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Temenos Group

Q3 2022 Results Conference Call and Live Webcast

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COMPANY REPRESENTATIVES

Max Chuard, Chief Executive Officer

Takis Spiliopoulos, Chief Financial Officer

PRESENTATION

Operator

Ladies and Gentlemen, welcome to the Temenos, Q3 2022 Results Conference Call and Live Webcast. I'm Moira, the Chorus Call operator. I would like to remind 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. 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. Thank you for joining today's call to run through our Q3 results. As always, the results presentation is available on our website. I will start with some introductory remarks and an overview of our business performance, and then Takis will run through the financials.

Starting with slide 7, I'm clearly disappointed with our performance this quarter, in particular around subscription license revenue. There were 2 main factors driving lower revenue in Q3. Firstly, our sales cycles are lengthening due to the current macro environment. Some banks are taking longer to assess investments and make buying decisions. And this is impacting some of the larger deals in our pipeline. And secondly, we had some sales execution issues, and number of deal did not close on time as expected.

On the positive side, we saw strong momentum on our SaaS revenue and ARR, growing 41% and 16% year-on-year, respectively. To address the issues from Q3, we are taking a number of measures.

Firstly, we are focusing on sales leadership and execution. We've asked our Chief Revenue Officer and our President of the America to leave the business with immediate effect, and have put in place an experienced leadership team with a track record of delivering. I appreciate that our CRO was only with the business for 7 months, but I was not happy with the way he was running the sales organization during that time. We already saw some weakness in Q2, but it still was early in his tenure.

He brought a lot of changes and complexities to the sales process in a short space of time, which ultimately did not work with the sales organization. Also, the cultural fit was not as good as we hoped. So I acted quickly to resolve these issues ahead of our largest quarter.

Going forward, Jean-Paul Mergeai will resume leadership for EMEA and APAC. He's one of our most experienced executive with a strong track record. And 2 of our Senior Executive, Colin Jarrett and Philip Barnett are now running US operation and sales respectively. Both have direct experience of our US operations, and Phil in particular, on some of our most strategic client relationships.

I've spent a lot of time with our senior sales leadership on the last 3 weeks, and we are all aligned and absolutely focused on delivering Q4, and continuing to build the pipeline. Also, I've reviewed our sales incentive targets to drive sales performance and retain our talented sales team. Lastly, we are also looking at our financial disclosure and communication to simplifying this. We've listened to feedback from shareholders, and we want to make it easier for you to analyze our financial performance.

Looking forward, we revised our full year '22 guidance and will give full year '23 and medium term targets in February 2023. Importantly, during the quarter, our pipeline did grow, and the deals that are delayed are still in the pipeline and expected to close, but with uncertainty over the timing. And in fact, in the first 20 days of October, we've already closed around 10 million of deals that slipped from Q3.

As you know, our partner strategy aims to help us scale faster. And as part of this, we've been pushing any customized development work for our clients to our partners, so we can focus on strategic R&D, leading to a decline in our customized development licenses in the last 12 months. Now, if we were to exclude the headwind from customized development licenses, our LTM total software licensing grew 11%, and we expect it to grow at circa 4% for the full year 2022.

Looking forward, we are targeting a continued acceleration of ARR growth in 2023, through growth in our SaaS business and the subscription transition. And we expect our locked-in SaaS revenue by yearend to contribute 10 percentage points of growth on our full year 2023 total software licensing. We never had this much visibility on growth from recurring revenues.

Turning to slide 8, as I said, some larger banks have become more conscious on the decision-making around IT investments which means sales cycles have lengthened.

We were also impacted by sales execution issues, which we've addressed with sales leadership change and our review of the sales process.

On the positive side, we had a relatively strong performance in the US, despite the macro outlook with a good level of signings across SaaS and license. Europe, in particular, was impacted by lower signings, as several large banks delayed the decision-making process. Our SaaS ACV was particularly strong in the quarter, as there were no visible impacts from macro on our SaaS customers.

Moving to slide 9, as you know, we introduced the 5 year subscription license model this year to replace term licenses, driven by clients demand for subscription pricing. This delivers a value uplift for Temenos in the range of 30% to 60% of the contract. Through the value uplift, our contract and cash breakeven is around 3 years to 4 years. That subscription model is accelerating our shift to a more recurring cash flow and more predictable model. ARR growth is expected to accelerate next year, driven by SaaS growth and the subscription transition. And we expect the subscription transition to be substantially completed by the end of 2023.

On slide 10, we delivered 18 million Dollars of SaaS ACV in the quarter. And this was... I have to say across new clients where we are expanding into new countries, and also additional volume consumption from some existing clients. We work with some of the largest and most successful fintechs and neobanks, some of which are experiencing very rapid growth in the business models and have amended to invest in the software stack.

