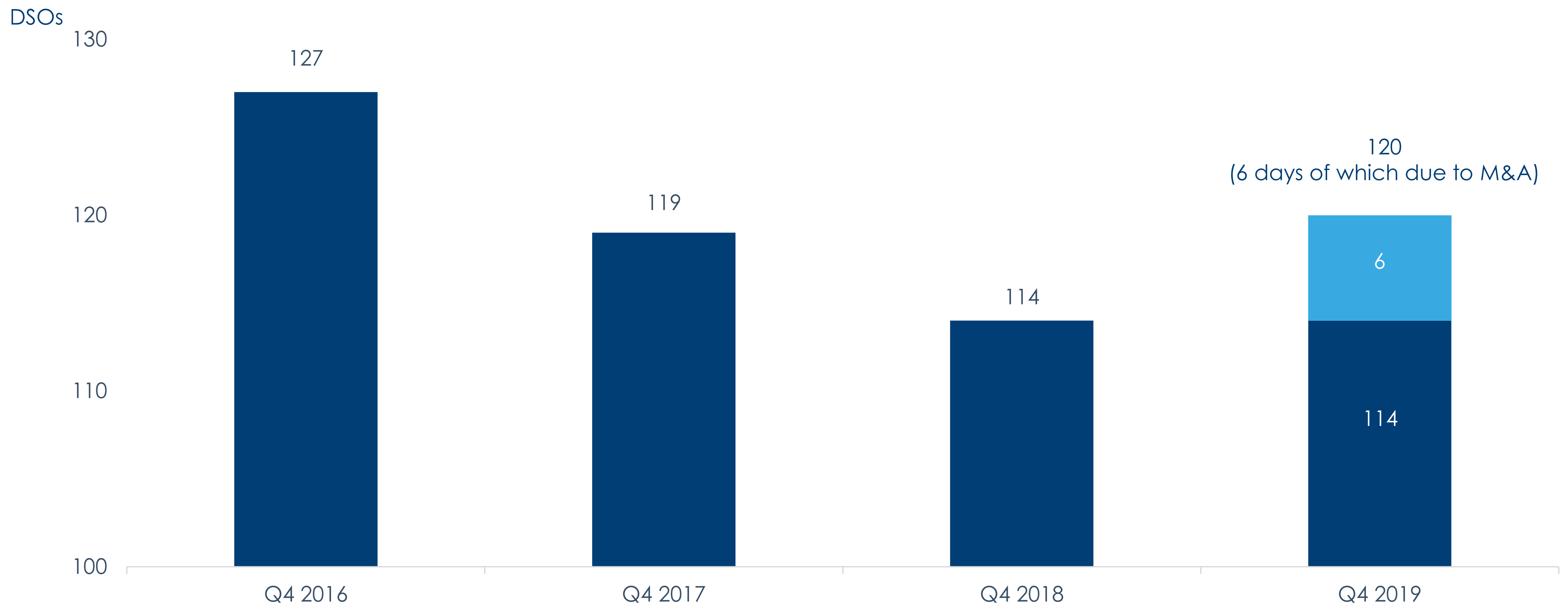
- Q4 19 LFL non-IFRS costs up 1%
- FY19 LFL non-IFRS costs up 4%



Non-IFRS income statement – non-operating

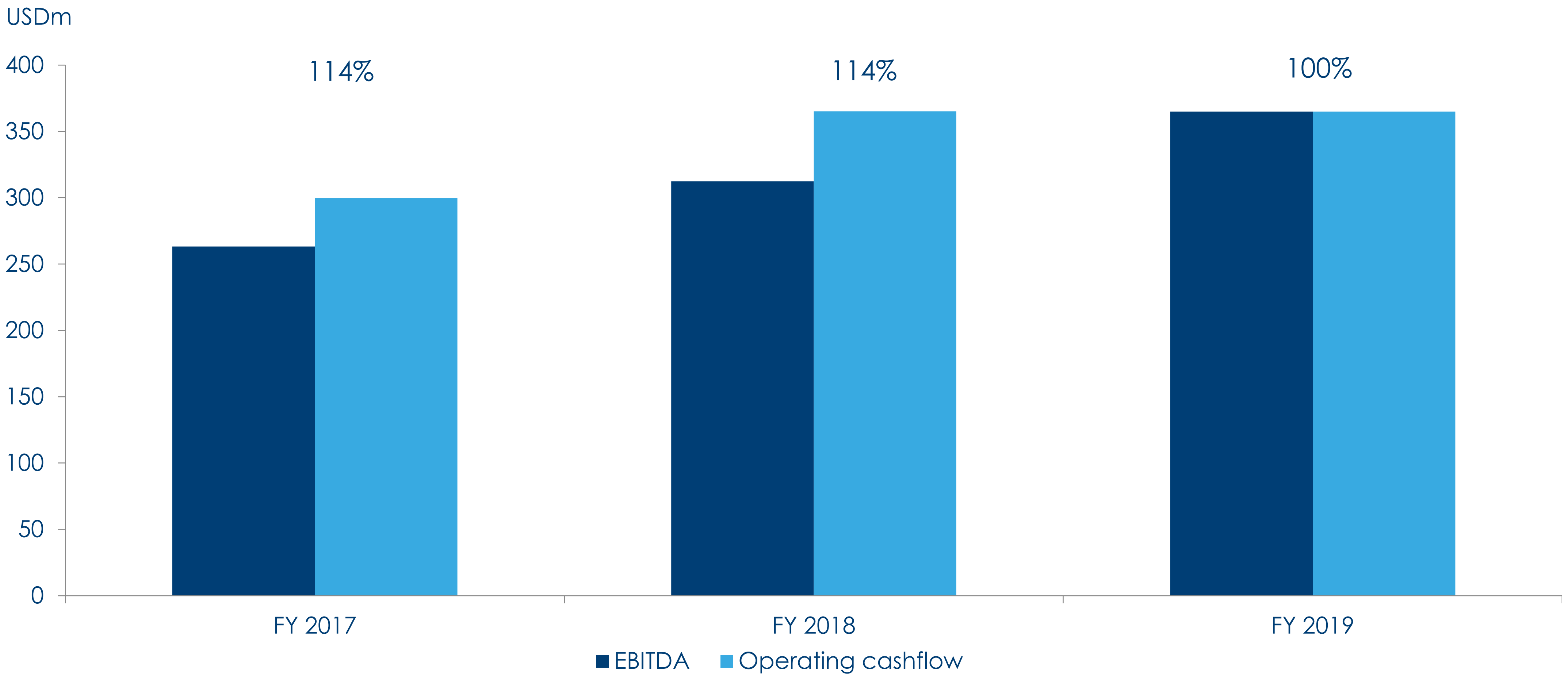
In USDm, except EPS	Q4 19	Q4 18	Y-o-Y	FY 19	FY 18	Y-o-Y
EBIT	**116.2**	**98.0**	**19%**	**317.9**	**265.3**	**20%**
Net finance charge	-9.3	-4.2	120%	-24.3	-15.7	55%
FX gain / (loss)	1.6	-0.4	N.A.	2.3	-0.9	N.A.
Tax	-14.9	-12.5	20%	-40.9	-33.4	22%
Net profit	**93.6**	**80.9**	**16%**	**255.1**	**215.3**	**18%**
EPS (USD)	**1.28**	**1.12**	**14%**	**3.47**	**2.95**	**18%**

