# TEMENOS

THE BANKING SOFTWARE COMPANY


# Financial results & business update

Quarter ended 30 September 2020

15 October 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 15 October 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 15 October 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

# Business update

Max Chuard, CEO

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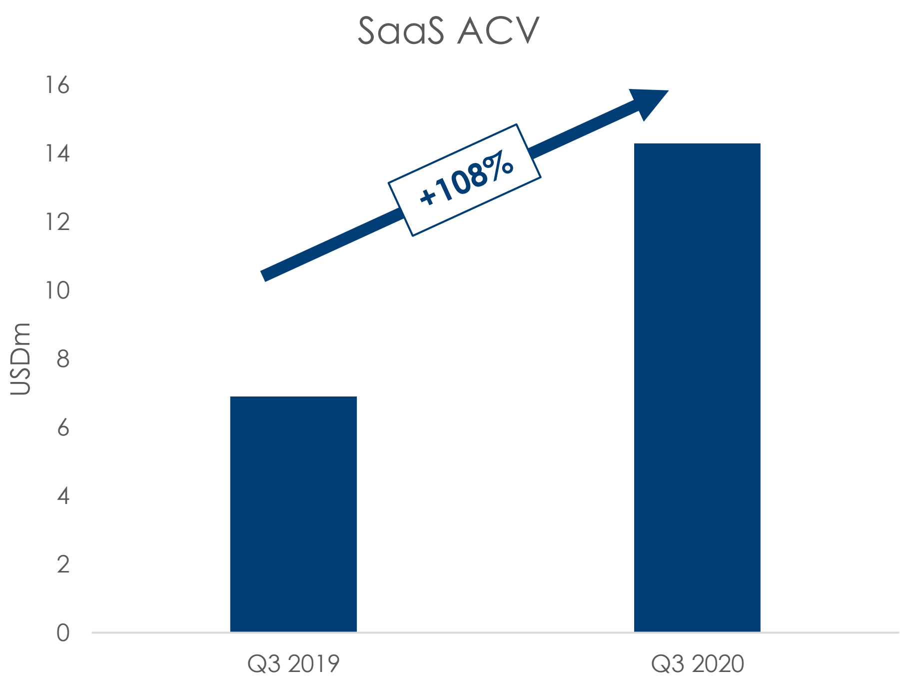
# Underlying sequential improvement in Q3

## Q3 2020

- Strong growth in recurring revenue of 16%
  - SaaS ACV of USD14m, up 108%
  - SaaS revenue growth of 61%
- Total software licensing down 23%
  - Underlying sequential improvement, Q2 clearly the trough
- Strong operating cash flow up 27%
- EBIT returned to growth in Q3, up 4%
- Re-confirmed FY recurring revenue guidance of at least 13% growth
- Revised FY EBIT guidance to flat year-on-year, to reflect deals converted from license to ACV and accelerated investment in SaaS and cloud

## Step-change in demand for SaaS

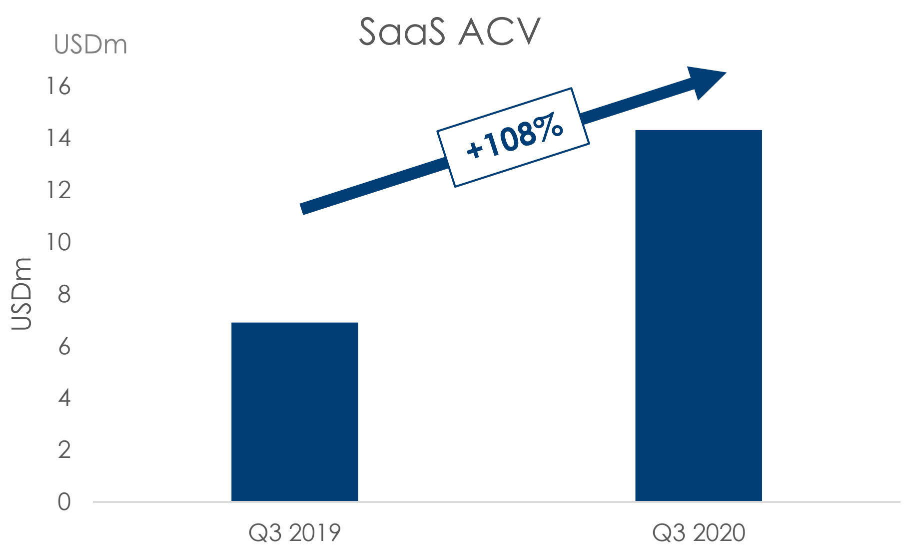


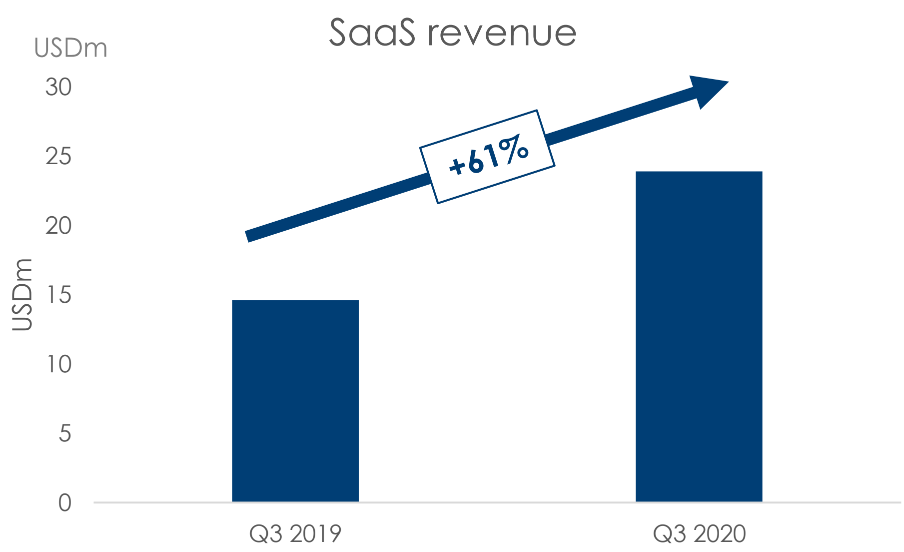

**A number of license deals for a combined c.US$16-18m converted to SaaS generating incremental SaaS ACV of c.US$7m in Q3**

*Revenue, ACV and EBIT figures are non-IFRS c.c. growth rates

# Step-change in demand for SaaS

- Covid-19 is accelerating demand for SaaS with SaaS ACV up 108% in Q3
- Signed the largest ever ACV deal to date, for Transact in the US
- A number of Transact license deals for a combined c. US$16-18m converted from license to SaaS in the quarter, generating incremental SaaS ACV of c. US$7m
- SaaS expected to start cannibalising some license going forward as more clients see the benefit of implementing and running in the cloud and leveraging Temenos' SaaS capabilities

