Full Reviewed Transcription

Temenos AG

Q4 and FY 19 results

2020-02-12 at 6:30 pm CET

Duration: 57 minutes

COMPANY REPRESENTATIVES

Max Chuard – *Chief Executive Officer*

Panagiotis Spiliopoulos – *Chief Financial Officer*

PRESENTATION

Operator

Ladies and Gentlemen, welcome to the Temenos Q4 and Full Year Results 2019 Conference Call and Live Webcast. I'm Andre, 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 hand over to Max Chuard, CEO. Please go ahead, Sir.

Max Chuard

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 Q4 and full year performance. And then I will hand over to Takis for an overview of the financials before giving some concluding... remarks.

Starting on Slide 7. We had an excellent fourth quarter and full year performance across our KPIs. We had very strong growth in revenue and profits with total software licensing up by 27% in Q4 and by 23% for the full year, and EPS up by 18% in 2019.

And I'm very pleased to say that we've delivered total software licensing growth at a CAGR of 25% for the last 5 years and EPS growth at a CAGR of 19% for the last 5 years. But I will highlight the massive acceleration that we've seen in our sub business in Q4 and in the full year 2019, growing at a rate of 121% compared to last year.

Moving to Slide 8, our ability to drive revenue and profit growth is dependent on our continued investment in product and technology. We made some significant advances in both of these areas in 2019 to keep up at the forefront of innovation.

Last month, we announced our latest cloud-based micro services, allowing banks to create hyper-personalized expenses in the front office and to continuously upgrade application in the back office. We made major progress with our SaaS and cloud offering, proving the scalability of our software with a high water benchmark of 50’000 transactions per second in AWS, and announcing our global partnership with Google in January.

We also launched our U.S. SaaS digital bank offering where we can take a bank live in just 90 days in the cloud. And lastly, we embedded explainable AI across our products, enabling banks to make faster, accurate and explainable decisions. So extremely pleased with that progress.

On Slide 9 now, we made 3 very strategic acquisitions in 2019. I am starting with the largest one. In September, we announced the acquisition of Kony, the number 1 U.S. digital banking SaaS vendor, which has brought us extensive digital and SaaS expertise as well as transformed our presence in the U.S. The integration of Kony has been faster than we were expecting. And the integration of the both organizations is done and the product integration is making very, very good progress.

We are also making good progress at involving partners in the implementation of Kony products. And we look at replicating the same model as we have at Temenos, which was not in place with Kony. Then in July, we announced the acquisition of Logical Glue, which gave us an industry-leading patented explainable AI product. This enables clients to use AI across the front and back office, whilst being able to understand and explain the decision making process and we've embedded explainable AI across our products. And this is a major differentiation for us.

And lastly, in February, we announced the acquisition of hTrunk, which provides Big Data and analytic solution to the banking industry. So overall, very, very pleased with the progress of those strategic acquisitions that we've made in 2019.

On Slide 10, we've shown here the highlights of the recognition we got from the industry. And these League Table are quite important for banks when selecting a software provider. For instance, Forrester has ranked us at the top Global Power Seller for 13 consecutive years for new named clients and a top Global Player for 7 consecutive years for new and existing clients. IBS, another research house has ranked us the number 1 Core Banking vendors for the last 7 years, as well as the number 1 best-selling solutions for digital banks, channels payments and risk and compliance. So very pleased with that.

At the same time, I'm very... I'm delighted with the progress we've made in EFG. We've now included, in 3 different sustainability indices, FTSE4GOOD, Dow Jones Sustainability Index and the Swiss Sustainably Index. As a company, we are very focused on operating sustainably. This is a key pillar of our culture and the foundation on which we conduct our business on a daily basis.

Now on Slide 11, as I said, our SaaS business performed exceptionally well in 2019. ACV grew by 159% in Q4 and 68% in the full year.

And we had SaaS signing for both Transact and Infinity across the regions. And our SaaS revenue is up 121% for the full year 2019. Avoka and Kony has both strengthened our SaaS offering, in particular, in the front office space. And our SaaS pipeline is building extremely well, and we expect the strong growth to continue in 2020.

On Slide 12, and I think this is quite an exciting slide, we can see the massive acceleration that we see in our ACV bookings, which demonstrate the momentum we see in that business. For the one that has followed Temenos for a little time, it took us 19 years to reach 100 million of license bookings. And for the equivalent ACV bookings, we are focusing to reach the same milestone by the end of 2020. So taking us less than 4 years to get to the same level and that's very, very exciting.

