Full Reviewed Transcription

Temenos Group

Q4 2020 Results

2021-02-17 at 6:00 PM CET

Duration: 59 minutes

COMPANY REPRESENTATIVES

Max Chuard, Chief Executive Officer

Takis Spiliopoulos, Chief Financial Officer

PRESENTATION

Operator

Ladies and Gentlemen, welcome to Temenos Q4 2020 Results Conference Call and Live Webcast. I am Moira, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode, and the conference is being recorded. The presentation will be followed by a Q&A session. You can register for questions at any time by pressing * and 1 on your telephone. For operator assistance, please press * and 0. The conference must not be recorded for publication or broadcast.

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

Max Chuard

Thank you, operator. Good afternoon, and thank you for joining today's call. I hope you've been able to access our results presentation on our website. As usual, I will start with some comments on our Q4 and full year performance, and then I will hand over to Takis for an overview on the financial performance before giving some concluding remarks.

Starting on Slide 7, 2020 was clearly an unprecedented year. Banks suffered big disruptions. And so they delayed deals particularly in the first half of the year. However, as soon as they had rolled out their business continuity plans, banks returned to their strategic transformation projects.

Temenos was able to adapt very rapidly to the changing environment. We supported our customers with minimal disruption, through remote implementations. We adapted our sales process to the new normal and recorded strong sequential improvement as early as Q3, when digital transformations projects resumed.

Turning to Slide 8, Temenos has consistently delivered over the last decade. And we will continue to do so. Over our 27 years of history, we dealt with several global crises, like the global financial crisis and the sovereign debt crisis. And Temenos was impacted for one or two quarters. But always we were able to rebound very quickly, and emerged even stronger. And that's because our industry is structural... going through a structural change. And digitalization is imperative for banks. And the urgency to change in fact has never been greater for them. The majority of banks remember, are still using systems that date back more than 50 years. Banks have no choice but to transform. And this will drive sustainable long-term growth for Temenos.

Moving to Slide 9, we delivered a strong sales performance in the fourth quarter, with a continued sequential improvement on Q3, 2020. Our sales closure rates improved materially as the predictability of our business returned to near the 2019 levels. SaaS ACV reached 11.5 million Dollars, up 26% in Q4. And this took our full year SaaS ACV bookings to 34 million, up 61% on 2019.

Total software licensing declined 17% in the quarter, though this was a material improvement on Q3. And our sales pipeline continues to develop strongly, which give us strong confidence for 2021.

Thanks to the strong profitability of our recurring revenues and the flexibility of our cost base, we were able to grow our earnings with EBIT up 11% in the quarter, and operating cash-flows up 12% for the full-year.

We are also announcing a new share buyback program of up to 200 million Dollars, which will start on the 19th of February. And finally, we will propose a 90 cents Swiss Francs dividend, which will be subject to the AGM approval obviously.

On Slide10, this highlights the evolution of our performance throughout 2020. And as I said, were clearly impacted in the early part of 2020, as banks focused on business continuity, but we rebounded strongly in the second half as strategic projects returned. Whilst still below the 2019 levels, I am pleased with the material improvements recorded in Q4 2020 across all our financial KPIs.

Turning to Slide 11, the demand for SaaS continues to accelerate, with SaaS ACV up 26% in the quarter. This takes the full year ACV growth to 61% and SaaS revenues up 44% in the full year. Banks understand the operational and cost benefits to be gained from using SaaS and cloud. And there is increasing regulatory acceptance globally.

Our clients recognize that running our software in the cloud allows for faster updates, lower infrastructure costs, and elastic scaling and active... active resilience. And the economics offered by SaaS solutions are opening the banking market to new entrants. And this includes specifically challenger banks and FinTech’s. And therefore that provide us with a largely incremental opportunity for Temenos.

On Slide 12, I’d like to spend time... a bit of time on the SaaS pipeline, which is growing exponentially.

The ACV booking growth recorded in the second half of 2020 is a testament to the strong pipeline that we have been developing over the last 2 years. Our SaaS ACV pipeline grew by 200% in the last twelve months. And that's a significant acceleration over the last year. This ACV pipeline will drive material growth in our SaaS revenue in 2021 and over the medium term.

