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Temenos Group

Q2 2020 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 Q2 2020 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 hand over to Max Chuard, CEO. Please go ahead, Sir.

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.

Before starting on the slides, I would like to reflect briefly on the past 3 months. We've seen the start of an unprecedented global crisis, and I am very proud of the way in which our employees have responded to this, ensuring they give the full support to our clients through this very difficult time. As a management team, we've also reacted rapidly, taking the right actions to protect our employees, clients and the long term heads of our business.

We are assuming there will be a gradual improvement in our end market in Q3 and Q4. However, we still have limited visibility on licenses over the coming quarters. With the dedication and hard work of everyone at Temenos through this crisis, we are in a good position to move forward. With that, I will start with some comments on our Q2 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 strong growth in recurring revenue, up 17% year-on-year. In a time of crisis and recession, our recurring revenues are critical to the health of our business and drive our EBIT and cash performance. Covid-19 continued to impact our license sales with this being delayed, but very importantly not canceled. From a regional perspective, our sales in Europe have been most impacted by the crisis.

We signed a 7-year exclusive partnership with HCL in the quarter for our non-banking business, and this had a positive impact on software licensing and EBIT.

We had strong momentum in our SaaS business, with SaaS revenue growth of 62% and ACV growth of 21% year-on-year. Overall, total software licensing was down 22% year-on-year.

We had strong operating cash flow which was up 21% year-over-year. We benefit from a highly flexible cost base and responded to the crisis by rapidly implementing a cost control program, which Takis will talk to in more details, which together enabled us to protect our profitability with EBITDA on 7% in the quarter.

I was delighted that we were once again recognized as a leader in our market by both Forrester and IBS in the independent annual reviews of the banking software markets. We have retained and extended our lead in core banking and we are also cementing our position as the leading vendor in digital front office and payment as well.

On slide 8, I'll give an overview of our sales performance in the quarter. Overall Q2 sales continued to be impacted by COVID-19, as banks still remained focused on BCP. And the limited visibility on when implementation can start is also still causing some delays.

I was pleased with the progress we made on the Q1 deal... delayed deals, with around one third of them closing in Q2, which was a very important data point I think. Deals from Q1 and Q2 that did not sign continue to be delayed rather than canceled, and I am confident these will sign over the coming quarters. The level of sales activity picked up in the second quarter, and we've had double-digit growth in new pipeline... both activities and opportunities year-over-year, which give us great confidence in the outlook for 2021.

From a regional perspective, we had positive momentum in the Middle East and Africa, which had another good quarter and North America where we are benefiting from our extended footprint on the back of the Kony acquisition and, as well as, I mentioned before from our partnership signed with HCL.

Travel restrictions continue to impact our sales force ability to close deals, particularly in our business in Europe. We have seen European banks struggling to implement business continuity plans which have absorbed significant amounts of IT resources and focus. We had a number of key Tier 1 wins for both core and front office, in particular in Japan and Australia and we signed our first SaaS deal in the Middle East and Africa this quarter. As I said SaaS growth overall remain strong across the regions, and we had a total of 12 new client wins in the quarter across all our products.

So moving to slide 9, we signed an exclusive strategic agreement with HCL this quarter. This granted HCL a license to develop market and support Temenos Quantum for non-banking services. Temenos Quantum is the market leading multi experience development platform and is the foundation for Temenos Infinity.

We will clearly continue to invest in Temenos Quantum for our clients. HCL has a 7-year exclusivity to sell Quantum for non-banking services and the agreement provide Temenos with enhanced visibility on profitability and cash flow and this is going to be accretive towards 1% to 2% per year to our non-IFRS EPS for the duration of the exclusivity.

On slide 10, we've seen continued growth as I mentioned before in our SaaS business, both organically and from the contribution of Kony to this revenue line. Our SaaS ACV was up 21% in the quarter, and 60% in the first half of the year. We again had signings across all our regions in the quarter. We are seeing increased interest from banks in the use of SaaS and Cloud as a way of addressing the issues they face during the crisis. And ultimately I expect the crisis to accelerate the adoption of SaaS and Cloud in the medium term.

Moving to slide 11, we had 28 implementation go-lives in Q2, which is higher than the prior year up from 23 in Q2 2019. We announced a remote first implementation methodology at TCF online in April, and our plans and partners have rapidly adopted this as the standard method of implementation during the lockdowns. This has enabled our services team to keep progressing the significant majority of the implementation project and support our clients remotely as demonstrated by the number of go-lives during the quarter.