We see banks of all sizes wanting to run application in the cloud to benefit from efficiencies, speed of innovation, security and resilience, and ultimately, lower cost of ownership. The investments we've made in our product and technology means that we are extremely well placed to meet the demand.

Now turning on Slide 13: by the end of 2019, our ACV booking growth was already outpacing the license booking by a factor of more than 4 times. And while we still expect strong sustained growth in our traditional license business, we expect ACV booking growth to expand even further to a factor of 5 times related... to license growth.

Moving to Slide 14, we are clearly investing heavily in our global technology partnership, which are a key element of our technology, and particularly as we get so much traction with our SaaS and cloud business. We announced in January a global strategic partnership with Google Cloud to accelerate banks' digital transformation in the cloud. So this is very, very exciting. It's... we are the first one in the bank industry to work with the Anthos technology from Google Cloud.

And clearly, there is a clear defined go-to-market that we want to achieve with Google on that sense. We demonstrated as well the ability for Temenos Transact and Temenos Infinity to exceed over 50’000 transactions per second in a benchmark exercise within... we've done with AWS, providing massive scalability of our solution to meet the demands of the world's largest bank.

And finally, obviously, Microsoft Azure has been our first partner on the cloud. And obviously, we continue to work extremely well with them.

We also formed a strategic partnership with NuoDB, in which we made an investment into that company, which provides a cloud and contain a native distributed database that enables banks to benefit from massive scalability and resilience in the cloud.

Now on Slide 15, I'd like to review our sales performance in the quarter. We had a very strong demand for Infinity on the back of the ongoing integration of the Kony product. And in fact, we also enjoyed double-digit growth in Transact as bank continues to pursue an end-to-end transformation. Our SaaS sales in Q4 were particularly strong, as I mentioned, as bank look to take advantage of implementing and growing application in the cloud.

From a geographic perspective, we've had strong sales momentum in Europe, Asia and the Americas and some changes and some investments we've made to our sales structure in Middle East and Africa turned into a strong performance in Q4 with multiple new clients wins in that regions. We continue to build traction with Q1 and Q2, which contributed 43% of total software licensing in 2019. And with our announcement around our micro services, which is clearly tailored to larger banks we expect this contribution to continue to grow over time. In Q4, we signed 33 new clients, bringing our total new customer wins in 2019 to 93.

Moving to Slide 16, we had 24 implementation go-lives in Q4 2019. And a total of 330 go-live in 2019, which means that on average, every single working day, we had a bank go live on our software. Our strategy of involving partners in implementation is very much maturing, and we see a greater partner involvement across the regions, and as I said as well, across the acquired companies. And our services revenues is well below 20% of the mix, and we expect this to continue going forward. We now have over 6’500 experienced third party that can implement and deliver our software to banks.

On that, I will now hand over to you, Takis, to take us through the financials for the quarter and the year.

Panagiotis Spiliopoulos

Thank you, Max. Let me run you through some of the key financials. Starting on Slide 18, I'd like to run you through our performance in 2019 versus our guidance for the year.

We revised our guidance at the time of the Q3 results, and I'm pleased that we were able to beat our revised guidance for both total software license growth and EBIT.

We grew total software licensing at 23% versus our revised guidance range of 19.5% to 22.5%, and total revenues grew 19% versus our revised guidance range of 18% to 20%. Finally, we exceeded the top end of our revised EBIT guidance, achieving an EBIT of U.S. Dollar 318 million for the full year with our business model enabling us to deliver strong revenue and profit growth.

On Slide 19, I will walk you through the financial highlights of the quarter. We had strong sales growth across regions in Q4, in particular, in Asia and the Americas, delivering total software licensing growth of 27% for the quarter and 23% for the full year. This was reflected in our maintenance growth rate, which was up 17% in the quarter and 14% for the full year, giving total revenue growth of 23% for Q4 and 19% for the full year.

EBIT grew 18% in the quarter, and we delivered a full year EBIT margin of 32.4%, up 87 basis points. This drove EPS growth of 18% for the full year. We generated U.S. Dollar 364 million of operating cash in the year, resulting in a cash conversion of 100%. DSOs ended the quarter at 120 days, 6 of which are due to the acquisition of Kony, meaning the underlying DSOs were flat year-on-year at 114 days. Our leverage at the end of the quarter stood at 2.6 times net debt-to-EBITDA, down from 3.1 at the end of Q3, and we expect our leverage to approach 1.5 times by the end of 2020 based on our current plan. We have also announced a dividend proposal for 2019 of 85 cents per share, and this should be then approved at the AGM.