Turning to Slide 13, I will give you an overview of our sales performance in the quarter. Overall, sales in Q4 continued to improve sequentially. We achieved stronger closure rates as banks started to resume strategic transformation projects. And this was reflected by the greater contribution also that we saw from Tier 1 & Tier 2 banks in the quarter.

As already highlighted, we had very strong momentum in SaaS, notably in the U.S. and we had good growth in new pipeline activity for license as well. This continued momentum from the last 2 quarter gives us greater confidence for 2021.

Our installed base continued to be resilient, and accounted for 70% of our license sales in the quarter. Lastly, we had a total of 22 ... 26 new names wins in the quarter across all products. And this took the full year to 64 new logos in 2020.

On Slide 14, I am very pleased and very excited to announce that we have concluded 2 new strategic partnerships in the last few months. First with Salesforce, where we will be combining the Salesforce's CRM capabilities with a broad set of transactional capabilities provided by Temenos Infinity on the onboarding, the origination and the services. This offering will enable banks to engage with their clients and employees in a whole new way. And the partnership offers a great opportunity for Temenos, I would say, in a very largely fragmented front-office market. So this is really a great opportunity for us.

In addition, as you've seen probably this morning, we have also announced and signed a strategic agreement with DXC to accelerate the digital transformation program of DXC's banking clients. And this offer large banks a viable, progressive digital transformation path, leveraging obviously our very modern technology, and this is also very, very exciting as a new development.

Moving to Slide 15, I am pleased with our performance in the U.S. which recorded strong growth, especially with our SaaS offering. The U.S. market has been the strongest contributor of SaaS deal. And our modern technology and our deep banking expertise resonate very well with U.S. Challenger banks and FinTech's. In addition, our reference-ability in the U.S. continues to grow. In fact I am very pleased that last weekend, a Tier 1 bank went live on Temenos Transact.

And finally, our recent strategic partnership that I just mentioned, with DXC and Salesforce, provide a very strong platform for growth as clearly those partnerships will focus a lot on the U.S., not only the U.S., but the U.S. and Europe, so growth... strong platform for growth in 2021 and beyond.

Moving to Slide 16, Temenos has once again been recognized on multiple occasions as key leader in the software banking market. Notably, in the core and digital banking space, with a number of different accolades that we received by both IBS Intelligence and Forrester.

And in addition to that, we are very proud that our corporate and social responsibility program gained further recognition in particular by entering the Dow Jones Sustainability Index for both the world and the European level. And as you know, as a company, we are very focused on operating sustainably, and this is a key pillar of our culture and the foundation in which we conduct our business on a daily basis.

Turning to Slide 17, we had 21 implementation go-lives in Q4, and a total of 99 in the full year 2020. And we recorded 307 go-lives events, so including of upgrades in 2020. So that's nearly 1 go-live every day. Our clients continued to adopt our remote implementation methodology as a new standard. And this gives the implementation progressing throughout any lockdowns. In fact, nearly all our ongoing implementations are now operating 100% remotely. The use of cloud needs to increase and it is a key factor in remote implementation.

And with our remote implementation, methodology and cloud capabilities, we are very well placed to continue to bring clients live remotely. As a direct impact our service margin continues to improve reaching 16% this quarter and 13% in the full year and that's been achieved through operation efficiency and lower cost due to remote implementation.

So on Slide 18, as the COVID crisis hit, as I said at the start of 2020, banks initially focused their efforts on business continuity and remote activities. And this meant postponing some larger capital decisions. However, strategic IT investments across the front and back offices resumed in late summer, driven by structural imperatives of the market and new digital IT transformation project emerged in the last part of 2020.

We expect a continued strong increasing demand for SaaS from challengers and FinTech's. And large banks are set to accelerate investments again strategic on-premise software renovations. With strong growth in ACV and license, I expect to reach 2019 levels on a combined license basis, on equivalent basis... on equivalent ACV booking basis by the end of 2021.

On Slide 19, I wanted just to remind you and a lot of that will be obviously discussed tomorrow during the Capital Market Day that we operate in a huge market. It's a 63 billion market. And however, only 27% of the spend is done on third-party software, and that compares to around 70% to 80% for other industries that have reached maturity. So it represents an amazing growth opportunity for Temenos and this will continue sustainably for the next 10 to 15 years. Banks are and need to invest in their IT renovations; they do not have a choice.

