

Temenos announces very strong start to 2018 with Q1 total software licensing growth of 40%

GENEVA, Switzerland, 18 April 2018 – Temenos Group AG (SIX: TEMN), the banking software company, today reports its first quarter 2018 results.

<i>USDm, except EPS</i>	Non-IFRS				IFRS			
	Q1-18 (IAS 18)	Q1-17 (IAS 18)	Change	CC*	Q1-18 (IFRS 15)	Q1-18 (IAS 18)	Q1-17 (IAS 18)	Change (IAS 18)
Software licencing	45.3	32.0	41%	37%	54.4	45.3	32.0	41%
SaaS & subscription	18.3	13.3	38%	29%	8.0	18.2	13.0	40%
Total software licencing	63.6	45.4	40%	35%	62.4	63.5	45.1	41%
Maintenance	74.1	64.9	14%	11%	76.3	74.1	64.9	14%
Services	34.2	32.5	5%	-2%	34.1	34.2	32.5	5%
Total revenues	171.9	142.7	20%	15%	172.7	171.8	142.5	21%
EBIT	36.4	27.3	33%	43%	27.3	25.2	18.7	35%
EBIT margin	21.2%	19.2%	2% pts	4% pts	15.8%	14.7%	13.1%	1.5% pts
EPS (USD)	0.40	0.27	48%		0.23	0.21	0.17	24%

The definition of non-IFRS adjustments is below and a full reconciliation of IFRS to non-IFRS results can be found in Appendix II

* Constant currency (c.c.) adjusts prior year for movements in currencies

Please note that non-IFRS numbers are under IAS 18 and comparable to the prior periods. IFRS numbers are under IFRS 15, with IFRS IAS 18 numbers also provided for the purpose of comparison with the prior periods.

Q1 2018 highlights

- Very strong start to 2018 across all KPIs
- Growth across all geographies and client tiers
- Combined pressures from digital, regulation and open banking driving bank IT spend
- 18 new customer wins in the quarter
- Competitive deals contributed 54% of software licensing in the quarter
- Third party validation of leadership position, pulling ahead of the competition
- Revenue visibility continues to increase driven by strong pipeline growth and committed spend

Q1 2018 financial summary (non-IFRS, IAS 18)

- Non-IFRS total software licensing revenues up 40% in Q1 18
- Non-IFRS maintenance growth of 14% in Q1 18
- Non-IFRS EBIT up 33% in Q1 18, LTM non-IFRS EBIT margin of 30.4%
- Non-IFRS EPS increase of 48%
- Operating cash flow up 26%, cash conversion at 113%
- DSOs down 10 days Y-o-Y to 117 days

Commenting on the results, **Temenos CEO David Arnott said:**

“It has been an excellent start to 2018 across all parts of the business. The level of engagement from banks continues to increase and we see the pressure of open banking generating new opportunities for Temenos. Our growth this quarter was broad based across geographies and I was particularly pleased that we signed our first strategically important deal in Australia as well as announcing our first deal in the telco-banking market with the signing of Telia. As our market evolves, we will continue to leverage our leadership position to capture new addressable spend.

We were delighted to be recognised as the leader in our market, with IBS ranking Temenos as the #1 best selling core banking solution for the 13th year as well as the best selling digital and channels solution. We were also ranked at the top of both of the Forrester pyramids for sales to new and existing clients. This is a testament to the strength of the Temenos product, the commitment of our employees and the confidence our clients place in us when selecting mission-critical solutions for their business.”

Commenting on the results, **Temenos CFO and COO Max Chuard said:**

“Q1 was a very strong quarter, with total software licensing growth of 40%, total revenue growth of 20% and EPS growth of 48%. This was driven by the strong contribution from new clients with 18 wins in the quarter as we continue taking market share, pulling ahead of the competition in a winner-takes-all market.

I am also very pleased with our cash flow which was up 26%, and the strength of our balance sheet, with our leverage below 1x EBITDA at the end of the quarter.