Turning on Slide 20, I will highlight some key figures for the quarter. We have seen excellent momentum in our SaaS business, with our SaaS revenue up 215% in the quarter and 121% for the year at constant currency, as banks increasingly look to benefit from running applications in cloud environments.

Our total software licensing grew 27% in the quarter and 23% for the full year, again at constant currency. This growth was broad-based across geographies and products with double-digit growth in Transact and our front office offering Infinity seeing even stronger demand.

Maintenance revenues grew 17% in the quarter and 14% for the year at constant currency. As you know, this is a key driver for our profit growth in the coming year. We continue to drive operational leverage in the business, and our EBIT was up 18% in the quarter and 19% for the full year. Our EBIT margin increased 87 basis points to reach 32.4% for the full year.

Moving now to Slide 21. We show like-for-like revenues and costs, adjusting, as usual, for the impact of M&A and FX. As a reminder, we closed the acquisition of Kony at the end of Q3, so we got the full impact of the balance sheet, but only 1/4 of the P&L. In terms of FX, the weaker Euro continued to be a headwind on the revenue line and the small benefit to our cost base. Taking into account currency movements and hedging, FX had a minimal negative impact on EBIT in the quarter.

Total software licensing grew 17% like-for-like this quarter and maintenance grew 12% like-for-like, with total revenue growth up 9% on a like-for-like basis. For the full year, total software licensing grew 15% like-for-like, maintenance by 12% and total revenue by 11% as we continue to deliver strong underlying organic growth in both Transact and the Infinity. Total like-for-like cost increased 1% in the quarter and 4% for the full year as the integration of Kony has progressed faster than initially anticipated.

On Slide 22, I will run you through the below-the-line items. Net profit grew 16% in Q4 and 18% for the full year. Our tax rate for Q4 was 13.9% as we continue to benefit from deferred tax assets. We expect our fiscal year 2020 tax rate to be between 15% and 16%, and our medium-term tax rate up 18% to 20%, which we consider a normalized run rate for the business. EPS grew 14% in the quarter and 18% for the full year to reach 3.47 U.S. Dollars.

Moving to Slide 23, our DSOs end of the quarter at 120 days reported. 6 days are due to the acquisition of Kony, meaning the underlying DSOs ended the quarter flat at 114 days. There was some impact from the timing of cash inflows, which would have brought down the underlying DSOs further approximately 5 days. We expect our DSOs to continue declining in Q1 '20 and to below 110 days by the end of 2020. We also see DSOs reaching 90 days in the medium term. This will be driven by strong cash collection on licenses and increased contribution from SaaS and a continued reduction in DSOs linked to services.

If we move to Slide 24, our Q4 LTM cash conversion was 100%, meeting our target of converting at least 100% of IFRS EBITDA into operating cash. Excluding the impact of timing on cash inflows, as I mentioned, our cash conversion would have amounted to 108%. We expect our cash conversion to be well above 100% for 2020.

Looking at Slide 25, we show the key changes to the Group liquidity over 2019. We generated 364 million of operating cash in the quarter, paid a dividend of 52 million and paid 600 million for the acquisitions of Kony, Logical Glue and hTrunk.

Our cash on balance sheet at the end of the year was 153 million. And our net debt was just above 1 billion, equal to a leverage of 2.6 times net debt-to-EBITDA. Based on our current plan, we expect our leverage to approach 1.5 times by the year-end 2020.

Now moving to Slide 26, we present our outlook for 2020. The pressure on banks is driving growth in third-party software spend, and this continues to benefit our pipeline and revenue visibility. We have a strong recurring revenue base from our maintenance and SaaS revenue. We are also seeing excellent demand for our SaaS offering, in particular, and this will become an increasingly important revenue contributor in the coming years. We also benefit from subscription revenues, which are reported in our licensing slide under IFRS 15 as well as ongoing relicensing as clients renew their 10 years term contracts.

We have a strong and growing client base of Tier 1 and Tier 2 banks undergoing continuous renovation. Our latest micro services-based architecture will enable large banks to strategically transform their core systems at scale in a safe and progressive way. It facilitates renovation of specific applications in their front and back office piece by piece.

