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Temenos Group

Temenos - Q1 2022 Results

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COMPANY REPRESENTATIVES

Max Chuard, CEO
Panagiotis Spiliopoulos, CFO

PRESENTATION

Operator

Ladies and Gentlemen, welcome to the Temenos Q1 2022 Results Conference Call and Live Webcast. I am Alice 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, operator. Good afternoon, and thank you for joining today's call to run through our Q1 results. I hope you've been able to access our results presentation on our website. As usual, I'll give an overview of the business performance before handing it back to Takis to talk through the numbers.

Starting with slide 7, I'd like first to address the demand environment, as well as an overview of the quarter. Disruptive technology is driving considerable challenges for banks. Customer expectation are increasing, there is intense competition and banks face big financial pressures. At the same times, we see new business model like embedded finance and business as a service emerging, and this is creating opportunities for thousands of new entrants.

The structural challenges banks face and the changing market is driving acceleration in activity across our business. And therefore, despite macro uncertainty around Ukraine, inflationary pressure and recession concerns, so far, we haven't seen any impact on demand from our clients. And the sales environment continued to improve, compared to Q4 last year.

I'm pleased to say that in the quarter, we closed our first deals on the new subscription pricing model that we introduced. Total bookings which is a measure of new business signed in the quarter grew by 25% showing the strength of demand, and our SaaS business continues to perform very well. It was great to see a very strong level of new logo signings for SaaS in Q1, with ACV up 58%.

Annual recurring revenues accelerated this quarter to 14% growth, up from 12% in Q4 last year, and I expect this acceleration to continue over the coming quarters.

We have more costs coming back into the business post-COVID, in particular, travel and in-person events, as well as the impact of hiring that we've done in H2 last year and wage inflation, and so EBIT grew 4% this quarter.

Lastly, our free cash flow declined 29% in the quarter, and the reason is we had a 15 million of customer payments received in advance in Q4 2021. So on an LTM basis, free cash flow is up a healthy 12%. The amount of subscription signing this quarter was relatively small, and therefore had very little impact on cash in the quarter. So a strong start to the year, and we are well positioned for the coming quarters.

Turning to slide 8, ARR accelerated in Q1 to 14% growth, and this will continue over the coming quarters to reach our guidance of 18% to 20% ARR growth for the year. This is from our strong SaaS business, our shift to a new subscription pricing model and our growing maintenance base, as well as very little attrition. The growth in ARR and total bookings are adding to our backlog and give us greater visibility on revenues over the medium term. The demand this quarter was broad-based across client tiers and products.

On slide 9, our SaaS business continues to perform extremely well. We had 19 million Dollars of ACV in the quarter, which was up 58%. And the level of new logos was a multiple times of what we had in Q1 last year. We also benefited from some existing clients increasing their consumption. The US and the core banking continued to be the major drivers of demand. However, we see Europe and front office also making sizeable contributions. We now have several strong quarters of ACV, and this is accelerating our SaaS revenue growth in Q1 to 33%.

Moving to slide 10, as I said, the sales environment continued to improve compared to Q4 last year. This was the first quarter where we engage with clients on our new subscription pricing model for on-premise software, and it was great to have a number of deals signed already under the new model this quarter. We received a lot of positive feedback on the new model, so we expect most of on-premise deals in the pipeline to move to subscription pricing.

The US continued to perform very well, where we had several new signings, including Battle Bank, a leading US challenger for core banking and payment. We saw an ongoing recovery in Europe with 25% growth this quarter, and more growth expected this year. And one deal, I would like to highlight is the front-to-back platform deal for Temenos Banking Cloud with Mirabaud, a leading Swiss Private Bank. We believe this will open the market for significant disruption in Switzerland and Europe.

And we see more broadly quite some traction in Wealth Management both in Europe and globally, with several Tier 1 banks looking at IT renovation for the private banking businesses. So overall, we see more pipeline activity with Tier 1 and Tier 2 banks, who generated 40% of our total software licensing this quarter. Finally, we had 17 new client wins in the quarter.

Moving to slide 11, I'd like to focus on the US. We had multiple new client wins this quarter, including one we announced with Battle Financials. They selected our core banking and payment products for Battle Bank to run the global market technology stack. US SaaS ACV was very strong in Q1 from both new and existing clients, and we continued towards to our reference client base. We have a strong US pipeline, including these with several large banks that we are actively engaged with.

Moving to slide 12, I'd like to briefly remind you of the business model change we announced at the start of the year. We are moving from a license model to a subscription for our on-premise software, obviously, we will continue to offer our very fast-growing SaaS solution. With subscription, we can capture greater value and accelerate our growth and our shift to a highly predictable recurring revenue. We expect to transform the financial profile of our business, and ARR will grow 20% to 25% every year to 2025. And by then, it will be more than 85% of the revenue mix. And the client response so far has been very positive on this change.