Third-party spend is expected to grow at 8% for the next 5 years with the on-premise market growing at 6%. Temenos has a track record of growing twice faster than the market. And we will continue to do this because of our unique focus on that market, because of our unique references, because of our unique architecture and functionality. We also see a dramatic acceleration in SaaS, which is expected to grow at 25% on CAGR basis over the same period of time. And as I mentioned, the majority of these will be incremental.

Looking forward on Slide 20, banks across tiers and geographies have resumed the strategic IT transformation projects. The COVID-19 crisis has ultimately accelerated demand for digital transformation. And we continue to benefit from structural drivers of growth. Digitization now is an imperative for banks with significant regulatory cost and competitive pressure. We recorded strong new pipeline growth and we expect the demand to accelerate in 2021.

And this is obviously true for SaaS solution which remains as I said, incremental with limited cannibalization. But it is also the case for on-premise as large banks accelerate and mid banks as well, their investment in strategic software renovation.

With that, I will now hand over to Takis to talk through the numbers for the quarter.

Takis Spiliopoulos

Thank you, Max. Starting on Slide 22, we look at our performance versus our revised guidance. The operational resilience of our business model helped us to achieve our revised guidance metrics for 2020. Recurring revenues EBIT, DSOs and leverage ratio were delivered as guided, while our strong cash generation lifted cash conversion to 112%.

On Slide 23, I'd like to give you an overview of the financial performance in Q4. As a reminder, we had closed the acquisition of Kony at the end of Q3, ‘19. So the Q4 figures are all with Kony in the base i.e. organic. As Max has outlined, we had strong ACV growth of 26% in Q4.

Total software licensing was down 17%, a very substantial improvement on Q3 in particular, and also taking into account that Q4, ‘19 has been a very strong quarter.

We had no cannibalization of license revenue this quarter. We acknowledge that Q3, ‘20 was an outlier in this respect, where 2 larger deals with FinTech’s moves from license to SaaS, which clearly skewed the picture on a quarterly basis. However, we also know that we have a very limited number of FinTech deals on a license model. Overall, total revenue was down 12% driven by lower license revenues.

We accelerated our EBIT growth this quarter with EBITDA of 11% driven by tight cost control. We reached a full year EBIT margin of 35.6%, up 320 basis points and a Q4 EPS of 1.44 Dollar, up 13% year-on-year.

We continued our strong cash performance in Q4 and delivered operating cash flow of 406 million, up 12 year... 12% year-on-year and an operating cash conversion of 112%. We ended the year with DSOs at 111 days, down 9 days year-on-year and with leverage at 2.1 times, both in line with guidance.

Based on our strong balance sheet and the resilience and visibility of our cash generation, we are launching a share buyback program of up to 200 million to commence on the 19th of February. We are also proposing a dividend of 93 cents, up 6% year-on-year, demonstrating our confidence in the attractive outlook for the business. The proposal is subject to shareholder approval at the 2021 AGM.

Now moving to Slide 24, I will run you through some key figures for the quarter and the last 12 months. The strong growth in recurring revenues demonstrates the resilience of our business model in the face of disruption from COVID-19 in H1, ’20, and is key to our strong cash and profit performance in this quarter and the year.

Our SaaS growth of 44% benefited mainly from a significant number of transact signings, but also from the contribution of Infinity.
Maintenance grew 1% this quarter and 7% for the full year as we saw the delayed impact of weaker licenses from H1 2020. However, Q4 2020 clearly marked the trough regarding maintenance growth.

We already expect maintenance growth to accelerate to around 2% to 3% in Q1 2021 and converge towards 4% to 5% growth for the full year. Beyond 2021, the strong license growth forecast for this year will again lead to maintenance growth acceleration in 2022 and beyond. Services revenue declined 9% this year due to the delayed impact from weaker licenses and as we continue to work closely with partners, services will also return to solid growth in 2021.

Looking at the cost base, our operating cost declined 26% this quarter and 13% in the full year, driven by a combination of lower variable costs and the full impact of the cost initiatives, which we had commenced in Q2 and concluded in Q3. We were also able to improve our service margin to 16% in the quarter benefiting from the cost initiatives, but also the efficient allocation of resources in remote implementations.