We also consistently sell well into our installed base of existing customers outside the Tier 1 and Tier 2 category as banks of all sizes look to transform their IT operations end-to-end. From a product perspective, we are forecasting double-digit growth in Transact based on our current pipeline and for Infinity to grow significantly faster. SaaS and cloud are also expected to be significant engines of growth going forward.

Turning to Slide 27, our pipeline growth has clearly accelerated, and we are starting 2020 with a very strong pipeline across both the traditional on premise license business and SaaS. This is broad based across geographies and products, and we can expect to continue taking market share in Transact as well as in our other engines of growth, in particular, Infinity. This gives us a high level of confidence in the outlook for the business.

Finally, moving to Slide 28, we present our guidance for the year. As usual, the guidance is on a non-IFRS basis and in constant currencies, and you can find the FX rates in the appendix.

With the integration of Kony progressing faster than we originally expected, we have been able to shift some of the Kony service revenues to partners ahead of our original plan. We are now expecting Kony to contribute around 105 million of revenues for fiscal year 2020 with the full delta from lower services contribution.

Thus, this has a marginal impact on the underlying total revenue growth, but it also yields a stronger profitability forecast for 2020. For the full year, we are guiding for total software licensing growth of 18.5% to 23.5%. For total revenue growth, we are guiding for 16% to 20%.

Our EBIT guidance stands at 380 million to 385 million, which implies a full year EBIT margin of around 33%. We have introduced a new guidance metric for SaaS ACV, as Max already mentioned, and we expect to grow ACV by more than 100% in 2020, implying an ACV of at least 42 million for the full year. Finally, we expect EBITDA to operating cash conversion of well above 100% and a 2020 tax rate of 15% to 16%.

With that, I hand back to Max.

Max Chuard

Thank you, Takis. So moving to Slide 30, just a quick mention of our main event, which is coming, which is the Temenos Community Forum, which this year will take place in Madrid from the 28th to the 30th of April. This is clearly one of the leading events in the industry, bringing together our clients, our prospects, partners, fintechs, developers. So a very, very powerful community get together during those few days. It's a great opportunity to meet people across the Temenos community as well as our executive team. And I think it's one of a unique way to get to understand the company. So obviously, if you like more information or if you like to join us for that event, please do get in touch with us.

Finally, on Slide 31, to conclude, we had an excellent 2019 across our KPIs. We delivered against our revised guidance. Our market continues to grow as banks remain under intense pressure from digital regulation cost and the move to open banking. We had an exceptional growth in SaaS and cloud, and from a product perspective, Transact grew double-digit and Infinity grew multiple times faster. We've completed the integration of Kony from an organization point of view, which is helping us strengthen our U.S. pipeline. The investments we've made in the product, in the people and those strategic acquisitions in 2019, have laid the foundation for a great 2020.

So with that, operator, I'd 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 * then 2. Participants are requested to use only handsets while asking a question. Anyone who has a question may press * and 1 at this time.

The first question comes from the line of Chandramouli Sriraman from MainFirst. Please go ahead.

Chandramouli Sriraman

Yes, hi, congrats on a strong finish to the year. So just a couple of questions from my side. So the first thing, the Middle East and Africa weakness seems to have sort of settled down, you're almost flat in the region for the year. How should we see this geography progressing now in 2020? Is there some kind of conservatism and the improvement in your guidance for this geography? That's my first question. And in terms of the profitability, you're looking at about 60 basis points of margin expansion in the year. It's obviously lower than your medium-term guidance. Anything special that you'd to highlight as reasons? I was just thinking is the growth in your cloud SaaS business impacting your profitability, at least in the near-term? Thanks.

Max Chuard

Hi, Chandra. Listen, for... I take the first question regarding the Middle East. And I was pleased with the performance in Q4. Obviously, we discussed the Q3. So in Q4, we took some actions and from an organization, and specifically on the sales side, which brought fruits during the quarter, we were able to close deal, to win new deals. So I will say that from Q1 onwards, we are back on track, the team is, you know, back on track. And remember, this is a region that over the last 3 years has been delivering extremely well. We had to do some improvement, which has been done now. And so I'm confident that the Middle East and Africa will continue to perform well in 2020 and in the medium-term as well.