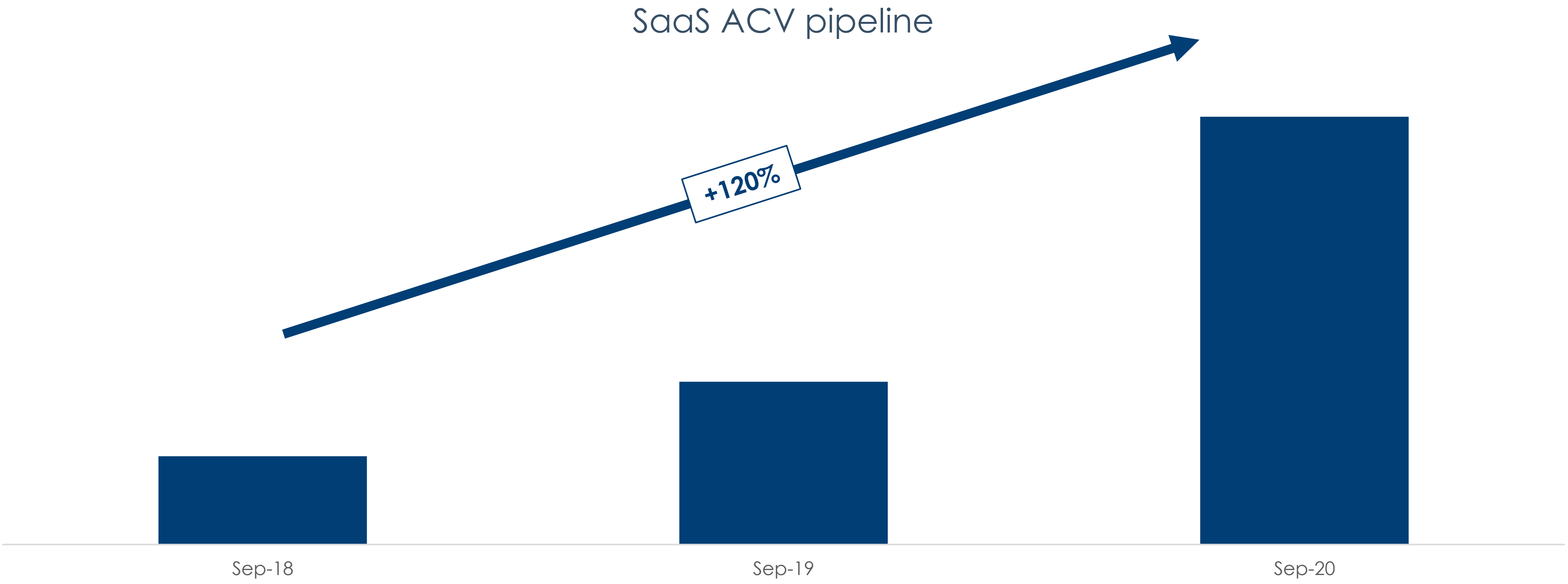



*Note: non-IFRS c.c. growth rates*

# Significant growth in SaaS ACV pipeline

- The increase in demand for SaaS is reflected in the significant SaaS ACV pipeline growth over the last 3 years
- SaaS ACV pipeline has grown at a CAGR of 120% over the last 2 years with strong acceleration in the last 12 months



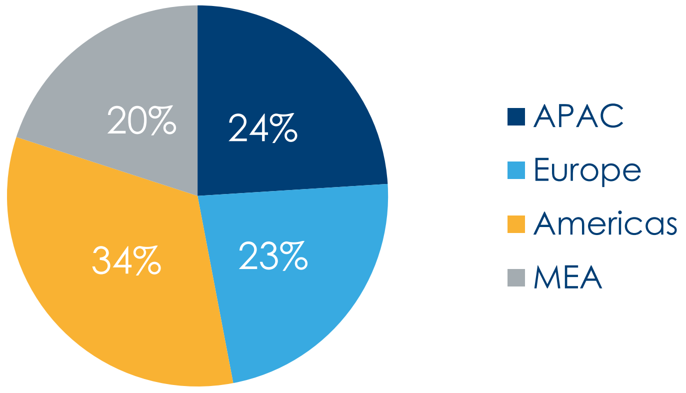

*Note: non-IFRS c.c. growth rates*

# Q3 2020 sales review

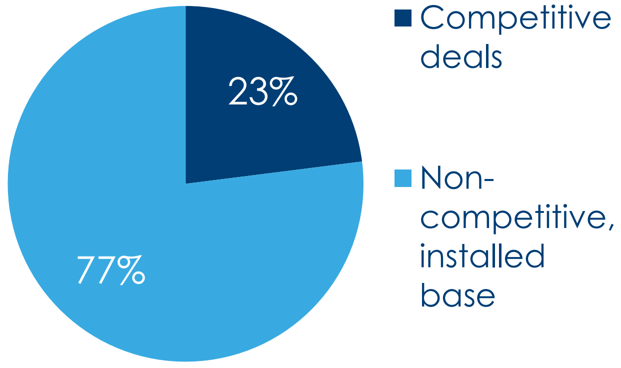
- Strong momentum in SaaS, a number of Transact deals converted from license to SaaS in the quarter
- Strong new pipeline activity for licenses also continued in Q3 with good growth year-on-year
- Deals with installed base continued to be more resilient than sales to new customers
- Deals that did not sign year-to-date continue to be delayed, not cancelled, with delayed deals from both Q1 and Q2 closing in Q3
- 17 new client wins in Q3 across products

## Q3 2020 total software licensing

### Geographic split




### Competitive / installed base



# Q3 2020 operational overview

- 15 implementation go-lives in Q3 2020, totalling 78 in 2020YTD, vs. 69 in the first three quarters of 2019
- Clients continue to adopt remote implementation methodologies to work around lock-downs
- Nearly all projects have now moved to remote implementation as banks adapt to the 'new normal'
- Use of cloud continues to increase as key to remote implementations
- Services margin of 14% in the quarter driven by increased efficiency from remote implementations and restructuring programme
- US client event, Synergy, moved on-line, with over 3,000 attendees and 20 client presentations of successful implementations and benefits from running Temenos software, showcasing our strength in the US

# After a slow down in 2020, bank IT spend is expected to accelerate in 2021

**Q1 2020 - ensure business continuity**

Initial focus on business continuity as Covid-19 hit

**Q2 2020 - client-level response**

Capex spend on digital, AI and FCM continued driven by increased digital adoption

**Q3/Q4 2020 - infrastructure & operations-level response**

Refocus on infrastructure, operations and larger capex IT renovation, improving demand

**2021 – acceleration in IT spend expected**

Further acceleration in demand, in particular for SaaS and cloud

## NAM

- Demand driven by innovative banks looking for best-in-class core banking solutions as well as neo/challenger banks and new entrants seeking front and back office software

## Europe

- Significant increase in customer demand for digital, driving bank spend on front and back office

## APAC

- Demand for Infinity across the region from both banks and new entrants, increasing demand from neo-banks

## MEA

- Demand for Transact and Infinity driven by new entrants and digital banks

*Sources: Deloitte, Gartner, Celent, Forrester*

# Looking forward

- Covid-19 accelerating demand for SaaS as more banks seek to gain benefit from running core banking and front office platforms in the cloud
- Banks running on legacy technology continue to struggle to provide best-in-class digital services to their customers
- Structural drivers of digital, regulatory and cost are forcing banks to continue IT renovation
- Steady improvement expected in Q4, and return to growth in 2021 driven by strong new pipeline growth
- Some cannibalisation from license to SaaS expected
- Confidence in long term sustainable growth targets

**Covid-19 is accelerating demand for SaaS**

# Financial update

Takis Spiliopoulos, CFO

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# Q3 2020 non-IFRS financial highlights

## Revenue and profit

- SaaS up 61%
- SaaS ACV up 108%
- Total software licensing down 23%
- Maintenance growth of 8%
- Recurring revenue growth of 16%
- Total revenue down 8%
- EBIT up 4%
- Q3 EBIT margin of 39.1% up 4.4% pts
- Q3 EPS of USD 0.90 (reported) flat y-o-y

## Cash flow and Balance Sheet

- Q3 operating cash flow of USD 63m, up 27%
- Q3 operating cash conversion of 119% of IFRS EBITDA
- DSOs at 111 days, down 12 days vs. Q3 2019
- Leverage at 2.6x as of 30.9.20*

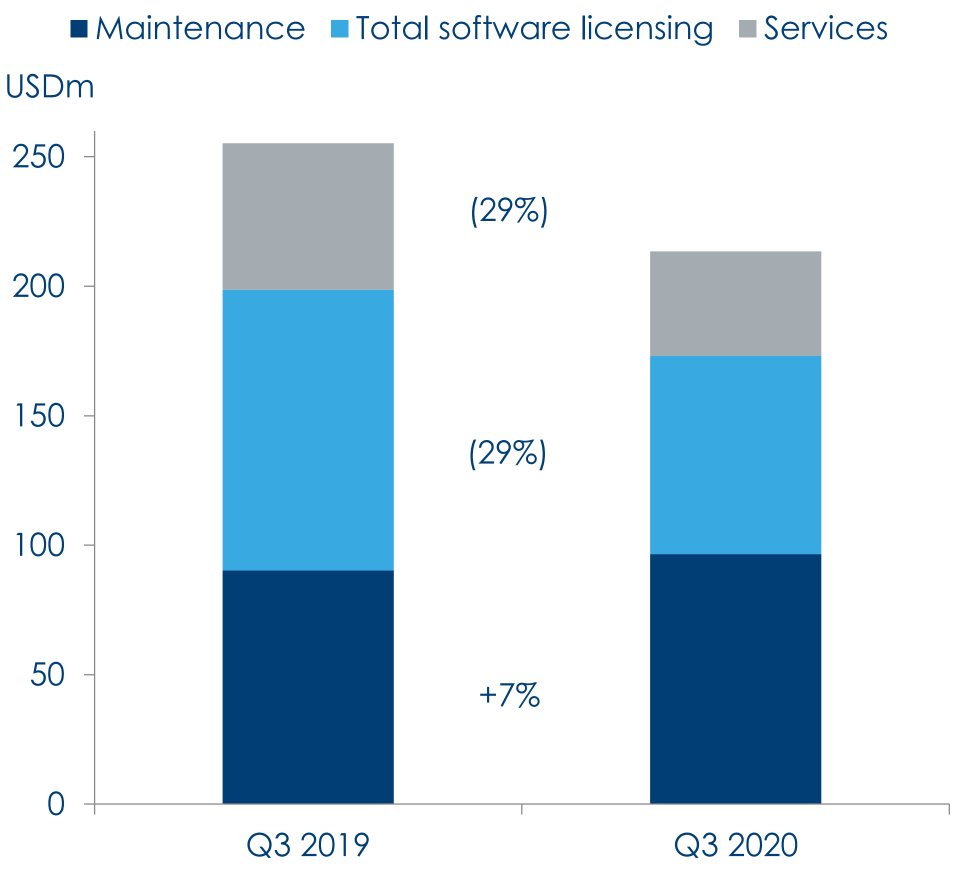
*Note: figures are non-IFRS c.c. growth rates unless otherwise stated. IFRS EBITDA adjusted for Kony earn-out*
** proforma non-IFRS EBITDA adjusted for lease expense now reported under depreciation and amortization under IFRS 16, net debt includes cross-currency swap and excludes leases reported as borrowings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