Now on Slide 25, 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. So Q4 figures reflect the Kony business in the base and are therefore all organic. In terms of FX, the stronger Euro and Swissy had a positive impact on revenue but also a negative impact on costs. Taking into account all currency movements and hedging, FX had a small positive impact on EBIT in the quarter.

Total software licensing declined 17% like-for-like this quarter and services also declined 21% as some implementation processes continue to be delayed and we started to see the impact of lower license signings in H1 on service revenue. Maintenance grew 1% like-for-like in Q4 2020 and as I mentioned before, clearly marked the trough regarding maintenance growth. We already expect maintenance growth to accelerate to 2% to 3% in Q1 2021 and converge towards 4% to 5% growth for the full year. The overall like-for-like decline in revenues was 12% and our like-for-like cost base was down 26% driven by lower variable costs as well as cost savings program.

Turning to Slide 26, net profit and EPS both grew 13% in the quarter. And in the last 12 months net profit declined 2% with EPS at minus 1%. Our tax rate was 13.9% for the full year. And we see the fiscal 2021 tax rate at 16% to 18%. Our medium-term tax rate of 18% to 20% is a normalized run rate for the business.

On Slide 27, our DSOs ended the year at 111 days. This is down 9 days versus 2019, which included the impact of the Kony balance sheet. Throughout 2020, we have seen no issues with our clients' ability to pay nor did we have requests for revised payment terms. We plan to continue our good performance in DSO reduction and aim to end below 105 days by the end of 2021.

We will update our medium-term target for DSOs at the Capital Markets Day. But we clearly see DSOs declining further to reach levels comparable with software peers, driven by strong cash collection on licenses and increased contribution from SaaS and a continued reduction in DSOs linked to services as more implementations are carried out by partners and remotely.

On Slide 28, our Q4 last 12-month cash conversion was 112%, well above our target of converting at least 100% of IFRS EBITDA into operating cash. We expect our cash conversion to be at least at 100% for 2021 driven by strong growth in recurring revenue.

On Slide 29, we showed the key changes to the Group liquidity over the year. We generated 406 million of operating cash flow in the year and had net reduction in borrowings of 371 million.

Our cash on balance sheet at the end of the year stood at 110 million with our net leverage reaching 2.1 times. The weakening U.S. Dollar versus the Swissy had a negative impact of 0.2 times on leverage in the full year. We expect our net leverage to remain at comparable levels at year-end 2021 accounting for the share buyback and the free cash flow generation.

Now turning to Slide 30, we present the key elements of our 2021 outlook. As you have heard from Max, COVID-19 has accelerated the pressure on banks to innovate and invest, which we see as strong demand driver for the year and continuing the improvement witnessed in Q4. There are compelling drivers for banks to change. Banks do not have a choice. This is why on-premise market for banking software, both core and digital, will continue to grow at a very healthy rate. On top, we see largely incremental demand for our SaaS offering coming from FinTech’s and challenger banks.

On this slide, we have outlined the various drivers providing revenue visibility for 2021 and therefore backing up our confident outlook. We see a very solid pipeline of license deals and accelerating demand for SaaS ACV. We have good visibility with Tier 1 and Tier 2 banks, resuming their continuous renovations, and we will drive higher sales to our increasing installed base. As in the past year, we expect to see again the strongest demand for our Transact and Infinity offerings across both licenses and SaaS.

Now moving to Slide 31; we show our future reporting KPIs with the majority already in place today. We are introducing 2 new KPIs to help you monitor the progress we are making. We are giving a target for total bookings, which includes the fair value of license, committed maintenance and SaaS. This will give you an indication of how the total new business generated is growing and should make the acceleration of our business thru SaaS visible.

We will also guide and report on annual recurring revenues, ARR, which we consider best practice to demonstrate the growth trajectory of our recurring revenue streams. ARR is defined as all committed revenue across SaaS and maintenance and will include new customers, cross and up sell and any attrition.

Now turning to Slide 32, let me spend a bit more time to present our guidance for 2021. The guidance is on a non-IFRS basis and in constant currencies. You can find the FX rate assumptions in the appendix. The 2021 guidance is based on the outlook statements presented on the previous slide. We clearly have seen a steady improvement in Q3 and continuing in Q4 in our end markets as banks have adapted to the pandemic. Banks have proven very resilient and have returned to conducting strategic transformation projects, which will drive demand in 2021 and beyond.