On slide 13, our subscription model, we have great benefits for both Temenos and our clients. It means our clients can spread the payment terms over a number of years, and move the IT spend from CAPEX to an OPEX, reducing the upfront cost. It also makes it easier for them to scale the IT spend as the business grows, and simplifies the path to SaaS if they choose to move in the future. It means Temenos can achieve higher contract values through incremental growth and higher margin. This will drive our revenue acceleration with more upsell opportunities, higher customer retention and higher annual recurring and more predictable revenues.

Now, moving to slide 14, let me tell you why we win in the market and we outsell the competition, because our competitors simply cannot match the value we can offer to our customers, to our prospects. We have a huge breadth of packaged services on our open platform with market-leading technology that enables massive scalability, cloud native and even a multi-cloud capabilities supported by out of the box localization. These are things that the traditional vendors and neo vendors simply cannot match.

The neo vendors like the breadth and the depth of our functionality, our scale, our compliance, our expertise and the incumbents cannot match our leading-edge technology, sole focus on banking and market leadership with both traditional and non-incumbent players. So we've got the size, the scale, the expertise, the track record and most importantly, the best platform on the market.

On slide 15, and that's one of the key reasons of the success of our platform is that our platform has one single code base that can run any type of customer, whether it's a traditional bank or a non-incumbent player. Our customer can run our software, however they choose, whatever the sectors they're in and whatever the size of the business, whether that's running itself on any hyperscaler, on-premise or obviously as SaaS through the Temenos Banking Cloud.

As progressively more and more of our clients are using our SaaS and cloud platform, we see greater demand for highly standardized product and less and less need for customization work around our packaged offering. And any software that clients require to be built around our platform can easily be done by third-party partners and developers through our partner ecosystem and extensibility framework. This is a highly scalable model that fully meets the needs of our customers.

Unlike some of our... some of the incumbent vendors who are building new bespoke platform for banks, and some neo vendors that sell technology tool kit for banks to build the own in-house solution on modern architecture. And therefore, our single platform and single code base enable us to drive margin expansion. And as we invest in our SaaS business, to drive efficiency and achieve scale, we will also benefit from improving SaaS gross margin. So all of that, ultimately will allow us to grow profitably and cement our competitive advantage.

On slide 16, third-party spend has accelerated to 10% per year. And we've not seen, as I said at the start any impact on demand to-date from the macro uncertainties. Demand for SaaS, in particular, is accelerating with both non-incumbent and some small and mid-sized banks looking for SaaS solutions. The spend with non-incumbents is growing very fast at nearly 30% every year. And in response, we see Tier 1 and Tier 2 banks increasing the spend to ensure they remain competitive with new business models and can meet the expectation of the customers.

Our open composable banking platform caters extremely well for the needs of those larger banks, as well as, non-incumbents looking to rapidly launch new offerings. From a geography perspective, we see the US and Europe as the main drivers of growth for us in this year.

We are making material market share gains and our new subscription model will accelerate our ARR and total software licensing growth in 2022. With the investments we are making in the business, I'm confident we are well positioned for 2022.

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

Takis Spiliopoulos

Thank you, Max, and moving to slide 18, I will give an overview of our financial performance. All figures are in constant currency unless otherwise stated. SaaS revenue grew 33% in Q1 '22 on the back of the strong ACV growth delivered in 2021, and we expect SaaS revenues to track ACV more closely going forward as well with SaaS revenue attrition normalizing at around 5%.

We also had our first subscription contract signing in the quarter, which together with strong signings in licenses, delivered total software licensing growth of 18% in Q1 '22. Maintenance grew 4% as guided, and we expect a similar growth rate of 3% to 4% in Q2 '22 and an acceleration for the full year. Total revenue grew 7% in the quarter with services still acting as a drag as previously indicated.

EBIT was up 4% in the quarter as we absorbed some cost headwinds post-COVID and from ongoing investments in the business. We generated 60 million of operating cash, with cash conversion of 118% on last 12 months basis. We also delivered 32 million of free cash. The decline in free cash is specifically linked to advanced cash payments of 15 million from clients in Q4 '21. This has now normalized this quarter. Also, there was very limited impact on free cash flow from subscription.

On an LTM basis, free cash flow grew strongly at 12%. We still expect our free cash flow to be down between 5% and 10% for the full year as we absorbed the impact of moving most of our on-premise license deals to subscription pricing, all this unchanged as we had indicated before. DSOs ended the quarter at 115 days, down 2 days sequentially. We reported 785 million of net debt at the end of the quarter with leverage at 1.7 down sequentially from 1.8 and well within our target range of 1.5 to 2 times.