The use of Cloud has been a key mitigating factor in keeping implementation projects going, and our years of investing in our Cloud capabilities and leadership position in Cloud delivery has put us in a very strong position during this crisis. In fact, our services margin also continued to improve in Q2, and we've seen incremental efficiency gains from remote implementation with Temenos' services consultants able to work across multiple clients with less time spent on travel.

On slide 12, as you know we had to cancel our TCF Event, but we rapidly adapted it to the lockdowns and we moved it to an online event in a very short period of time, and we created a 2-day virtual event showcasing our latest innovation and product announcement and enabling plans to interact with our experts. We had over 4'500 individuals attend sessions over the 2 days which generated significant number of new leads I have to say this was a great success.

During that event, we announced a number of COVID-19 specific cloud-based SaaS solutions at TCF online with the aim of addressing our clients specific business needs during the crisis. And these included enhanced digital interaction with the customer using Temenos Infinity enabling banks to rapidly provide government backed loans using Explainable AI to process massive volumes of loans application and the U.S., specific offering to help banks launch the US Paycheck Protection Program.

We also made during the period of time our Temenos Financial Crime Mitigation Solution available through Microsoft Azure to help banks to respond to the emerging threats and offered Temenos continuous deployment to enable banks to make real time changes to the products and to adapt government and regulation requirements in this crisis.

And lastly, we made the Temenos Learning Community, which is our on-line training platform, available for free to our clients to support up skilling of their employees during the lockdowns. So very proud of how we’ve been able to support our community during that difficult period of time and allow banks to play a very important role to support the society.

On slide 13, we’ve again been recognized as the world’s best-selling vendor of banking software by both Forrester and IBS, and we are, in fact, widening the gap between us and our competitors. IBS ranked us as the leading software provider in core banking for the 15th year in a row with over 3 times more new named deals than the closest competitor. So this gives you, you know, that puts our leadership in perspective. In digital banking, we were also ranked as a leader with Temenos Infinity with 50% more new deals and the next provider. And we were reconfirmed as the leader in retail payment system with Temenos Payment with more than twice the number of new deals than the next competitor.

Forrester recognized Temenos as the only global forward seller in the global analyst deal survey with a 30% increase in new named deals and more than doubled the new named deals of the next banking platform. And we were ranked as a top global player for the 8th consecutive year.

We are able to win through our relentless focus on R&D and innovation. And as you know, that's all we do and we are extremely proud of that. And offer our clients what we believe being the winning combination of the richest banking functionality and the most advanced cloud native, cloud agnostic technology that give our clients agility, speed-to-market, hyper personalized services at the front end and automation and operation excellence in the back office.

So turning now to slide 14, through this crisis, what we've seen is that technology enabled banks running our modern platforms have adapted well. They were able to easily move to remote working, rapidly launching new products and maintaining very high standards of customer service through sophisticated digital channels. Banks running on legacy technology have struggled, absorbing significant amount of IT resources in attempting to adapt to the new normal. The crisis is clearly acting as an accelerator for the use of digital channels and the decline in the use of cash, as well as, the adoption of SaaS and cloud has viable alternative to on-premise solutions.

Our clients have therefore seen minimal impact and continue to benefit from our industry-leading level of R&D investment that we are maintaining throughout the crisis, as well as, our remote implementation methodologies. We are assuming a gradual recovery in Q3 and Q4, as lockdown restrictions begin to lift some level of travel resumes and banks adjust to the new normal. With double-digit growth in new deals coming into the funnel this quarter, we are also more confident in the outlook for 2021 and beyond.

I will now hand over to Takis to talk you through the numbers for the quarter.

Takis Spiliopoulos

Thank you, Max and welcome from my side as well. Starting on slide 16, I'd like to give you an overview of the financial performance in Q2. We benefited from the signing of some delayed deals from Q1 and positive impacts from the HCL transaction. Overall, COVID-19 continued to disrupt sales processes and total software licensing was down 22% year-on-year.

Maintenance growth remained solid growing at 10% year-on-year and we continue to have very good visibility on our maintenance revenue stream for 2020, as we benefit from the strong license growth in 2019. Total revenue was down 8% year-on-year and the EBIT was down 7% year-on-year without Q2 EBIT margin up 16 basis points.