# Non-IFRS income statement – operating

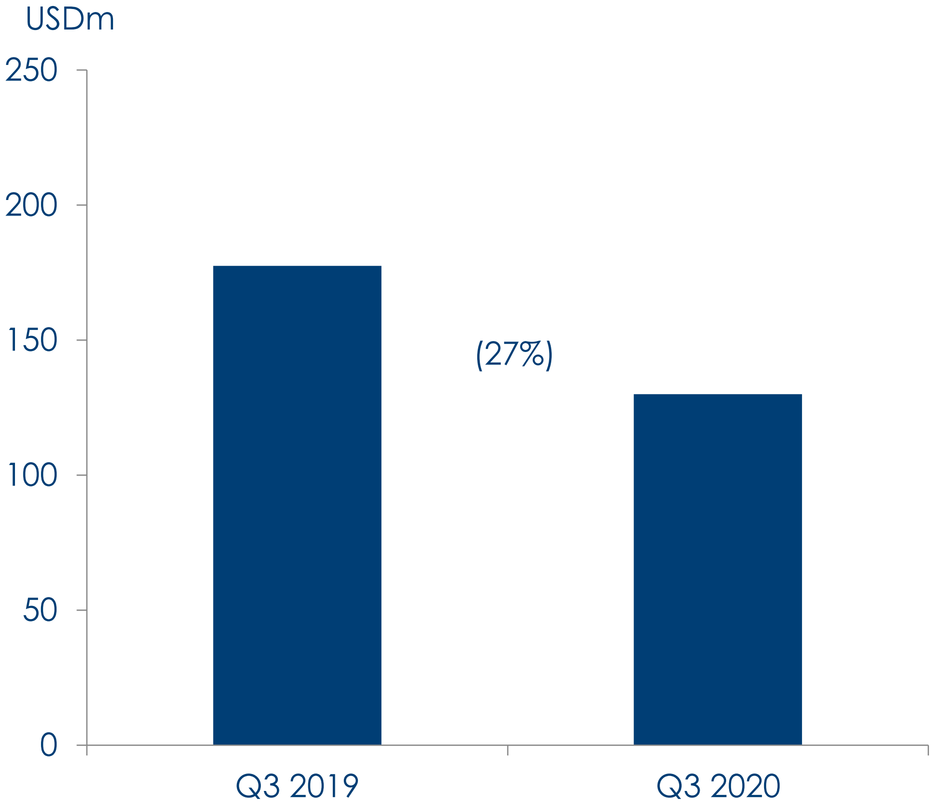
| In USDm | Q3 20 | Q3 19 | Y-o-Y reported | Y-o-Y c.c. | LTM 20 | LTM 19 | Y-o-Y reported | Y-o-Y c.c. |
|---|---|---|---|---|---|---|---|---|
| Software licensing | 52.6 | 83.5 | -37% | -38% | 283.3 | 362.7 | -22% | -19% |
| SaaS and subscription | 23.9 | 14.6 | 64% | 61% | 94.0 | 50.1 | 88% | 92% |
| **Total software licensing** | **76.5** | **98.1** | **-22%** | **-23%** | **377.3** | **412.8** | **-9%** | **-6%** |
| Maintenance | 96.6 | 88.6 | 9% | 8% | 383.3 | 342.2 | 12% | 12% |
| Services | 40.4 | 42.3 | -5% | -6% | 171.8 | 170.2 | 1% | 3% |
| **Total revenue** | **213.5** | **229.1** | **-7%** | **-8%** | **932.4** | **925.2** | **1%** | **3%** |
| | | | | | | | | |
| Operating costs | 130.0 | 150.0 | -13% | -14% | 626.0 | 625.4 | 0% | 2% |
| **EBIT** | **83.5** | **79.1** | **5%** | **4%** | **306.4** | **299.7** | **2%** | **3%** |
| Margin | 39.1% | 34.5% | 4.6% pts | 4.4% pts | 32.9% | 32.4% | 0.5% pts | 0.1% pts |
| **EBITDA** | **104.6** | **98.0** | **7%** | **5%** | **389.2** | **369.0** | **5%** | **6%** |
| Margin | 49.0% | 42.8% | 6.2% pts | | 41.7% | 39.9% | 1.9% pts | |
| Services margin | 14.0% | 12.2% | 1.8% pts | | 11.8% | 12.1% | (0.3%) pts | |

