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Temenos Group

Q3 2023 Results Conference Call and Live Webcast

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COMPANY REPRESENTATIVES

Andreas Andreades, Chief Executive Officer
Panagiotis Spiliopoulos, Chief Financial Officer
Thibault de Tersant, Non-Executive Chairman
Adam Snyder, Head of Investor Relations

PRESENTATION

Operator

Ladies and Gentlemen, welcome to the Temenos Q3 2023 Results Conference Call and Live Webcast. I am Sasha, 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 question at any time by pressing * and 1 on your telephone. For operator assistance, please press * and 0. The Conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to handover to Adam Snyder, Head of Investor Relations. Please go ahead, Sir.

Adam Snyder

Thank you very much, and thank you all for joining us today. Before we discuss the results, I would first like to introduce Thibault de Tersant, our Non-Executive Chairman who will be making some introductory remarks. Thibault, please go ahead.

Thibault de Tersant

Yes, thank you, Adam, and thank you all for joining the call today. Before Andreas and Takis run through the quarterly results, I wanted to briefly join the call to provide an update on the January announcement around the CEO succession. As you may be aware, I am leading a Board Committee comprising Independent Directors to find our next CEO, and we have retained a leading Executive Search Firm to assist us with this. Firstly, I feel it is important to state that I am delighted with the progress of the business in the last 12 months. The business has continued to perform strongly, and the Board is fully supportive of the company's strategy, which the management team is executing well.

Regarding the CEO search, also we are pleased with the quality of candidates we are evaluating. We also appreciate that it is a critical decision, and we also want to ensure a seamless succession for the benefit of all stakeholders. Since we cannot control all elements of the timing of this appointment, the Board has therefore resolved to extend the period during which Andreas Andreades will maintain his duties as CEO from the end of 2023 until a new CEO is appointed.

This is to provide stability for the transition to take the company forward in its next stage of growth. We are focused on recruiting the best possible successor to lead the business, with the right mix of skills to deliver on our growth plans and I'm very pleased that Andreas is willing to continue as CEO until his successor is appointed. Thank you, and I am of course available to discuss this and any other topic with our shareholders. Please, do get in touch with our Investor Relations team if you would like to follow-up on this.

I will now hand over to Andreas to continue the call. Andreas...

Andreas Andreades
Thank you, Thibault. Good evening, good afternoon, welcome to our Q3 results call. I'd like to thank you for joining the call today. As usual, I will first talk through our performance, the market environment and some of the highlights from the quarter before handing over to Takis to run through the financials.

Looking first at our performance in Q3, we continued to build on our strong first half performance, with good momentum across our KPIs. The sales environment has been stable for 4 quarters now, and while the core banking market is clearly growing, some banks are still cautious around IT spend. We continue to see positive development in our pipeline through the quarter, and there are a number of large deals that are progressing very well. Our ARR continues to grow very well, up 15% to reach USD 687 million at the end of Q3, which is over 80% of our product revenue.

We are making excellent progress on our transition to a recurring revenue business which is being driven largely by the growing demand for SaaS as well as Cloud across our client base. It's important to remember that it is not just our SaaS revenue that is benefiting from this trend, but also a significant portion of our subscription revenue and the associated maintenance that is also directly linked to our software being implemented in the line and Cloud environments by our clients themselves.

We are making great progress on our subscription transition and expect subscriptions to make up over 70% of our subscription and term license mix for FY '23, delivering on our targeted value uplift, including for renewals. We now expect renewals to move to subscription or SaaS as standard going forward. Combining this with our SaaS revenue which grew 23% in Q3, overall our total software licensing grew a strong 25% admittedly of the low base.

We also saw an acceleration in our maintenance growth rate to 6%. This was driven by a few factors including healthy subscription signings, the value uplift we are achieving on renewals as well as contractual CPI increases that we have in our recurring revenue contracts. Churn continues to be best-in-class. The acceleration in our maintenance revenue is the strongest validation of the quality and the health of our licensing business, and I'm particularly pleased about this. This contributed to our product revenue growth of 14% in the quarter. We continue to maintain good cost control while focusing on investments in our product, with product cost up 7% in the quarter and we delivered excellent EBIT growth as a result of 44% and generated 28 million of free cash flow.