I'm particularly pleased with our cash performance. We recorded an operating cash inflow of USD 94 million, up 21% year-on-year and delivered in the last 12 months cash conversion of 115%. DSOs ended the quarter at 107 days or 105 days organic representing a sequential decline of 2 days and the year-on-year decline of 3 days. Our leverage remained at 2.6 times by the end of the quarter, despite paying out the dividends and we continue to expect our leverage to be at 2 times by year end.

Turning to slide 17, I will run you through some key figures for the quarter and last 12 months. I highlight the strong growth in recurring revenue, which is critical to the health of the business during this crisis, as it proves the resilience of our business model and is driving our EBIT and cash. Our SaaS revenue was up 62% driven by strong underlying organic growth, as well as, the inorganic contribution from Kony. Maintenance was up 10% resulting in recurring revenue growth of 17% year-on-year. Looking at the LTM, SaaS has now grown 105% and total revenue is 7%.

If you look at costs, we benefit from significant variable component, as we had indicated before in our cost base. And we have also rapidly implemented at cost savings program which includes salary reductions, senior management, voluntary salary reductions for all other employees, which had an amazing 85% uptake, hiring freezes and a limited number of headcount reductions.

Those actions have helped to manage our cost base and led to operating costs declining 8% year-on-year and limited our EBIT decline to 7% year-on-year. You will see in the appendix that we have increased our estimated restructuring costs for the full year to 25 million, which is due to the cost savings initiatives, as well as, restructuring costs linked to the non-banking business within Kony.

On slide 18, we show like-for-like revenues and costs adjusting for the impact of M&A and FX. As a reminder, we closed the acquisition of Kony at the end of Q3 2019. In terms of FX in line with previous quarters, the weaker Euro continued to be a marginal headwind on revenue and a small benefit to our cost base. Taking into account all currency movements and hedging FX had less than a U.S. Dollar 1 million negative impact on EBIT in the quarter.

Total software licensing declined 30% like-for-like this quarter and services declined 29%, as some implementation processes were delayed and as clients adapted to remote implementation methodologies. Maintenance grew 7% like-for-like and we fully expect maintenance and SaaS to see healthy growth throughout the year. The overall like-for-like decline in revenue was 17% and our like-for-like cost base was down 22%, driven by lower variable costs, as well as, the cost savings initiatives I outlined earlier.

I would remind everyone that we have a very flexible cost base even before we consider the cost programs we have implemented. Services as a margin business with limited impact on profit, 20% to 25% of the remaining cost lines are variable in nature. In addition, in a typical year, we have trouble budgets running into the tens of millions, which are probably going to be quite a bit lower this year.

Turning to slide 19, I will run you through some of the below the line items. Net profit declined 13% in the quarter, but grew 3% on an LTM basis. Our tax rate in Q2 amounted to 13.5% and we still expect our fiscal year 2020 tax rate at 14% to 15%. Our medium tax rate of 18% to 20% is a normalized run rate for the business. EPS declined 13% in the quarter and grew 2% in the LTM.

Moving to slide 20, our DSOs ended the quarter at 107 days reported or 105 days organic with 2 days due to the acquisition of Kony another strong performance after Q1. The 107 days is down 2 days versus Q1 2020 and down 3 days year-on-year. We still expect our DSOs to be around 110 days by the end of 2020. So far we have not seen any impact on our client's ability to pay and we have not had any requests for revised payment terms. We are of course, monitoring this very closely. In the medium term, we still expect DSOs to reach 90 days driven by strong cash collection on licenses, an increased contribution from SaaS and continued reduction in DSOs linked to services.

Moving to slide 21, our Q2 LTM cash conversion was 115% well above our target of converting at least 100% of IFRS EBITDA into operating cash. We expect our cash conversion to be above 100% for fiscal year 20, driven by strong growth in recurring revenue.

Turning to slide 22, we show the key changes for the growth liquidity over the quarter. We generated U.S. Dollar 94 million of operating cash flow in the quarter and paid a dividend of U.S. Dollar 63 million. We also had a reversal of the Kony earn out of U.S. Dollar 21 million that's the very ambitious targets set at the time of the acquisition were not achieved. Our cash on balance sheet at the end of the quarter was U.S. Dollar 121 million and our net leverage stood unchanged at 2.6 times.