The structural demand drivers for banking software remain firmly in place. We are guiding for a sustained strong ACV growth of 40% to 50%, which we see to a large extent incremental. For ARR, we guide for 10% to 15% growth driven by our locked-in strong SaaS growth and a re-acceleration of our maintenance growth from Q4 trough levels and while we maintain limited attrition on both the revenue streams.

Total software licensing, a key P&L metric, should grow at 14% to 18% reflecting both the strong recovery in license growth and SaaS performance. Total revenue growth is forecast at 8% to 10% as we digest a temporary, somewhat slower growth of maintenance and services which are set to accelerate in 2022 and beyond. From 2021, we will be excluding the costs of share based payments and related social charges from our non-IFRS presented financials i.e., IFRS 2 costs. The change of methodology is supported by the fact that these expenses are non-cash items.

Our current non-IFRS adjustments already exclude all other non-cash related expenses. This approach is common practice in a large number of listed companies. As such more than 60% of companies in our peer group adjust their earnings for the costs of share based payments. We have provided the IFRS 2 costs for both 2020 and 2021 for reconciliation purposes.

We guide for an EBIT growth of 12% to 14% to U.S. Dollar 364 million to 371 million, implying an EBIT margin expansion of 120 basis points from 36.0% to 37.2%. As we have repeatedly said, we see no need for a catch up in investment and we are very confident that we are now back on the EBIT margin expansion path from 2021 onwards even with a higher share of SaaS revenues in the mix.

Please note that we have provided additional disclosure of the impact of the HCL transaction for the Kony non-banking customers signed in June 2020. In 2021, we now have the full year negative impact of the run rate of H2 2020, and therefore a considerable impact on the growth metrics. You can see that our underlying growth rates for total software licensing, total revenue and EBIT will be markedly higher.

We have maintained our operating cash conversion target of converting over 100% EBITDA into operating cash and expect DSOs to be below 105 days by year end 2021. We expect a 2021 tax rate of 16% to 18% and our net leverage to be at comparable levels.

On Slide 33, we demonstrate for the mid-point of our 2021 guidance our strong visibility on EBIT margin expansion, driven by recurring revenue and supported by the license growth on the back of a very solid pipeline. This leaves us enough room to accommodate the increase in variable compensation and investment in the business, but still leaves enough flexibility to ensure we deliver on our profitability guidance, with EBIT growth of 12% to 14% implying the EBIT margin rising by 120 basis points from 36.0% to 37.2%. As previously mentioned, as of today, we are excluding IFRS 2 costs from our EBIT margin targets.

Moving to Slide 34, to be fully transparent in our disclosure, we provide the same EBIT Bridge under our previous EBIT definition including the IFRS 2 charges. You can observe that our EBIT margin would expand by 40 basis points to 35.2%.

Finally on Slide 35, let me briefly talk about the share buyback program. Based on our strong balance sheet and the resilience and visibility of our cash generation, we are launching a share buyback program of up to 200 million to commence on the 19th of February and to end on 30 December 2021 at the latest.

With that, I will hand back to Max.

Max Chuard

Thank you, Takis. On Slide 37, just to remind you that we are hosting our virtual Capital Markets Day tomorrow, starting at 2 PM CET. I hope that most of you will be able to join us to discover and discuss the very exciting opportunity that Temenos has in front of us.

And finally on, Slide 38. We recorded as we discussed a strong sequential improvement in Q4, with our sales closure rates improving significantly in particular in Europe.

And the predictability of our business has returned to near pre-COVID levels. Driven by structural imperatives, banks have returned to strategic transformation projects, both on SaaS and on-premise solutions.

Our business model demonstrated great resilience, protecting profits and cash flows through sticky recurring revenues and great cost flexibility. We continued to our investments in R&D and key sales positions, and we are well positioned for strong growth in 2021 and with an immediate strong start in Q1.

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

QUESTION & ANSWER

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

First question comes from James Goodman from Barclays. Please go ahead.

James Goodman
Good evening, thank you. Encouraging to see the additional KPIs. And you've been very clear that there's no significant substitution still from Core to SaaS. I think, it's fair to say that there's been a broad expectation that you would consider a sort of a faster transition at the CMD and clearly, we did see the 2 large deals that was mentioned in Q3 switching. So the first question is, why you think it is that you don't see a sort of broader acceleration in your core customer base, and what way you wouldn't sort of encourage that from your side. I'm sure we'll talk more about it tomorrow. But some introductory remarks there would be helpful.