So, to put our performance in context, our total software license growth is 12% in the 9 months to the end of September, and for the last 12 months it is a growth of 6%, and maintenance revenue is accelerating to 6% growth. Our drive towards a recurring revenue model with strong value creation in our subscription and SaaS business, as well as excellent P&L and cash flow leverage is now well advanced, and more importantly, we have by now largely restored the margin investment we made in the last 3 years, as SaaS revenues accelerated and are close to restoring the associated cash flow investment as well as that from the shift to subscription.

Therefore with this strong performance and the visibility we have for the balance of the year, we've raised our full year guidance for ARR, EBIT and EPS. We now expect ARR to grow 13% to 15%, EBIT growth of at least 8% and EPS growth of at least 7%. We have reconfirmed our other guidance metrics.

Now, clearly demand for SaaS and Cloud are a key driver of our performance, and therefore our greatest focus in terms of R&D and innovation. We've proven our Cloud native capabilities many times, benchmarking ourselves rigorously against industry standards, and going above and beyond this to deliver a fully cloud native platform for our clients. Our engagements with leading Tier 1 banks that are selecting us as they have chosen core banking rental, implementing native architectures on any cloud including Azure, AWS as well as IBM is the best validation of this. As a result, throughout 2023, we've extended our lead against our competitors both traditional and non-traditional.

I will say again that our strategy is simple. We offer a fully composable platform to our larger clients, and fully packaged easy to implement point services delivered by SaaS to the rest of the market. This is gaining traction, it's increasingly successful.

Now, looking at the performance across regions, we had another good performance in the Americas with incremental consumption from the SaaS client base, sales into existing customers as well as new logos. During Q3, we made a step change in sales capabilities in North America, building a seasoned team of core banking experts, clearly attracted by our success, our superior technology as well as our leadership vision for the US market. I believe that our sales capability in North America is today at its best since the inception of Temenos.

We saw an acceleration in Europe with strong sales execution and improving market conditions. We also signed several new logos and had a contribution from the wealth deal we signed in Q1, as well as benefiting from value uplift on renewals. The only other point I would note is that we have not seen any impact from the evolving situation in the Middle East, and will continue to monitor this close. We also had a good level of contribution from Tier 1 and 2s at 42% in the quarter, and nearly 50% of total software licensing over the last 12 months, which despite the pre-pandemic levels, and is in line with our expected run rate.

Now, looking at the Services business, we had sequential growth in revenue and our Services business have been profitable every quarter this year. Our aim is to continue this trend of profitable growth going forward, as we continue our partner focus model, as well as delivering high value-add-services to our clients.

Now finally, our EBIT grew 44% in the quarter and we had a 6 percentage point improvement in EBIT margin, even with 7% growth in our product cost base, as we continue to invest in R&D and innovation.

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

Takis Spiliopoulos

Thank you, Andreas. Starting with Slide 18, I'll give an overview of the quarter. All figures are non-IFRS and in constant currency unless otherwise stated.

Our key highlight for the quarter is ARR, which reached 6. 87 million, up 15%, with strong subscription, SaaS, and maintenance growth all contributing. Subscription revenue was 24 million, an increase of 36% for the quarter. This was 55% of the subscription and term license mix, and with our largest quarter still ahead of us, I expect subscription to be over 70% of the license mix for the full year, compared to only 44% of the license mix in 2022.

SaaS revenue was up 23% in the quarter with 13 million of SaaS ACV. Our SaaS revenue continues to benefit from a combination of new logos, additional ACV consumption from existing clients, and (unintelligible). I remain confident in delivering SaaS growth of around 24% to 25% for the full year 2023.

Overall, we had a very strong quarter with total software licensing up 25%, also supported by the modest comparison base. Maintenance growth accelerated again to 6%, as Andreas has explained, and total revenue was up 10%. I was pleased to see sequential growth in service revenues with profitability maintained which is also our expectation going forward.

EBIT was up 44% in the quarter, and our EBIT margin expanded 6 percentage points to 25. 2%. We had another good cash quarter generating 55 million of operating cash and 28 million of free cash flow. DSOs ended up... sorry, DSOs ended the quarter at 124 days, flat sequentially, and we expect DSOs to step up in Q4 with the subscription growth we are forecasting.

Looking at the balance sheet, we ended the quarter with 722 million of net debt and leverage at 1. 8 times. We also received an investment grade rating of BBB with stable outlook from Fitch in September and raised a 200 million Swissie bond on the back of this, noting we have a bond maturing in November.