Moving to slide 19, we had 10.6 million of subscription license revenue in the quarter as we were able to move some late-stage deals to our new subscription pricing model. We had a small amount of subscription license last year, as you can see on the P&L, which are all from acquired products that were already sold on a subscription basis, in particular some products in the US.

As outlined by Max, we are now moving all of our on-premise license contracts across our products to our new subscription pricing model.

Going forward, we expect most of the on-premise license deals in our pipeline to move to subscription. Therefore, and as we move through this transition period, our traditional term license will continue to show negative growth as it did in Q1, 2022. This will be more than offset by very high growth rates in our subscription line.

SaaS continues to perform very well with revenue up 33% in the quarter. Subscription, license and SaaS combined drove total software licensing growth of 18%. Q1 '22 has shown for both SaaS and total software licensing an acceleration versus the last 12 months. Our services revenue continued to decline in Q1 '22 following the trend of the last few quarters as we continue to hand more work to partners and with a number of projects with increased costs and less revenue milestones. We expect this to normalize from Q3 '22 onwards and for services to grow for the full year. Lastly, we delivered nearly 60 million of EBIT for the quarter, up 4%, with our EBIT margin declining slightly.

Next, on slide 20, we have like-for-like revenues and costs, adjusting for the impact of M&A and FX, although we have not done any M&A since 2019. The figures are all organic and therefore in line with our constant currency growth rates.

Our cost base grew this quarter as we have costs coming back into the business post-COVID, in particular from travel and in-person events. We are also seeing an impact from the hiring in the second half of last year, as well as, wage inflation and other ongoing investments. In terms of FX, the weakening Euro has a negative impact on revenue, which was offset by some benefit on costs, so a neutral impact on EBIT from FX this quarter.

Turning to slide 21, net profit was up 7% in the quarter, driven mainly by lower financing costs, partially offset by a higher tax charge. EPS grew 9% in the quarter. We continue to guide for a 2022 tax rate of 18% to 20%.

On slide 22... our Q1 '22 LTM cash conversion was 118%, well above our target of converting at least 100% of IFRS EBITDA into operating cash. We also expect our cash conversion to be at least 100% for 2022. As I mentioned earlier, operating cash and free cash declined this quarter as expected, with some clients making advanced payments in Q4 '21, which then impacted cash this quarter.

Next on slide 23, we show the key changes through the group liquidity over the quarter. We generated total operating cash of 60 million and repaid 71 million of borrowings. We ended the quarter with 96 million cash on balance sheet and net borrowings of 881 million. Our leverage was at 1.7 at quarter end, and this will continue to improve through 2022, subject to no further M&A.

Moving to slide 24, I'd like to remind you of the impact of moving to a subscription model as introduced at our last CMD in February. I'll run you through the impact of a subscription contract on P&L, cash and ARR. From a P&L and reporting perspective, we recognized the license element of a subscription contract in our new revenue line called subscription license. We then also recognized the maintenance portion of the subscription contract as usual in the maintenance P&L line. This is in line with IFRS 15, and we had the same impact on our existing fund administration subscription contracts when we adopted the standard in 2018. At the renewal point after 5 years, there will be another subscription license revenue recognition.

In terms of cash, we are moving away from larger upfront cash collections linked to transitional licensees with the cash linked to subscription collected pro rata over the life of the contract. ARR will similarly mirror cash with a subscription license and maintenance revenue recognized pro rata over the life of the contract, which is considered best practice in the software industry.

On slide 25, we reiterate our 2022 guidance metrics. These are non-IFRS and in constant currency. We are guiding for ARR growth of 18% to 20% as we benefit from the move to subscription and also from accelerating SaaS and maintenance growth. We are guiding for total software licensing growth of 16% to 18% and total revenue growth of at least 10%. We expect our EBIT to grow 9% to 11% and our cash conversion to remain at over 100% of EBITDA into operating cash. Lastly, we expect our 2022 tax rate of between 18% and 20%.

Now turning to slide 26, we also reconfirmed our 2025 targets. There are 2 key metrics I would like to highlight. Firstly, we have an ARR growth target CAGR of 20% to 25%, which reflects a growing contribution from subscription and the acceleration of ARR on the back office. This converts to 1.3 billion of ARR by 2025, meaning that at least 85% of our total revenues will be ARR.

We see our free cash flow growing at 10% to 15% CAGR and reaching more than 600 million by 2026, which again reflects the impact of subscription in the earlier years as there will be less cash collected upfront on the subscription contracts. However, we see our free cash flow growth substantially accelerating to at least 25% over the 2023 to 2026 period.