Q3 SaaS revenue accelerated to 41% which is due to the strong ACV bookings in prior quarters. Bear in mind that there is roughly one quarter delay from signings a SaaS contract to revenue flowing into the P&L. And lastly, the US continues to be the largest contributor to ACV this year, and we've got a very strong position in cloud and SaaS in the US.

Turning to slide 11, ARR, a key metrics, grew 16% this quarter which was driven by both strong SaaS revenue and ACV, as well as, a subscription transition. We are now forecasting ARR to grow between 17% to 18% for the full year, and expect further acceleration in growth next year which will drive profit growth as ARR is highly profitable. Total bookings grew 4% this quarter and 13% year-to-date and this is due to the strong SaaS ACV which offset the weaker subscription bookings.

Moving to slide 12, we had, as I said, a relatively strong performance in the US this quarter across both license and SaaS. In fact, if y ou look at it over 5 years, we've doubled our business in North America in terms of total software licensing. And it's worth keeping in mind that the range of software that we sell in the US give us several levers of growth, whether that is front office, back office, end-to-end solution, payment funds or loan origination.

As part of our sales leadership review, we asked our President of the Americas to leave, and I've asked 2 of our most experienced executive to run the US business. That is Colin Jarrett that has been with Temenos since 2016 most recently as Chief Client Delivery Officer and he held multiple senior roles in the company, including running cloud operations and product delivery. And Philip Barnett who is one of our most experienced Sales and Business Development Executive and he is already responsible of many of our strategic client relationship, including in the US market.

Moving to slide 13, in Q3, we made a minority investment in Mbanq, a leading fintech in the US, providing embedded finance and BaaS to banks, credit unions and other sectors that want to rapidly launch their own banking services. We see massive potential in the BaaS market, as financial services are being embedded across so many businesses outside of traditional banking providers. So banking is truly happening everywhere.

Mbanq will leverage our scalable core banking capabilities to offer fast track solution to its client across industries. Our investment in Mbanq give us direct exposure to the BaaS market, in particular, in the US which is the largest market. And this means our technology can be sold to and used by a very wide range of fintech’s and brands across industries.

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

Takis Spiliopoulos

Thank you, Max. Moving to slide 15, I'll give you an overview of our financial performance. All figures are in constant currency unless otherwise stated. We signed 17 million of subscription licenses this quarter, significantly below our original expectation of around 50 million. Some of the delayed deals amounting to a total volume of 10 million have now signed in the first 3 weeks of Q4, reflecting those deals that were impacted by sales execution issues which we are now addressing, as Max has explained.

SaaS revenue was up 41%, continuing its growth trajectory and mitigating the impact on total software licensing which was down 17% in the quarter. Maintenance grew 4%, roughly in line with our expectations and total revenue was down 5% year-on-year.

The combined effect of lower subscription licenses and increased costs in services drove our EBIT down 54%, and our EBIT margin to 19.2%. We also saw a significant impact on our cash flow, both from the transition to subscription, as well as, the lower signings in the quarter.

Operating cash was 53 million, down 49% year-on-year, but we did maintain our cash conversion at 117%. Free cash flow was down 88% year-on-year and 17% in the last 12 months. DSOs ended the quarter at 112 days, up 2 day sequentially. We ended the quarter with 798 million of net debt and leverage stood at 2 times. I expect our leverage to remain at around this level for the full year.

Moving to slide 16, SaaS revenue was a bright spot in this quarter and we saw no visible impact from macro on decision-making by smaller banks and non-incumbents. Going forward, we expect most of the on-premise license deals in our pipeline to move to subscription. As we move through this transition period, our traditional term license will continue to show negative growth with higher growth rates in our subscription line.

Operating costs were up 27% this quarter mainly driven by higher service costs linked to partner led implementations, as I have already mentioned. I do expect higher services costs also in the fourth quarter, which we have already reflected in our revised EBIT guidance which we provided last... this should then mark the peak negative impact based on current implementation time lines. Then these costs should start trending down in 2023 as some of these implementations go-live in Q4. Lastly, we delivered 41 million of EBIT in the quarter and our EBIT margin declined 20 percentage points in constant currency. On an LTM basis, we have delivered 6% total software licensing growth largely driven by SaaS growth of 36%.

Next on slide 17, 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. I have already outlined the main impacts on revenue and cost this quarter.

In terms of FX, the significant strength of the Dollar had a negative impact on revenues while the weakening Euro and British pound generated some benefit on costs. Overall, we had a small positive impact at EBIT from FX this quarter.

On slide 18, net profit was down 59% in the quarter with lower financing costs more than offset by FX. EPS was also down 59% and we continue to guide for our 2022 tax rate of 18% to 20%.

On slide 19, our Q3 LTM cash conversion was at 117%, still 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 full year 2022.