# Like-for-like revenue and costs

- Q3 20 LFL non-IFRS revenues down 16%




- Q3 20 LFL non-IFRS costs down 27%

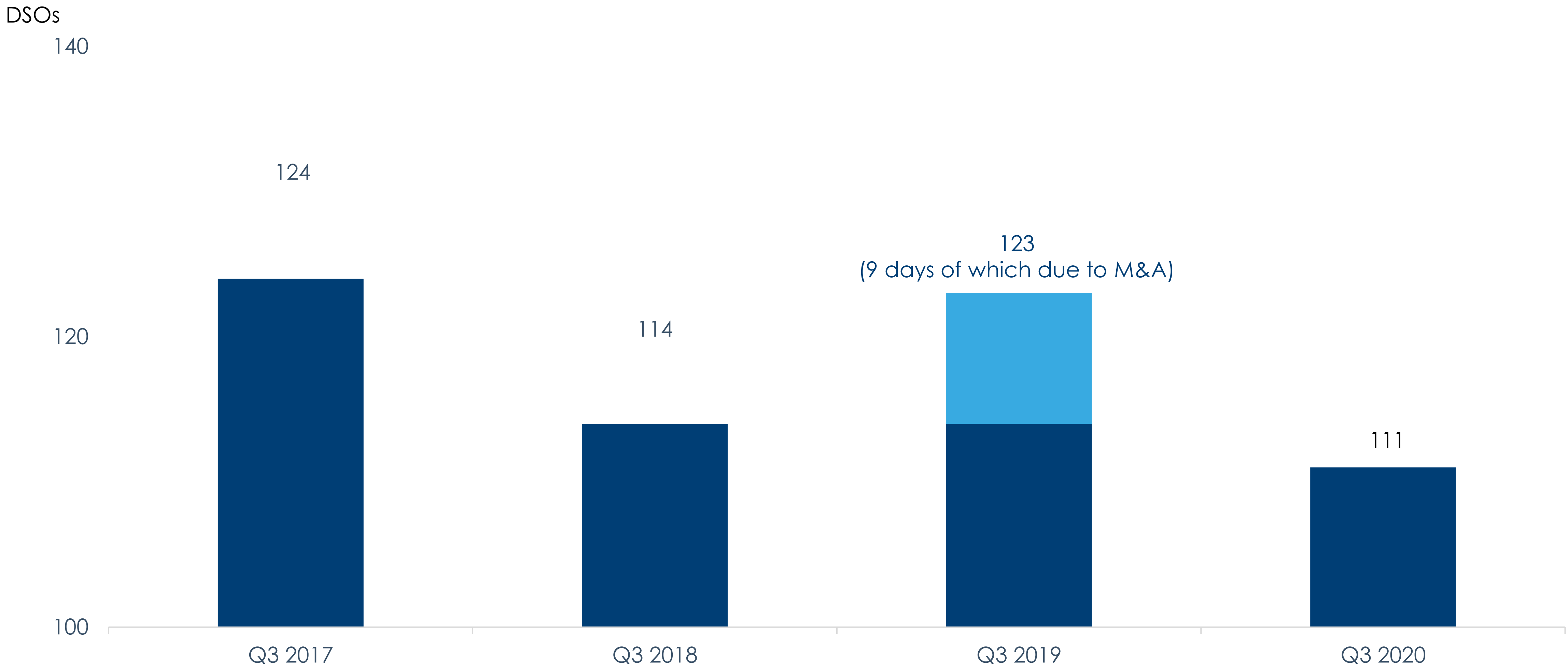



**Cost base flexibility and tight cost control protecting EBIT**

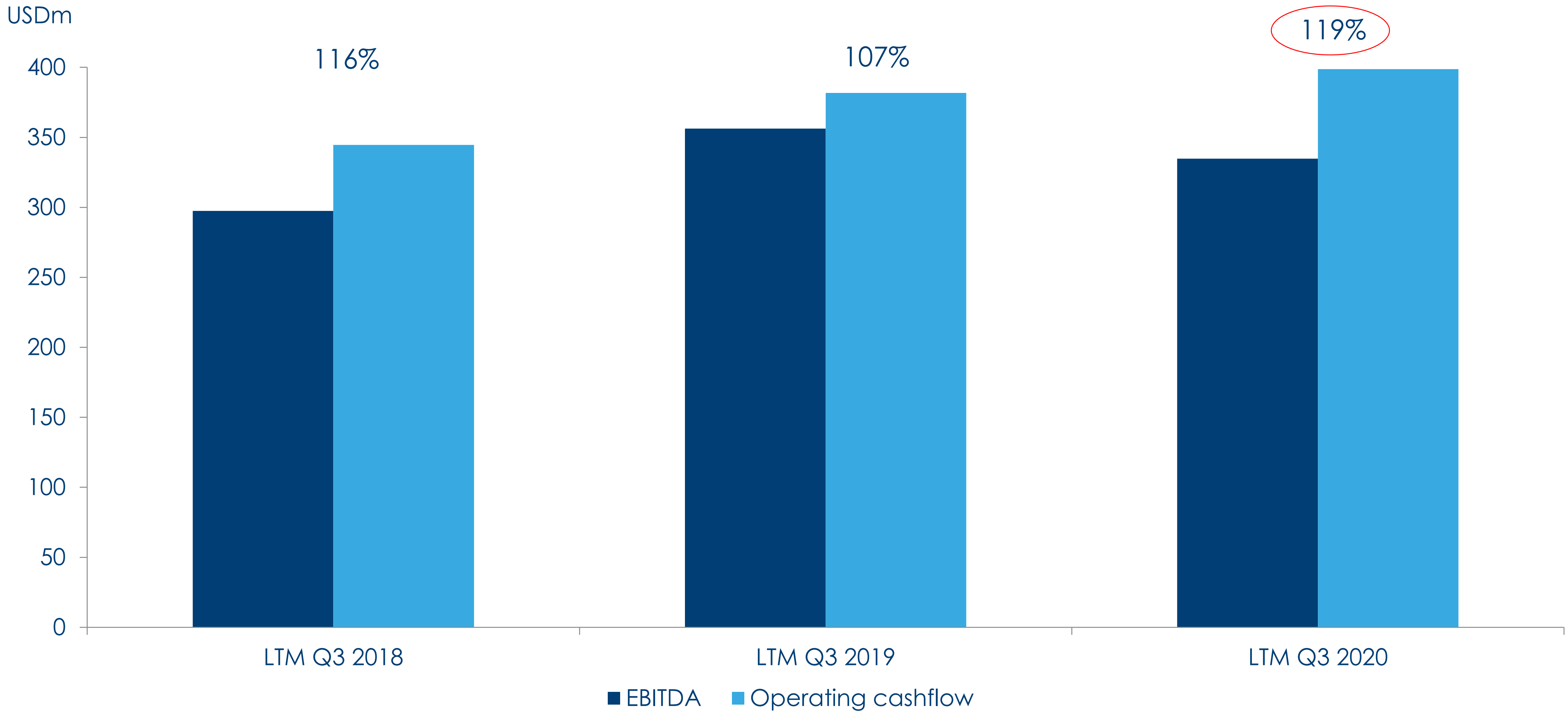
# Non-IFRS income statement – non-operating

| In USDm, except EPS | Q3 20 | Q3 19 | Y-o-Y | LTM 20 | LTM 19 | Y-o-Y |
|---|---|---|---|---|---|---|
| **EBIT** | **83.5** | **79.1** | **5%** | **306.4** | **299.7** | **2%** |
| Net finance charge | -8.1 | -5.7 | 42% | -32.6 | -19.2 | 70% |
| FX gain / (loss) | 0.4 | 1.2 | NA | 2.7 | 0.3 | NA |
| Tax | -10.0 | -8.9 | 12% | -37.6 | -38.4 | -2% |
| **Net profit** | **65.8** | **65.6** | **0%** | **238.9** | **242.4** | **-1%** |
| **EPS (USD)** | **0.90** | **0.90** | **0%** | **3.26** | **3.34** | **-2%** |

# DSOs continue to decline

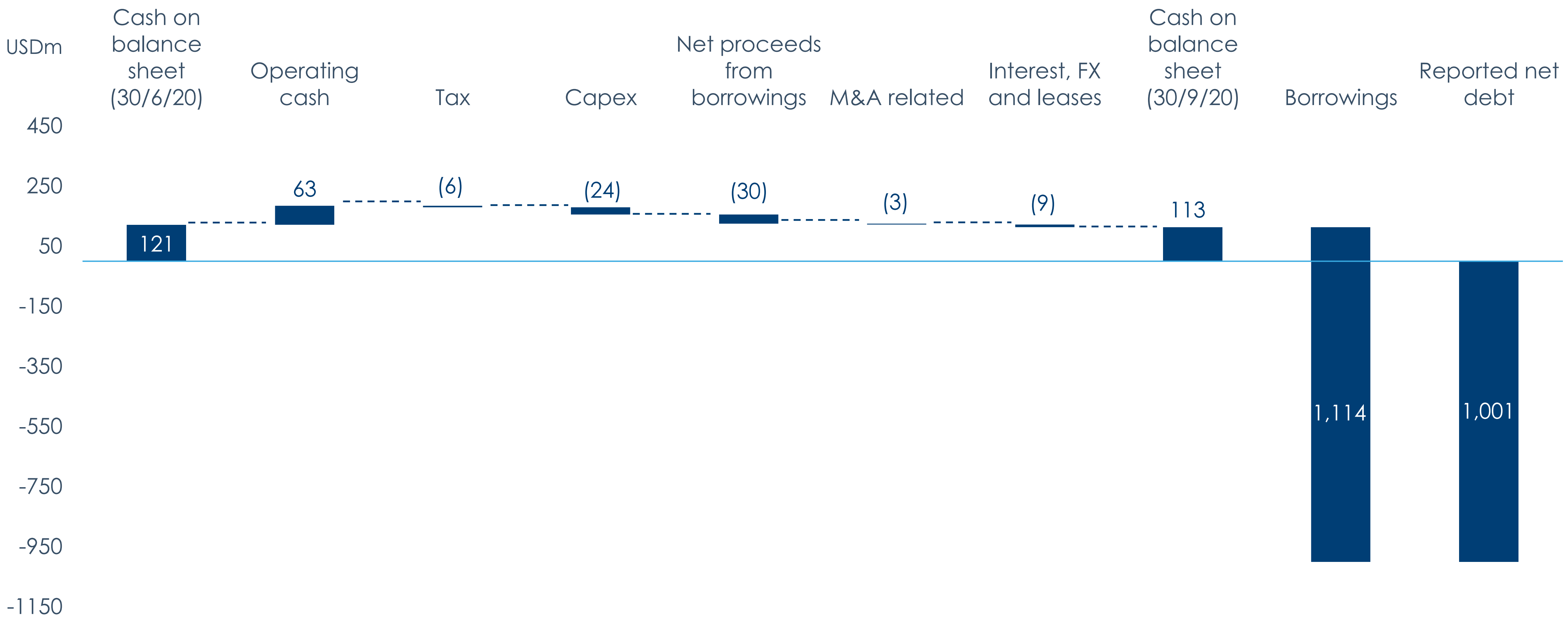


# IFRS cash conversion




**Cash conversion significantly above target of 100%**

# Group liquidity




## Leverage qoq stable at 2.6x, expected to be around ~2x by year end 2020

# Revised 2020 non-IFRS guidance

- The 2020 guidance is based on the assumption that the recessionary crisis due to COVID-19 had the largest impact in H1 2020, with steady improvement in our end market environment in Q4 2020 as banks adapt to Covid-19. Our guidance for 2020 is in constant currencies.