Moving to slide 27, I'd like to highlight the correlation between ARR and EBIT growth. ARR includes subscription SaaS and maintenance with the full impact on P&L for SaaS and maintenance being reflected over the following 12 months of signing a deal. We already have a high blended gross margin for ARR, and this will continue to rise as we improve our SaaS gross margin from greater automation, improved unit economics with the hyperscalers and scaling our SaaS business on an optimized cost base. We will, of course, continue to make significant investment in sales and R&D to drive our growth going forward. After these investments, we would expect EBIT growth to track around 75% of the prior year ARR growth. So as ARR is expected to grow at a CAGR of around 25% from 2022 to 2025, EBIT is expected to accelerate to well over 15% CAGR over the same period.

Lastly, on slide 28, I'd like to walk you through the impact on our EBIT and margin in 2022. Improving SaaS gross margin and maintenance growth will be the largest drivers of our EBIT in 2022 with smaller contribution from term and subscription license growth. In terms of costs, we have around 12 million of post-COVID normalization, which is linked, in particular, to increased travel and the return to in-person events. Once these costs are reflected in the 2022 cost base, this will be no longer a headwind in 2023.

On top of this, and given the strong market growth, 2022 is a year of investment for us. We also face wage inflation as does the whole sector. We expect to end the year with an EBIT margin of around 27% at the midpoint. Looking further forward, we would then expect our margin to continue expanding in 2023 to 2025 by 130 to 150 basis points per annum, having absorbed the impact of COVID normalization and having made significant investments in our SaaS and cloud capabilities and in sales and marketing in 2022 and prior years. Please note that our SaaS maintenance and subscription contracts have held CPI protection building. We would also expect to have wage inflation offset by price increases, which we have not built into our guidance yet.

With that, I will hand back to Max to conclude.

Max Chuard

Thank you, Takis. Turning to slide 30, I'd like to invite you all to join us in London for the Temenos Community Forum on the 17th to the 19th of May. This is our Flagship Event for clients and partners. And indeed, it's one of the Flagship Events in our industry and it is great to be able to be back physically together as a community. We have a dedicated track for analysts and investors, so please do get in touch if you'd like to join us.

And so in conclusion, on slide 31, the demand environment continued to improve through Q1 and we had our first signings under our new subscription model for... with a lot of positive feedback from clients across tiers and geographies. We had strong growth in SaaS, ARR, total bookings, which give us confidence for the year. Our US business continues to perform very well, and we had strong improvement in Europe with further growth expected. We see increased activity with Tier 1 and Tier 2 clients, and we continue to invest in the business.

So in conclusion, we had a strong start to the year. And 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 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.

Our first question comes from the line of James Goodman with Barclays. Please go ahead.

James Goodman
Good evening. Thank you very much. Could I start on the transition to subscription, I mean, we're a quarter into that now. You've made a few comments around the positive reception that you've received from customers. I guess, the area I want to dig into a little bit is the opportunity for value uplift as you switch customers from upfront to subscription. Are you able to provide some commentary around that and maybe the upsell opportunity? And, I guess, the question is like-for-like. Are you actually able to generate more P&L license out of these deals than you otherwise would have been able to, now that you've got some more visibility over the pipeline?

And secondly, could we just come back on the free cash flow in a little bit more detail? Just add some context, please, around the deferred revenue outflow that you've got in the period. You commented on the advanced payments in Q4, but what was the nature of those and presumably, that was already baked into the 5% to 10% expectation around free cash flow for the year, but if you could add some context, that would be helpful. Thank you.

Takis Spiliopoulos

James, let me take this one. On subscription, I think given the limited number of deals we have signed so far, we can't yet, you know, give a confirmed number in terms of the uplift. We don't have enough data points, but clearly those that we have is encouraging. We had mentioned that on average, we have seen enterprise software companies generating, you know, 30% to 60% uplift from that. Now clearly, we would... expect to have also something in that level. What we have seen in the pipeline is clearly very encouraging in that respect, but let us have some more data points after Q2 and maybe Q3 to get a firm view of what is the uplift... the TCV uplift on a like-for-like basis. So this is really without the opportunity of putting in additional product, putting in additional services, which obviously would lift the value even more. So limited number of deals in Q1, but clearly, the pipeline of what we have seen here has generated quite some excitement, especially in also in Europe and among larger clients. So let's stay tuned for this one.

On free cash flow, yes, we had obviously baked the thing into our forecast for free cash flow to be down 5% to 10% this year. We had seen this strong performance in Q4. Ultimately, there is only so much you can do if payments come in very late in the quarter, so you cannot manage the outflows. So ultimately, this is really driven by a number of clients paying early. If you look at the Q1 '21, where we had very strong growth in deferred revenues, which was 28%. And clearly, we had this high base now, so deferred revenues were a bit lower in Q1 '22. So this, I think, if you normalize this, then we would see deferred revenues growing, you know, double-digit in line with what you would expect for recurring revenues. So yes, well a number of, let's say, big clients paying big in advance which created this headwind.