Next, on slide 20, we show the key changes to the group liquidity over the quarter. We generated total operating cash of 35 million and ended the quarter with 73 million of cash on balance sheet and net borrowings of 798 million. Our leverage was at 2 times and I expect it to remain at around this level for the full year.

Now on slide 21, we revised our 2022 guidance metrics when we made the pre-announcement last week. These are non-IFRS and in constant currency. We are guiding for ARR growth of 17% to 18%, down from 18% to 20%. ARR growth is driven by the move to subscription and also from accelerating SaaS and maintenance growth. At this point in the year, most of our SaaS revenue growth is already locked-in given the one quarter delay between SaaS ACV recognized as SaaS revenue in the P&L.

We are guiding for 2022 total software licensing to be flat on 2021 and an EBIT decline of 25%. We still expect cash conversion to remain at over 100% of EBITDA into operating cash. We expect our free cash flow to decline around 50% due to the lower EBIT, the subscription transition and increased cash costs. Lastly, we expect the 2022 tax rate of between 18% to 20%.

Now, looking forward to 2023, we expect locked-in SaaS revenue by year-end to contribute around 10 percentage points of growth in 2023 to total software licensing. We will start the year with a significant majority of ARR locked-in through committed SaaS revenue, subscription and maintenance, so I would expect our ARR growth to further accelerate in 2023. This will also help drive our profitability growth in 2023. We will provide 2023 guidance and revised medium term targets in February.

On slide 22, I'd like to walk you through the various elements impacting our EBIT in 2022. SaaS and maintenance profit growth will have a positive impact, offset by the decline in subscription and term licenses, increased costs from post-COVID normalization, including a lot more travel and higher marketing costs. There will also be a headwind from the losses in our services business and an impact from investments we are making, in particular in our SaaS and cloud operation in sales and also from wage inflation.

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

Max Chuard

Thank you, Takis. And so in conclusion, on slide 24, Q3 was clearly a very disappointing quarter. And we've addressed the operational issues and I... and my whole team are totally focused on delivering Q4. But taking a step back, the fundamentals of our business and market opportunity have not changed. Yes, there are macro challenges, but banks have to invest in IT, and our market opportunity is massive. We have the best solution in the market to help banks achieve their business objectives. We are mission critical for them and we've got a long track record of delivering success.

We are well advanced in our transition to a SaaS and subscription model which will unlock further value. We already have nearly 600 million Dollars of ARR at the end of Q3, growing at 16% and this will accelerate even further next year. By the end of this year, I expect SaaS to be around 40% of our total software licensing and this will continue growing. In fact, we expect locked-in SaaS revenue by year-end to add 10 percentage points of growth to full year 2023 total software licensing. Never before have we been in this position. Our working revenue have reached a size and scale which give us such long term visibility on future growth.

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.

The first question is from Charlie Brennan from Jefferies. Please go ahead.

Charlie Brennan

Great. Thanks for taking my questions. I've got 2, if I can. The first is just your level of confidence. And I guess, the way in which you're thinking about planning for 2023, I know you're going to give more guidance in February. But can you say something about the philosophy and the approach you're taking to... 2023?

Are you thinking about building back more sustainably with more recurring revenue and a lower margin profile or are you thinking of trying to get back to 2021 levels of profitability as fast as you can?

And then secondly, you haven't said much about the remedial services work that you've been doing? Can you give us some indication of when it became apparent that you needed to put more cost in, and you refer to a number of implementations? Does this all relate to a similar problem at the heart of it or does it relate to multiple different problems at different clients? Thank you.

Max Chuard

Hi, Charlie, let me start with the first question. Listen, we did an in-depth review of the full pipeline for Q4. And obviously taking into account on how the environment has changed and reflecting these into a more prudent and conservative forecast for the balance of year. So on that basis, I feel confident about the delivery of Q4, and as I said, the full team and myself are totally focused on that.

Maybe Takis, you want to complement this... the first question otherwise the second one?

Takis Spiliopoulos

Yes. Hi, Charlie. So, I think on... if you look at '23, and given the investments we have been making, clearly the cost growth on '23 as you can imagine will be very low. We have also listened to the investors. We have listened to you know, the investor community that we should, you know, try to invest maybe ahead of the growth. And so this is what we have been doing now also the last quarter, and we're going to continue to do this in Q4. We don't know how this... how long this environment will last. But clearly we want to come out in a very strong position in '23 year and beyond.

So will there be some cost growth? Probably, yes. We still have inflation out there. But I think we have done a lot of the work. What does it mean for every growth, we're gonna provide details in 2023... for 2023 in February? Well, we've given some indication on what is happening to the recurring part, and if you... if you think about what we have put out as a, you know, kind of framework that ultimately the ARR growth should drive up to 75% of profit growth in the following year, you know, this is something which we could imagine. However, we refrained from giving precise guidance, given where we have come out just now the last 2 quarters. We don't want to make this mistake again. And there is uncertainty out there and we hope to have better visibility in February.