Moving to Slide 19, clearly the growth rate this quarter must be taken in the context of the modest comparison base. Aside from this, we did have a strong quarter across all our product revenue lines, with our recurring revenue in particular showing excellent growth. We are seeing the benefit from the value uplift from subscription both for new contracts and for renewals, and we are benefiting from CPI-linked price increases in our recurring contract. Our cost base was up 2% this quarter, but as you will see on the next slide, within this our product cost were up 7% as we continue to invest in R&D and innovation. Lastly, we delivered 60 million of EBIT in the quarter, and our EBIT margin expanded 6 percentage points in constant currency.

Next on Slide 20, we have like-for-like revenues and costs adjusting for the impact of M&A and FX. The figures are all organic and therefore in line with our constant currency growth rates. Just to focus on the cost base for a minute, you can see that we continue to benefit from quite a significant decline in services costs as we had guided at the start of the year, which were down 16%, and this masked the growth in our product-related cost base, which was up 7% in the quarter.

Looking at FX, the U. S. Dollar strengthened against most of our key currencies this quarter, acting as a headwind on revenues. However, we also had a tailwind on costs, mainly due to the weaker Indian rupee. Overall, there was a small positive impact from FX on EBIT of less than 1 million.

On Slide 21, net profit was up 60% in the quarter, slightly ahead of EBIT growth, benefiting in particular from lower financing costs and FX. I still expect our full year tax rate to be between 19 and 21%, probably above the midpoint of that range. EPS for the quarter was up 61%.

On Slide 22, our Q3 '23 LTM cash conversion was at 107%, above our target of converting at least 100% of IFRS EBITDA into operating cash. We also expect our cash conversion to be at least at 100% for the full year 2023.

Next on Slide 23, we have the key changes to the group liquidity over the quarter. We generated operating cash of 55 million and ended the quarter with 87 million of cash on balance sheet, and net borrowings of 740 million. Our leverage stood at 1. 8 times and I expect this to decline further by the end of the year.

On Slide 24, we have a revised 2023 guidance, which is non-IFRS and in constant currency. We have raised our guidance for ARR from 12 to 14% growth to 13 to 15% growth, our EBIT guidance from at least 7% growth to at least 8% growth, and our EPS guidance from at least 6% growth to at least 7% growth. And we have reconfigured the rest of our guidance metrics. We have put the EBIT and the free cash flow breaches into the appendix for reference.

Lastly on Slide 25, we have our mid-term targets that we announced at the CMD in February. These are for ARR to reach at least 1. 3 billion, EBIT to reach at least 570 million, and free cash flow to reach at least 700 million in the mid-term.

With that, I hand back to Andreas to conclude.

Andreas Andreades
Thank you, Takis. And so to conclude, we had 4 strong quarters restoring Temenos back to growth. Looking forward, we expect a stable sales environment for the remainder of the year and for our subscription revenue to be over 70% of our subs and term mix for 2023.

The cash flow drag from the subscription transition is now behind us, and we are seeing value uplift across new deals and renewals. Our execution is solid, both the impact of the rise of Cloud and SaaS, as well as the shift to a recurring subscription model are well understood within the Temenos organization, as well as our client and prospect base, and our ability to compete intensely and win the key deals in the market is strengthened. We are investing for growth in our product business. We are seeing positive development in our pipeline, including around large deals, and there is a very clear and growing demand for SaaS and Cloud across clienteles.

Now, with our shift to a recurring revenue model, we expect the ARR and free cash flow to continue growing strongly this year and into 2024. And finally, we have a number of very exciting product and SaaS service launches planned for January 2024.

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

QUESTION & ANSWER

Operator

We now begin the Question and Answer Session. Anyone wish 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 hands as were asking a question. Anyone who has a question or a comment may press * and 1 at this time.

The first question is from James Goodman with Barclays. Please go ahead.

James Goodman

Good evening. Thank you for taking the questions. And just firstly, I mean, you mentioned a stable sales environment now for a number of quarters, and expect it to remain so, but I think it would be helpful if you could elaborate a little bit on your client conversations and what you're factoring into Q4 assumptions, as we come into the final quarter of the year. Specifically, if we look at the implied guidance between SaaS and licensing, I think on the SaaS side, Takis, you said you're comfortable 24% to 25%. I think that sounds just slightly softer than the 25% you've been talking to. It implies, I think, a slightly slower SaaS end to the year.

So, is there something there we should understand, and on the license side, I think it's about a mid-teens decline. So, I'm interested in the level of conservatism or buffer that you've been able to sort of build into that really versus the stable sales environment?