James Goodman

Thank you, Takis.

Operator

The next question comes from the line of Chandra Sriraman with Stifel. Please go ahead.

Chandra Sriraman

Yes, hi. Thanks for taking my question. Hi, Max, hi Takis. Just a couple from my side, just digging deeper on the subscriptions move. Would you be able to comment on what you see in the pipeline in terms of geographies? How is the adoption, I know, these are early days, but anything you can comment would be helpful. And a very quick follow-up on that, do you see some kind of risk there because of the move to subscriptions, customers might move to the cloud and therefore you have some kind of cannibalization?

And my second question is on services, it's been weak, whereas your go-lives are still quite strong. Margins also dropped a bit this quarter. Anything you can highlight on that would be quite helpful. Thanks.

Max Chuard

Hi, Chandra, it's Max. Okay. Let me answer, I'm sure, there'll be lots of question on subscription. So we will play between Takis and myself. As we said, very encouraging start with subscription, probably, you know, personally I was not expecting that we will already have a few customers that would move to subscription in Q1, because you know, we made it really official towards the end of Q1. So that was really... that was great. I would say the encouraging side is both from the customers and internally. So I mean the... from the sales... from a sales people are also extremely positive around this change.

From a geography point of view, in the US is clearly a model which is extremely well in place. So we do see a lot of traction in the US and some of the deal that we closed were in the US. But as well, I would say, outside of the US, we've seen very strong positive feedback. So it is really a model that's why we decided to launch it. That is well accepted now and they see the benefit of this which, as we said, it's really a win-win for the customer and for Temenos. So very encouraging, it's true that we've got little data points. And we will be commenting for sure as we go.

From the... you mentioned, do we see a risk of having customers that will decide to move to the cloud or to SaaS with this? Clearly, for us, the... it's one of the benefit of offering the subscription will be to facilitate a future move to SaaS. And as the leader in the market, we want to offer that choice for a customer. But anyway if the customer wants to move to SaaS, he'll do it anyway. So I think it's great that we are able to support them and to facilitate this through the subscription model. Now this is not something which is so easily done. So then there's a whole process. So I would not expect, you know, any impact, if you want for... or any material impact on the numbers for this year. So on that, I will leave Takis for the services question.

Takis Spiliopoulos

Well, Chandra, maybe on the geographies, we've seen in Q1 with the exception of APAC, we have seen in all of the regions, so Americas, Europe, Middle East and Africa, LATAM, we have seen some deals, which were in a late stage able to convert to subscription. So it's not just one particular region.

On services, yes, we've discussed this in Q4 already and in some of the prior quarters, I mean, ultimately, we had seen some negative impact on 2021 service revenues. So this is what we have seen on the back of weaker license the prior year. I think what we have also seen is the partner ecosystem expanding in the last 2 years quite dramatically with an increased number of projects delivered by partners. So there is an underlying, you know, trend that partners are doing more and more. And now there are some projects which are, call it, key transformation deals when the customer wants involvement from Temenos along with the partners, which obviously has an impact on costs and this is what we're seeing.

However, there is, call it light at the end of the tunnel, because this is just a number of projects and while we still have some negative impact on Q2 on the top line, we clearly should return to growth in the second half and also grow services for the full year. And then you would also see the margin improving. So this is a transition in the business model. I think it will make Temenos even more scalable. Once done in the second half, but I think it's necessary. Also, at the same time, we have been investing given we see a lot more business also for subscription coming up, clearly in our customer success operations to be there up with the best. So 2 things in parallel, but I think we're getting towards the end and H2 should be better.

Chandra Sriraman
Great. Thanks and congrats on a very good start to the move to subscriptions.

Operator
The next question comes from the line of Varun Rajwanshi with JP Morgan. Please go ahead.

Varun Rajwanshi
Hi, Max and Takis. 3 short questions from my side. Firstly, on the European business, can you talk a bit about your pipeline here? And when do you expect to get back to 2019 levels from a total software licensing revenue perspective?

Second, on competition, you highlighted strong level of signings for front office, you know, beating both incumbents and challengers in the space. What about core banking? Can you talk a bit about the traction for core banking deals in the US and Europe? And how you are faring against neo core banking vendors? And lastly, Takis, on capital allocation, you know, what are your thoughts on share buyback at these levels or do you see further M&A opportunities in the near term? Thanks.