Panagiotis Spiliopoulos

Okay. On your EBIT margin guidance, I think it’s 60 basis points, if you take the midpoint, if you look at the at the low end then there is a spread of 70 basis points. Now clearly, the 60 basis points is something we are convinced we can achieve, but this is... this is really driven by absorbing the impact of Kony.

As you remember, we said at the time of the acquisition, it would have a neutral impact on our 2020 P&L. So with the faster integration we already reaped some benefits in Q4 '19, but definitely, there is more to come in 2020.

Speaking about the SaaS impact, you know, we have every impact we are forecasting for... from the SaaS business is reflected in our guidance. And definitely, we still have you know, some way to go improving the profitability of SaaS. So more SaaS actually means a better margin just as we gain scale.

Chandramouli Sriraman
Okay. Thank you.

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

John King
Hi, good evening. Thanks for taking the questions. 2, please. So firstly, on the Q4, I'm just wondering if you can comment on the linearity of the quarter, and whether it was back-end loaded, given obviously, you've seen some working capital weakness in the accounts receivable. And then secondly was on some of the management changes, obviously, you've announced also today. Can you talk about... a little bit about... more about the background to that, particularly in North America and I guess, how you are feeling about the region generally, just cognizant of the management change? And obviously, you're also... I appreciate the services but down ticking the guidance for Kony. Thank you.

Panagiotis Spiliopoulos
Okay. Thanks for the question. We did not see any particular seasonality this quarter versus, let's say, Q4 '18. The cash... the negative cash impact you know, was really linked to some issues we've seen at banks, multiple issues, you know, they mentioned that the cash came in, in the first days of January you know, it was various cases. It could be actually linked to the repo market being a bit difficult, and it was mainly Tier 1 banks in Europe, conserving cash. So we got everything, and we're talking about 25 million, which we got in the early days that would have put the cash conversion at 108%. So nothing specific seen versus the... let's say, prior year quarter.

Max Chuard

And John, on the announcement of the strengthening of the... of my Executive Team, I'm very pleased that I've got so much talent internally in the...and it's really... Temenos, we always say that it's ultimately a people business and we spend a lot to ensure we can bring talent. And so, I'm very pleased that I've been able to bring Alexa to run the Americas. So in fact, we are bringing a larger region, so it's North America, it's Canada, U.S., and LATAM together. She has been with us for more than 10 years and she has been doing... she has been running sales for us. She has been then running the delivery side of the business. She has one of those unique skills of being able to understand Temenos extremely well and to be able to bring, I would say she'll be able to bring a lot to the Americas. Now clearly, the U.S. specifically, we've made major progress in the last 12 months. Clearly, the acquisition of Kony has been a major milestone for us. So we've got a much better base to grow up now. And I am sure that with the leadership of Alexa, we'll continue on the success that we've seen in the U.S., and more broadly, in the Americas.

I'm also very pleased to bring Colin to the Executive Team. Colin joined us around 4... a bit more than 4 years ago from Accenture. And clearly he has been... he runs for a period of time our development organization. And now he was focused on the cloud operation and which is such, you know, obviously an important matter for us that I wanted him to be part of the team. He will also be looking after the whole of delivery. So I'm pleased with the team. You've seen as well that André, who is...we call him our grandfather of our product, is stepping down from the ex-co, but will continue to drive some initiative internally. But ultimately, I mean, he will always be part of the company.

And Mark, that I think most of you know, will take over both the product and the technology side. So we are very pleased to be able to strengthen the team. Tom, who was leading for the North America for us, he delivered the integration of... ahead of time. So I'm pleased with that. And we wish him all the best for the future. I'm very pleased with my team that I've got in place, and I'm sure that Alexa will do great in North America and in LATAM.

John King

Alright, thank you.

Operator

The next question comes from the line of Michael Foeth from Vontobel. Please go ahead.

Michael Foeth

Yes, hello Gentlemen. I have several questions. If you... again, just to follow-up on the previous one. The stepping down of Tom seems a bit, you know, very short time within the company. So if you can just explain a little bit more why he's stepping down? The other 2 questions, one would be if you could give us an update on the go-live of Commerce Bank in the U.S., where would you stand there? And the last question would be, you mentioned that you shifted some of the revenues from Kony to partner, some of the service revenues. If you could indicate what sort of impact that has on the 2020 guidance? Thank you.