Slide 24... slide 23, I am confirming our guidance for the year, which we revised at the time of the Q1 results. The 2020 guidance is based on the assumption that the recessionary crisis due to COVID-19 had the largest impact in H1 2020, with continued gradual improvement in our end market environment in Q3 and Q4 2020, as banks adapt to the crisis and lockdowns are gradually relaxed. The guidance is as usual on a non-IFRS basis and in constant currency. You can find FX rate assumptions in the appendix.

We are guiding for full-year recurring revenue growth of at least 13% and EBIT growth of at least 7% for the full year both unchanged. We have maintained our operating cash conversion target of converting over 100% of EBITDA into operating cash and expect DSOs to be around 110 days by the year end. We expect a 2020 tax rate of 14% to 15% and our net leverage to be around 2 times by year end.

On slide 24, I would like to reconfirm our sustainable annual growth target. The current crisis is likely to accelerate demand for our products in the medium-term as banks that have struggled to adapt with legacy IT systems consider how to address their IT desks going forward. The underlying structural trends for our business are very much intact and we will continue to drive our business over the next 10 years plus. This gives us confidence in our sustainable long-term annual growth targets.

With that, I'll hand it back to Max.

Max Chuard

Thank you, Takis. So to finish with slide 26, we saw a continued impact of COVID-19 on license signings in the quarter. The deals that did not sign in Q1 have been delayed, not cancelled, as shown by the one-third of the delayed deals from Q1 that signed in Q2. We are expecting a greater improvement in Q3 and Q4 as lockdown restrictions start lifting, some level of travel returns and banks adjust to the new normal. We had a good growth in recurring revenues in the quarter and this combined with our flexible cost base and strong cost control is driving cash generation and EBIT performance.

The structural drivers of digital regulation, cost pressures and move to open banking are intact and likely to accelerate post crisis, as well as the adoption of SaaS and cloud as banks look to mitigate the risk associated with the crisis and better prepare themselves for any future events. And lastly, we have and will continue to maintain our very high level of R&D investments, as we drive innovation and extend our product advantage. Ultimately, the goal is to come up from that crisis stronger.

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 the 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.

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

James Goodman

Good evening. Thank you very much for taking my questions. So can I first ask you about the HCL deal, please, and the non-banking business with Kony, which I seem to remember was about perhaps 30%, 40% of the business at the time of acquisition. It's encouraging that you've done the exclusive deal with HCL, but how does that affect the direct non-banking business that you already have via Kony and will you still go to market directly with that business? I think, you remember also at the end of last year you made some comments around already sort of shifting some additional work over to partners. So was that more in the financial services side, I just want to make sure, really that I'm sort of understanding the development of the Kony go-to-market strategy.

And then secondly, I appreciate that the top line visibility is relatively low, but I wanted to look at your OPEX planning for the rest of the year. Takis, thank you for your commentary on that. OPEX was down. I think about 6 million sequentially. So you've already done a lot on costs, but as we look through to Q3, Q4, normally there's a significant step up in Q4, and my model suggests that you're more looking to sort of keep OPEX fairly flat sequentially through the back half of the year. So, the question is have you done everything that you need to achieve that sort of a level of cost constraint or might there be further additional cost actions necessary through the back half of the year? Thank you.

Takis Spiliopoulos

Hi, James. Let me take the HCL-1, which I think is a great partnership. It's a great deal, I have to say, I'm very pleased and as I said also clearly had a contribution in Q2. So the goal is on the structure of the deal that we gave a license to HCL for them to develop, market and support if you want our Quantum or what we call our multi-experience development platform. So they'll be able to market it to non-banks. Clearly, we will continue to support our existing customers. But as you know, this is... that was already a market which was not a focus for us and this is why I think this is such a great deal, because I prefer to be 100% focused on banking and hence for new business activity HCL will be looking after those. So I think that's on the HCL. We also discussed the financial implication. As I mentioned, it will be on average 1% to 2% accretive to our earnings. And the exclusivity is over 7 years. And as I said, very pleased with this transaction.

Max Chuard

Hi James. Thanks for the question on OPEX. Yes, as we had indicated with the Q1 results, if there is anything to do on costs, we would rather act fast and decisively, so this is what we've done. On the one hand, you have the positive impact from the variable costs, but clearly, we were able to also decrease the fixed cost element.