Max Chuard

Hi, let me take the other first 2 questions. Listen, as I mentioned, the... we had also a very encouraging start to the year in Europe. So I'm pleased with the growth we've seen and Europe was up 25%, if you look at it from a total software licensing. Clearly, the... I would say, the environment we see... I clearly made the point on the Wealth Management side that was very strong in Q1. We see more pipeline activity around wealth. However, we see as well on any type of segments on Transact and also on the front office. So there is definitely activity being with large banks, with some of our Tier 1, Tier 2 customers and also with some neo and challenger banks. That's why you know, the fact that today such a large part of our business has moved to SaaS with new entrants.

If you look at the bookings, already, we are up on the '19 numbers on total bookings in Europe. Clearly, when you just look at the total software licensing, you don't get the full benefit of some of the revenues which will be booked in the future. But already from a bookings point of view, we are up on 2019, which reflects how the market and our business has adapted to a very, I would say, exciting and growing non-incumbent activity that we see in the market. But I would say we see both with neo banks, with Fintechs, challenger banks activity in Europe that will go mainly with our SaaS solution, and we see are more traditional customers that are moving to... on the traditional subscription on-premise business and from large Tier 1, Tier 2 banks to the midsized banks. So, that, I would say, the... specifically on Europe.

Now you asked also about core banking, the traction we had with core banking in the US and in Europe. Core banking continues to be, I would say, the majority of what we sell. So it is still you know, the landmark product that we are offering. As we know, we've moved into a composable banking platform. So we've got component, we've got packaged solutions. And this continues to be growing at double-digit, and we do expect double-digit growth from our core banking solutions. At the same time, our front office solution is also performing well. And as I mentioned, we signed early in Q2 a very exciting Tier 1 bank that have selected our front office solution for 20 countries across the globe. So also very exciting on what's happening with our front-end solution.

Maybe Takis you want to take?

Takis Spiliopoulos

Yes. Hi, Varun, on capital allocation, clearly, we have been pretty absent from the M&A space in the last 2 years.

As you have seen, we've delivered from the Kony acquisition in 2 years, now down to 1.7 times, which we feel, you know, comfortable right now. It's a very volatile environment and there has been some indications that eventually what has happened or what is happening in public market valuations will eventually make its way to the private market space, which obviously would then enable us to again take closer look at assets which have been asking for very, very extremely high valuation. So there is... there could be an opportunity in the second half, which we need to keep in mind and we need to... we want to keep our powder dry. At the same level, you can expect that the board will, at these current levels, probably strongly consider also different methods of deploying, you know, the capital, one of them being a share buyback.

Varun Rajwanshi

Thanks for your comments. Max, just a short follow-up, any thoughts on competition against challenger core banking vendors such as Thought Machine, Mambu and so on?

Max Chuard

Yes, sure. Listen, you know, I kind of addressed a little bit in my presentation about the strength of our platform compared to the neo vendors. But I think where we differentiate, we are cloud-native now, we are multi-cloud. So we've got all the attributes of a highly innovative platform. Clearly, where we differentiate is, I would say, on the scalability of our solution. So the scalability of... and its proven scalability of being able to process millions of transactions. The whole of PayPal, Buy-Now-Pay-Later is done on our platform, and we process millions and millions of transactions, more than 20 million loans is done. So it is a proven high volume platform. It is also proven in many, many countries. We operate in 150 countries. We've got a breadth of functionality. So it is extremely rich. So we know banking extremely well. We've been doing that for almost 30 years. So we cover the whole spectrum of banking compared to those neo vendors, which have smaller, I would say a very focused mission on what they can cover. So we can offer global expansion for any fintech or any of those banks that want to go to SaaS.

So I would say those are some of the main, I would say, attributes. We also are proven with many, many references across the world in every country in every type of market we will have references of live customers that operates our system with a very strong localization of the platform to fit the local requirements. Those are massive benefits and that's why, in fact, our win rates are higher with neo vendors than with the traditional ones. So it shows really the strength of the offering. Clearly, we don't compete in every deal either. So for us, you know, there is a segment of the market which will be too small for us to make it profitable as a business.

So there are some deals where we will not engage, because those are not even banks, you know, they are financial institutions, which are extremely small. And so, we are also selective in which part of the market we engage, but when we engage our win rates are very strong.

Varun Rajwanshi
Thank you, Max.

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

Josh Levin
Hi, good evening. I have 2 questions. You said that most on-prem clients will move to subscription pricing. For the minority of clients who still want on-prem and don't want subscription pricing, what is the rationale for preferring the traditional on-prem model?

And then the second question is, last year, there were some employee retention issues. Can you update us on where things stand in terms of employee turnover, and how is the market for talent evolving? Thank you.