And then finally, I know it's early and you've made a couple of comments already about the ARR and cash developments into '24, but any other sort of early indications you could give us in terms of how you're thinking about setting up the budget for '24 would be, I think, helpful in terms of starting to bridge towards the medium-term? Thank you.

Andreas Andreades
Let me take first, if you like, the business side of the question, and then I'll hand over to Takis to respond on the numbers. You asked about the conversation with clients in Q4 and going into 2024. We largely see give you like banks being business as usual. On the one hand, banks are generally making. . . they are having a very profitable year on the back of interest rates and the yield curve being where it is, but at the same time, there if you like a conservatism, which has been around throughout the year, giving people, if you like facing an uncertain 2024, it's not clear whether inflation will come down, and I suppose nobody knows that, but largely, the message I'd say is that it's business as usual and banks are investing, and as you saw, the last 12 months, we are delivering significant growth. And this is the environment we are operating in across both in like the SaaS side of the business as well as the cloud, which is the on-prem component of the drive towards core banking renovation. Takis, do you want to take the numbers side of it?

Takis Spiliopoulos
Yes. Hi, James. Let me start first with you know, the license part and what you tried to imply. First of all, keep in mind Q4 '22 was a very strong one, which obviously also benefited from, as we had indicated at that time, 10 million Euros plus of slip deals from Q3 to Q4. So that was definitely also helping Q4 and provides for a tough comparison base.

The second one is you know, we have been prudent throughout the year and throughout the quarters. We still have... as we always indicated since the start of the year, a number of larger deals in the pipeline which need to close. And I think this is... and with what Andreas said, you know, stable environment. We want to remain prudent. And this is how we had built originally the 2023 guidance, which is still valid.

Specifically now on SaaS, this is still in line, so no change, 24% or 25%. We still try to get to this or 204 million, 205 million Euros, as we had said right from the beginning or actually since last year when we had said it, it should make up 10% of TSL growth. So that's still valid. If you remember, H1 '23 growth rates benefited from easier comps as we had the final revenues moving to HCL of our P&L in H1 2022. So that makes it for... pushed up the growth rates a bit. Now H2 '23 has a tougher comps or basically the normalized comps because there is no impact from HCL anymore. And this is why you perceive the slowdown in SaaS in Q3 and Q4. But the full year, 24%, 25% is still valid. No change to that or anything in terms of underlying assumption or performance.

2024, yes, you know, we will provide detailed guidance for 2024 in February. I think Andreas gave a bit of the background in terms of IT spending, what we see. If you think about what we said in February, these trends are all still valid. So with the shift to subscription largely complete by the end of the year, we will see a further increase of you know, ARR as a percentage of product revenues and also total revenues. So getting one step closer to our midterm target.

In terms of ARR, you would expect to see an acceleration from what we guide for this year. And clearly, free cash flow growth should considerably accelerate given we're also now through the shift to transition... shift to subscription, and the negative impact we had seen. The trough was already reached last year. So clearly, free cash flow growth will considerably accelerate.

Now, we have done a lot of investments last year and also this year in SaaS and Cloud. So you know, SaaS gross margin, let's see where we end up this year. But we should see a considerable step up next year as well. And given what we see year-to-date for ACV and you know, also Q4, a good understanding of the installed base and the overages which we generate, we would expect to see very good SaaS growth also next year for 2024.

And maybe a last word on cost. I think we've clearly delivered also on the cost side what we said on services. But we at the same time have also maintained our investment plan. And this is something we also continue to expect for next year. And overall, I think when we look at the exit run rate for costs for Q4, I think maybe around 170 million is the right number. And then you attach some growth on top of that. We'll continue to invest in product. We're just looking at the consensus, which has a 50 million, 5 0 cost increase, 2023 over 2024. And I think this is, considering wage inflation and investments, I think this is a number we feel comfortable right now.

James Goodman

Yes, helpful detail. Thanks a lot.

Operator

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

Mohammed Moawalla

Great, thank you. Evening, Takis. Evening, Andreas. My question was really relating to kind of the assumptions, again, around the Q4. You obviously talked about not including some of these larger deals. Is there anything over and above that that's kind of concerning you in terms of the kind of shape of the construction of the guidance? Now, I know the macro environment is still quite unpredictable. But are you seeing anything in terms of sales cycles that's changed?

And then secondly, obviously, execution has been a lot better. I wonder if you could kind of outline what have been sort of the key factors that have kind of driven this improved execution. And as we move into sort of 2024, from a sales execution standpoint, how much more kind of headroom you still have in terms of kind of improving the efficiency of the sales organization? Thank you.