Underlying DSO trend impacted by inflow timing and Kony acquisition



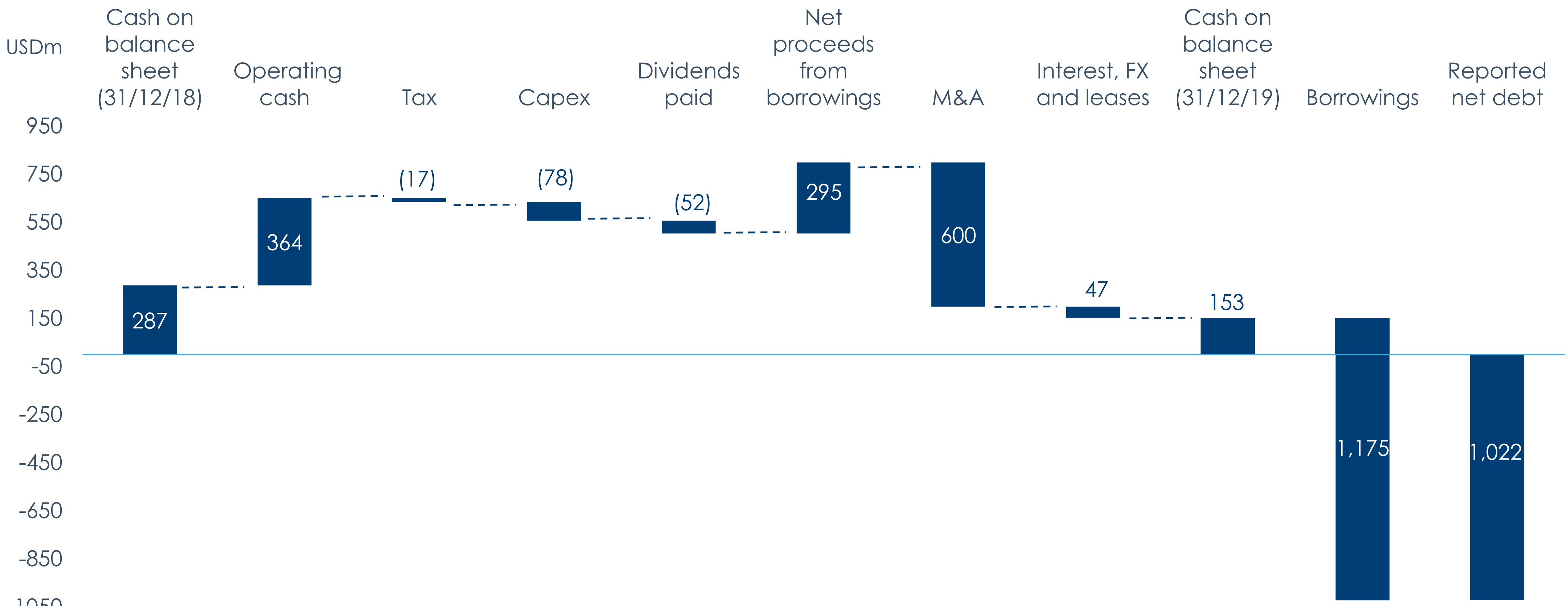
We expect DSOs to continue declining in Q1 and to be below 110 day at the end of 2020

IFRS cash conversion



Cash conversion of 100% at year end; expected to be well above 100% by year end 2020

Group liquidity



Leverage at 2.6x, expected to approach c.1.5x by year end 2020

TEMENOS

Outlook for 2020

- Digital, regulatory and cost pressures and move to open banking continue to drive market growth
- This is driving Temenos' pipeline growth and revenue visibility

Drivers of revenue visibility

Increasing contribution from recurring revenue

- Maintenance growth
- SaaS growth

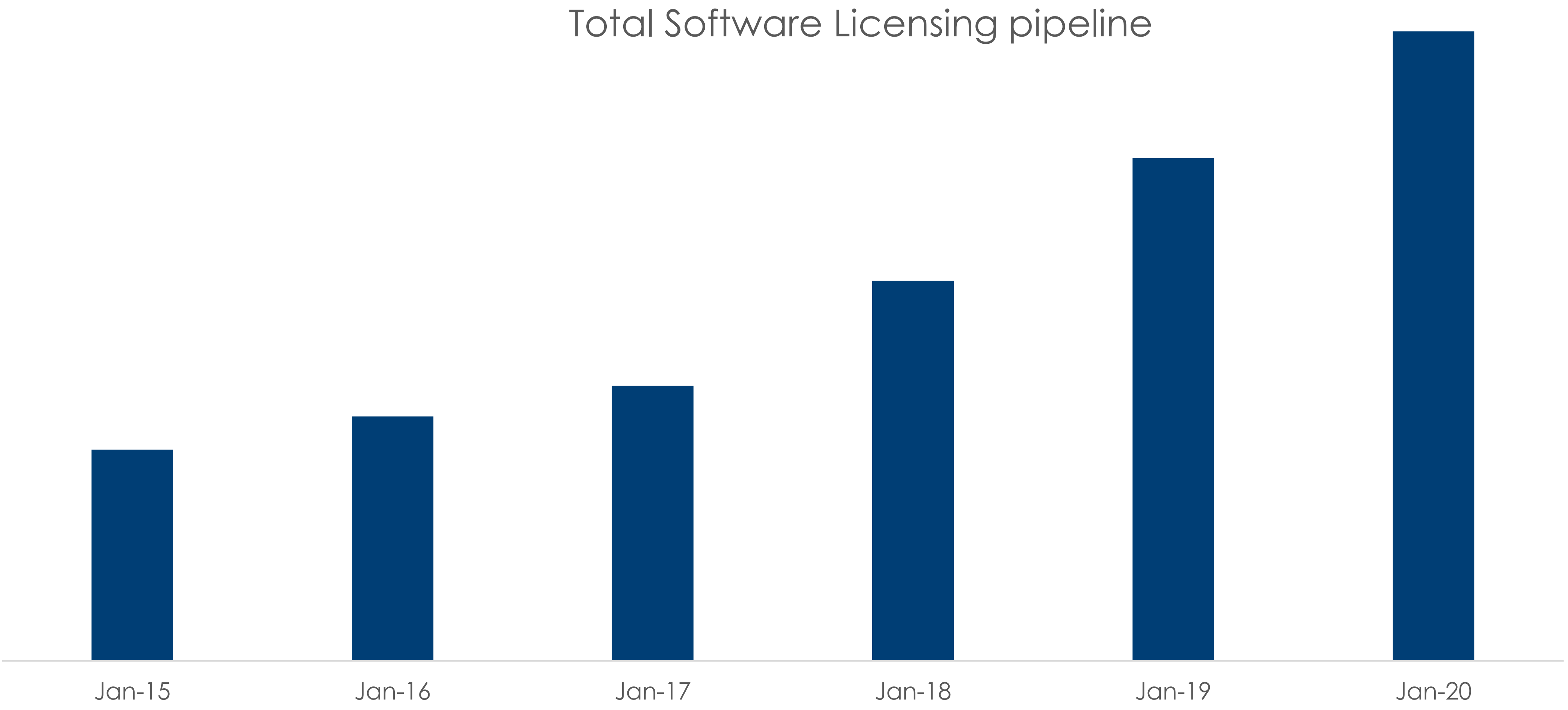
Higher certainty revenue

- Re-licensing and subscription
- Tier 1 and 2 continuous renovation
- Sales to the installed base

Key drivers of demand

- SaaS and cloud
- Infinity
- Transact

Our pipeline is accelerating



Strength of pipeline underpins 2020 guidance

2020 non-IFRS guidance range (c.c.)

	FY 20 guidance	FY 19 base
Total software licensing (%)	**18.5% - 23.5%**	
Implied USDm	*USD 527 – 550m*	445
Total revenue (%)	**16% - 20%**	
Implied USDm	*USD 1,137 – 1,177m*	981
EBIT (USDm)	**USD 380 – 385m**	318
Implied margin	*c.33%*	*32.4%*
SaaS ACV	SaaS ACV to grow by more than 100%, implying at least USD42m for FY 2020	
Cash conversion	**100%+ conversion** of EBITDA into operating cash flow	100%
Tax rate	Expected FY 2020 tax rate of **15% to 16%**	

- Currency assumptions on slide 33
- See slide 51 for definition of non-IFRS

Summary

Max Chuard, CEO

TCF 2020 – Madrid, 28-30 April

- Dedicated analyst and investor stream
- See product launches and our software in action
- Insights from Temenos executives and industry thought leaders
- Interaction and learning from Temenos customers and partners
- Breakout sessions with senior management

Conclusion

- Excellent 2019 results, delivered against revised guidance
- Digital, regulatory and cost pressures and move to open banking continue to drive market growth
- Exceptional growth in SaaS and cloud
- Temenos Transact grew double digit, Temenos Infinity grew multiple times fasters
- Strong sales momentum across all geographies
- Completed the integration of the Kony organisation, driving pipeline growth in the US
- Investment in product, people and strategic acquisitions have laid the foundation for a strong 2020