Our revenue visibility is the highest it has ever been, driven by strong pipeline growth and committed spend. Given the strong start to 2018 and our significant revenue visibility, I am confident in reconfirming our full year guidance.”

Revenue

IFRS (IFRS 15) revenue for the quarter was USD 172.7m.

IFRS (IAS-18) revenue were USD 171.8m, an increase of 21% vs. Q1 2017. Non-IFRS (IAS 18) revenue was USD 171.9m for the quarter, up from USD 142.7m in Q1 2017, an increase of 20%.

IFRS (IFRS 15) total software licensing revenue for the quarter was USD 62.4m.

IFRS (IAS 18) total software licensing revenue for the quarter was USD 63.5m, an increase of 41% vs. Q1 2017. Non-IFRS (IAS 18) total software licensing revenue was USD 63.6m for the quarter, an increase of 40% vs. Q1 2017.

EBIT

IFRS (IFRS 15) EBIT was USD 27.3m for the quarter.

IFRS (IAS 18) EBIT was USD 25.3m for the quarter, an increase of 35% vs. Q1 2017. Non-IFRS (IAS 18) EBIT was USD 36.4m for the quarter, an increase of 33% vs. Q1 2017. Q1 2018 non-IFRS (IAS 18) EBIT margin was 21.2%, up 2% points vs. Q1 2017.

Earnings per share (EPS)

IFRS (IFRS 15) EPS for the quarter was USD 0.23.

IFRS (IAS 18) EPS was USD 0.21 for the quarter, an increase of 24% vs. Q1 2017. Non-IFRS (IAS 18) EPS was 0.40 for the quarter vs. USD 0.27 in Q1 2017, an increase of 48%.

Operating cash flow

IFRS (IFRS 15) operating cash was an inflow of USD 46.1m in Q1 2018 compared to USD 36.6m in Q1 2017. For LTM to March 2018, operating cash was USD 309.2m representing a conversion of 113% of IFRS (IAS 18) EBITDA into operating cash.

Annual General Meeting

Temenos will hold its 17th AGM on 15 May 2018 at its offices in Geneva, Switzerland. Further information can be found on the company website - <https://www.temenos.com/en/about-temenos/investor-relations/annual-general-meeting/>

IFRS 15

Temenos has implemented IFRS 15 for reporting period 1st January 2018 onwards using the modified retrospective method. Under the modified retrospective method the 2017 and prior results will not be restated under IFRS 15. The reporting of the results for 2018 will be provided under IAS 18 and under IFRS 15, which will allow for comparability against 2017 and prior periods. From 2019, the reporting of results will be provided only under IFRS 15. For more information on the impact of IFRS 15, please visit the Temenos Investor Relations website:

<https://www.temenos.com/en/about-temenos/investor-relations/>

2018 guidance

Our guidance for 2018 is in constant currencies and under IAS 18. The guidance is as follows:

- Non-IFRS total software licensing growth at constant currency of 13.5% to 18.5% (implying total software licensing revenue of USD 367m to USD 383m)
- Non-IFRS revenue growth at constant currency of 10% to 13% (implying revenue of USD 825m to USD 847m)
- Non-IFRS EBIT at constant currency of USD 255m to 260m (implying non-IFRS EBIT margin of c.31%, 100bps expansion in constant currencies)
- 100%+ conversion of EBITDA into operating cashflow
- Tax rate of 15% to 16%

Currency assumptions for 2018 guidance

In preparing the 2018 guidance, the Company has assumed the following:

- USD to Euro exchange rate of 0.824;
- USD to GBP exchange rate of 0.711; and
- USD to CHF exchange rate of 0.958.