- Revised FY EBIT guidance to broadly flat year-on-year, to reflect deals converted from license to SaaS ACV and accelerated investment in SaaS and cloud

| | FY 20 guidance (c.c.) | FY 19 base |
|---|---|---|
| **Recurring revenue (SaaS + Maintenance, %)** | At least 13% growth | 424 |
| **EBIT (USDm)** | Broadly flat year-on-year | 320 |
| **Cash conversion** | 100%+ conversion of EBITDA into operating cash flow<br>DSOs around 110 days by year end | 100% |
| **Tax rate** | Expected FY 2020 tax rate of 14% to 15% | |
| **Leverage** | Net leverage of c.2x by year end | 2.6x |

- Currency assumptions on slide 27
- See slide 41 for definition of non-IFRS

# Sustainable annual growth targets

| Metric (Non-IFRS) | Sustainable long term annual targets |
|---|---|
| Total software licensing | At least 15% CAGR |
| Total revenue | 10-15% CAGR |
| EPS | At least 15% CAGR |
| Tax rate | c. 20% |
| Cash conversion | 100%+ of EBITDA p.a. |

| | Medium-term targets (3-5 years) |
|---|---|
| DSOs | 90 days |
| EBIT Margin | 36%+ |
| Tax rate | 18-20% |

# Summary

Max Chuard, CEO

# Conclusion

- Strong acceleration in SaaS which is expected to continue in 2021 and beyond
- Q2 was the trough, underlying sequential improvement in Q3
- Even stronger improvement adjusting for conversion of license to SaaS ACV in Q3
- USD16-18m of Transact license deals converted to USD7m of SaaS ACV in Q3, driving strong incremental ACV growth
- Recurring revenue growth driving cash generation and profit
- Steady improvement expected in Q4, and return to growth in 2021
- Accelerating investment SaaS and cloud and in R&D to extend product advantage

# 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 1.17
- GBP to USD exchange rate of 1.29; and
- USD to CHF exchange rate of 0.92

# FX exposure

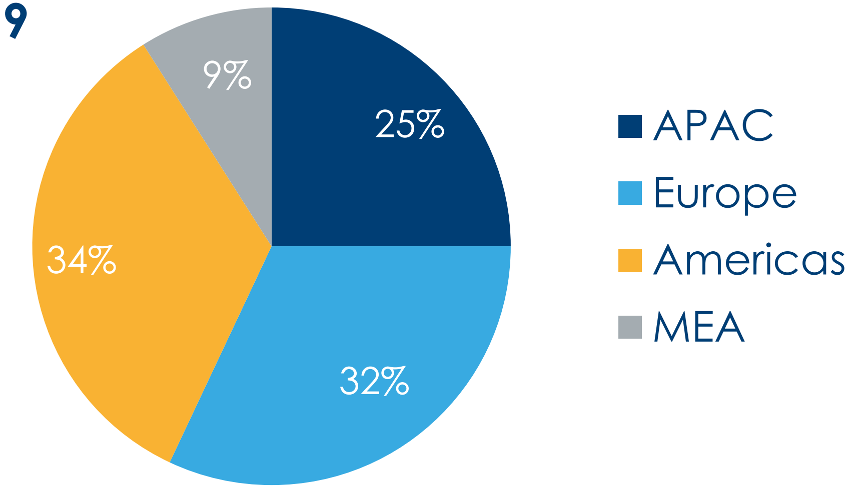
| % of total | USD | EUR | GBP | CHF | Other |
|---|---|---|---|---|---|
| Total software licensing | 59% | 25% | 3% | 3% | 10% |
| Maintenance | 71% | 20% | 2% | 2% | 5% |
| Services | 53% | 29% | 3% | 1% | 13% |
| **Revenues** | **62%** | **24%** | **3%** | **2%** | **9%** |
| | | | | | |
| **Non-IFRS costs** | **29%** | **14%** | **13%** | **8%** | **36%** |
| | | | | | |
| **Non-IFRS EBIT** | **131%** | **44%** | **(20)%** | **(9)%** | **(46)%** |

*NB. All % are approximations based on 2019 actuals*

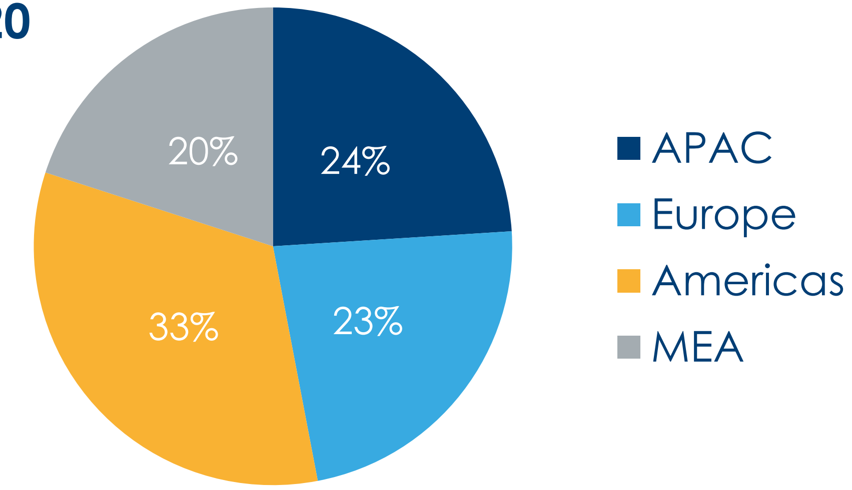
**Mitigated FX exposure – matching of revenues / costs and hedging**