On the services, if you recall, ultimately we had started to talk about you know, that we need to support in our partners... in our new partner model, as we have mentioned already late last year and earlier this year. What we have done is we expanded our partner ecosystems quite a bit in the last 2 years. So we have seen an increasing number of projects delivered by partners, and this is clearly visible in our service revenue line, which has been you know, declining over the last quarters and has been a drag on total revenue growth, but it's still the right thing to do. However, some of these, you know, projects are called the transformation deals where customers prefer the involvement from Temenos on the one hand, along with partners. So this meant a dilution in the margin percentage from this project compared with those who are Temenos-only implements. So we have gone live or expect to go-live with most of these projects in the next few quarters and this explains a lot of the margin decline.

We have now taken substantial costs in Q3, in Q4. So Q3, if you look at the cost mix versus consensus of around 8 million to 9 million, that's due to the largest extent coming from partners. There has been a bit more travel, a bit more marketing, some SaaS investments, but the large part has been from that. And the same applies to you know, Q4. And we want to help partners get those projects over the finish line, which requires ample external you know, consultants and also own resources. So we basically pay for that without having, you know, the revenues, which are with a partner. So it's essential to have this project go-live to have those reference customers. So we decided, instead of facing this pain, let's call it this way, we're now accelerating the conclusion of those projects. Next to that, as we have been saying, we're making investments in governance and customer success enablement, which also overall has a negative impact on margin. But clearly, from 2023 onwards, you know, this will substantially improve. So it's not a new problem, these projects were known. We have been talking about. We have been taking a project-by-project approach. And now, we said, okay, it's important to have those life references. And we're doing the acceleration to get these projects live and take the hit in Q3 and Q4.

Charlie Brennan

Can you just be more clear? Is this just immaturity on behalf of your partners where they're not used to implementing Temenos technology or is this R&D that's been promised by either you or your partners and you're having to deliver on a product road map to get the projects over the line?

Operator

Ladies and Gentlemen, please hold the line. The connection with the speakers has been lost. The Conference will continue shortly. Thank you.

Takis Spiliopoulos

The strategic roadmap, you know, which were basically running internally and have the cost, the product cost that has nothing to do. But if you bring on a number of new partners and, you know, given the strategic relevance of those project and maybe you can say some of the partners were not mature enough, maybe the whole process was not mature enough. These are a lot of things. Maybe scoping was not on the right way. So you need to step in as Temenos, because if those projects were to fail, it would fall back on Temenos and we cannot afford this.

Charlie Brennan

Okay, perfect. Thank you.

Operator

The next question is from Josh Levin from Autonomous. Please go ahead.

Josh Levin

Hi, good evening. 2 questions. The first one, can you provide more detail on what the sales execution problems were, and what you mean by complexities which the former CRO added? And then there's been a lot of turnover in US sales leadership in recent years, I think this was the fourth or fifth US had to lease since 2018. What's going on and why is it so hard to find ahead of the US operations?

Max Chuard

Hi, Josh, I'll take those ones. Listen, the complexity that was put towards the sales force was on various items, on the... on some tooling, on some forecasting methodologies which the... our sales force were struggling to follow and to be able to get to a predictable assessment of what was the opportunity on the forecasting side. So it was various elements that he tried to bring to us as joint way to improve things probably on his side, but which clearly make it... made it worse to the sales team and to the ability to properly forecast the business. And they were quite sure and you know, I'm not going to go into detail there. But again, I think my point here is, I took that difficult decision because I wanted to protect Q4. Q4 is the largest quarter of the year and hence I needed to ensure that we can operate effectively going into Q4.

Regarding the turnover, it's true that we've seen change in the leadership in the US. It is clearly a very strategic market for us. So there is a lot of pressure on those leaders. I'm pleased that, you know, even through that volatility of leadership, we've been able to double our business in the US during that period of time. Listen, the... it is a very specific market where we operate.

So what we sell is mission-critical and (unintelligible) it is difficult to find the right profile. And what we've been able to do successfully internationally has been to grow, if you want, our leaders, to bring leaders from outside of our... or internally and to grow them into the job. In the US, probably we've got less knowledge. And that's why we've been going outside to try to bring someone into it, and that has been more challenging.

Now with Colin and Philip, which both of them have been with us and understand our market, understand the US also very well. I'm comfortable that you know, they'll be able to take care of it. Now this is still not a long-term solution. So I will need to find ultimately a leader there and we will get it right, you know. This is... so in the meantime, what happened is I've spent personally a lot of my time, all the senior team of Temenos have spent time in the US to ensure that we bring that continuity that has failed through the different leadership change that we've seen.

Josh Levin

Thank you.

Operator

The next question is from Laurent Daure from Kepler Cheuvreux. Please go ahead.