Continuation of winning strategy to deliver shareholder value in 2020 and beyond

Appendix

FX assumptions underlying 2020 guidance

In preparing the 2020 guidance, the Company has assumed the following FX rates:

- EUR to USD exchange rate of 1.12
- GBP to USD exchange rate of 1.28; and
- USD to CHF exchange rate of 0.99

FX exposure

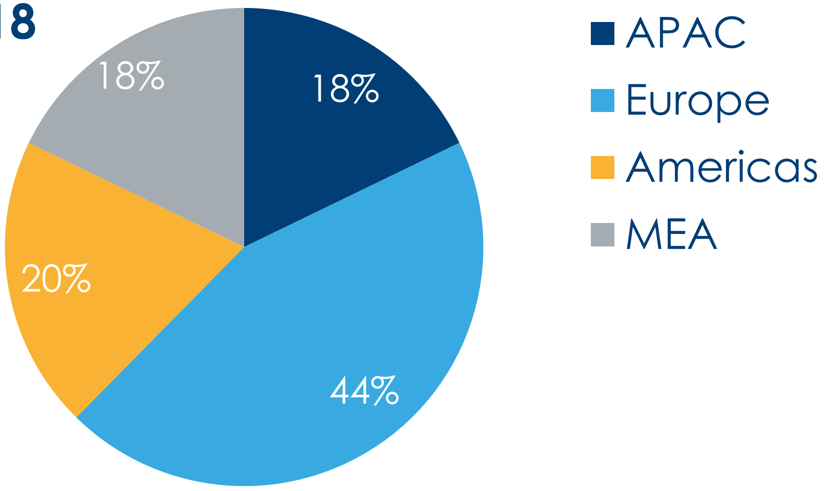
% of total	USD	EUR	GBP	CHF	Other
Total software licensing	59%	25%	3%	3%	10%
Maintenance	71%	20%	2%	2%	5%
Services	53%	29%	3%	1%	13%
Revenues	**62%**	**24%**	**3%**	**2%**	**9%**
Non-IFRS costs	**29%**	**14%**	**13%**	**8%**	**36%**
Non-IFRS EBIT	**130%**	**44%**	**(20)%**	**(9)%**	**(47)%**

NB. All % are approximations based on 2019 actuals

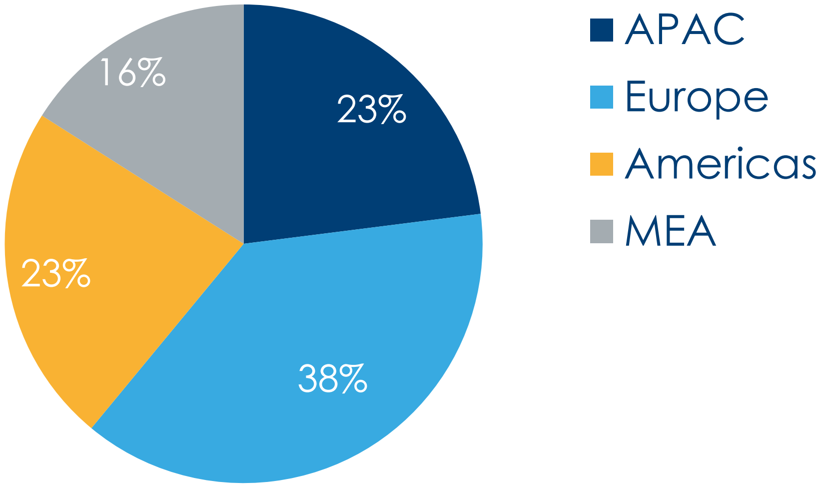
Mitigated FX exposure – matching of revenues / costs and hedging