Max Chuard

Hi, Mike, it's Max. Listen on Tom. As I said, we've got huge ambitions for the U.S., and for the Americas. And since I wanted to have the best person that is the most motivated to be able to deliver that, and I think Alexa is a person now for me, and I'm not sure that ultimately Tom, you know, wanted to do that. So for personal reasons he decided to not to continue, and I think, as I said, that Alexa is going to do a great job. She understands all our different products and she would be able to position them extremely well. As you've seen, we also announced a very exciting U.S. SaaS offering for the... for (neo) banks in the U.S., where we can take them live in just 90 days. So lots of exciting stuff happening. As I said, we've got now a great platform to be able to grow in the U.S.

Now speaking of the U.S., clearly, the first half of the year, you know, we are going to have a major milestone, which is you know, Commerce going live. So very excited about that. And it's clearly you know, a (unintelligible) to our first major core customer in the U.S., you know, and we've delivered, you know, perfectly. And now, you know, since the bank will go live, thus we're testing right now, but it's going to happen in the first half of the year. So it's very exciting time, you know. This should support the acceleration that we expect from the U.S.

Panagiotis Spiliopoulos

Hi Michael, on the services question. As I mentioned, we have factored in a faster integration of Kony with a greater amount of services being done by third-party partners. They did not have such an established partner model as we did. So as part of the integration, we have, you know, seen that this can move faster to partners. So the 115 million down to 105 million, the 10 million delta is solely due to that factor which is incorporated into our full year guidance. So that's basically 10 million of service revenues, which has less in this one. If you look at the 105 million we forecast for Kony, the percentage of revenues coming from services is obviously going down now.

So out of the 105 million, 65% is basically product revenue and 35% is services and that's quite a bit less than when we acquired Kony.

Michael Foeth

Okay, great. Thanks a lot.

Operator

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

Adam Wood

Hi, good evening. Thanks for taking questions, I've also got 2, please. The first one is just on the organic growth calculation for the fourth quarter of 2019. In the presentation, you've got 17% organic licensing growth. I wonder if you could just help us reconcile that. I think at the end of... or on the Q3 call, you suggested Avoka should contribute 50 million for the year, and it done 30 to-date in total revenues, suggesting 20 for the fourth quarter. We were assuming about half of that was coming into licensing? And then actually, similarly for Kony about 20 million of revs with maybe half of that coming into licensing. And so, we're getting a number quite a bit different from that 17% in terms of that organic software licensing. So, if you just could help us reconcile the contribution from the M&A on that that would be... that would be very helpful. And then secondly, we noticed that the net capitalized development ticked up in the fourth quarter: should we assume a similar level on net capitalized development per quarter in 2020 that we saw in the fourth quarter of '19? Thank you.

Panagiotis Spiliopoulos

Okay. Adam, that's (Takis) speaking. So on the first one; we've not given anything specific on Avoka other than the performance was in line with expectation. Now for Kony, we had about 20 million of revenues in Q4 and about the same amount of cost out of the 20 million of revenues, you could say, roughly half were services and the rest was spread across license, SaaS and maintenance. And if you do the math, you should get to the... I mean, you can reverse engineer what Avoka could have done.

Now, on the other one, on the net cap development, yes, the step-up was driven by Kony. If you look at now the full year 2020, you know, we have about 65 million to 70 million, which is coming from the amortization. So on a net basis... net capital basis, where we should be around 14 million to 15 million for the full year 2020.

Adam Wood

Perfect. Thank you very much.

Operator

The next question comes from the line of Josh Levin from Autonomous. Please go ahead.

Josh Levin

Yes, good evening. I have 2 questions. To what extent is the growth in SaaS cannibalizing on-prem versus maybe opening new addressable market? And the second question is, can you tell us the split between Infinity and Transact in the SaaS line? Thank you.

Max Chuard

Hi, Josh. (Unintelligible), it's a good question. And so far we said, and we... you know, it's always difficult to have, I would say, an exact answer to that. And we try to understand every deal that we sign on the SaaS basis, to say would this... we have signed this deal on the traditional license. And I would say, most of the case, if not all, but most of the case, the answer that, that would not... you know, that was not a deal that could have gone on-prem the traditional way.

And what is exciting about SaaS is, I'm all the time meeting CEOs and not too long ago, I was a CEO of a new bank within a very large bank that had to launch (digital banking), and through a SaaS offering he was able to get it through his border where he was never been able to do that on a more traditional way.