Laurent Daure

Yes. Thank you. Good evening, Gentlemen. First question is on the assumption you have taken for the fourth quarter. You said you'll be more cautious than in the past. I know you had 2 important deals that slipped, I think one was in Europe and one was in the US with the Top 20 banks, supposed to be closed in H2. What are the assumptions you have taken especially on those 2 deals?

And my second question is... I'm sorry to come back on the services cost, but I’m still struggling a little bit to understand 6 months out. How are you gonna solve this issue, because your services costs have been up, I think, 5 million Dollars or so... or is it extra people that you have to put in the team? And what are you going to do with them given that I don't think the services revenue are gonna go through the roof next year? Thank you.

Max Chuard

Hi, Laurent. Listen, for your first question, we did not talk specifically about, you know, the deals. I would say it's much more broadly where we've assessed our deal pipeline for Q4 and took a conservative and I would say, a much more conscious approach on what we believe we will close.

So we did not... it's not about commenting of which of those deal will close or not close. The way we are forecasting for Q4 is taking into account an environment that, unfortunately, has worsened and where we see banks, especially larger banks, taking longer, challenging more the process to closing. So this is what we've done and this is how we came with the new guidance for the total software-licensing for the year.

Takis, I'll leave you the second part of the question.

Takis Spiliopoulos

Yes, hi Laurent. Sorry, it was a bit un-precise. So clearly, this additional service cost, you know, there is no way you can hire these people and put onto your... onto basically... onto your roster. So these are all external people which we need and they are very expensive, which we need for the duration of these few months. The cost will be borne by us, not a partner and, of course, not the client. So this additional amount if you look at the full year number of 15 million to 20 million, that's all us. So once those projects you know, are concluded and live, this will be not a cost borne by Temenos anymore. So this is why you will see the services costs evolve in a much more favourable way. So we're not adding internal people.

Laurent Daure

So basically, it's freelancers and contractors, right?

Takis Spiliopoulos

Correct. Yes, I mean, as you know, we have a large network. And then sometimes, you know, you have stronger partners. But clearly, these are, I mean, we're talking here about a triple-digit number of people across those projects, yes.

Laurent Daure

And what can make... can you make it... make us more comfortable that the contract you are signing right now will not have the same problem a year or a year and half from now?

Takis Spiliopoulos

So I mean, as Max explained, as we do basically for you know, signings and the pipeline, clearly, we have taken a very thorough look across all implementation projects, you know, whether it's run by Temenos or whether it's run by partners or you know, as the ones we mentioned, where we have to help them. So clearly, again, this... let's say, prudent approach has been also something we have implemented in the services model.

Now, why should this not continue next year? Clearly, we see those projects you know, are very, very much progressed. So instead of dragging those, and, I guess, it's also in the interest of clients, instead of dragging those much longer, we have decided to take the pain. Again, the life reference is much more important. And given the way this year looks, I think it was the right thing to do to pull these additional costs, which otherwise will probably have been spread over the next quarters to pull this forward.

Max Chuard

And Laurent, we've put in place a governance in place to ensure that this is not... those things are not happening again. In fact, they are not happening. So now, we are living with a backlog of projects that needs to come to a conclusion. So if not... this is not unfortunately something new. We knew that, we had to go through, and hence what we said is let's accelerate this so that we start 2023 on the fresh on that side. But we've not seen, since we've put the government in place and how we engage on new sales, not to allow some contractual engagement that could be costly for us in the future. So that we've protected now.

Laurent Daure

Okay. Thank you very much. Very clear.

Operator

Next question is from Justin Forsythe from Credit Suisse. Please go ahead.

Justin Forsythe

Hello. Thank you so much for the time and appreciate the presentation here. A couple from me, if you don't mind. I wanted to hit on the sales cycle item again. Sorry to harp on this. But... so you mentioned a lot about that, is that due to Temenos-specific issues or is that macro-related issues? Is it a combination of the 2? And what is kind of... yes, what is kind of driving that? And are there certain types of banks? Is it the larger Tier 1 or Tier 2 banks? Hence, maybe some of the larger deals slipping? Is it smaller banks who don't have the budget necessarily or need to delay decision-making to weather the economic storm they foresee coming?

And again, I wanted to ask a question around the sales process. I guess, you know, you talked a little bit about the specifics, it sounded like there were some stuff around forecasting there. So what happens to the sales process now? Do you go back and you just flip to the prior status quo? Does that drive any confusion amongst the sales force, et cetera?

And on that, with the lack of continuous leadership, especially in an organization, is there any issues you've seen with regards to retention of sales staff or anything like that you can call out? And also just on the Forrester Wave report, it seems like that's really impressive, you know, what was going on there? Does that help at all when you're going into these conversations to point to reports like that? Thank you very much, appreciated.