Andreas Andreades

I'll take that, Mohammed. Thank you very much for the question. Let me talk a little bit about the stuff we have been doing in the last year in order that we get to a point where we're executing in a solid way and explain where we go with this. First of all, we went back, as you recall, to our very tried and tested methodology for forecasting quarters. And we are in a position quarter-in, quarter-out to identify the right level of pipeline and cover that we need in order to make sure that we are comfortably delivering on the quarter. But it's not only that. We've upgraded a significant part of the organization this year. We made significant changes in Europe. Middle East and Africa has been performing very solidly for a couple of years.

Last year, we made quite significant changes, perhaps, if you like, quiet in South America, in North America. And this year, we've significantly upgraded our US sales organization. We now have probably what is the most seasoned, if you like, core banking sales organization we've ever had in North America. These are people that have joined us from competitors. They've been attracted by our vision, but not only the vision, actually, the execution and what we do in the marketplace, the products, and the technology.

So it's been quite a fundamental, if you like, rethink, but at the same time, going back to basics, which is what Temenos over the years was able to do. And we had a year of change, subscription, or rather, perhaps, 18/21 months of change. The shift to subscription has been a significant change, but we were able to rationalize it, explain the value prop, manage it within the sales organization, and present it to prospects in a convincing way. And we are getting the results we're getting.

And ultimately, for me, and I know that 25% or 24% license growth is a... total software license growth, is a very impressive number. But for me, the most pleasing effect impact of the quarter... the most pleasing number in the quarter, and the year today it is the acceleration of the maintenance revenues, because that is the ultimate validation that we are on track. And looking into 2024, there's still a lot from a sales execution we can do better. And we target those, it's about automation, it's about data and systems and using AI to focus more accurately. And it's being able to manage complex deals more at scale, it's about how we manage our pricing and discounts at the sales level. So massive amount of work we have done and a lot of work that we'll still keep doing for 2024. So, Takis, can you please take the number side of Q4 and if you like, the impact on the guidance.

Takis Spiliopoulos

Yes, so let me try to go there. Now if you look at the, you know, the number for jut for licensing which was implied in the guidance from the start of the year, around minus 6%, minus 7% that's still valid. If you just look, the license number was minus 3% in Q1, minus 16% in Q2, 28% plus Q3 and an implied minus 14% in Q4. So pretty much, you know, similar to what we've seen the first half.

And when we built the guidance, you know, we were obviously aware about okay we do have stronger comparison basis and where we have easier ones, so this was all reflected. We have not changed the outlook. Clearly, we have seen what happened last year in Q3 with large deals. We have learned, as Andreas explained, with respect to the old model as a much better focus to coverage ratio. But I think we feel comfortable with the guidance and clearly feel comfortable that we deliver the necessary amount also from large deals for Q4 to get there and again keep in mind Q4 2022 benefitted from, as we have said, 10 million of slipped deals from Q3. So if you normalize for this, the growth rates for Q4 look actually quite okay.

Mohammed Moawalla

That's great. Thank you both.

Andreas Andreades

Now, just to repeat what I've said in the last 3 quarters, we look at big deals on a portfolio basis. We don't distinguish small deals or big deals. For us, it's the level of the pipeline, it's the level of the cover and if we have the pipeline and the cover, we are considering to make a focus.

Mohammed Moawalla

Thank you, Andreas.

Operator

The next question is from Toby Ogg from JP Morgan. Please go ahead.

Toby Ogg

Yes, hi, good evening and thanks for the question. Perhaps, just firstly on the maintenance acceleration that the 6% versus the sort of 3% to 4% run rate we've been out for a while, why do you think the acceleration is materialized now and should we be building in this rate of growth as the new run rate for the maintenance revenue stream going forwards?

And then secondly just on the SaaS piece. So, you've mentioned the future term contract renewals are expected to move to subscription of SaaS as standard. Could you give us a sense for the split between the 2 as it stands, and whether you are seeing signs that the SaaS mix is starting to grow on the renewal side? Thank you.