Conference call

At 18.30 CET / 17.30 GMT / 12.30 EST, today, 18 April 2018, David Arnott, CEO, and Max Chuard, CFO and COO, will host a conference call to present the results and offer an update on the business outlook. Listeners can access the conference call using the following dial in numbers:

0800 740 377	(Swiss Free Call)
1 866 966 1396	(USA Free Call)
0800 376 7922	(UK Free Call)
+44 (0) 207 192 8000	(UK and International)

Conference ID # 6269489

A transcript will be made available on the Company website 48 hours after the call. Presentation slides for the call can be accessed using the following link: <http://www.temenos.com/en/about-temenos/investor-relations/results-and-presentations/>.

Non-IFRS financial Information

Readers are cautioned that the supplemental non-IFRS information presented in this press release is subject to inherent limitations. It is not based on any comprehensive set of accounting rules or principles and should not be considered as a substitute for IFRS measurements. Also, the Company's supplemental non-IFRS financial information may not be comparable to similarly titled non-IFRS measures used by other companies. In the reconciliation of IFRS to non-IFRS found in Appendix II, the Company sets forth the most comparable IFRS financial measure and reconciliations of this information with non-IFRS information. The Company's non-IFRS figures exclude any deferred revenue write-down resulting from acquisitions, discontinued activities that do not qualify as such under IFRS, acquisition related charges such as advisory fees and integration costs, charges as a result of the amortisation of acquired intangibles, costs incurred in connection with a restructuring plan implemented and controlled by management, and adjustments made to reflect the associated tax charge relating to the above items.

Below are the accounting elements not included in the 2018 non-IFRS guidance:

- FY 2018 estimated deferred revenue write down of USD 1m
- FY 2018 estimated amortisation of acquired intangibles of USD 38m
- FY 2018 estimated restructuring costs of USD 5m
- FY 2018 estimated acquisition costs of USD 27m

Restructuring costs include realising R&D, operational and infrastructure efficiencies and does not include any estimated restructuring costs related to the Fidessa acquisition. Acquisition costs include the estimated costs associated with the successful acquisition of Fidessa.

These estimates do not include impact of any further acquisitions or restructuring programmes commenced after 18 April 2018.

The above figures are estimates only and may deviate from expected amounts.

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About Temenos

Temenos Group AG (SIX: TEMN), headquartered in Geneva, is a market leading software provider, partnering with banks and other financial institutions to transform their businesses and stay ahead of a changing marketplace. Over 3,000 firms across the globe, including 41 of the top 50 banks, rely on Temenos to process the daily transactions of more than 500 million banking customers. Temenos customers are proven to be more profitable than their peers: over a seven year period, they enjoyed on average a 31% higher return on assets, a 36% higher return on equity and an 8.6 percentage point lower cost/income ratio than banks running legacy applications. For more information please visit www.temenos.com

Appendix I – Q1 2018 IFRS primary statements

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars
except earnings per share

	Three months to 31 March 2018 (IFRS15)	Three months to 31 March 2018 (IAS 18)	Three months to 31 March 2017 (IAS 18)	Twelve months to 31 March 2018 (IAS 18)	Twelve months to 31 March 2017 (IAS 18)
Revenues					
Software licensing	54,380	45,289	32,047	261,783	210,230
SaaS & subscription	7,971	18,232	13,043	71,433	51,082
Total software licensing	62,351	63,521	45,090	333,216	261,312
Maintenance	76,299	74,092	64,933	283,953	254,754
Services	34,076	34,177	32,450	147,511	131,333
Total revenues	172,726	171,790	142,473	764,680	647,399
Operating expenses					
Sales and marketing	37,845	39,601	26,225	155,518	117,979
Services	32,250	32,250	30,800	133,933	119,104
Software development and maintenance	53,383	52,747	46,488	209,498	179,778
General and administrative	21,994	21,994	20,263	80,925	75,058
Total operating expenses	145,472	146,592	123,776	579,874	491,919
Operating profit	27,254	25,198	18,697	184,806	155,480
Other expenses					
Net interest expenses	(3,055)	(3,055)	(3,495)	(12,742)	(14,622)
Borrowing facility expenses	(5,022)	(5,022)	(420)	(6,282)	(1,602)
Foreign exchange gain / (loss)	554	554	(755)	(1,186)	(269)
Total other expenses	(7,523)	(7,523)	(4,670)	(20,210)	(16,493)
Profit before taxation	19,731	17,675	14,027	164,596	138,987
Taxation	(2,917)	(2,612)	(1,936)	(23,218)	(17,208)
Profit for the period	16,814	15,063	12,091	141,378	121,779
Earnings per share (in US\$):					
<i>basic</i>	0.24	0.22	0.17	2.02	1.76
<i>diluted</i>	0.23	0.21	0.17	1.95	1.70
<i>non-IFRS</i>	0.42	0.40	0.27	2.59	2.15