Max Chuard

Hi Justin. Yes, quite a few questions here. So I'll try to address all of them and/or most of them, and if I missed one, Takis, you jump in. Listen, first, what I said the... in the quarter, what we saw was 2 elements. First, clearly the macro environment which worsened and that had an impact specifically on Q3, and also we've taken now a more, I would say, a cautious view for Q4. The macro-element I would say, was broadly broad-based and probably less impacted in the US and probably more impacted to some larger banks, if I were to give a bit of a flavor here. That's, I would say, the first thing that we saw. The type of banks probably, as I said, probably some larger to midsized banks. As we discussed, our SaaS, (IR), fintechs, neobanks, that business was quite on... quite on-track. We've not seen much impact on those types of customers.

The second part of the short haul in Q3 has been linked to sales execution, as I said. Probably the complexity of the forecasting has had an impact there. Our ability to forecast, if you want, has always been very good. We've not had in the past issues on forecasting the deals. Clearly, the market can be volatile at times and you know, sometimes quarter can be also volatile. But our ability to forecast was... has always been very good. What Eric tried to do brought more, I would say, confusion within the sales organization. And ultimately, we couldn't read it, as well as, we wanted. So I think that's... that has been a part.

Now, on the sales leadership side, as I said, we've been able to bring new leaders from various organizations, smaller ones, bigger ones, and grow them very nicely. And if you look at my sales leader, some have been with us for many, many years. And some have been with us for the last few years and you know, are very successful. And that we are able to... and we offer that, I would say, a company that people... at Temenos, there is a strong culture and we are very proud of our culture. And either you love it and you stay for a very long period of your life or you don't and within 6 months or 12 months, you move on. And some of the more senior leaders that we brought into it, I think we probably need to spend more time when bringing them on-board on the cultural element of this. I'm also... I've also reviewed, as I said, the different targets and to ensure that the salesforce is fully incentivized to deliver strong performance in Q4.

So I've looked at it in quite some level of details and also assessing any specific compensation that is required to ensure that we keep our talent in place.

Finally, regarding the Forrester Report. Yes, it's great, and you know, that's back to my closing remarks. Temenos remains you know, the leader in that market and it is, again and again, proven by independent research like Forrester's but many others that shows how our leadership in that market, both from a very rich functionality and very advanced technology means that we are top of those leagues. So I hope, I've covered your points, and thank you for that.

Justin Forsythe
Thank you so much Max. Just a brief follow-up there, I mean, you mentioned in your remarks their strength in SaaS and you gave that 10% of TSL guidance and that certainly is helpful. I guess, I think the numbers imply potentially a little bit of a deceleration, looking on a year-over-year basis. Is that just a minimum, and did the sales issues, was that impacted at all by these macro issues? And is that a bit of the driver of that deceleration? And sorry, I will go back in the queue if I have anymore. Thank you very much.

Max Chuard
No, Justin it's a good question. So maybe it's good that you ask. Maybe it was not clear enough. That 10 percentage points of growth on TSL next year is what will be locked-in at the end of the year. So this is you know, from our SaaS and from the ACV that we would have signed in the year. It does not take into account any new ACV in 2023. And obviously, as you've seen, we've been growing ACV at more than 30% over the year. So obviously, we will expect contribution of ACV in 2023. I just wanted to make a statement that the fact that today, 40% of our SaaS... of our TSL come from SaaS, we've reached to a point of scale that the growth that we see on SaaS will have a significant impact next year and the years to come on our TSL growth. And I think that's a very important point. So my comment on the 10 percentage points is with what is already locked-in at the end of the year without incremental growth.

Justin Forsythe
Got it. Thank you so much.

Operator
The next question is from Michael Briest from UBS. Please go ahead.

Michael Briest

Yes, thank you. 2 hopefully short ones from me. Just on the customized development licenses, you called them out. Can you give us a sense of how big as a percentage of the license fees they are today? And I presume as you move to subscription and SaaS, the expectation is today and always was that, that would go to zero? That's the first one.

And then the second one, just on total revenue guidance, why have you not given that, given maintenance is predictable, you've given a license number or a total software number and we're 2 months from the year-end on services. Can you maybe talk about the variability on services that means that you haven't given that guidance? Thanks.

Takis Spiliopoulos

Hi, Michael. Let me take the second one. We didn't want to provide a lot more KPIs than we had already before. So clearly, let me go through the main ones. The SaaS growth in Q4, clearly, we have strong visibility on this one. So that would be very close to what we have seen in Q3. If you look at maintenance growth, you're right. So again, it should be 4% to 5% for Q4, which would get us to around 4% for the full year.

In services, you saw that it grew 3% in Q3, so clearly a return to positive growth. And this should also continue at a similar rate in Q4. And this ultimately will get you to a total revenue growth of around, whatever, 1%, 2% in constant currency. So this is not... we simply didn't want to provide all additional details. So the visibility, as you can imagine, on those that... you're right, is correct.