Now going forward you can assume that Q3 should have quite a bit of a lower cost base. Clearly, we have not seen the full impact of the cost savings initiatives taken throughout the quarter. So basically you would have June as a good run rate, but clearly on the limited redundancies we have done, some of them are still in process. In some countries it's still quite difficult. For Q4 then you're right, usually Q4 costs go up, but this should be no different this year. However, everything related to let's say the fixed cost base should probably not materially increase from the prior quarter. Clearly, the higher costs in Q4 come from sales commissions, depending on the outlook and the delivery of what we do. So we have good visibility on our cost exercise. And I think for you as a guidance, Q3 should still be a couple of millions lower.

James Goodman
Yes, that's great. Thanks very much.

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

Stacy Pollard
Yes, hi. Thank you. A quick one just on Kony, can you give us the contribution. What was that again, I caught the 2 days on DSOs. But what was the revenue and profit contribution in the quarter? And then secondly, a bigger picture question, can you just give us more color on the types of deals that moved forward, so when you talked about the one-third that slipped from Q1 and then were signed in Q2, what types of deals were those. And then what types of deals did not get signed, if there's any delineation there that you can identify a pattern?

Takis Spiliopoulos
Yes, hi Stacy. Let me take the first one on Kony and it's a short answer, we don't disclose that anymore, we only did this basically at the start of the integration. Now Kony has been fully integrated. And for that reason, we track now basically the Infinity platform as a whole, so I can't really give you what the Kony contribution was in Q2.

Max Chuard
Stacy, regarding the deals, I will say there is no particular I would say profile of a deal. What clearly we can see is the existing businesses is more resilient. So I think that will be one of the trend that I would highlight. And probably as we have discussed in Q1 already and this is... we get confirmation of that, that existing businesses, existing customers that are already through the digital transformation is probably, either in this environment.

Now, from a new business activity, outside of Europe, that really has been the market most impacted. Again, we've been able to do business with small banks, large banks, and we've announced some Tier-1 deals that we signed in Asia Pac, in Japan, in Australia, and as well digital banks, so there is no specific trends I have to say except that yes, business with existing customer is more resilient than new customers.

Stacy Pollard

Okay. And may I ask just a really quick follow-up on margins? Takis, for you. I think, if EBIT was... is growing greater than 7% growth for this year, and your margin then would seem to improve quite nicely, the margin that is will improve quite nicely, does that mean that we would see the similar levels going forward into 2021 and '22 as well, given that you've taken out so much on the fixed cost side? Or do I need to sort of bring my margins back down a bit and put it back on the sort of trend that you were on sort of in FY '19, and where you had expected it to be this year and the next year. Does that make sense?

Takis Spiliopoulos

Yes. Hi, Stacy. Yes, the question makes sense. The way I would look at it is some of the costs we have taken out this year, like the voluntary salary cuts are definitely are going to come back next year, so that's definitely some headwinds on margins, also with the expected sales activity increase, you would also see some cost coming back there. The rest, I would say a substantial part should stick.

Now I guess, it's too early to give with a kind of visibility or limited visibility on H2 to give already, a 2020 or a 2021 EBIT margin guidance. However, what we can say is we have the ambition to grow margins every year. However, clearly there's not going to be a similar jump in margin next year as probably this year, if we achieve our guidance.

Max Chuard

Yes, I think Stacy looking 2021, when we continue to have a limited visibility for 2020s, it's probably premature as such, but I think for us the focus is really to deliver on 2020, to deliver our 7% at least growth at the EBIT. And as Takis said, we've put this... we call it a solidarity program in place where I was extremely proud to see how our employees have been supported... 85% of them supported a salary reduction which... was you know, their own choice to do that. Clearly, this would come back next year. But I think what is important is, everything we have done was to protect ultimately jobs and Temenos the last 3 years has had, you know, very, very strong growth. We did quite significant acquisition.

I think what we did with this crisis was to ensure that we streamline the company where we had accumulated some growth over the year, but really with a goal to protect as many jobs as we could.

Stacy Pollard

That's great. Thank you.

Operator

Next question comes from Josh Levin from Autonomous. Please go ahead.