Total software licensing revenue breakdown by geography

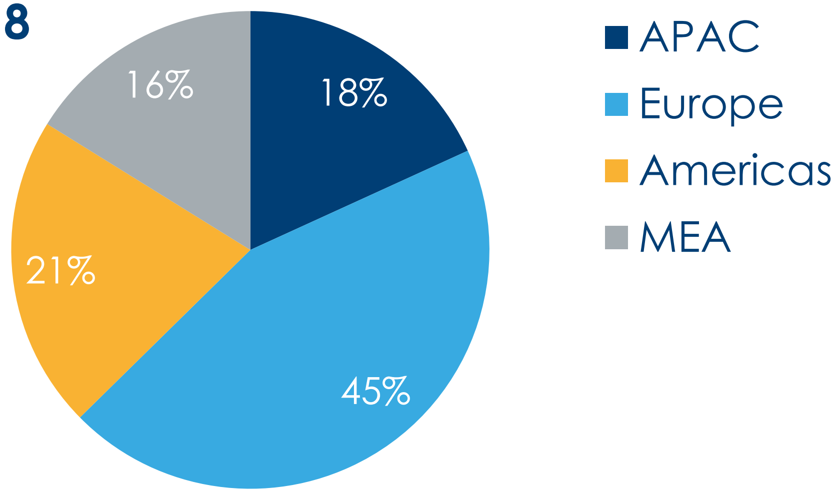
Q4 2018



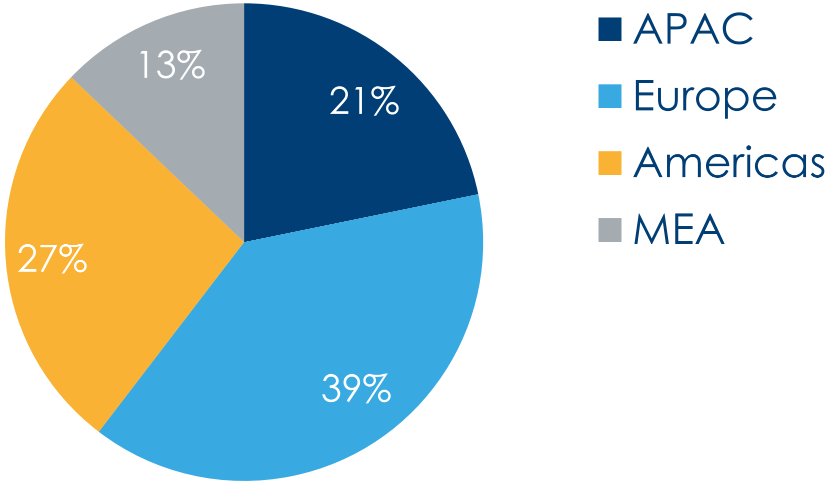
Q4 2019



FY 2018

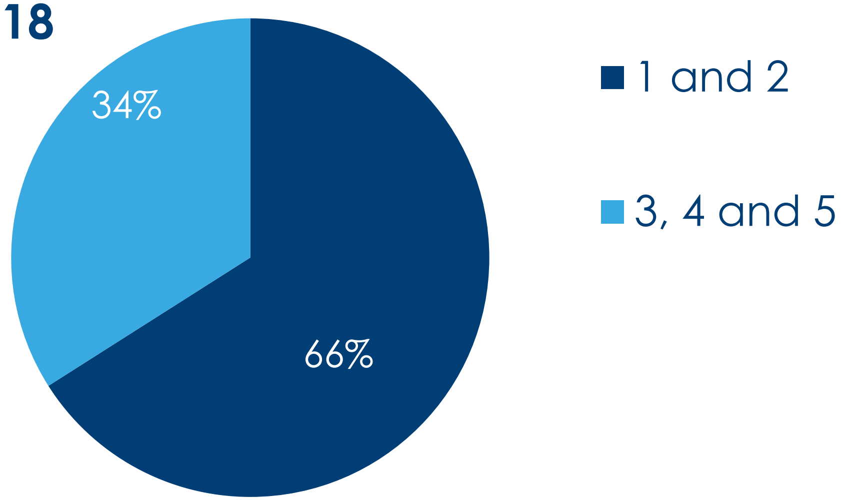


FY 2019

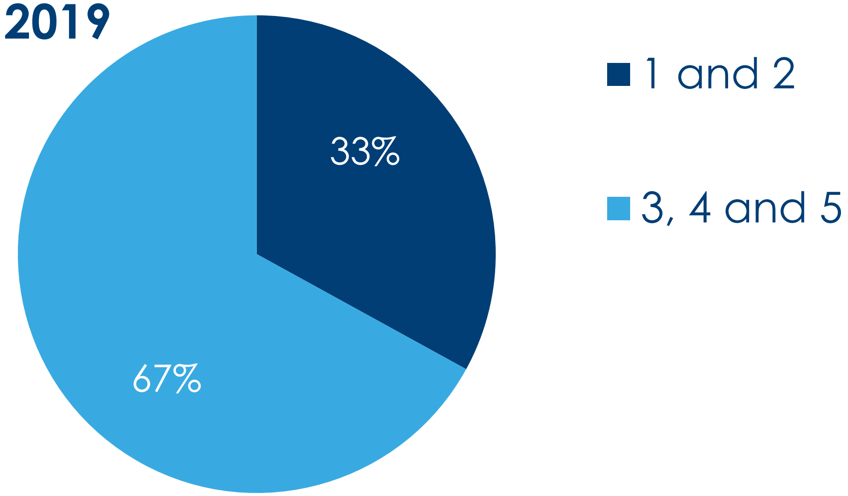


Total software licensing revenue breakdown by customer tier

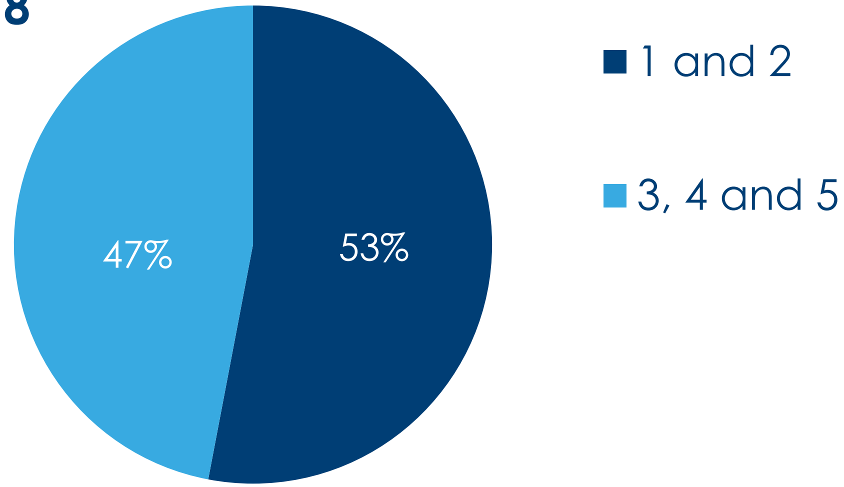
Q4 2018



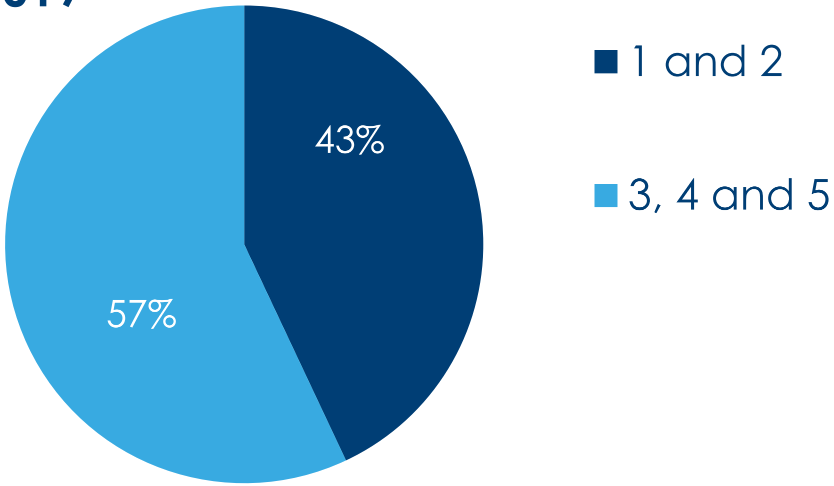
Q4 2019



FY 2018

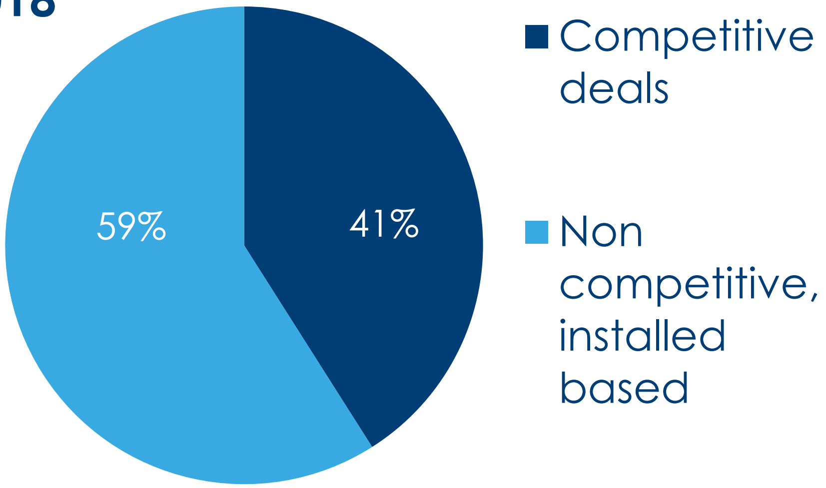


FY 2019

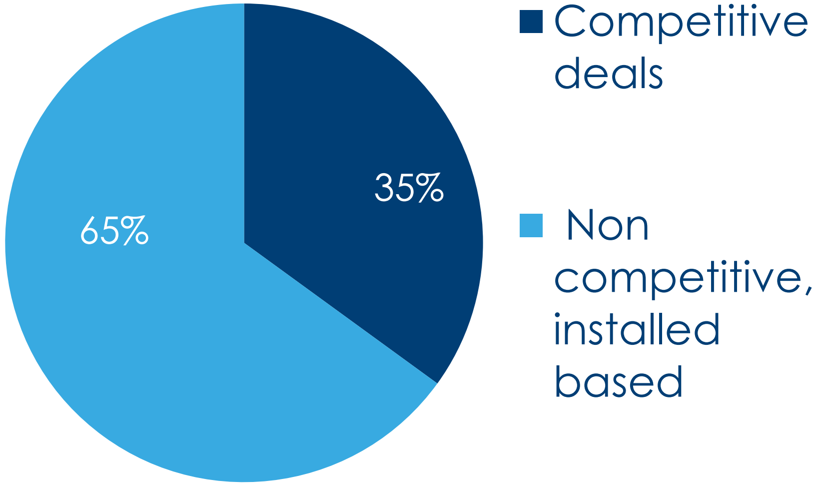


Software licensing revenue breakdown by competitive deals / add-ons to installed base