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	31 March 2018 (IFRS 15)	31 March 2018 (IAS18)	31 December 2017 (IAS 18)	31 March 2017 (IAS 18)
Assets				
Current assets				
Cash and cash equivalents	195,306	195,306	167,855	209,889
Trade receivables	237,593	243,432	233,822	213,467
Other receivables	44,875	39,596	28,777	33,869
Total current assets	477,774	478,334	430,454	457,225
Non-current assets				
Property, plant and equipment	16,711	16,711	16,385	16,287
Intangible assets	802,673	802,673	795,961	692,605
Trade receivables	9,033	9,033	6,753	12,027
Other receivables	4,231	4,231	3,787	3,839
Deferred tax assets	24,905	24,905	21,943	21,105
Total non-current assets	857,553	857,553	844,829	745,863
Total assets	1,335,327	1,335,887	1,275,283	1,203,088
Liabilities and equity				
Current liabilities				
Trade and other payables	134,761	134,761	130,921	124,171
Contract liabilities (Deferred Revenue)	244,287	243,307	232,489	217,285
Income tax liabilities	42,124	41,660	41,042	30,701
Borrowings	110,813	110,813	5,885	104,815
Total current liabilities	531,985	530,541	410,337	476,972
Non-current liabilities				
Borrowings	339,394	339,394	434,299	274,217
Deferred tax liabilities	15,345	15,345	15,408	15,470
Income taxes payable	-	-	-	1,801
Trade and other payables	29,729	29,729	27,990	10,586
Retirement benefit obligations	8,265	8,265	7,736	9,143
Total non-current liabilities	392,733	392,733	485,433	311,217
Total liabilities	924,718	923,274	895,770	788,189
Shareholders' equity				
Share capital	233,283	233,283	232,192	232,075
Treasury shares	(197,750)	(197,750)	(197,750)	(26,753)
Share premium and capital reserves	(175,577)	(175,577)	(186,287)	(201,924)
Fair value and other reserves	(87,105)	(87,105)	(93,341)	(125,575)
Retained earnings	637,758	639,762	624,699	537,076
Total shareholders' equity	410,609	412,613	379,513	414,899
Total equity	410,609	412,613	379,513	414,899
Total liabilities and equity	1,335,327	1,335,887	1,275,283	1,203,088