Josh Levin

Hi, good evening. I have 2 questions. Max, you said a few times that your visibility is still lacking. Can you comment a bit more on the lack of visibility and how your visibility now compares to what it was in March and April? And then my second question is, you said new opportunities in your pipeline have grown double-digit year-over-year. How does the size of those opportunities compare to the size of the opportunities before COVID-19? Thank you.

Max Chuard

I think the visibility on the license, because clearly, you know, the visibility on our maintenance or SaaS is extremely high, and you know the good thing is this represent around 50% of our business, so we do have very, very high visibility I would say on that, and you know, ultimately on services as well, you know, we do have at this stage of the year quite some level of visibility but services is a margin business as you know. So really, the past where we are lacking visibility is on the new sales, the new license activity where I have to say even though you might say things have a bit stabilized compared to Q1, I think we are still today in an environment where the visibility has not really improved compared to Q1.

However, I think we start to see and we expect gradual improvement of Q3 and you know this to continue over Q4, but that's why you know, we have decided to drop the communication and the guidance on license, because we don't have the visibility. However, we do have visibility on recurring revenues, which I am extremely confident that we will be at least both 13% as we said. So that's as much as I can say.

On the new opportunity, I have to say I am very pleased that we really see a very high level of pipeline activity and this is qualified pipeline activity in the quarter, and also across the regions.

So it is not, you know, specific to 1 or 2 regions, it is really all the regions including Europe as well, I think which is important to mention and that gives me a lot of confidence for the future because obviously, you know, we do have sales cycle of 12 months on potential EBIT, longer now with COVID, so this we have an impact in 2021 and potentially 2022, but it is great to see that level of activity and I am convinced that the crisis we are going through and the discussion I am having with CEOs of banks, they do want to accellerate the digital transformation. They understand the need to digitalize, thinking ultimately this... we will see this in the future and that's why what I said before we are ultimately investing in the product and I expect to have more people at the end of the year than at the start of the year because of the investment we are making in the firm, because we want to come up stronger from this crisis to benefit from that digitalization.

Operator

The next question comes from Andreas Müller from ZKB. Please go ahead.

Andreas Müller

Yes, good afternoon. Thanks for taking my questions. I was wondering if you have seen any further shifts of the focus of the bank between the end of Q1 and Q2 or is it similar what you... when you talk to the CEOs. And then or what has changed in priority also, and if you could give us a color if the budget has changed within the banks for software as you deliver and also if anything has changed on the request at payback times of a typical deal? That's the first question. And then second is, the HCL licenses, is it that going to be same of Q2 or going forward Q3, Q4, is there also some revenues to be expected from HCL?

Max Chuard

Hi, Andreas. And listen, I will take the first one. Compared to Q1, I would say there has not been you know, a lot of change. Probably, some of, you know for instance, some of those delayed deals, yes, clearly it means that some banks were able to cope with BCPs, I guess, you know, to be able to support first the staff to ensure that they can move remotely to support the customers, to support the government, to support the society. I think this time around banks did a great job so that's where somehow the focus had shifted in Q1 and quite in some cases still in Q2. It was like that. However, the one that had dealt with those issues re-engaged, and clearly when they talked to us is about digital transformations, and the... I think the overtone is, we need to transform this crisis you know, we got hit by surprise. We cannot... not be prepared if there is one more crisis like that, so those are the discussions... discussion with some other customers has been we need to accelerate our digital transformation.

And so, again, very positive, you know, discussion nonetheless, we still operate in a very difficult environment, specifically in Europe where banks have not yet shifted the focus and the ability to transact yet the fact that we cannot meet physically for some banks is still an issue because... and probably for the largest bank when they want to start a project, they do want, you know, to be able to kick off you know, very strong processes that we put together and even though we have got now a full 100% remote implantation structure you know, still for some, you know, there might not be 100% at ease of not being able to have a proper kickoff of the project and so on, and might, you know, wait a little bit before pushing the button. So that’s if you want what has changed compared to Q1. I will leave Takis on the second question.

Takis Spiliopoulos

Let me take, you know, the IT budget what we have heard so far and what we have seen from banks is really that the 3 areas they want to keep spending is definitely cloud, is definitely security, and it is digital transformation. However, we still have to see you know, whether this gets executed and clearly everything else which is more on a discretionary level is being removed, and I think this is also what you see and hear from you know, the independent industry analysts like Gartner and IDC.