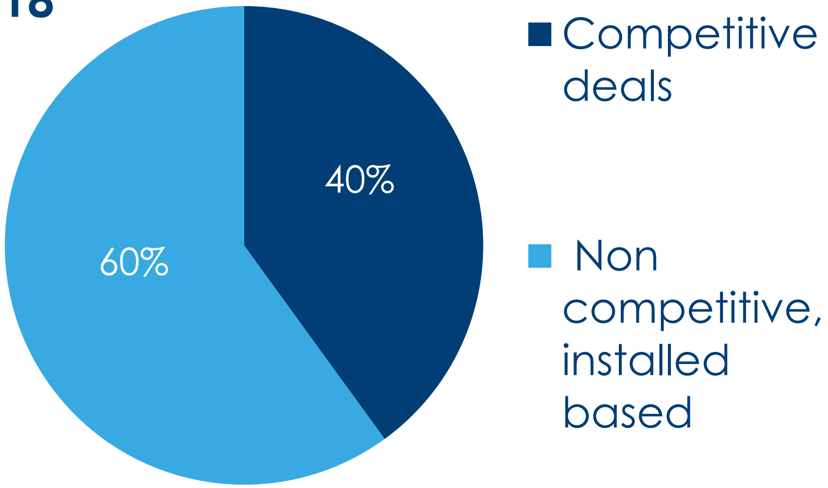
Q4 2018



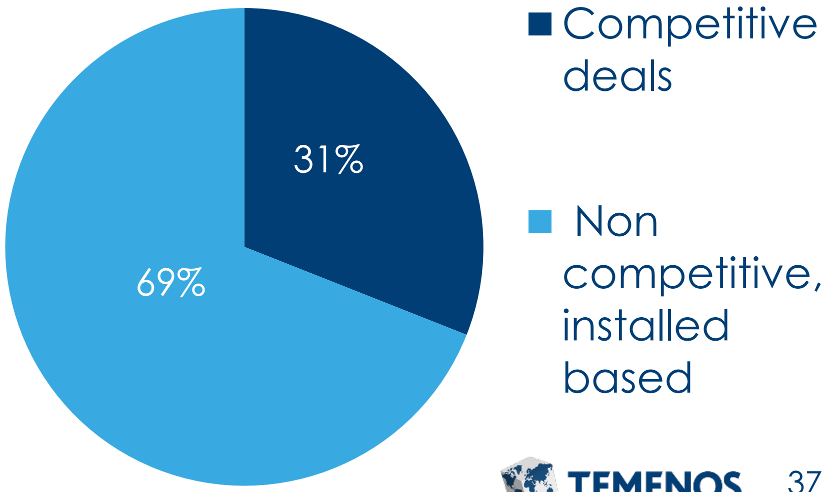
Q4 2019



FY 2018

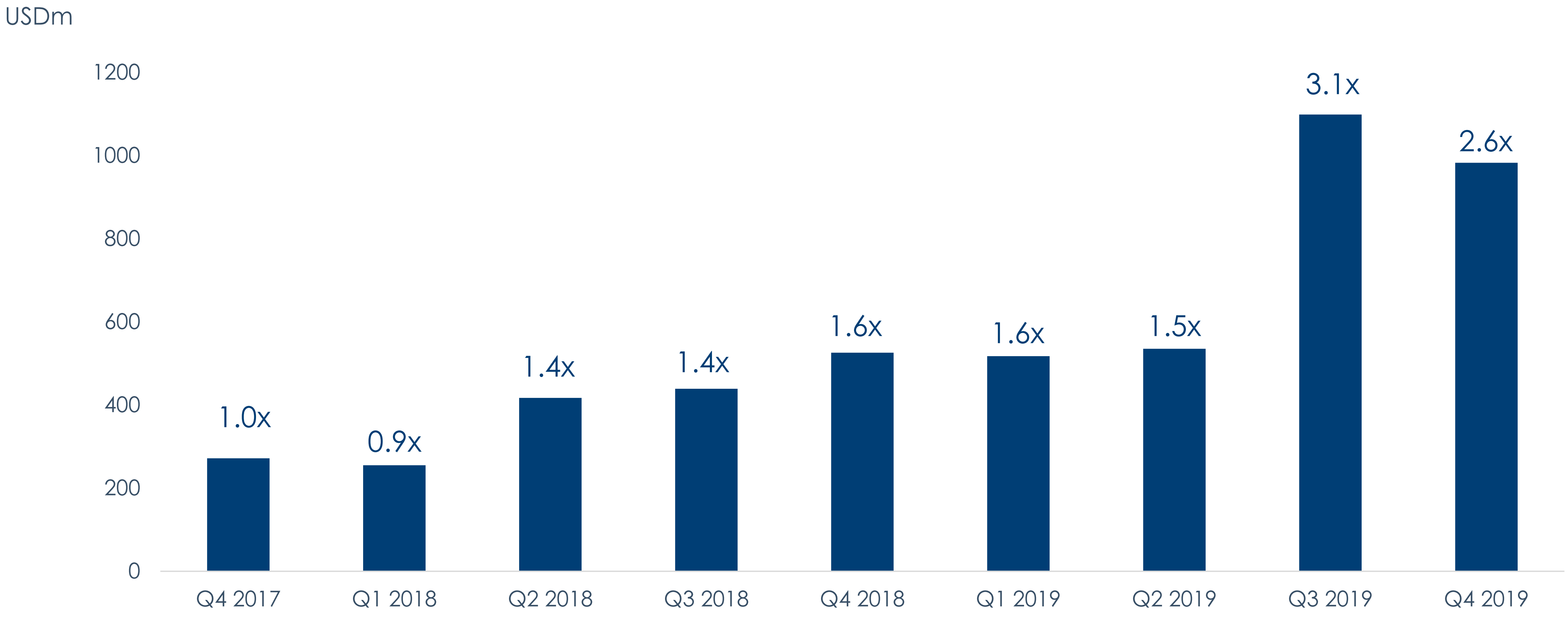


FY 2019



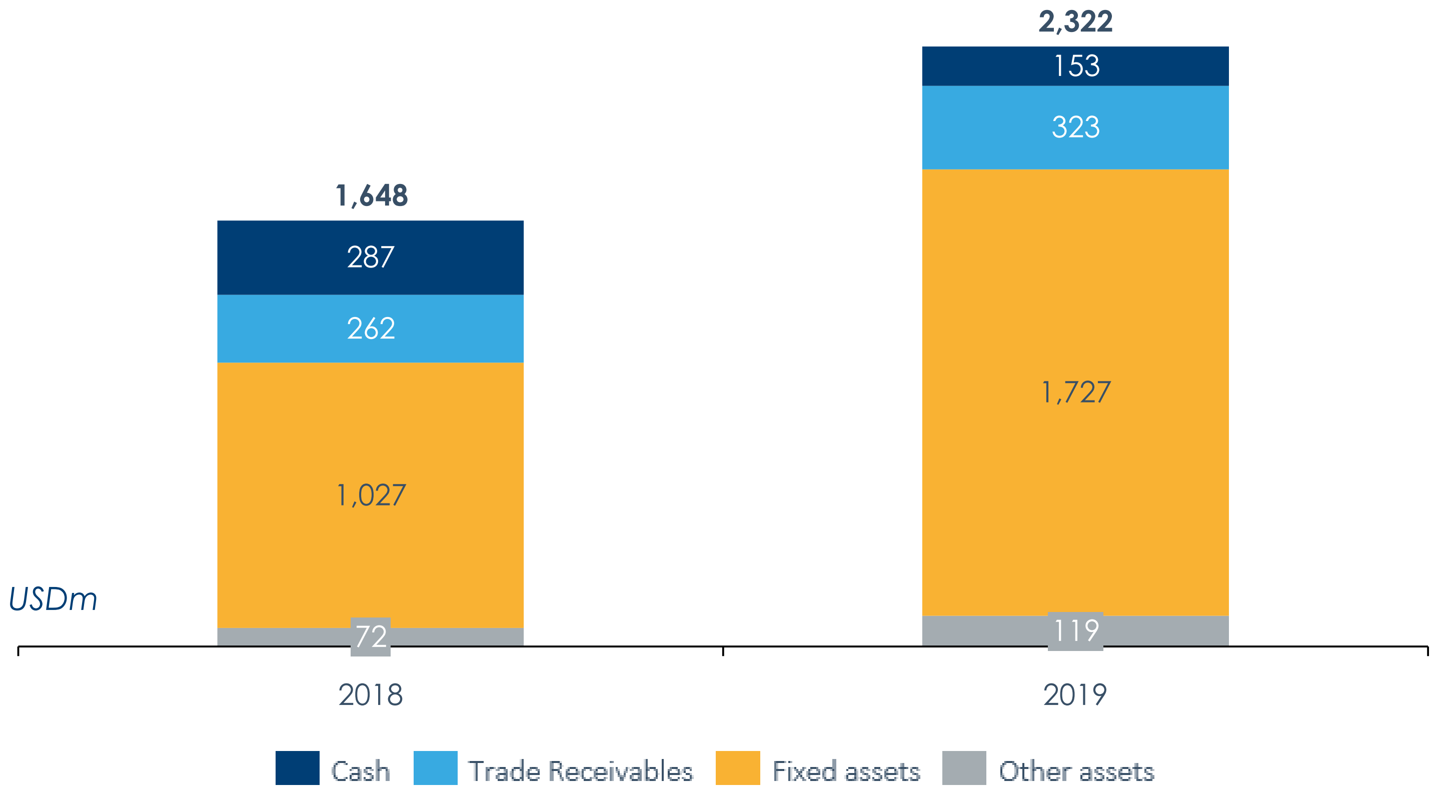
Balance sheet – debt and leverage

Net debt and leverage ratios*



** proforma non-IFRS EBITDA adjusted for lease expense now reported under depreciation and amortization under IFRS 16, net debt includes cross-currency swap and excludes leases reported as borrowings under IFRS16*