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	Three months to 31 March 2018 (IFRS 15)	Three months to 31 March 2018 (IAS 18)	Three months to 31 March 2017 (IAS 18)	Twelve months to 31 March 2018 (IAS 18)	Twelve months to 31 March 2017 (IAS 18)
Cash flows from operating activities					
Profit before taxation	19,731	17,675	14,027	164,596	138,987
<u>Adjustments:</u>					
Depreciation and amortisation	23,274	23,274	18,827	89,454	75,627
Other non-cash and non-operating items	20,010	20,010	8,064	65,464	38,033
<u>Changes in working capital:</u>					
Trade and other receivables	(18,798)	(17,888)	(8,278)	(17,122)	(2,470)
Trade and other payables, and retirement benefit obligations	(4,826)	(4,826)	5,388	(4,569)	3,976
Contract liabilities (Deferred revenues)	6,693	7,839	(1,410)	11,349	16,225
Cash generated from operations	46,084	46,084	36,618	309,172	270,378
Income taxes paid	(4,311)	(4,311)	(1,500)	(14,741)	(9,103)
Net cash generated from operating activities	41,773	41,773	35,118	294,431	261,275
Cash flows from investing activities					
Purchase of property, plant and equipment	(1,408)	(1,408)	(1,062)	(6,133)	(6,464)
Purchase of intangible assets	(597)	(597)	(762)	(4,481)	(4,194)
Capitalised development costs	(12,599)	(12,599)	(11,250)	(51,817)	(45,985)
Acquisitions of subsidiary, net of cash acquired	-	-	-	(49,780)	-
Disposal of subsidiary or business, net of cash disposed	-	-	-	-	489
Settlement of financial instruments	4,428	4,428	689	1,463	8,870
Interest received	401	401	189	1,947	295
Net cash used in investing activities	(9,775)	(9,775)	(12,196)	(108,801)	(46,989)
Cash flows from financing activities					
Dividend paid	-	-	-	(39,506)	(31,733)
Acquisition of treasury shares	-	-	(6,648)	(182,976)	(68,469)
Repayments of borrowings	(2)	(2)	(6)	(11,572)	53
Proceeds from issuance of bonds	-	-	-	148,781	-
Repayment of bond	-	-	-	(105,401)	-
Interest paid	(2,162)	(2,162)	(2,051)	(12,332)	(12,316)
Payment of other financing costs	(4,679)	(4,679)	(976)	(6,306)	(3,495)
Net cash used in from financing activities	(6,843)	(6,843)	(9,681)	(209,312)	(115,960)
Effect of exchange rate changes	2,296	2,296	2,308	9,099	(2,040)
Net increase / (decrease) in cash and cash equivalents in the period	27,451	27,451	15,549	(14,583)	96,286
Cash and cash equivalents at the beginning of the period	167,855	167,855	194,340	209,889	113,603
Cash and cash equivalents at the end of the period	195,306	195,306	209,889	195,306	209,889



Appendix II – reconciliation of IFRS to non-IFRS Q1 2018 Income Statement and Balance Sheet

Readers are cautioned that the supplemental non-IFRS information presented in this press release is subject to inherent limitations. It is not based on any comprehensive set of accounting rules or principles and should not be considered as a substitute for IFRS measurements. Also, the Company's supplemental non-IFRS financial information may not be comparable to similarly titled non-IFRS measures used by other companies.

To compensate for these limitations, the supplemental non-IFRS financial information should not be read in isolation, but only in conjunction with the Company's consolidated financial statements prepared in accordance with IFRS.

Table 1 – Reconciliation of IFRS (IFRS 15) to IFRS (IAS 18)

Impact of IFRS15 - Reconciliation Thousands of US Dollars	3 Months Ending 31 March		
	2018 IFRS (IFRS 15)	Impact of IFRS 15	2018 IFRS (IAS 18)
Software licensing	54,380	(9,091)	45,289
SaaS & subscription	7,971	10,261	18,232
Total Software Licensing	62,351	1,170	63,521
Maintenance	76,299	(2,207)	74,092
Services	34,076	101	34,177
Total Revenue	172,726	(936)	171,790
Total Operating Expenses	(145,472)	(1,120)	(146,592)
Restructuring	(1,291)		(1,291)
Amort of Acquired Intangibles	(9,833)		(9,833)
Operating Profit	27,254	(2,056)	25,198
Operating Margin	16%		15%
Financing Costs	(7,523)		(7,523)
Taxation	(2,917)	305	(2,612)
Net Earnings	16,814	(1,751)	15,063
EPS (USD per Share)	0.23	(0.02)	0.21



Table 2 – Reconciliation of IFRS (IAS 18) to non-IFRS (IAS 18)