On HCL, it is a short answer, is the impact from HCL this year is all booked in Q2, so no further impact in Q3 and Q4.

Andreas Müller

Okay. Thanks... thanks a lot.

Operator

The next question comes from Chandramouli Sriraman from MainFirst Bank. Please go ahead.

Chandramouli Sriraman

Yes, hi. Good evening. Thanks for taking my question. Apologies if you have already answered, because I had to drop out during the Q&A. Just a couple from my side. Firstly, on the EBIT guidance, first half you are still down in double-digit. Just wanted to see how comfortable you are with the EBIT guidance whether you have enough levers in case you need to pull further your cost down in the event of slower than expected recovery. That’s my first question. And the second one, in terms of Asia, we have not seen any dramatic improvements although the travel restrictions at least in a significant part of Asia was lifted. Is there anything to highlight there? Thanks.

Takis Spiliopoulos

Let me take the first one, you know, on the EBIT guidance, clearly we have taken, you know, an assumption and a view on how this will evolve throughout the year. You know, when we issued the guidance back in April also when we initiated those, you know, cost initiatives. Clearly, we don't know everything. If our... as we believe, you know, conservative view or realistic view turns out to be better or worse, you know then it has an impact or it would have an impact on EBIT guidance.

From today's perspective, you know, we feel confident that we can deliver on our cost plans, you know, because we have initiated those cost actions, and as I mentioned before to one question, you know, we will have the cost base going down sequentially and then hopefully if sales pick up in Q4, we will have a slight increase in cost base, but we... as Max mentioned, we don't have you know, a crystal ball on top line development. So this is you know, as far as, we can say. You know we have taken a business decision which looks correct right now, but we don't know what will happen in H2.

Max Chuard

Chandra, on the point around Asia. I think Asia, if I look at the first half has a solid delivery, so there is nothing specific around Asia. And so, no, nothing specific around Asia and I continue to expect Asia to deliver for the year. They were... as we said, they were the first one to be hit by the crisis. And then, some countries went into... lockdowns were lifted, but others got back into lockdowns. And we do operate a lot around Singapore in that area. So, that had probably a little bit of an impact, but nothing specific to mention on Asia.

Chandramouli Sriraman

Alright. Thanks.

Max Chuard

Back to Takis point, you know, clearly we've got as I said, very high level of visibility on our recurring revenues. We also have visibility on our services licensing, you know, we've taken a view that there will be further improvement and we've said that quite at length. Hopefully this will be the case, but we don't know everything at this stage. I think unfortunately this is a year where we would need to navigate like that. And... but we feel confident that we are on the right track.

Chandramouli Sriraman

Okay, perfect. Thanks. All the best for the rest of the year.

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

John King
Hi, thanks for taking the questions. Just 2 last from me, so on the cash performance obviously great to see the cash conversion pick up again nicely in the quarter. I just wondered maybe if you could dig into the reasons for that and Takis obviously deferred revenue was an inflow, last year it was an outflow. Is there anything there from an HCL perspective that benefited you there? And then, the second one was probably for Max. Maybe if you could just clarify your view right now on M&A? Is this an environment where you might find some valuable assets at good prices or what are your thoughts there?

Takis Spiliopoulos
Okay. Thanks for the question. Yes, happy with the cash performance and the conversion. Clearly, I think there was a small positive impact from HCL, but that was not the driving force. We had over the quarters some swings about the timing of especially the social charges linked to the viable compensations of that has definitely some positive impact this quarter. But, clearly in a normal environment we should... this metric should track recurring revenue. There was clearly also a positive impact on... from Kony. But let's put it this way, the organic was very good double-digit figure this quarter.

Then, on M&A, yes, something has happened in the last 2 months. It was basically the reversal of what happened in March, April. May was a bit mixed and towards the end of May and maybe also June we have seen some of the targets advertised before by the investment banks coming back to the table. However, there is still the same approach at Temenos. If it really make sense, we will look at it. Prices as you can see from public markets still remains elevated, but our M&A strategy remains unchanged. So, if we can accelerate our R&D roadmap, if it opens up new markets, I think it's still attractive across the product portfolio. Definitely with focus on Infinity, core, we already are very well positioned as the leader. Payments could be an area, nothing, nothing that we see in terms of immediate action.