# Total software licensing revenue breakdown by geography

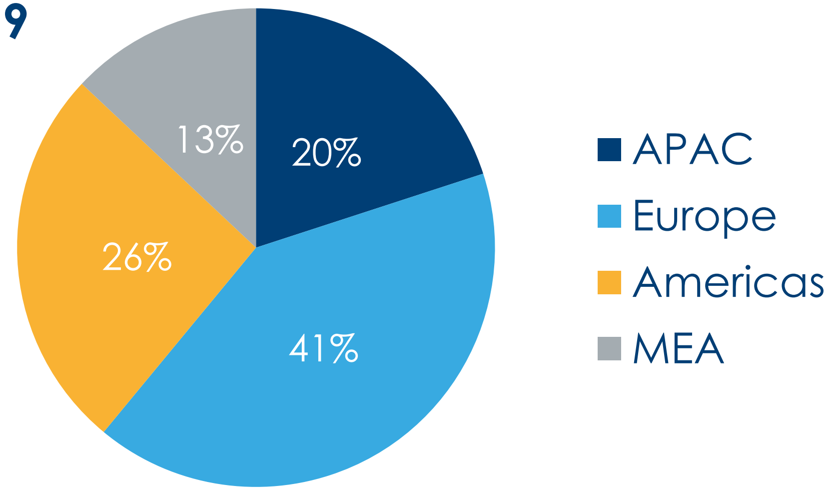
## Q3 2019



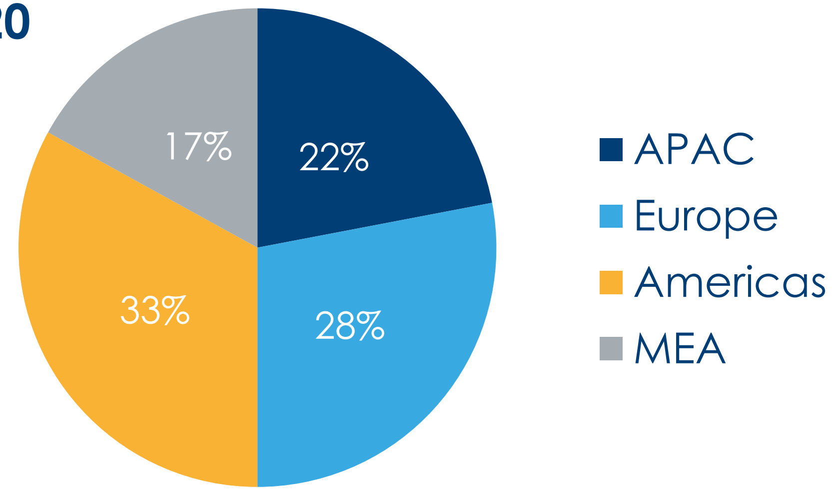

## Q3 2020




## LTM 2019



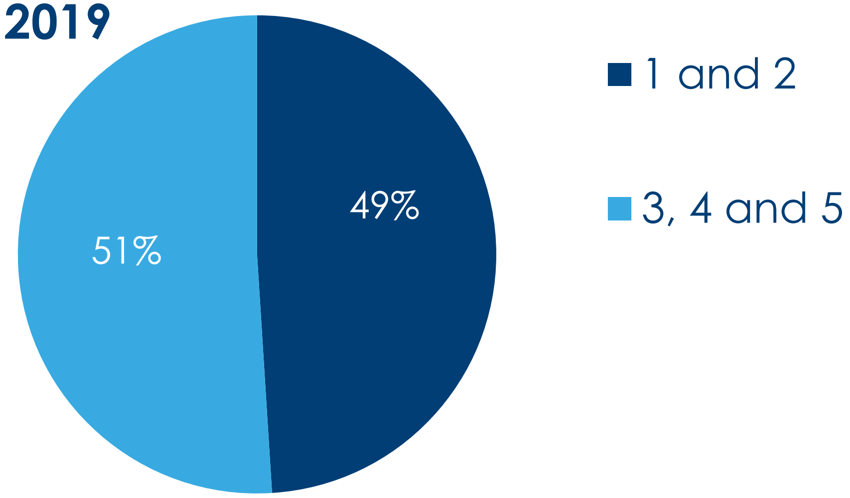

## LTM 2020



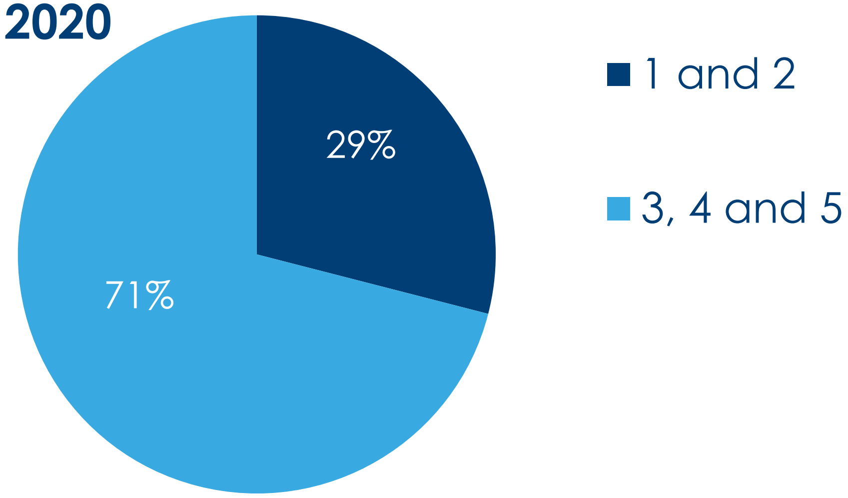

*Note: Q1-20 geographic breakdown adjusted for reallocation between Asia and Europe*