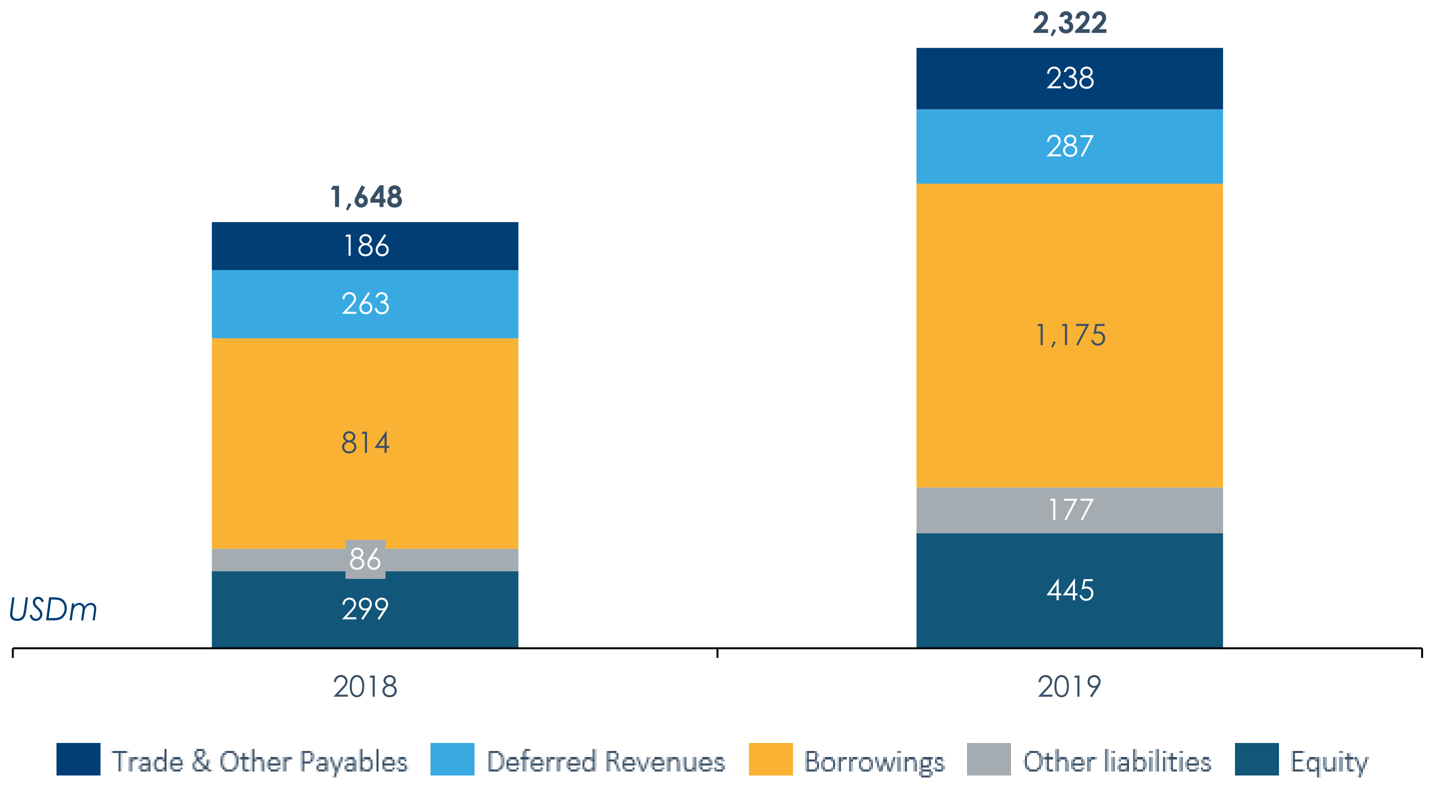
FY19 v FY18 assets



Comments:

- Fixed assets up $700m driven by $650m driven by acquisitions, up $46m from IFRS16 recognition
- Other assets up $47m driven primarily by Kony earn-out and investments (convertible loan)

FY19 v FY18 liabilities



Comments:

- Trade and Other payables increase mainly driven by Kony $40m
- Borrowings increase of c.$300m funding acquisitions
- Other Liabilities driven by Kony deferred tax liabilities
- Equity change driven mostly by 2019 profit and dividend pay-out

Capitalization of development costs

USDm	Q1 17	Q2 17	Q3 17	Q4 17	FY 17
Cap' dev' costs	-11.2	-11.8	-13.4	-14.1	**-50.5**
Amortisation	8.8	9.8	10.9	10.5	**40.0**
Net cap' dev'	**-2.4**	**-2.0**	**-2.5**	**-3.6**	**-10.5**

USDm	Q1 18	Q2 18	Q3 18	Q4 18	FY 18
Cap' dev' costs	-12.6	-13.2	-13.0	-13.9	**-52.6**
Amortisation	10.8	11.1	11.1	11.9	**44.9**
Net cap' dev'	**-1.8**	**-2.0**	**-1.9**	**-2.0**	**-7.7**

USDm	Q1 19	Q2 19	Q3 19	Q4 19	FY 19
Cap' dev' costs	-14.1	-14.3	-15.2	-21.0	**-64.6**
Amortisation	11.7	12.0	12.2	13.7	**49.6**
Net cap' dev'	**-2.5**	**-2.3**	**-3.0**	**-7.3**	**-15.1**

Reconciliation from IFRS to non-IFRS

	IFRS revenue measure
+	Deferred revenue write-down
=	**Non-IFRS revenue measure**

	IFRS profit measure
+/-	Deferred revenue write down
+ / -	Discontinued activities
+ / -	Amortisation of acquired intangibles
+ / -	Acquisition related charges
+ / -	Restructuring
+ / -	Taxation
=	**Non-IFRS profit measure**

Accounting elements not included in non-IFRS guidance

Below are the accounting elements not included in the 2020 non-IFRS guidance:

- FY 2020 estimated deferred revenue write down of USD 15m
- FY 2020 estimated amortisation of acquired intangibles of USD 65-70m
- FY 2020 estimated restructuring costs of USD 10m

Restructuring costs include realising R&D, operational and infrastructure efficiencies.

These estimates do not include impact of any further acquisitions or restructuring programmes commenced after 12 February 2020. The above figures are estimates only and may deviate from expected amounts.

Reconciliation – IFRS to non-IFRS

In USDm, except EPS	3 Months Ending 31 December			3 Months Ending 31 December		
	2019		2019	2018		2018
	IFRS	Non-IFRS adj.	Non-IFRS	IFRS	Non-IFRS adj.	Non-IFRS
Software licensing	139.1		139.1	123.4		123.4
SaaS and subscription	19.0	5.3	24.3	7.9		7.9
Total Software Licensing	**158.0**	**5.3**	**163.4**	**131.3**		**131.3**
Maintenance	97.5		97.5	81.9		81.9
Services	48.7		48.7	41.0		41.0
Total Revenue	**304.3**	**5.3**	**309.6**	**254.2**		**254.2**
Total Operating Costs	**(222.7)**	**29.3**	**(193.4)**	**(167.0)**	**10.9**	**(156.2)**
Restructuring/acq. costs	(11.1)	11.1	-	(1.9)	1.9	-
Amort of Acq'd Intang.	(18.1)	18.1	-	(9.0)	9.0	-
Operating Profit	**81.5**	**34.6**	**116.2**	**87.1**	**10.9**	**98.0**
Operating Margin	**27%**		**38%**	**34%**		**39%**
Financing Costs	(7.9)	0.3	(7.7)	(4.6)		(4.6)
Taxation	(11.4)	(3.6)	(14.9)	(11.2)	(1.3)	(12.5)
Net Earnings	62.2	31.3	93.6	71.3	9.6	80.9
EPS (USD per Share)	**0.85**	**0.43**	**1.28**	**0.99**	**0.13**	**1.12**