Max Chuard
Just to add maybe that clearly, you know, we've already been extremely focused on... our M&A strategy has not changed over the years. Clearly, with this environment on with, you know, the lack of visibility you can imagine that we would be even more stringent on assessing the business case than usually. So, I think we will take this into account and the fact that visibility is more limited.

But, definitely, if we find the right asset that makes sense, that is synergistic, that will accelerate growth for Temenos, we would look at it.

John King

Thanks, that's helpful. And actually, could I come back on HCL? Just trying to understand the connection of the deal. As and when I guess, you get non-financial customers from the customers of Kony coming up for renewal, will they become HCL customers and I guess does that create some kind of revenue headwind down the line we need to factor in?

Takis Spiliopoulos

Okay. Let me take this one. So, the way it works is when the contracts come up for renewal, really there is an incentive program put in place that they should sign up with HCL, okay. And this is something with... we have taken into account assuming that this will happen. I mean, clearly if they were to decide or to stay with us, we can’t exclude it. But the base case would be that those customers sign up with HCL or renew with HCL or if they find another solution, then clearly they go with the other solution. What we have accounted for, if you call it the 2021, and 2022 potential headwind and keep in mind what we said, since Q4 and also in Q1, the attrition on the non-banking business was higher than we expected at the time of the acquisition. So, it’s not a material impact of the business that would change our forecast in any material way.

Max Chuard

Yes, I think that the important point is the fact that we were not focused on that business because it's not core to us, but clearly the level of attrition was higher than what we were expecting. And hence with this deal in fact the impact is limited. So that's why I am saying it's really a win-win for both HCL and for Temenos.

John King

That’s really helpful. Thank you.

Operator

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

Hannes Leitner

Yes, thanks for letting me on. I just had a follow-up on the HCL contract. Per my calculation, if Kony did a little bit better, it's 27 million of Kony performance and roughly 10 million comes to HCL, is that all booked in licenses. I think that makes up the biggest... the data through consensus.

Maybe if there is any comment if there is any maintenance stream coming over the 7 years or it is just purely licenses? That's the first one.

Takis Spiliopoulos

Okay, hi, Hannes. So, answering the second question first. So, there is no maintenance stream coming... whatever is coming over the 7 years. Is licenses. Now we can't be... I mean, this is a confidential agreement between HCL and Temenos. So, we can't give more details than we already made public. And we're saying, okay it's going to be on average 1% to 2% accretive to EPS including this year despite not having the full year amount. Clearly, if you do the math and you do the reverse math, and take the average or the mid-point and do the reserve you get to a reasonable good number and in terms of what the HCL contribution is, this is as much as, as we can say.

On the Kony contribution, I am referring to the question before, we really don't split that out anymore. This is really because we have integrated this is in the first place.

Hannes Leitner

And then, just a quick follow-up, in terms of deal wins and go-lives, can you refer how many ongoing projects you have, as you showed very quite elevated go-lives in Q1 and Q2. Just a worry that your backlog of project gets depleted. If I just... as a quick read across TCS and Infosys, they actually spoke about quite strong demand. And therefore it would be great to understand why you have quite shown great weakness in Tier I, II deals, and actually most of the growth or resilience comes from Middle East and Americas. I know that Itau you signed for example. But what's missing that your peers, which are clearly well behind you, still show resilient business reporting?

Takis Spiliopoulos

Okay. Let me take this one. The way it works is we are implementing this year basically the projects which were signed last year, okay. So there is despite the number of go-lives, there is no what you call a depletion of the backlog. So, we are still considerably above 100 projects, which are concurrently implemented and that has not really changed quarter-over-quarter. Now, where you see or you might some impacts, as Max mentioned is, if this situation evolves slowly you could see some of these deals signed in Q1 and Q2 with respective project work would maybe start at a later point. So there could be a potential you know, I wouldn't call it depletion but you will... you may see a lower number of deals coming into the pipeline and then going live potentially in H2. But I think it's too early to assess. We had such a big success, as Max mentioned with remote implementation that there is an increased confidence level of more and more banks to start on a few remote implementation. So, I think it's a too early to make such a call.

Hannes Leitner

Okay. Thank you.

Operator

Ladies and Gentlemen, this was the last question. I would like to now turn the Conference back over to Max Chuard for any closing remarks.

Max Chuard

Thank you for joining the call. Stay safe, stay well, and looking forward to speaking to all of you again very soon. 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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