Andreas Andreades

The maintenance, I will take the first part of it and then I will hand over to Takis. The maintenance is accelerating because we are delivering a value uplift through the subscription model and it's taken a couple of quarters if you like for this to gain momentum and to start gaining pace and cumulatively to be meaningful if you like in the growth in the quarters. Now, given the number of data points we have, what I said in my prepared remarks is that we expect renewals to move to subscription or SaaS as standard because we have had quite a few contracts the last 21 months. That have moved. We understand the economics of it and we are at a point of saying, yeah, we believe the data points, we believe the numbers and there is a trajectory and this is going to take place. Now, you need to bear in mind that we have not yet actively encouraged our existing clients to move to SaaS. This has not been a priority for us until now. You will see us focusing on that activity much more from 2024 onwards.

And as I said in my prepared remarks, we are very excited about the products and the services launches we are going to be making in 2024. In fact, I am taking this call from our Indian office in Bangalore, where we've been working with a team on a lot of exciting announcements for January and part of that will be a formal proactive way of encouraging our client base to move over to SaaS. So it's not in a priority until now. It will become a priority from 2024 onwards. So that's... it's like the business side of the question. Over to you Takis for a comment on the modeling and the numbers.

Takis Spiliopoulos

Yes. Hi Toby. Back on maintenance. Yes, we have seen an acceleration from 3% in Q1 over 4% in Q2 and then 6% in Q3. And Andreas mentioned already, some of the reasons, clearly, the uplift we've seen on new subscription signings. Clearly, the uplift on some renewals has a positive impact and also maintenance. And then it's, you know what we said last year already. You know, once you are very stringent on implementing the CPI clauses and you don't waive it and you stick to it, whichever, the low interest rate or low CPI environment wasn't done in all cases. Now, it's very difficult to sign some percent of contract without the CPI clause. So that's, you know, something you will see following through obviously in the future.

And the last one, we did put a lot of emphasis at the start of the year with Andreas on what we call the premium maintenance services, yeah, which also has shown very good growth. So you know, 4% for the year given the H1 numbers a bit lower. 4% for the year is the right number. That's in February, what we are going to guide for next year. But if you think about the building blocks in place and if we should see an acceleration in our product business, in our subscription business, that should eventually follow through. But I think it's too early for specific guidance, but these are the building blocks how to model it in the future.

Toby Ogg

That's great. Thanks a lot.

Operator

The next question is from Chandra Sriraman with Stifel. Please go ahead.

Chandra Sriraman

Yeah, hi, good evening. Thanks for taking the questions. Just a couple from my side. So Takis and Andreas, you were talking about uplift from moving to subscription. You had given us an indication of what kind of uplift you would expect. Do you have a sense of what it is in the last 21 months that you have managed through this migration? That's my first question.

The second one is on Europe. Now, you have had two quarters of good performance in Europe admittedly of an easy base. But nevertheless, are you seeing some kind of trend here or still a few one-off deals that are being driven? Thanks.

Andreas Andreades

Okay. Let me take the uplift question, Chandra. Since we introduced subscription early 2022, we were always saying we would expect to see an uplift as other enterprise players had seen. We gave a range of 30% to 60% which you know have reiterated and now as more and data points as you correctly point out, we can definitely confirm that we are in that range. This is as much as we can say now.

Takis Spiliopoulos

Yes, let me take the Europe question. We talked earlier in the year about green shoots, and we were anticipating a gathering of momentum. And we actually delivered on that we saw that in Q3. If you look at the... our European business across both licensing and SaaS, probably Europe is having its best year ever. It's because their business is played, licensing and SaaS it still doesn't show through the numbers. But in terms of underlying performance, Europe is having a great year. So I know it's taken a little bit of time to come out of COVID, and European banks have been slower than in North America. But, we are seeing much better execution, as well as, much better market conversion. And therefore, we are confident that the European story will continue.

Operator

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

Frederic Boulan

Hi, Andreas, hi Takis. Thanks for taking the question. 2 if I may, first of all on the license numbers in Q3 be pretty high percentage in the next subscription and during the license mix versus the previous quarters. Can you explain what's going on there and whether you think that that's temporary, seems to imply that but we'd be good to have some color on what has driven that, that strong growth in terms of license?

And then second, couple of months ago, we said you guys were seeking fresh interests in private equity firms. Anything you can update us on that anything, you are looking for in particular in terms of criteria, or in progress you can get us on. It would be great. Thank you.