The customized local development and you probably have figured out the numbers yourself since we have given you know, the growth impact. In terms of percentage, now clearly, it's probably not the right quarter to look at what the percentage is. But clearly, it has been, as we had said in the past, anywhere, 10%, 15% of the TSL. So you can imagine that this will go down substantially, yes. For next year, there will be always a ramp which will stay with Temenos. I think we'll be at this kind of run rate at the end of Q4. So we would not expect any large headwind from this in 2023. So it will not go to zero, but clearly, it will not have the kind of impact we have seen over the last 12 months or actually if you look at the numbers, the last 24 months and the last 36 months. But we heard you, we didn't want to provide even more adjusted numbers. This is just to provide more transparency that we have given that and to show the strength of the business, the underlying strength, which we think at 11% in the last 12 months is quite respectable.

Max Chuard

And I think we also did that, Michael, because... in fact, it's now 3 years that there is significant headwinds on that customization line. And on purpose, we didn't go into that. But this time, we felt to give you know, an underlying because it has (unintelligible). So if you want... it's now 3 years that it is declining to a level which is today very immaterial, if you want in that respect. And hence, it will not move much. So it's not an headwind anymore for next year. And so, it gives kind of a good base going forward.

Michael Briest

Okay. Appreciate it. So it's declined to around 10% to 15%?

Takis Spiliopoulos

No, Michael, it's actually even below that.

Michael Briest

Okay. Thank you.

Operator

The next question is from Mohammed Moawalla from Goldman Sachs. Please go ahead.

Mohammed Moawalla

Great. Thank you. Hi, Max, hi Takis. I had a couple as well. Firstly, just you talked a lot about trying to bring kind of... and deliver Q4. But do you not believe you need to make more kind of structural changes in your kind of go-to-market, because as you've said, you've seen these sales execution issues happen for quite a while. Would you even go far as considering to exit the US market and focus on your home market like the... like Europe? And more broadly, you said that there's sales execution issues, there's a macro issue. Do you believe that there is a competitive issue as well? How have your kind of win rates fared against some of the more cloud-native competitors? So I'd be curious to understand that.

Secondly, as we think about the cost base evolution into next year, there's obviously the sort of services margin you expect to improve kind of sometime in the first half. But, you know, some of the higher OPEX, the cost of retaining people, do you feel that you know, the next year is a year where EBIT could be... could still be down given the additional investments or do you feel that... do you see a scenario where you can still deliver some modest EBIT growth? So I'm curious to get your perspective on that? Thank you.

Max Chuard

Hi Mohammed, thank you I'll take the first one. Listen, Temenos remain extremely competitive. Let's be very clear, and, you know, I was pleased to get the question before about the first report where it shows again how Temenos lead this market. So we are extremely competitive. And as you know, we call it a winning combination, which is unique, because we are the only one to have the richness of optionality and at the same time, the modern technology, cloud-native technology that when you put them together, no one has this in the market. Now, I'm not saying that there are no competitors and you know, competition is good as well. Obviously, we've got the incumbents in the US, and then we've got some more services type of companies. Is it like Infosys that we see more internationally. We saw some more cloud-based competitors like the Mongo's or the (unintelligible) machine. We compete very effectively. And we are the dominant player in that market. Let's be very clear about that.

The US, you know, I'm a bit surprised about your question about the US, because the US has been a market where we had a lot of successes. Clearly, there's so much more we can do, because it is a huge market and still, penetration is limited. But as I've shown on the slide, over the last 4 years, we've doubled our business in the US. And I think we are about to reach next milestone in the US, as I mentioned, of about to win Top 20 bank in the US. So I think we've had commerce, we've had Paypal, and we've got this next milestone in front of us. So listen, the US is highly strategic and we remain committed to continue to grow that market.

And finally, so I don't see a need for structural change. Yes, we brought someone from the outside. He came up with different methodologies than the one that we have used to. The one that we've been using works very well. So I think we were not in need of those changes, those complexities. What we want is to be competing, to be winning the deals. The environment obviously is more difficult. I think that is the same for everyone. Since the summer, we've seen a significant change on some of our banks taking a more cautionary approach.

Takis Spiliopoulos

Hi, Mohammed. Let me take the 2023 cost base without giving precise guidance. But if you look at 2 elements which will definitely have a very strong impact on EBIT growth for next year. One is, as you mentioned, you know, the services line. So clearly those you know, partner implementation will come to an end. So we expect... or we have the visibility on a pretty considerable improvement in our services P&L, so independent of what's happening on macro.

And the second one is, as we mentioned, this locked-in SaaS revenue growth. Let's assume, take 60% margin on this one. So the results of locked-in profit growth from that and on top. You will also have maintenance growth, which is basically almost 100%. So that's basically a lot of profit growth, which we have visibility on. And from that, yes, clearly, there will be also wage inflation, which we have to bake in the investments we have done on the run rate. But putting that altogether, I will be very surprised if we don't grow profit next year.