And then secondly, and it's a bit linked to that. But just coming back on the maintenance, I'll take the point in terms of the year-on-year growth, but just want to look at it sequentially where it was down in the fourth quarter and really ask you why that was. And you know, if we aren't seeing any sort of substitution there out of maintenance to SaaS, those are the questions.

And just one more clarification maybe for me if I can just triple check on the HCL point. The growth rates you've got in the outlook, and when I look at those calculators, it looks like those are the growth rates you're guiding to. And then you're just calling out that HCL is a headwind that would have driven higher growth rates than you're showing. We don't need to make any further adjustments for HCL if you could just confirm that. Thank you.

Max Chuard

James, maybe let me take the first one. And you know, it's true that obviously we'll discuss this in quite more details tomorrow. And so, first on the... on our existing customer base, we feel pretty confident that the... our existing core customers will not move or will move very slowly and gradually if you want towards a potential SaaS offering. And the reason is really that today our customers that are using our modern platforms on-premise they still get a very large benefit from a cost point of view by running on our modern technology. In fact we’ve not seen the need for them to go the next mile and to us to run, the solution for them.

So if you want what we’re discussing quite some lengths to more is, in fact, the product that we run a SaaS or that our customer run on-premise is the same product. And I think this is the main difference that that you get with Temenos is the investment has been made the product easier; we have got 60 customers... more than 60 you know, on our SaaS challenger banks. It's the same product that is run on-premise by bank. So they get the benefit of the modern platform. And if you want the fact that we run it for them as a SaaS get... they do get some more benefit, but it's not significant as such. And you will see that, tomorrow we'll discuss some of our customers that moved to SaaS are able to run and reduce costs up to 90% in some cases. However, 70% of that improvement that can already get it on-premise with our modern solution. So I think that, I would say the element of FUAI, we don't see if you want our customers are moving fast towards... to SaaS and very gradually over many years. Now, that's for the existing customer base.

Now for the new customers, and also that we will discuss at length and we'll discuss between the different tiers of customers. Today, what we see is really challenger banks and Fintech. So that’s really the type of segmentation of customers that decide to move to SaaS. And this is great, and this is as I said this is incremental.

And it's not something that we... that we have been doing in the past that would not have been able to create a new banking always on reserve the infrastructure on-premise. So that's very clear SaaS market.

The largest bank it is the vast majority of them is on-premise. Now some of them use cloud, if you want. But they'll be run themselves. They will not ask us to run the cloud operation. And that we don't see for issue on for the medium term Tier 1 bank asking us to run the solution. They will certainly be using cloud more and more in the future, but they will be running it themselves or as a partner to run it for them. And then you've got the mid-tier banks, where also by and large it's still on-premise. I think this is probably the market, if we look at it for the next 5 years that you will see some of them moving in the future potentially towards our SaaS solution.

So that if you want to answer, why it's by far... if the opportunity is by far incremental. And I think as Takis very nicely clarified, it's true that in Q3 we had those 2 outlier Fintech that started the relationship through a license and then moved through... through SaaS. But you know, we don't see that really I think all those Fintech going forward will go directly SaaS and not on the license side. So... but listen, during the event more, and we'll discuss this in more details. Takis, I will leave you to take the 2 next questions that James had.

Takis Spiliopoulos

Yes, hi James. So on the first one maintenance, yes I appreciate there was you know, this Q4 number dropping. However, there were a couple of if you want special items. 1, as I mentioned you know, the non-banking Kony clients moving to HCL. This is something which is also linked to specific timing. So you know, it was a very good quarter i.e. for HCL i.e. moving. So we had a quite attrition on that side. 2, and there is also the attrition you know of our... if you want core Temenos business while still lower the usual 2%-3% you can still see some timing there.

And the third one there was... as you remember we have still a very strong you know, European customer base and Europe was quite weak over the first 2, 3 quarters. So that was basically also the delayed impact from the weaker license growth in the first 3 quarters. But again, this is very temporary and this is why we're going to see in Q1 already a sequential increase in absolute terms.

On HCL, you're correct we're just flagging the headwind on gross numbers, no adjustment needed to the numbers. As a reminder, the usual bulk payment we received from HCL is always in Q2. So that is both in the base of 2020 and in 2021. So that does not affect the gross variants.