Andreas Andreades

Hi, Fred. Let me take the on, mix subscription versus term. I mean, first of all, you know, Q3 '23, was still well ahead of you know, what we delivered last year? And for that, you know, I wouldn't read too much, you know, onto individual quarter, because it depends on a number of things, you know, the timing of closing individual deals with some of them, you know, which, you know, have been in the pipeline for some while yes, as term. And this is... this is something, you know, we can't really control this is why... you know, this is why we say, okay, we're confident for 70% plus for the full year, but there will be still some deals remaining, which either have been introduced last year, you know, as term and you know, are still running given the long sales cycle we had by putting in Q4, you should see the vast majority being subscription so you get to the... to the full year number. And for next year, and also keep in mind, we have this customized development, which is, you know, the 21 million run rate we had last year and this year, this is always booked us term as well. So this is also skewing, you know, this, you know, this number, so I wouldn't read anything into, into the quarter volatility Q4 will be substantially up and then we're basically done. I still have some few remaining deals in there for '24. But you know, that's, that's minimum.

On the PEs Adam will give you the answer.

Company Representative

(Unintelligible).

Frederic Boulan

Alright, thank you.

Operator

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

Laurent Daure

Yes, thank you. Good evening, Gentlemen. I also have 2 questions, the first is, I'm sorry, I would like to come back on your fourth quarter assumption not on the revenue side, but more on the cost side, because it seems from your guidance that a large part of the license drop you're speaking in Q4 is going to come in directly for the bottom line. So any special cost increases and variable innovation that might impact the Q4 cost base?

And my second question is more a general question is, if you could give us an update over the first let's say 9 months of the year, on the trends of your different businesses between the front, back towards management, fund management, so pretty good overview would be very welcome. Thank you.

Takis Spiliopoulos

Okay, I'll take the cost one, and then let Andreas talk about front to back and the individual product, you know, on the cost, as you've seen, we've delivered the cost as we had indicated, for Q3. That's the first one. You know, we had said it would grow 20 million to 25 million to a larger... to a large extent, you know, driven by, you know, wage inflation, which came in from the salary increases in July. But clearly, also some investments which were a bit phased from the first half. And the rest was obviously with on performance, we obviously had, you know, variable cost accruing, you know, commissions, bonuses given we're tracking in line with the guidance. And, you know, I think this is what we have seen.

Now, for Q4 clearly, and we've slightly increased the EBIT guidance to reflect some of you know, these costs may, you know, across the different lines may come in a bit smaller. I think for Q4, we would look at, you know, a sequential increase, you know, for around, you know, 14 million as implied by the guidance to a large extent this is variable again, commission, bonus accruals, SaaS costs with the growth and a bit of investments. So, I think, again, being, you know, very transparent on what we do. And, you know, we saw at the end of Q3, we were tracking slightly better across the cost line. And this is why we gave you the 1% guidance increase.

Andreas Andreades

I'll take the color on the different businesses. The 3 areas of the business that did particularly well, if you like, in the 9 months, is clearly the core side of the business across both on premise and SaaS, wealth performed very, very strongly as you probably have gathered from our client announcements over the last 12 months, and also payments, there is a lot of business that is going on in payments, and we are in an excellent position with our terminals payment hub platform to capitalize on that we announced one of the key deals earlier in the year with Convera. So yes, these are the drivers of growth, and I think they will continue into the next 12 months.

Laurent Daure

Great, thank you.

Operator

The next question is from Charles Brennan with Jefferies. Please go ahead.

Charles Brennan

Great, thanks for taking my questions. I'm going to try 3 varied ones, if I can. Firstly, there's been lots of questions around the Q4 assumptions. But can I try asking the question a different way? You've beaten consensus expectations for software licensing in Q3, you broadly kept the full year guidance unchanged at 6% growth that implies that we should be downgrading our Q4 expectations. Is that the conclusion that you're hoping we come to or are you assuming that we just add the Q3 outperformance to the full year?

Secondly, it sounds like there's a slight shift in focus from, from subscription to SaaS. Can you just touch on the ACV trends, in that light? It looks like ACV in the first 9 months is only up 10% year-on-year, I might have hoped for something a lot of bit stronger than that?

And secondly, SaaS has got a slightly slower revenue recognition profile than subscription. Is there anything we need to think about there as we think about the ‘24 modeling?

And lastly, I don’t know if Thibault is still around, but just on the new CEO search, the statement seems to stress the both external and internal candidates are being considered. Is there any scenario in which Andreas continues in the CEO role or is that a scenario that we should take off the table?