# Total software licensing revenue breakdown by customer tier

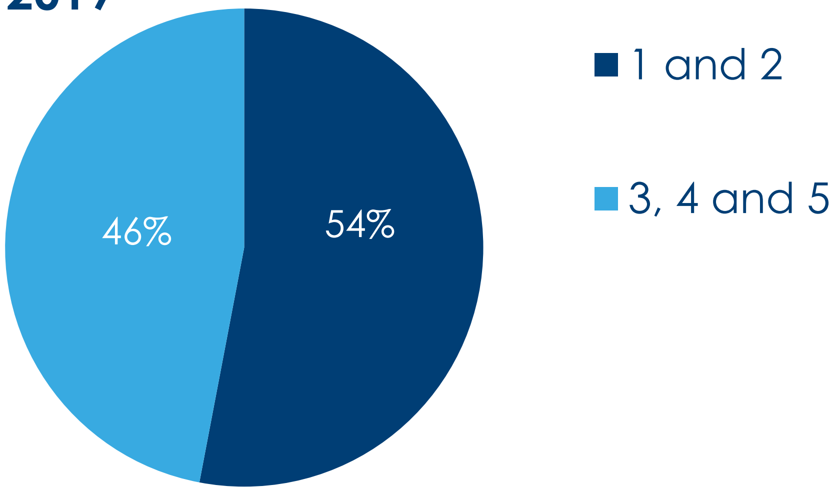
Q3 2019



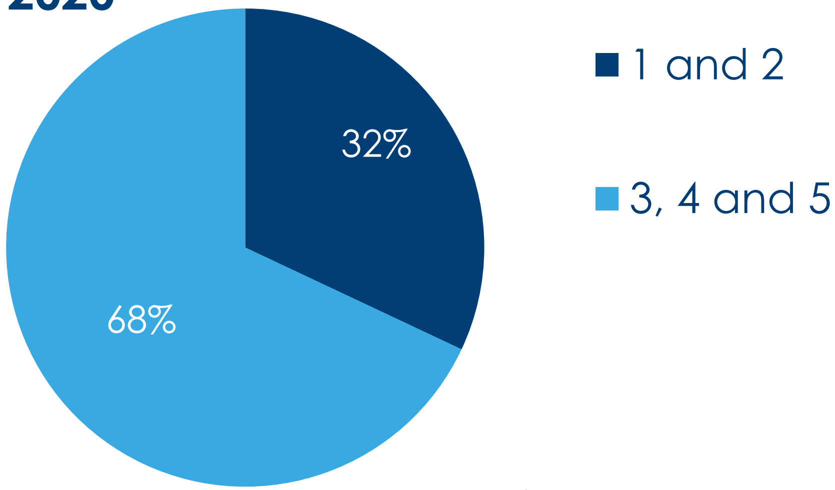

Q3 2020




LTM 2019

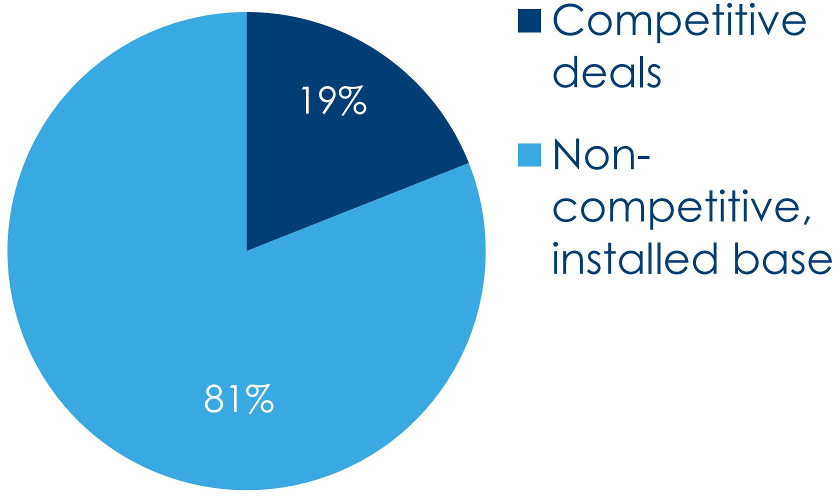



LTM 2020

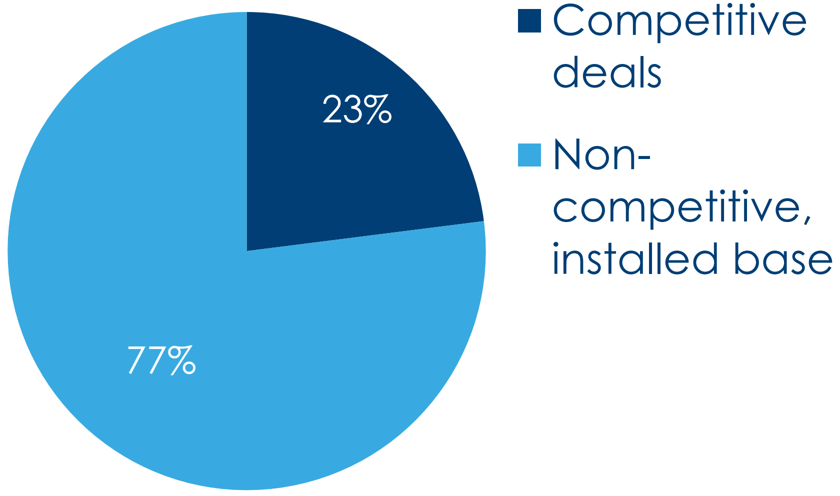


# Software licensing revenue breakdown by competitive deals / non-competitive, installed base

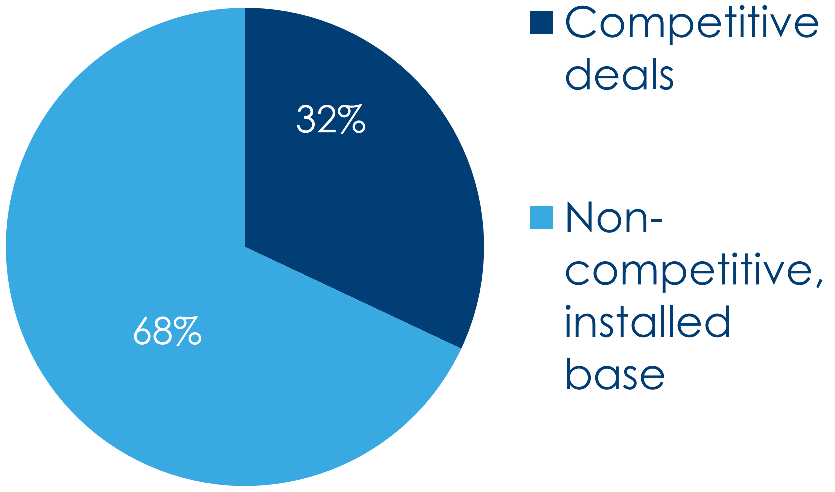
**Q3 2019**



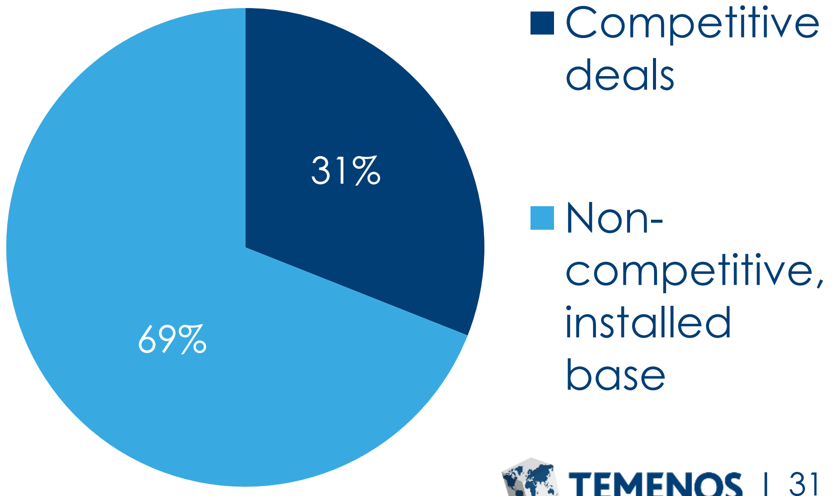

**Q3 2020**




**LTM 2019**

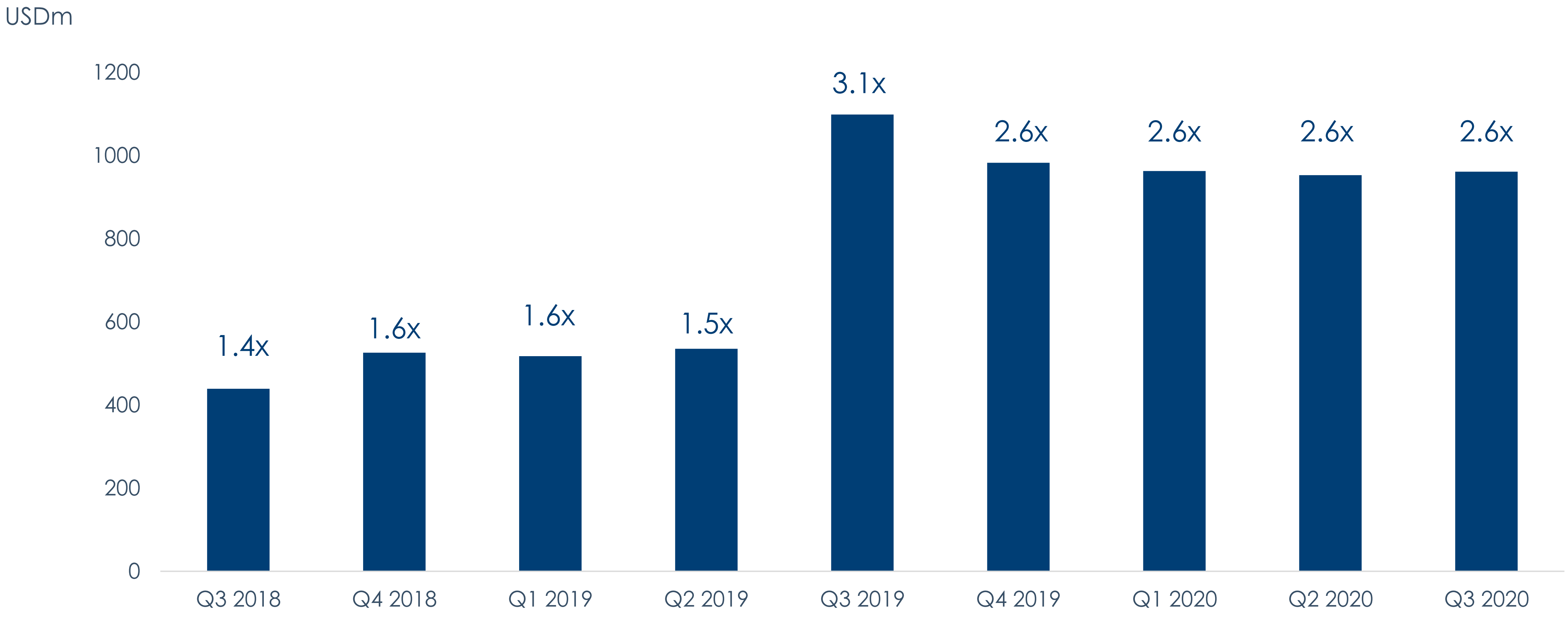



**LTM 2020**



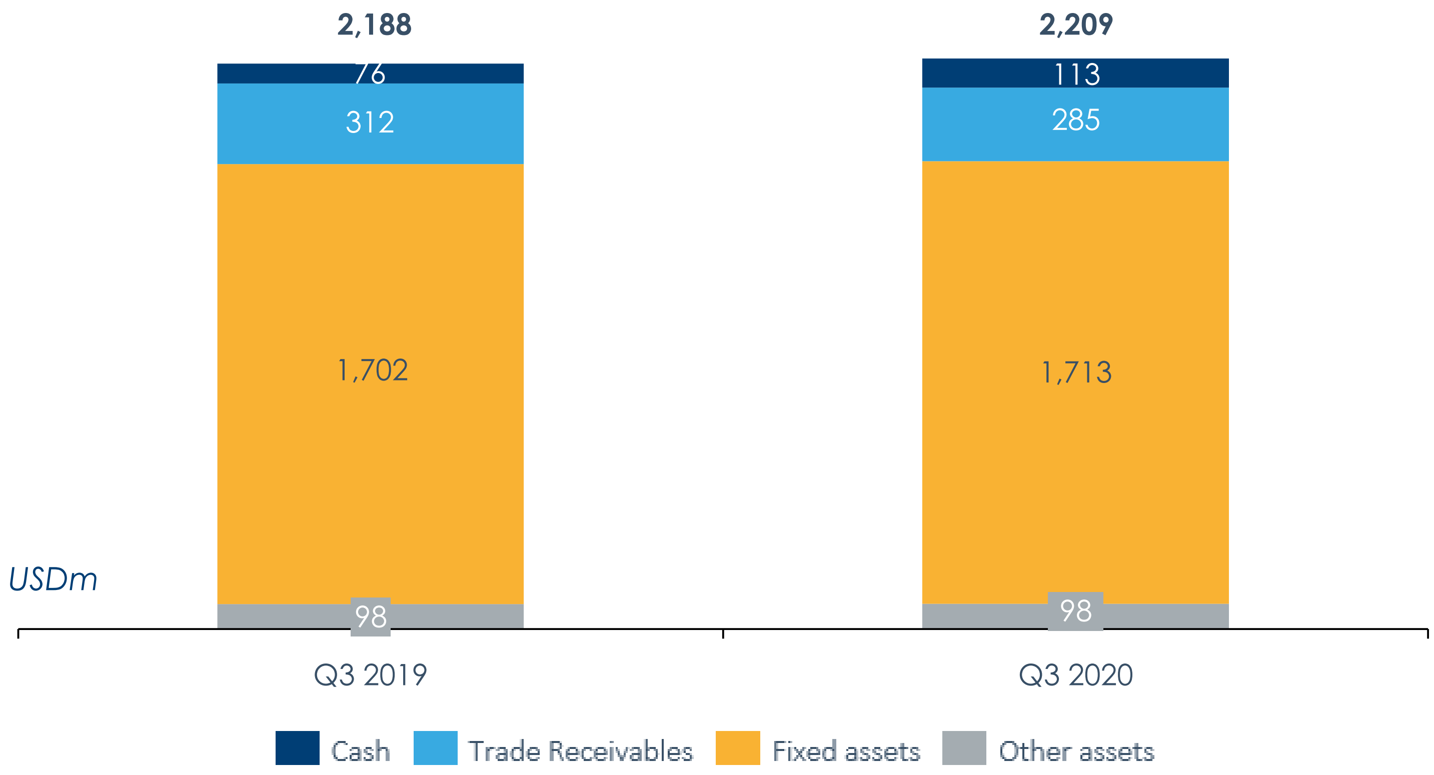
# Balance sheet – debt and leverage

## 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*

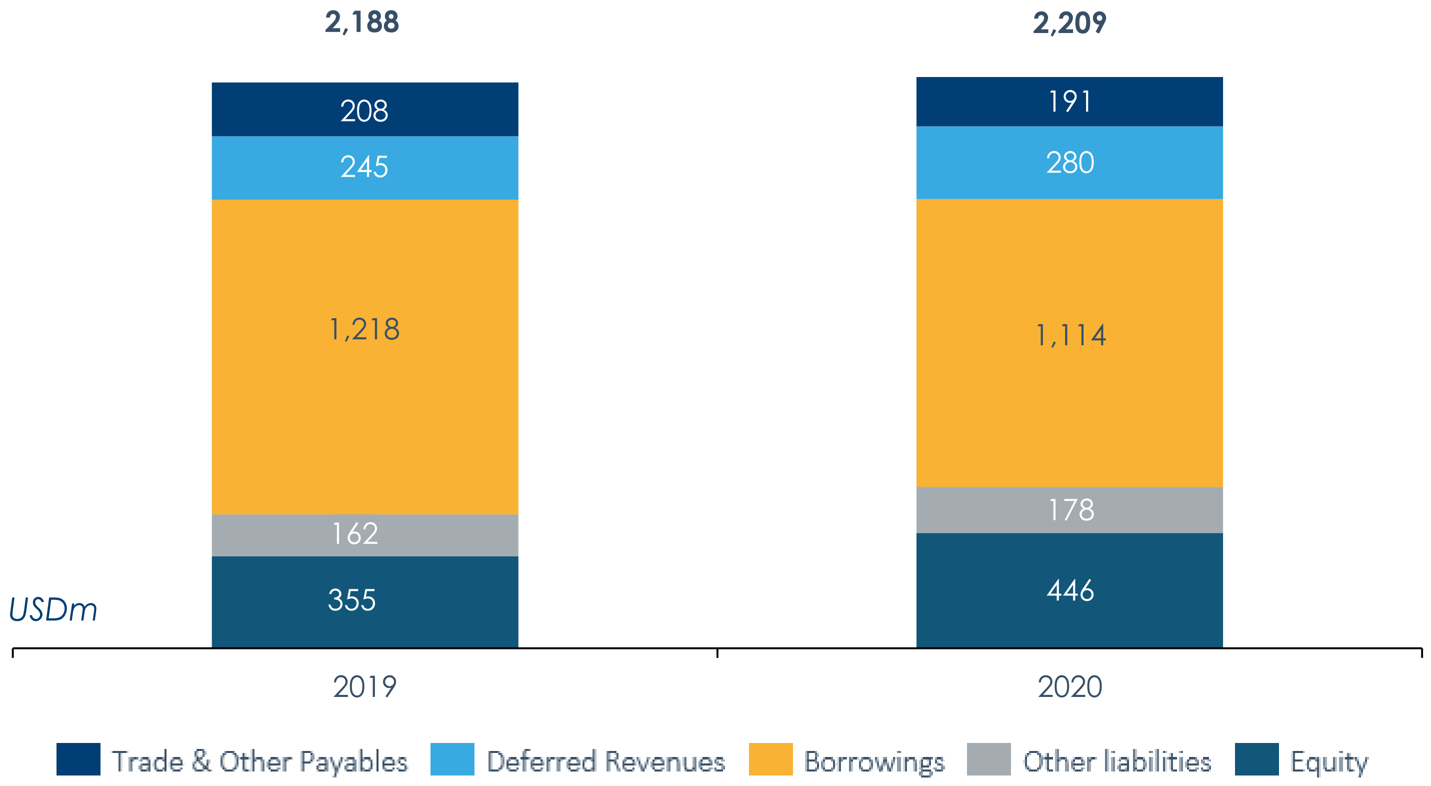
# Q3-20 v Q3-19 assets




**Comments:**

- Trade receivables – 12 days improvement in DSO
- No other significant changes

# Q3-20 v Q3-19 liabilities and equity




**Comments:**

- Strong deferred revenue growth driven by SaaS growth
- Lower borrowings mainly linked to Bridge facility repayment
- Other Liabilities driven by Kony deferred tax liabilities
- Equity change driven mostly by LTM profit and dividend pay out

# Capitalization of development costs

| 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)** |

| USDm | Q1 20 | Q2 20 | Q3 20 | Q4 20 | FY 20 |
|---|---|---|---|---|---|
| Cap’ dev’ costs | (17.7) | (18.0) | (20.8) | | |
| Amortisation | 12.9 | 13.6 | 13.6 | | |
| **Net cap’ dev’** | **(4.8)** | **(4.4)** | **(7.2)** | | |

# 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 13m
- FY 2020 estimated amortisation of acquired intangibles of USD 65-70m
- FY 2020 estimated restructuring costs of USD 25-30m
- FY 2020 estimated acquisition related credit of USD 20m related to Kony earn-out (reflected in Q2 actuals)

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 15 October 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 30 September 2020 IFRS | Non-IFRS adj. | 2020 Non-IFRS | 3 Months Ending 30 September 2019 IFRS | Non-IFRS adj. | 2019 Non-IFRS |
|---|---|---|---|---|---|---|
| Software Licensing | 52.6 | | 52.6 | 83.5 | | 83.5 |
| SaaS and subscription | 19.8 | 4.1 | 23.9 | 13.5 | 1.1 | 14.6 |
| **Total Software Licensing** | **72.4** | **4.1** | **76.5** | **97.0** | **1.1** | **98.1** |
| Maintenance | 96.6 | | 96.6 | 88.6 | | 88.6 |
| Services | 40.4 | | 40.4 | 42.3 | | 42.3 |
| **Total Revenue** | **209.4** | **4.1** | **213.5** | **228.0** | **1.1** | **229.1** |