James Goodman

Okay. Thank you. See you tomorrow.

Operator
The next question is from Sriraman Chandramouli from Stifel. Please go ahead.

Sriraman Chandramouli
Yes. Hi. Thanks for taking my question. Just a couple, firstly, Takis, if I just calculate based on your comments on SaaS growth, would you say a double-digit license revenue growth is still on the cards, just wanted to double check my calculations? The second bit is, we also saw a strong bonds in terms of Europe and Tier 1, Tier 2 deals in Q4. Is this just a Q4 seasonality or did you just see something more in terms of willingness to spend from these regions and banks? Thanks.

Max Chuard
Thank you. So maybe, I'll take the second one. Hi Chandra. Yes, it was great to see Europe coming back in Q4. And clearly, Europe was the region's most challenging for the first 3 quarters. I think Europe is going clearly to improving in 2021. There is no question about that. And so, I think... I feel much more comfortable about what we can achieve in Europe in 2021. And we see pipeline building, and I think more broadly, we saw the predictability of our business clearly improving. And I think that's very reassuring. And you know, it started in Q3 and then in Q4, you know the predictability, the sales process was clearly... was almost the same as what we saw in pre-COVID. Clearly Q4, you do have strong compelling events, the customers they do want to close the deals at the end of the year, so there is a strong compelling event that you get less you know in the other quarters, but definitely, I expect if you want Europe to perform much better.

Now the fact that the environment is improving is clearly also bringing now the Tier 1, the Tier 2 that delayed spending, both existing customers and new customers, and there as well we see I will say the pipeline is developing very nicely with larger banks, so as well I think you'll see in 2021 Tier 1, Tier 2 coming back towards more normality as we saw in Q4. So ultimately, we see in 2021 a continued improvement of the environment.

As I mentioned, and I wanted to spend a bit of time on the slide, as ultimately this is structural for banks, they've got to innovate and engage more and more, it's now a few quarters that our CEOs of banks are again engaging to see how they will address the structural challenges that they are facing, and they know that with COVID-19 the one that have all technology, they'd clearly struggle to cope with the crisis compared to the one that are using modern technology.

Takis Spiliopoulos

Yes. Hi, Chandra. Let me take the second one. If you do the math from our total software licensing guidance from 14% to 18%, if you take the midpoint at 16%, and account for the 30% SaaS growth we have said, then you arrive at 11% license growth at the midpoint. So this is clearly double-digit. The last consensus we had compiled was at 7% or so. But again keep in mind, we have about 4% to 5% headwind on license as well from HCL. So the underlying license growth will be more like, you know 15% to 16% if not hidden by HCL.

Sriraman Chandramouli

Alright, perfect. Thanks.

Operator

The next question is from Michael Foeth from Vontobel. Please go ahead.

Michael Foeth

Yes. Thank you. Good evening, Gentlemen. 2 questions from my side. The first one is regarding your license revenues again. What... sort of what is the percentage of your license revenues in 2021 that you have already very good visibility on based on progressive renovation projects? That will be the first question. And the second question is, in your guidance, do you already include any contributions from the DXC deal announced today or would that be incremental business?

Max Chuard

Takis, I think those are for you today.

Takis Spiliopoulos

Yes. Let me take that one. So in terms of visibility as we have provided you know, the various drivers of visibility, if you put that altogether, we would say we are not very... at not very different levels. And in prior years, what we said, you know, around 80%-85%, we have visibility on, so given that, you know, there is still some effect from the pandemic, we saw in 2020. But clearly also strong improvement, also that helps improve visibility and as Max mentioned, the predictability has increased, and the closure rates have increased. So I think we feel comfortable with that level.

On your second question, no, our guidance does not include any potential business upside from DXC.

Michael Foeth

Great. Thanks a lot.

Operator

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

Charles Brennan

Great. Thanks very much for taking my questions. I've got 2 actually. The first is just back on your license comments about that being something like 10% growth implied at the mid-point and 15% excluding HCL. That's obviously a reasonable run rate, but it does come off a minus 30% comp in the prior year. I'm just wondering to what extent could that end up being far too conservative given how weak the comp is. And are there any metrics you can provide us around a pipeline cover and closure rates that you're assuming that can give us some visibility into how conservative you might be being? And then secondly, on an unrelated matter, can you just talk about the share buyback program. Does the share buyback program actually reduce the share count or does this merely offset the issuance from share options. I must... I haven't been to the granularity of investing schedules?