So the flexibility that SaaS offer... the pricing as well, that the way when we price on a transaction basis, the cost of the affordability from an (unintelligible) point of view, from a total cost of ownership make the SaaS quite interesting and opening up new markets. So we said today, we don't see, I would say, we have maybe a nonmaterial cannibalization. So it's really still... we still believe it is increment. Now, can this change in the future? We'll continue to monitor it carefully. But so far, I have to say, it is new incremental business for us.

Panagiotis Spiliopoulos

Hi Josh. On your question, as you know, we don't disclose the product split. What we can say is, for 2019, both if you look at ACV but also on SaaS revenues, Infinity grew multiple times faster than Transact, which itself grew quite fast, definitely also helped by M&A on the Infinity side. If we look at 2020, we expect the growth delta still to be quite substantial, probably not multiple times.

But definitely we expect strong growth for both Transact and Infinity; definitely Infinity should grow faster than Transact.

Josh Levin

Thank you.

Operator

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

Stacy Pollard

Yes, hi. Thank you. A little bit of a follow up to the previous question about Commerce Bank, maybe, any other large deals that you can update us on in terms of implementation phasing? And then what pipeline for other large deals might you have as you look into the future or should we expect this mostly to be in smaller chunks of businesses... of business being signed at a time? That's the first question. The second question, net debt-to-EBITDA close to 1.5 times by the end of this year. So on the M&A front, are there any areas where you would still be looking or seeing opportunities?

Max Chuard

Hi Stacy. Listen, this, as I said, Commerce major milestone in H1. And in fact quite of... we do have some other large projects that are going to go-live in 2020. So I think it's... it will be an exciting year from that perspective. And of course, as soon as we are able to communicate, we will communicate on those large projects. But... so there are quite a few of them, so it's not just Commerce, there are quite a few of others that are planned to go-live in 2020.

Now, from a pipeline point of view, we don't obviously disclose that. As you can see, we continue to do around 40% of our business with large banks. If I look at the medium term, we expect and we'll discuss that more in details to more at the 'Capital Market Day' to be close towards 45%-55% of the mix come from large... from Tier 1, Tier 2 banks. What is very exciting as well is the ability to facilitate spending from larger banks with our micro services architecture that we just announced, which makes you know, transformation from the largest bank, much more easier to engage because can just do it on a component-by-component basis. They can transform at scale to their own time which makes it much more appealing for them. So I think this will be very supportive of engaging more and more with larger banks. So very positive, we'll continue to be very successful with the largest bank.

Panagiotis Spiliopoulos

Hi Stacy. On the leverage, we said, you know, we're moving towards or we're targeting a level towards 1.5, whether we... whether it's going to be 1.5, 1.6 or 1.7, that remains to be seen.

And we'll definitely have a strong cash flow generation projection. So we should get as close as possible to that level.

Now on M&A, let's look at it in 2 ways, the major investment area going forward will remain Infinity. We have a strong focus on this one, if you look at personalization, Max mentioned data analytics, you know, AI, there is still, you know, a lot to do on the front office site in the market because there is a lot of demand. So we always look to further strengthen our products seeing the excellent demand there. Now on smaller deals, you know, you can always see that there is a pipeline which we always actively monitor things like hTrunk, things like Logical Glue, which are smaller but, you know, important for our technology platform, you know, can happen at any time but we have, you know, nothing imminent right now, neither on the small scale nor on the large scale.

Stacy Pollard

Thank you.

Operator

The next question comes from the line of Laurent Daure from Kepler Cheuvreux. Please go ahead.

Laurent Daure

Yes, thank you. Good evening, Gentlemen. 2 questions for me as well. The first is on Kony, you said you were ahead of forecast in terms of the integration. I was wondering what's left to be done before the end of the year... to the end of the year? And more particularly, on the growth rates are you starting to be able to cross-sell and have some good wins on the Temenos' installed-base from this product? And my second question is back to the improvement we've seen in the fourth quarter. I remember, in Q3, you said there were some deal slippages; I think 5 or 6 deals had slipped. So I was wondering if the improvement just came from signing what's slipped or if you... it was mostly new deals that were coming. And on top, you may be benefiting this year from the slippage of Q3? Thank you.

Max Chuard

Hi, let me start with the last one. So Middle East and Africa, we saw in Q4, both in fact, we saw new business that's you know, clearly we've had... we were expecting to sign Q4, which... you know, that closed on time and as per expectations, and also some of deals that did not close in Q3 that closed in Q4. So that's what we... what we saw in Q4, and that's why I was pleased ultimately with the performance in the Middle East in Q4.