Mohammed Moawalla

Okay, got it. Thank you.

Operator

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

Michael Foeth

Yes. Thank you for taking my question. Actually, 2 of them, I was just wondering the people that you promoted to take care of the US operations and EMEA as well, I mean who will do their job? Do you have any people to succeed them unless it's only for a very short period of time?

And the second question would be in terms of governance. Now, you had obviously one person coming in from the outside and doing quite a bit of damage. And I was wondering how that's possible without any oversight from senior management. So what is the governance that you now have in place to avoid such issues in the future? And can you give us any confidence on that, please?

Max Chuard

Hi, Michael, it's Max. So listen, the 2 leaders that will move to the US. One of them, as I said, Phil still was looking after the strategic accounts and some of his most strategic accounts that we want to close this year, and one of them is Top 20 bank is in the US. So if you want already, he was spending a lot of time in the US and he has built also a team looking after those strategic accounts. So there is quite a nice setup. So it will be, I would say, quite straightforward for him to take this on. And on the operations side, Colin has a global team that operates on a regional basis. So there is infrastructure in place already. So I think we are fine then. What I've asked is Jean-Paul Mergeai, who is our leader for what we call international, which is EMEA and Asia Pac, that basically when Eric came, Eric put him a little bit on the side. I've asked him now to resume his leadership on that part. So we are up and running immediately. So that is already done.

Listen, regarding the governance point, I clearly understand the question now. You bring on-board someone to run your sales organization. You need to give him some space you know, otherwise, he cannot do his job. And so, this is what happened in the last... in the 6 months. We gave him some space. Clearly, we were not expecting what happened here. But at the same time, we took very decisive action quickly. And I think we need to revisit some of our recruitment process for when we bring very senior people from the outside at the C-level type of position. And there is a cultural element also, which we need to take more into account going forward. But on the positive side, we've been able to grow and to bring new people from the outside at more middle management, so... and to successfully grow those people. And this is where we've been very successful on bringing new leaders to the company.

Michael Foeth

Thank you.

Operator

The next question is from Frederic Boulan from Bank of America. Please go ahead.

Frederic Boulan

Hi, good evening. One question from me. At a high level, you mentioned deals where you've seen delays, but you think they're still expected to close. So does this mean we should not foresee in the long run any deviation to your long term framework as it's just merely some difference in deals that will actually be signed in a couple of quarters or on the contrary, considering some of the execution issues you're facing or any... but on a lower demand from upside from banks, that's precluding you from confirming your kind of long-term ambitions at this stage?

Takis Spiliopoulos

Hi, Fred, thanks for the question. Clearly, you know, we're not gonna go and look at forecasting individual deals when they will close. The way we look at it now or have been is... there is a portfolio of deals which we have in the pipeline and we're going to... we're constantly qualifying. We did that before and now it's, as Max mentioned, back to the old model. So clearly, I mean, we're gonna look at this in February. We have to take a view what's going to be the impact on individual years from macro uncertainty. It's probably a different world today and will be a different world in February than... in February '23, if compared to what it was in February '21 and February '22. So we are... we're going to take this all into account. But clearly, we expect all those deals to eventually close.

Frederic Boulan

Okay, thank you.

Operator

Next question is from Orson Rout from Barclays. Please go ahead.

Orson Rout

Hi, thanks for taking my question. Maybe just one from me on Europe, specifically, which was, of course, by far the worst performing region. I was just wondering, I mean part of that, I'm sure, is macro. But can you perhaps explain whether some of the sales execution problems were worse in Europe versus other regions or if there are certain other factors that you're seeing in Europe, which you aren't seeing elsewhere, for example, a bit more competitive pressure in Europe versus, say, the US? That would be helpful to just get an idea. Thank you.

Max Chuard

Listen, I would... Europe is our home market. So that's where we've got many, many references. So I would say we are extremely competitive in Europe. So we don't have a competitive positioning in Europe as such. Europe is probably where we've got our largest customers. And hence Europe has been more impacted by some of large banks that took longer to... or decided to postpone some decisions. So I think Europe probably has been, I would say, the market where we've had most impact from the macro element. We had some execution issues as well, but I will say those were kind of broad-based. So I wouldn't be... I wouldn't point it towards Europe. But yes, macro environment was probably... had clearly an impact in Europe because of our concentration of some larger banks.

Orson Rout

Thank you.

Operator

There are no more questions at this time.

Max Chuard

Thank you, everyone, for taking the time to join us this evening and speak to all of you very soon. Thank you.

Operator

Ladies and Gentlemen, the Conference is now over. Thank you for choosing Chorus Call, and thank you for participating in the Conference. You may now disconnect your lines. Goodbye.

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