Takis Spiliopoulos

Okay. So let me take those 2, on the first one, you know, I think Charlie it's early in the year and we have mid-February and providing then already a hyper bullish outlook is probably not the right timing. What Max has said, and in terms to give you a bit of granularity we... while we see a lot of improvement in the closure rates and our pipeline to sales ratio is providing with sufficient ammunition and sufficient coverage we still you know, our guidance does not incorporate if we go basically right now back to pre-COVID levels in terms of conversion ratios. I think this is something we envisioned for towards the end of the year or 2022, and this is what we have based our guidance on. So should those conversion ratios improve faster? Clearly, that would be a potential upside. But right now we feel you know clearly comfortable with this one.

And also what we... what Max mentioned, you know, we feel quite comfortable to bouncing back towards 2019 levels in terms of bookings. So you see in terms of business volume we were actually going back to 2019 levels. It's a bit of a different mix, a bit less license revenues and more SaaS. So this is providing with some picture that we see actually a very good environment out there.

On the share buyback, when you apply for a share buyback with the regulator you have to state what your intentions are. So for us, I think in the past, we're going to use the shares predominantly as if available eventually for an acquisition currency. And if required, if we run out of conditional capital also for share compensation plans, which we haven't done now for a while. So clearly it's something, you know, we look at as a very good investment. And clearly, if you look at M&A prices are very high. So investing in Temenos shares is providing probably the best ROE for the money.

Charles Brennan

And just help me out from a technical point of view. Do I have to think about a lower share count in the calculation of EPS or are you suggesting that we should be modeling a broadly unchanged share count?

Takis Spiliopoulos

Yes, so this is you know the amount of shares we're going to buyback will be excluded from, you know, EPS calculations. However, I'll let you decide on the timing and the pace. What we've going to do is clearly you know start on Thursday. So depending on how fast we execute on this program, yes there could be up to maybe 1% of accretion if we execute early, but this is really subject to market conditions.

Charles Brennan

Okay. Thank you.

Operator

The last question for today is from Pillai Gautam from Goldman Sachs. Please go ahead.

Pillai Gautam

Great. Thanks for taking my questions. I had a couple of them. First, just coming back on licenses, you comment on the visibility of licenses to relicensing as a factor. Can you please comment if 2021 is a big relicensing year? If you could give the mix of relicensing in the pipeline would be great?

And second question on the EBIT guidance, so your guidance to margin expansion on a like-for-like basis versus 2020. However, there has been... as you mentioned in your prepared remarks obviously less travel and some less discretionary spending as well. How should we think of cost evolution as presumably some of these costs are coming back in 2021? Are you kind of exercising cost control in some other aspects? Thank you.

Max Chuard

Okay. So on the first one relicensing. No, we don't see any particular deviation from past comments. Yes, we would love to have more than the usual average of 10% to 15%. So no it's not something we see different than in prior years.

Then on the cost, yes, we provided the costs bridge. And clearly some of the voluntary... about some of the variable cost reductions are baked into our forecasts. So as you remember we had announced a voluntary pay cut reduction. So that has been reversed in terms of travel costs. Yes, we have an increase in our forecast. Currently, it doesn’t look like that, but you know, we expect travel to resume eventually this year. But, keep also in mind that, we had taken quite some cost from a fixed cost base, which help us retain the kind of margin trajectory.

And the last bucket is clearly commissions and all the variable costs will go up with the kind of license performance. But if you look at the bridge you know, we still have sufficient leeway, we are also going to pay a bonus to employees. Again, we still have sufficient leeway in case of a call it a worst case scenario if the license growth is not delivered leeway on the investments which you know we will call discretionary to still deliver our EBIT growth.

Pillai Gautam

Thank you.

Operator

Ladies and Gentlemen, I would now like to turn the conference back over to Max Chuard for any closing remarks. Please go ahead, Sir.

Max Chuard

Thank you everyone for joining us this evening, and I hope to see you all virtually anyway tomorrow during our Captain Markets Day. Thank you for your time. See you tomorrow. Bye.

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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