Now, regarding Q4, yes... sorry, Kony, as I said, we are ahead on the integration. So we've moved extremely fast and they're still on the product but you know, on the product continuously we improve but I think the people side, the team, the organization are together. And that was a most important part of it. You know, the Chinese part of our Infinity platform, which is... if you want our digital front office platform, which is really composed of the... some of the Avoka assets.

So on the onboarding part of Avoka, we've got then the Kony asset and also, obviously, some of our Temenos asset. And all of that, together, we create this amazing state-of-the-art digital front office platform, which we call Infinity. And we see a lot of traction on that... see a lot of traction in the U.S., but I have to say as well, outside of the U.S. and as much as... if you look at 12 to 18 years... months ago, we were not there on the digital front. And now we are clearly by far, the leader, the number 1 in the digital space. So it's very exciting what we've been able to achieve with those 2 very strategic acquisitions integrated together, come out with this best platform and we're starting to see a lot of traction on both in the U.S., but as well outside of the U.S.

Laurent Daure

Okay. Thank you.

Operator

The last question from today comes from the line of James Goodman from Barclays. Please go ahead.

James Goodman

Good evening. Thanks very much. I wondered if you could comment a little bit on just the macro, I mean, we've heard from some of the IT service vendors a little bit about, you know, the weakness in this sector. Clearly, your pipeline is very strong, and you've delivered a strong quarter. So I just wondered if you could help us there with whether you've seen anything some of those banks cutting spend perhaps around your implementation projects or whether it's in different areas of the bank, perhaps.

And then if you could just help me, secondly, on the guidance for the total software licensing line. I think if we take out Kony, it's about 10% organic growth at the midpoint. So correct me if I'm wrong, but otherwise, if you could put that in context with your longer term guidance when you were setting that, how did you think about, I guess, the difference between next year's outlook and the midterm, longer term guidance? Thank you.

Max Chuard

Hi, James. Let me start with the macro. So listen we continue to see increased spend in banking globally. We see different... clearly different trends.

And as you know, with open banking, we see really decoupling of type of banks, you know, the one that are much more focused on manufacturing or, you know, manufacturing of products, which for them, we address more with our core and the other that are much more focused on the distribution side which we addressed with Infinity, and we see lots of traction on both. And ultimately, we have this unique ability through APIs to sell, you know, end-to-end platform, which brings massive benefits.

So I think banks are still under massive pressure to offer a much more, I would say, a platform that complies with the requirements of the millennials, which are tech-savvy guys... tech-savvy guys that want the similar experience that they get with Google, with Amazon. And hence you need to be able to offer a very personalized expenses, we call it, an eye for personal expenses. And that you cannot do with the old system that you know, legacy systems that are 40 or 50 years backdated. So that is clearly a trend. Regulation is a trend. Cost is a trend, you know, if you look at in Europe, most of the banks are struggling to get double-digit return on equity, which this is a major target for them. And with our solution, we enable them to grow faster. We enable them to reduce the cost side. And this is where we see the spending. So really, both on the core and at the front, we see clear drivers.

And then, obviously, we’ve got other drivers like payments where we see... we've been growing very strongly as well in 2019. We see the fund side as well. So we've got many, many drivers for growth. But the market and the market continue to be strong. It's a market that continues to increase the spending, actually that's what we see. Obviously, we continue to monitor it on a regular basis, on a continuous basis to ensure that there is no change, but at least that's our view today.

Panagiotis Spiliopoulos

James, this is Takis. On your guidance, as you know, from prior years, usually our guidance at the beginning of the year is a bit more cautious.

So if you look at the like-for-like our organic growth underlying in the guidance, its 10% to 15%, just as we had in the prior years. And the rest is then coming, obviously, from the acquisition. So we see this consistent with the last few years. We still, obviously always have the ambition to grow at 15% plus. But I think at the beginning of the year, some caution in this one is warranted. Therefore, 10% to 15% plus the M&A gives you the 18.5% to 23.5%.

James Goodman

Okay, that’s clear. Thank you.

Max Chuard

So thank you for joining the call. As you know, we've got our Capital Market Day tomorrow in London. So hope to see as many of you as possible. See you tomorrow. Thank you.

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.

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