Takis Spiliopoulos

Okay. Let me take the Q4 one and the ACV SaaS. And then Andreas will talk about the CEO search. So, on... I think on the Q4 guidance, yes it was you know, I think on consensus maybe a full 4-5 million beat on total software licensing. The guidance says at least 6%. So, we given you basically how we model it. So, the rest, I think, has been answered, yes. I think we fared well so far with the prudence and whether we’re going to end up at 6% or 7% at the end of the year. And let’s see, but I think we feel well with the current guidance.

Now ACV, so if you look at the ACV, nothing has changed in terms of you know, the revenue recognition. We take ACV and what we always said is we start recognizing the corresponding SaaS revenues about 3 months later.

So, you know, the ACV we signed this quarter and let's say whatever signed in September you know, maybe impacting a bit in December, but this is basically run-rate for the next year and whatever we sign in terms of ACV for Q4 will be then full for the next year.

Now ACV year-to-date, it's... I think a reasonable growth. We had some you know, in the past some volatility, and I think this is something where we continue to see, because you... the new local trends I think is strong, but clearly we can't really time overages and incremental business on a quarterly basis. We have good visibility on a full-year basis, but I think the individual quarters can vary quite a bit. So, year-to-date, we're 9% almost 10%. Q1 was flat, Q2 88%, Q3 is now minus, so I think Q4 should then see on an easier base good growth again. And the CEO and back to...

Company Representative
Yes, hi. (unintelligible) for the Q&A. I was just pointing to the statement in the Q2 result (unintelligible) Andreas will continue his duties as CEO until a new CEO is appointed.

Charles Brennan
Perfect, thank you.

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

Michael Briest
Yes, thanks, good evening. And obviously a lot of questions have been done already. Just in terms of the plough that sounds like it's going to get another push next year. The margins at the CMD were reported to be in the high-50s, maybe 60s the prior year. Can you give any sense on where that trend is now and you know, what you're doing to improve it if it still needs to be improved?

And then Andreas I think you talked about quite a lot of change in the salesforce in North America. Can you maybe put some figures around that in terms of the percentage of people that have changed the sort of maybe total number of headcount that's been added, if it's been increased? Thank you.

Takis Spiliopoulos
Okay, let me start Michael with, you know, the SaaS gross margin and clearly we have been seeing and have been... and talking about the investments we have been taking last year and also this year.

I think ultimately we are building the foundation for next... the next few years to get to the mid-term targets. So, there is a lot of investment in automation and there is a lot of investment in... also in the product and what we have shown last year was basically a run-rate of 64% margin. Now we are not giving quarterly disclosure on the margin. I think this would be just an additional KPI, but clearly we are going to report in February on the progress. With all the investments we have done, I think you would and as I mentioned before, we should see a considerable step-up in SaaS margin already 2024, and I think we have shown how we are going to get to the 80% in the mid-term, and I think we are on track to do this.

Andreas you want to add something to that? Okay, looks like we have lost Andreas temporarily. Let me take the US question.

Andreas Andreades
Apologies. I think I am back.

Takis Spiliopoulos
Sorry, go ahead on the US.

Andreas Andreades
Yes, apologies. First just let me round off the margin question. The what differentiates Temenos is that we have a single technology base, single code, single configuration and we package it and that makes the model very efficient and if I look at what we have in line for launching in terms of SaaS services in 2024, I am very comfortable with the engineering side of it driving increasing and better margins so that a period of time for the Temenos SaaS business.

Now, moving on to the US, let me say that we changed the significant part of the sales organization. The sales organization... the people that joined, were attracted from our core banking competitors, and as I said in my prepared remarks, they have recognized both the vision but also the technology and they have chosen to be with the company that is actually winning. So, that was more or less done between Q2 and Q3.

Michael Briest
Okay. Thank you. I mean it normally takes a while for you people to be productive and build pipelines. You're obviously not or is that something you are factoring into the short-term outlook?

Andreas Andreades

This has been factored into our forecasts. But these people are significant operators in the core banking world with significant contacts and access to the market. So, we are not concerned by the pipeline buildup that's part of business as usual. Thank you.

Michael Briest

Okay, thanks.

Takis Spiliopoulos

Michael to add on this, clearly we... you know we have been saying we will invest. It's not just product and innovation, but also sales and marketing and clearly the Americas both north and south are one region where we are able to attract the right talent and you know, also invest into the future growth and it shows also in our Americas' share in terms of performance.

Michael Briest

Yes, thank you.

Operator

There are no more questions at this time.

Andreas Andreades

Thank you very much for joining today's call. It's been a pleasure, and I wish you a very good afternoon or evening, wherever you may be. Thank you very much.

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.

- END -