Net earnings reconciliation

In USDm, except EPS	Q4 19	Q4 18	FY 19	FY 18
IFRS net earnings	**62.2**	**71.3**	**181.1**	**168.2**
Deferred revenue write down	5.3	0.0	8.6	0.1
Amortisation of acquired intangibles	18.1	9.0	55.2	37.2
Restructuring	10.4	0.9	14.7	3.3
Acquisition related costs	0.7	1.0	4.0	12.6
Acquisition related financing costs	0.3	-	1.0	-
Taxation	-3.6	-1.3	-9.4	-6.3
Net earnings for non-IFRS EPS	**93.6**	**80.9**	**255.1**	**215.3**
No. of dilutive shares	**73.5**	**72.5**	**73.5**	**73.0**
Non-IFRS diluted EPS (USD)	1.28	1.12	3.47	2.95

Reconciliation from IFRS to non-IFRS for EBIT and EBITDA

USDm	Q4 19 EBIT	Q4 19 EBITDA	FY 19 EBIT	FY 19 EBITDA
IFRS	**81.5**	**120.4**	**235.4**	**366.0**
Deferred revenue write-down	5.3	5.3	8.6	8.6
Amortisation of acquired intangibles	18.1	-	55.2	-
Restructuring	10.4	10.4	14.7	14.7
Acquisition related costs	0.7	0.7	4.0	4.0
Non-IFRS	**116.2**	**136.9**	**317.9**	**393.3**

Transition to IFRS 16 “Leases”

- IFRS 16 “Leases” primarily changes lease accounting for lessee and moves to single accounting model eliminating the distinction between finance leases and operating lease. Leases qualified under IFRS16 are captured on the balance sheet from 1st January 2019.
- Temenos has adopted IFRS 16 using the modified retrospective method effective 1 January 2019
- Temenos applies IFRS16 exemption on short term leases (1 year or less) – these will be accounted as per old approach i.e. rental expense.
- Most significant impact for Temenos relates to office leases
- Prior comparative periods will not be restated under IFRS 16
- Further information can be found on our investor relations website:

  https://www.temenos.com/en/about-temenos/investor-relations/

Reconciliation – IFRS 16 Income Statement

In USDm	3 Months Ending 31 December		
	2019		2019
	IFRS	Impact of IFRS 16	IFRS 16 adjusted
Total Revenue	**304.3**	**-**	**304.3**
Operating Expense	(222.7)	(0.2)	(222.9)
EBIT	**81.5**	**(0.2)**	**81.3**
Financing Costs	(7.9)	0.4	(7.5)
Taxation	(11.4)	-	(11.4)
Net Earnings	**62.2**	**0.2**	**62.4**

EBIT	**81.5**	**(0.2)**	**81.3**
D&A	38.9	(4.0)	34.9
EBITDA	**120.4**	**(4.2)**	**116.2**

Reconciliation – IFRS 16 Balance Sheet

In USDm	3 Months as at 31 December		
	2019		2019
	IFRS	Impact of IFRS 16	IFRS 16 adjusted
Property, plant and equipment	67.3	(45.9)	21.4
Other assets (current / non-current)	2,255.1	(1.6)	2,253.5
Totals assets	**2,322.4**	**(47.5)**	**2,274.9**
Borrowings (current / non-current)	1,174.6	(51.3)	1,123.2
Other liabilities (current / non-current)	702.7	1.6	704.3
Total liabilities	**1,877.3**	**(49.7)**	**1,827.5**
Equity	(424.9)	-	(424.9)
Retained Earnings	870.0	2.2	872.2
Total Equity	**445.1**	**2.2**	**447.3**
Total liabilities and equity	**2,322.4**	**(47.5)**	**2,274.8**

Reconciliation – IFRS 16 net debt calculation

In USDm	3 Months Ending 31 December 2019 IFRS
Non-IFRS EBITDA	136.9
IFRS16 adjustment	(4.2)
IFRS 16 adjusted EBITDA	**132.7**
LTM EBITDA	377.5
Net Debt reported	1,021.8
SWAP add-back	12.0
IFRS16 adjustment	(51.3)
IFRS 16 adjusted Net Debt	**982.5**
Leverage	**2.6x**

Definitions

Non-IFRS adjustments

Deferred revenue write-down
Adjustments made resulting from acquisitions

Discontinued activities
Discontinued operations at Temenos that do not qualify as such under IFRS

Acquisition related charges
Relates mainly to advisory fees, integration costs and earn outs

Amortisation of acquired intangibles
Amortisation charges as a result of acquired intangible assets

Restructuring
Costs incurred in connection with a restructuring plan implemented and controlled by management
Severance charges, for example, would only qualify under this expense category if incurred as part of a company-wide restructuring plan

Taxation
Adjustments made to reflect the associated tax charge relating to the above items

Other

Revenue visibility
Visibility on revenue includes a combination of revenue that is contractually committed and revenue that is in our pipeline and that is likely to be booked, but is not contractually committed and therefore may not occur.

Constant currencies
Prior year results adjusted for currency movement

Like-for-like (LFL)
Adjusted prior year for acquisitions and movements in currencies

SaaS and subscription
Revenues generated from Software-as-a-Service and subscription licenses

SaaS - Financial metrics definitions and reporting

Annual Contract Value (ACV)	Annual value of incremental business taken in-year. Includes New Customers, up-sell/cross-sell. Only includes the recurring element of the contract and exclude variable elements. **Disclosure: quarterly reporting, annual guidance**
Total Contract Value (TCV)	Total value of incremental business taken in-year (Bookings). Includes New Customers, up-sell/cross-sell. Only includes the recurring element of the contract and exclude variable elements. **Disclosure: annual reporting**
Annual Recurring Revenue (ARR)	Annualized value of revenues booked in a period: Recurring revenue recognized in a month * 12. **Disclosure: annual reporting**
Software-as-a-Service Revenue (SaaS)	Software-as-a-Service revenues booked in a period **Disclosure: quarterly reporting, annual reporting**
ACV bookings equivalent	License component of SaaS contracts includes estimated value of license revenue over the life of the SaaS contract, excluding infrastructure, services and maintenance revenue components. ACV x average duration of contract / license equivalent factor

Overview of Temenos compensation policies

TEMENOS
THE BANKING SOFTWARE COMPANY

Overview of Temenos compensation policies

- The two key goals of the Temenos compensation structure are[1]:
    - Pay for Performance alignment with shareholder by making the major portion of compensation dependent on achieving increased shareholder value for the long term
    - Foster a performance based corporate culture through variable compensation
- Compensation is benchmarked against an international peer group of 17 companies where Temenos is close to the median market cap and approaching the median revenue of the peer group[2]
- A minimum of 85% of executive compensation is variable and dependent on achieving stretch long and short term targets vs. a peer group average of 56%[3]
- The long term element of the compensation programme is granted through Share Appreciation Rights (SARs)[4]
- SARs are options and align management with long term value creation for shareholders as the SARs only have a value at vesting if the share price appreciates from the price on date of grant[4]
- SARs are granted to both executive management as well as other key employees in the organisation[4]
- Executive and board compensation are subject to a binding vote at AGM in accordance with Minder legislation

[1]*Temenos 2018 Annual Report, page 105*
[2]*Temenos 2018 Annual Report, page 106*
[3]*Temenos 2018 Annual Report, page 107*
[4]*Temenos 2018 Annual Report, page 109*

Accounting for SARs

- SARs are accounted for under IFRS standards. Temenos applies the standard consistently and wholly in line with best practice[1]
- The fair value of options is calculated by a third party expert on an annual basis and audited by Temenos' auditor[1]
- The fair value of the options is expensed in the operating P&L in accordance with IFRS2[1]
- The fair value expense is a non-cash item as per IFRS and is disclosed in the Equity statement[2]
- Non-IFRS reported results are NOT adjusted for the IFRS2 charge. Most software companies adjust, as a result TEMENOS profits do not benefit from this adjustment compared to peers
- As such, this item is added back to net profit when deriving the operating cash, and clearly shown on the cash flow statement in accordance with IFRS standards[3]
- It is important to note that the reported fully diluted EPS figure takes into account all vested options, as disclosed in the annual report[4]
- The non-IFRS EPS number is also calculated on a fully diluted basis[5]