| | | | | | | |
| **Total Operating Costs** | **(153.5)** | **23.4** | **(130.0)** | **(166.5)** | **16.5** | **(150.0)** |
| Restructuring | (7.7) | 7.7 | - | (0.9) | 0.9 | - |
| Acquisition related costs | - | - | - | (3.3) | 3.3 | - |
| Amort of Acq'd Intang. | (15.8) | 15.8 | - | (12.3) | 12.3 | - |
| | | | | | | |
| **Operating Profit** | **55.9** | **27.6** | **83.5** | **61.5** | **17.6** | **79.1** |
| **Operating Margin** | **27%** | | **39%** | **27%** | | **35%** |
| | | | | | | |
| Financing Costs | (7.7) | 0.0 | (7.7) | (5.3) | 0.7 | (4.6) |
| Taxation | (7.3) | (2.8) | (10.0) | (7.0) | (2.0) | (8.9) |
| Net Earnings | 41.0 | 24.8 | 65.8 | 49.3 | 16.3 | 65.6 |
| **EPS (USD per Share)** | **0.56** | **0.34** | **0.90** | **0.68** | **0.22** | **0.90** |

# Net earnings reconciliation

| In USDm, except EPS | Q3 20 | Q3 19 |
|---|---|---|
| **IFRS net earnings** | **41.0** | **49.3** |
| Deferred revenue write down | 4.1 | 1.1 |
| Amortisation of acquired intangibles | 15.8 | 12.3 |
| Restructuring | 7.7 | 0.9 |
| Acquisition related costs | - | 3.3 |
| Acquisition related financing costs | - | 0.7 |
| Taxation | (2.8) | (2.0) |
| **Net earnings for non-IFRS EPS** | **65.8** | **65.6** |

| | | |
|---|---|---|
| No. of dilutive shares | 73.4 | 72.9 |
| **Non-IFRS diluted EPS (USD)** | **0.90** | **0.90** |

# Reconciliation from IFRS to non-IFRS for EBIT and EBITDA

| USDm | Q3 20 EBIT | Q3 20 EBITDA |
|---|---|---|
| **IFRS** | **55.9** | **92.8** |
| Deferred revenue write-down | 4.1 | 4.1 |
| Amortisation of acquired intangibles | 15.8 | - |
| Restructuring | 7.7 | 7.7 |
| Acquisition-related charges | - | - |
| **Non-IFRS** | **83.5** | **104.6** |

# 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 out credits or charges

**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

| | |
|---|---|
| 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. |
| 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. |
| Annual Recurring Revenue (ARR) | Annualized value of revenues booked in a period: Recurring revenue recognized in a month * 12. |
| Software-as-a-Service Revenue (SaaS) | Software-as-a-Service revenues booked in a period |
| 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.<br>ACV x average duration of contract / license equivalent factor |

# Thank You

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