Max Chuard
Okay. So let me start with the second one. Listen, I think the whole industry post-COVID have seen quite an increase in attrition in... from an employee perspective. Actually, things have stabilized and are going... are reducing. So I think that's very encouraging. The fact that we are coming... going back to a more normalized environment, and we are going back to offices and we are, again, you know, engaging in person, I think that plays a very important role, as well as, the cultural elements of Temenos, which is extremely important and our value system, we are able to be together. I think the fact that you know, people have been remote across the industry, this higher level of attrition. So things have clearly stabilized and are going down as well, so are reducing. So I would say this is positive from a talent of...

The second part of your question, we are able to attract talent. I think Temenos is a grand brand in what we do, and we've been able to attract very, very strong talent across the globe. That has not been, I would say, a challenge for us, because of our innovation, our leading position, we are able to bring talent onboard.

Takis Spiliopoulos

Hi, Josh, let me take the subscription question. And certainly, so far the feedback, aside from the deals are already in process or in a later stage and even some of those we have been able to convert, what we think and this is our base assumption in our partner deals. This is probably something which will stay on the traditional license model and maybe which we also want to be on a traditional license model. So on upfront, then you could imagine that maybe you have a bank which is far ahead in terms of their, you know, cost income ratios and also ROE targets, which will still go for the upfront CAPEX in any particular quarter or year. So this is why we believe there is going to be a ramp in our model where we say, okay, x percent will stay... x percent of our license revenue will stay in the traditional upfront model.

Now you have to think about that you know, we had a lot of demand from clients to do exactly the opposite, because there are companies out there which are simply not offering it anymore. So far, you know, we have not seen any type of client pushing back on that. But I think it's a fair... it's a reasonable, prudent assumption that maybe, I don't know, 10%, 15%, 20% of our license business will remain in the traditional model.

Josh Levin

Thank you.

Operator

The next question comes from the line of Knut Woller with Baader Bank. Please go ahead.

Knut Woller

Yes. Thank you, 2 questions. The first one, I think you expected to close a larger license deal in Europe in Q4. And I think you didn't close this deal. Has that deal been closed in Q1 '22? And the second question, just to get a better understanding about the topic wage inflation. Can you give us an update here regarding wage inflation in India and compare that to the rest of the group? Thank you.

Takis Spiliopoulos

Hi, Knut, I like the first question because it's a short answer, is yes. So that has closed that deal that we missed in Q4. And on wage inflation, the guidance of what we have modelled and you know, given you some help around 5% to 6% headwind from wage inflation this year. I think it's fair to say that in India, it's probably tracking a bit above that and the rest of the world rather a bit below that.

Knut Woller

Thank you. And just to get a target, just a quick follow-up on the European deal. I think you labelled it as larger deal. So is it fair to assume that the license contribution was at least 5 million?

Takis Spiliopoulos

Yes, you know, we labelled it as a larger deal, and it's reflected as a larger deal in there. So I can't be more specific, but I think it was... it came in as expected.

Knut Woller

Okay. Thank you.

Operator

The next question comes from the line of Mohammed Moawalla with Goldman Sachs. Please go ahead.

Mohammed Moawalla

Great. Thank you. Hi Max, hi Takis, 2 from me. Firstly, you talked about increasing the subscription licenses. Can you give us a sense of how that will increase in the mix, I know there is about 23% in Q1. How should we think of that kind of shift in the mix and the ramp? And just a follow-up on that, I saw in the press release that you had booked some subscription licenses in 2021. What was that, because my understanding was this only began in 2022.

And then secondly, on maintenance, what's driven the sequential decline in maintenance? Is there an increase in churn? And also, can you comment on pricing and how you think about pricing on maintenance? Is it CPI-linked, and have you already started to lift your prices? Thank you.

Takis Spiliopoulos

Hi, Mohammed, let me take those. On subscription, I think it's fair to say that you know, for the full year, if you take midpoint of our guidance, we would expect probably to end up with around 60% of our total license numbers, excluding SaaS to be subscription. Now on the phasing you know, between the quarters, we got it... we were too prudent or too conservative in Q1, maybe we'll end up at the same in the rest of the quarters. But maybe if you split... if you take 20-25 million of subscription in Q2 than 50 plus and then 100 plus, I think that's how we currently look at it.

Now, on the maintenance. Yes, let me take the maintenance first.

So maintenance, don't forget, you know, and we have not been giving the details anymore, because we don't want to adjust numbers or anything. What we still have... what we still have in Q1 and also in Q2. Remember from the HCL deal, there is a fade-off across most lines, mostly maintenance and SaaS. So all the business that is flowing away from our P&L, so that was the main reason for the sequential decline. So we had some impact in Q1. Q2 will be the last quarter seeing some impact. And then you will see the more traditional expected growth there.

Now on pricing for maintenance. Yes, with CPI, you know clearly, we have this linked in there. Now as you know, most of the maintenance contracts are invoiced in Q4. So we'll still have some impact... some positive impact this year. But clearly, it's smaller for the earlier quarters. So you see even a stronger impact in the next year.