[1]Temenos 2018 Annual Report, page 109
[2]Temenos 2018 Annual Report, page 130
[3]Temenos 2018 Annual Report, page 129
[4]Temenos 2018 Annual Report, page 171, note 23
[5]Temenos Q3 2019 results presentation, slide 34, https://www.temenos.com/wp-content/uploads/2019/10/q3-2019-results-presentation-2019-oct-16.pdf

Dilution from SARs

- When issuing SARs, the Compensation Committee reviews the planned dilution to ensure it remains within a target of less than 2% p.a. of shares outstanding on a CAGR basis[1]
- ISS, the leading global proxy advisor, allows total cumulative dilution of up to 10% for high growth companies[2]
- Total cumulative dilution as of 31/12/18 from all outstanding SARs and stock options was 5%, half of the 10% cap which ISS states is acceptable for fast growing companies[2]
- Of this theoretical 5% dilution, around one third is already taken into account when calculating the 2018 diluted EPS as the 5% includes SARs that have already met the vesting criteria
    - The dilution on a CAGR basis is as follows:
        - FY12 – FY18 1.4% CAGR dilution before buybacks
        - FY12 – FY18 0.8% CAGR dilution after buybacks
        - Including buybacks, the dilution for the period 2016 – 2018 on a CAGR basis was 0.7% as disclosed in the 2018 Annual Report[1]

[1]Temenos 2018 Annual Report, page 111
[2]ISS Proxy Voting Guidelines Benchmark Policy Recommendations, page 23, https://www.issgovernance.com/file/policy/active/emea/Europe-Voting-Guidelines.pdf

Dilution vs. peer group

- ISS, a leading global proxy advisor, allows total cumulative dilution of up to 10% for high growth companies[1]
- Total cumulative dilution for Temenos as of 31/12/18 from all outstanding SARs and stock options was 5%, half of the 10% cap which ISS states is acceptable for fast growing companies[1]
- This compares to a peer group average of 14% based on the most recent disclosure of each company

Company	Total dilution from all outstanding employee compensation programmes	Company	Total dilution from all outstanding employee compensation programmes
ACI Worldwide, Inc.	10.4%	Micro Focus International Plc	10.0%
Broadridge Financial Solutions, Inc.	12.7%	SDL Plc	10.0%
Citrix Systems, Inc.	9.2%	SimCorp A/S	1.1%
Fidelity National Information Services, Inc.	7.9%	Software AG	0.0%
Fiserv, Inc.	12.7%	SS&C Technologies Holdings, Inc.	30.5%
Intuit Inc.	11.6%	The Sage Group Plc	1.3%
Jack Henry & Associates, Inc.	3.4%	Workday, Inc.	58.0%
Logitech International S.A.	9.8%	**Average**	**13.9%**

[1]*ISS Proxy Voting Guidelines Benchmark Policy Recommendations, page 23,* https://www.issgovernance.com/file/policy/active/emea/Europe-Voting-Guidelines.pdf

SARs performance criteria

- The long term variable compensation granted in 2019 is based on the following criteria[1]:
  - Non-IFRS EPS growth at 15% CAGR (40%)
  - Non-IFRS product revenue growth at 14% CAGR (60%)
- There is a minimum payout threshold of 85% of the target for any SARs to vest, compared to an average minimum payout threshold of 41% in the peer group[2]
- The SARs vest cumulatively over 3 years, as such the financial targets must be met, and the share price needs to appreciate over the 3 year period, for the SARs to have any value[3]

31/12/12 – 31/12/18	CAGR	Total
Share price	39%	637%
Non-IFRS EPS growth	19%	227%
SARs dilution	0.8%	4.7%

[1]Temenos 2018 Annual Report, page 115
[2]Temenos 2018 Annual Report, page 107
[3]Temenos 2018 Annual Report, page 109
[4]Temenos 2018 Annual Report, page 171, note 23

Net debt and share buybacks

- Temenos targets an optimized balance sheet leverage of 1-1.5x net debt to EBITDA[1]
- Increases in leverage and net debt are directly linked to M&A, and not share buybacks, for example:
  - Leverage increase from 1.5x to 3.1x from Q2 to Q3 2019 on the acquisition of Kony[2]
  - Leverage increase from 1.4x to 1.6x from Q3 to Q4 2018 on the acquisition of Avoka[2]
  - Leverage increase from 0.7x to 1.2x from Q1 to Q2 2017 on the acquisition of Rubik[3]
- The primary driver of share buybacks is balance sheet optimization in years where there has been no significant M&A, for example:
  - On 20 April 2018, Temenos announced it would not be pursing the acquisition of Fidessa and simultaneously announced a USD 250m share buyback[1]
- Buybacks have had an accretive impact of 1.8% on diluted EPS p.a. since 2013

[1]Temenos press release, April 20th, 2018, https://www.temenos.com/news/2018/04/20/temenos-statement-regarding-fidessa-group-plc/
[2]Temenos Q3 2019 results presentation, slide 32, https://www.temenos.com/wp-content/uploads/2019/10/q3-2019-results-presentation-2019-oct-16.pdf
[3]Temenos Q2 2017 results presentation, slide 31, https://www.temenos.com/wp-content/uploads/2019/07/q2-2017-results-presentation-2017-jul-19.pdf

Non-IFRS adjustments

- Temenos does not adjust its IFRS numbers for stock option expenses when calculating non-IFRS metrics[1]
- Only the following items are adjusted for when calculating non-IFRS metrics[1]

	IFRS revenue measure
+	Deferred revenue write-down
=	**Non-IFRS revenue measure**

	IFRS profit measure
+/-	Deferred revenue write down
+ / -	Discontinued activities
+ / -	Amortisation of acquired intangibles
+ / -	Acquisition related charges
+ / -	Restructuring
+ / -	Taxation
=	**Non-IFRS profit measure**
	Non-IFRS net earnings
/	Diluted share count
=	**Non-IFRS EPS**

[1]*Temenos Q3 2019 results presentation, slide 34, https://www.temenos.com/wp-content/uploads/2019/10/q3-2019-results-presentation-2019-oct-16.pdf*

Total value of shares sold by Temenos executives

- Temenos reports all exercises of SARs, sales and purchases of shares by its Executive Management and Executive Chairman to the Swiss Stock Exchange

- This information is publicly available on the Swiss Stock Exchange website through the following link, for years 2017 onwards:

https://www.six-exchange-regulation.com/en/home/publications/management-transactions.html

- When an executive exercises SARs and does not sell the shares, or buys shares in the market, these transactions are recorded as ‘purchases’ by the Swiss Stock Exchange

- When an executive exercises SARs and sells the shares, or sells shares they already hold, these transactions are recorded as ‘sales’ by the Swiss Stock Exchange

- The total value of shares sold by Temenos executives from the start of 2017 to the end of 2019 is CHF 339m as disclosed on the Swiss Stock Exchange website

    - Bloomberg reports the total value of shares sold by Temenos executives from the start of 2017 to the end of 2019 as CHF 626m, an over-statement of 85%, largely due to double counting of ‘exercise and hold’ and subsequent sales

Settlement of SARs and Banque Havilland

- Employees can choose to exercise and hold the shares, or sell the shares and receive the net cash proceeds
- Temenos can meet this demand for shares either through conditional capital or through treasury shares[1]
- Temenos receives approval from its shareholders at its AGM for increases in conditional capital[2]
- When SARs are granted, Temenos ensures there is sufficient conditional capital head room as voted on at the AGM to meet the expected demand for shares[1]
- Since 1/1/2019 Temenos has not used treasury shares to meet the demand of SARs, instead using conditional capital[3]
- Temenos has a relationship with Banque Havilland to cover an administrative timing gap where shares are required at the time an employees exercise SARs, but Temenos only issues shares out of conditional capital at the end of each month
- Conditional capital is a form of capital authorization, approved by shareholders at the AGM, that enables the Board of Directors to issue equity for use against employee compensation plans[3]
- There is no debt financing related to the pledge of treasury shares to Banque Havilland

[1]Temenos 2018 Annual Report, page 97
[2]Temenos 2018 Annual General Meeting, item 6, https://www.temenos.com/wp-content/uploads/2019/07/agm-agenda-en-2018-may-15.pdf
[3]Temenos 2019 Interim Report, page 23, 1.8m treasury shares available as of June 2019

Thank You

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