IFRS - Non- IFRS Reconciliation (IAS 18) Thousands of US Dollars	3 Months Ending 31 March						Change	
	2018 IFRS (IAS 18)	Non-IFRS adjustments	2018 Non-IFRS (IAS 18)	2017 IFRS (IAS 18)	Non-IFRS adjustment	2017 Non-IFRS (IAS 18)	IFRS	Non-IFRS
Software licensing	45,289		45,289	32,047		32,047	41%	41%
SaaS & subscription	18,232	106	18,338	13,043	265	13,308	40%	38%
Total Software Licensing	63,521	106	63,627	45,090	265	45,355	41%	40%
Maintenance	74,092		74,092	64,933		64,933	14%	14%
Services	34,177		34,177	32,450		32,450	5%	5%
Total Revenue	171,790	106	171,896	142,473	265	142,738	21%	20%
Total Operating Expenses	(146,592)	11,124	(135,468)	(123,776)	8,374	(115,402)	18%	17%
Restructuring	(1,291)	1,291	-	(950)	950	-	36%	
Amort of Acquired Intangibles	(9,833)	9,833	-	(7,424)	7,424	-	32%	
Operating Profit	25,198	11,230	36,428	18,697	8,639	27,336	35%	33%
Operating Margin	15%		21%	13%		19%	1.5% pts	2.0% pts
Financing Costs	(7,523)	4,602	(2,921)	(4,670)		(4,670)	61%	(37%)
Taxation	(2,612)	(2,149)	(4,761)	(1,936)	(1,053)	(2,989)	35%	59%
Net Earnings	15,063	13,683	28,746	12,091	7,586	19,677	25%	46%
EPS (USD per Share)	0.21	0.19	0.40	0.17	0.10	0.27	24%	48%



Table 3 – Reconciliation of IFRS (IFRS 15) to Non-IFRS (IFRS 15)

IFRS - Non-IFRS Reconciliation (IFRS15) Thousands of US Dollars	3 Months Ending 31 March		
	2018 IFRS (IFRS 15)	Non-IFRS adjustments	2018 Non-IFRS (IFRS 15) *
Software licensing	54,380		54,380
SaaS & subscription	7,971	106	8,077
Total Software Licensing	62,351	106	62,457
Maintenance	76,299		76,299
Services	34,076		34,076
Total Revenue	172,726	106	172,832
Total Operating Expenses	(145,472)	11,124	(134,348)
Restructuring	(1,291)	1,291	-
Amort of Acquired Intangibles	(9,833)	9,833	-
Operating Profit	27,254	11,230	38,484
Operating Margin	16%		22%
Financing Costs	(7,523)	4,602	(2,921)
Taxation	(2,917)	(2,149)	(5,066)
Net Earnings	16,814	13,683	30,497
EPS (USD per Share)	0.23	0.19	0.42

* 2018 non-IFRS (IFRS15) will constitute the basis of Non-IFRS comparatives for non-IFRS numbers from 2019 onwards



Table 4 – Reconciliation of Balance Sheet as of 31 March 2018 from IFRS 15 reported to IAS 18

In thousands of US Dollars	31 March 2018	31 March 2018	31 March 2018
	IFRS 15 reported	Impact of IFRS15	IAS 18
Cash and cash equivalents	195,306	-	195,306
Trade receivables	246,626	5,839	252,465
Other receivables	49,106	(5,279)	43,827
Property, plant and equipment	16,711	-	16,711
Intangible assets	802,673	-	802,673
Deferred tax assets	24,905	-	24,905
Totals assets	1,335,327	560	1,335,887
Trade and other payables	164,491	-	164,491
Contract Liability / (Deferred revenue)	244,287	(980)	243,307
Income tax liabilities	42,124	(464)	41,660
Borrowings	450,207	-	450,207
Deferred tax liabilities	15,345	-	15,345
Retirement benefit obligations	8,265	-	8,265
Total liabilities	924,718	(1,444)	923,274
Equity	(227,149)	-	(227,149)
Retained Earnings	637,758	2,004	639,762
Total Equity	410,609	2,004	412,613
Total liabilities and equity	1,335,327	560	1,335,887