And then finally, on the subscription. Yes, this is from... we booked that in the past already that was from the Akcelerant acquisition in the US, which was done in 2015. So you are seeing the 3 point something million that's all... it's a product loan origination, which we had acquired. So this is... this was always booked as subscription just showing it to make the numbers look like-for-like on... as a reasonable base.

Mohammed Moawalla
Got it. And if I could just squeeze in one more follow-up. Maybe, Max, you've talked about no sort of macro impact, if anything, kind of the environment improving. What is your view on visibility? Are you seeing this in the form of sort of sales cycles shifting? And given that you're sort of still running a largely kind of license revenue model. How do you think about sort of the second half in seasonality based on your pipeline at this stage? Thank you.

Max Chuard
Listen, Mohammed, you've followed the company for a while. And what we've seen over the years is a macro event. And impact on GDP growth have ultimately little impact on strategic structural decision on IT spend. And we can operate in good environment as you know, in less good environment from that perspective, because it is really at the core of... the future of... the banks or the institutions. And that's why, so far, obviously, what we've seen... we've not seen a change. We've seen pipeline developing as strongly. So we've not seen any impact, if you want, so far from the crisis and the macro events.

Now, what we've seen historically has been when shock happens to the system. Is it COVID?

Is it 2008 or 2009 financial crisis? When there is a shock, then we see these that are gets post for 6 months or 3 to 9 months and then they resume. But otherwise, we are able because of what we said being so mission critical core to... structurally to what the customers need not being too much impacted by macro events. So let's see, clearly, it's something that we would continue to monitor. But so far, we have not seen what we've seen is clearly the US, seem to be performing strongly. And we've seen in Europe, which has been the one most impacted by the pandemic clearly coming back, and that was great to see this in Q1 and we see really a quite significant activities, which give us the confidence that we will continue to see more from Europe in the following quarters.

Mohammed Moawalla

Got it. Thank you.

Operator

Today's last question comes from the line of Laurent Daure with Kepler Cheuvreux. Please go ahead.

Laurent Daure

Yes, thank you. Good evening, Max and Takis. I have a first question on your cost side in the first quarter. Was wondering what was driving the services costs moving up, while the R&D cost has been coming down from last year to the first quarter. My second question is on the SaaS, strong quarter, 33% growth thought to be big in your mix. Can you start to share with us a little bit more granularity, for example, mix between the growth coming from new clients and more volume and growth coming volumes, a bit of split between the regions between front and back. I think this would be quite useful.

And final point is your comment on your guidance, which does not include any price increase, but the wage inflation. So could you comment where you stand? And what is the most likely impact on the prices this year? Thank you.

Takis Spiliopoulos

Hi, Laurent, let me take those ones. First, on the services cost, this was as I answered before, clearly, on the one hand, some investments we have been doing in customer success... customer success operations impacting there the margin and the other was linked to still the transition or if you want, the partner model ecosystem in there. So that should improve sequentially as well, because most of the investments have been done. So there should be less of a negative impact, especially from Q3 onwards.

R&D, I think if you look... at the numbers especially on an IFRS basis, clearly, you know, there are changes in the individual quarters on the variable side, you know, especially also with events and travel, so nothing special, I would read into that. For this year, I think overall, clearly, the... on sales and marketing, we will have quite a bit of more costs in marketing. We talked about in-person events. We talked about you know, the run rate of our investments, we have been doing last year, more travel. R&D will also increase a bit, but clearly probably is less of an element there.

SaaS growth, yes, we're quite happy with that. We see now with also HCL being almost entirely gone or definitely gone back. By next quarter, we'll see a much stronger correlation with... between the ACV growth and then the SaaS revenue growth down the line. I think it's still the same. So we see the impact of the strong Transact growth we have seen last year now feeding through, you know, the SaaS revenue line and that's US, but also Europe, EMEA and APAC also picking up. We signed some very nice deals in APAC. So that will help as well also for Transact. I think we have seen now Infinity picking up the pace in Q1, so that will also feed through SaaS revenue growth going forward.

And then on price increases, yes, we have clearly a good visibility on wage inflation. So this is reflected on price increases when we have the list prices and we go to the clients, and clearly, the deals that are in flight is probably quite difficult to change pricing, but we would expect, you know, that at least those deals in pipeline maybe for Q3 or Q4 that you will be able... we should be able to have a positive impact from that. I think it's too early to quantify that.

Laurent Daure

Fair enough. Thank you.

Max Chuard

Thank you, everyone. And as I said, you know, I hope to see many of you at our TCF Event in London the 17th to 19th of May. Otherwise, I'm sure we'll be in contact. So thank you for your time. Bye now.

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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