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July 17, 2019

Temenos announces strong Q2 2019 with total software licensing growth of 21%

GENEVA, Switzerland, July 17, 2019 – Temenos AG (SIX: TEMN), the banking software company, today reports its second quarter 2019 results.

<i>USDm, except EPS</i>	Non-IFRS				IFRS		
	Q2-19	Q2-18	Change	CC*	Q2-19	Q2-18	Change
Software licensing	92.6	83.2	11%	14%	92.6	83.2	11%
SaaS & subscription	14.6	7.6	92%	101%	13.5	7.6	78%
Total software licensing	107.2	90.8	18%	21%	106.1	90.8	17%
Maintenance	86.9	77.3	12%	13%	86.9	77.3	12%
Services	43.1	38.0	13%	17%	43.1	38.0	13%
Total revenues	237.1	206.1	15%	17%	236.0	206.1	14%
EBIT	73.1	60.6	21%	20%	57.7	45.4	27%
EBIT margin	30.9%	29.4%	1% pts	2% pts	24.4%	22.0%	2% pts
EPS (USD)	0.80	0.68	18%		0.62	0.46	35%

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

Q2 2019 highlights

- Strong sales performance across geographies and client tiers in Q2
- Digital, regulatory and cost pressures and move to open banking are driving demand
- Asia and Americas particularly strong in Q2 with significant US sales across products
- Key wins include European-based payments company for Temenos T24 Transact and two global Tier 1 banks, one in US and one in Europe, for Temenos Infinity
- Ongoing investment in sales and product to support the six drivers of growth – Temenos T24 Transact, Temenos Infinity, Wealth, Payments, Fund Management and SaaS
- Acquisition of AI platform Logical Glue significantly enhances the Temenos banking platform
- Sales momentum underpinning confidence in delivering 2019 guidance
- Recognition of leadership position across core banking and digital front office

Q2 2019 financial summary (non-IFRS)

- Non-IFRS total software licensing revenues up 21% c.c.
- Non-IFRS maintenance growth of 13% c.c.
- Non-IFRS total revenue growth of 17% c.c.
- Non-IFRS EBIT up 20%, EBIT margin of 30.9%
- Non-IFRS EPS increase of 18%
- Operating cash flow up 16%, LTM cash conversion of 111%
- DSOs down 4 days to 110 days (6 days proforma)

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Commenting on the results, **Temenos CEO Max Chuard said:**

“I am very pleased with our performance in Q2, which built on the strong start we had in the first quarter. The growth continues to be broad based across geographies and client tiers, with Asia and the Americas seeing particularly strong sales in the second quarter. The US was a substantial contributor with signings across a range of products and we continue to leverage our growing footprint and the integration of Avoka to expand our presence in that market.

We are benefiting from six drivers of growth today, across digital front office, core banking, wealth, payments, fund administration and SaaS, and Temenos has an established and credible solution to drive market share in each of these segments. I was delighted that Temenos was once again named by Forrester as the leading vendor of core banking platforms and it was equally important that they recognised Temenos Infinity as a global leader in the digital front office segment.”

Commenting on the results, **Temenos CFO Takis Spiliopoulos said:**

“We continued our strong performance in Q2 to deliver total software licensing growth of 21%, total revenue growth of 17% and EBIT growth of 20%. We are seeing traction across our product offerings from front office through to the core, and also see continued increase in demand for SaaS and cloud.

We remain disciplined around our cash and balance sheet, with inflows of USD 77m in operating cash in Q2, our DSOs reducing 4 days year-on-year and our leverage coming down to 1.5x net debt to EBITDA by the end of the quarter. The outlook for 2019 is positive with our sales momentum underpinning our confidence in delivering our 2019 guidance.

We also introduced new sustainable annual growth targets at our Capital Markets Day in May of at least 15% CAGR for total software licensing and 10-15% CAGR on total revenue, reflecting our belief that we can grow the business sustainably at these rates for the long term, given our leadership position and the sustainable structural growth in our end market.”

Revenue

IFRS revenue were USD 236.0m for the quarter, an increase of 14% vs. Q2 2018.

Non-IFRS revenue was USD 237.1m for the quarter, an increase of 15% vs. Q2 2018.

IFRS total software licensing revenue for the quarter was USD 106.1m, an increase of 17% vs. Q2 2018.

Non-IFRS total software licensing revenue was USD 107.2m for the quarter, an increase of 18% vs. Q2 2018.

EBIT

IFRS EBIT was USD 57.7m for the quarter, an increase of 27% vs. Q2 2018.

Non-IFRS EBIT was USD 73.1m for the quarter, an increase of 21% vs. Q2 2018.

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Non-IFRS EBIT margin was 30.9%, up 1% point vs. Q2 2018.

Earnings per share (EPS)

IFRS EPS was USD 0.62 for the quarter, an increase of 35% vs. Q2 2018.

Non-IFRS EPS was USD 0.80 for the quarter, an increase of 18% vs. Q2 2018.

Operating cash flow

IFRS operating cash was an inflow of USD 77m in Q2 2019 compared to USD 67m in Q2 2018, representing an LTM conversion of 111% of IFRS EBITDA into operating cash.

2019 guidance

Our guidance for 2019 is in constant currencies. The guidance is as follows:

- Non-IFRS total software licensing growth at constant currencies of 17.5% to 22.5% (implying non-IFRS total software licensing revenue of USD 431m to USD 450m)
- Non-IFRS revenue growth at constant currencies of 16% to 19% (implying non-IFRS revenue of USD 966m to USD 991m)
- Non-IFRS EBIT at constant currencies of USD 310m to 315m, (implying non-IFRS EBIT margin of c. 31.9%, or 150bps expansion organically excluding the impact of Avoka)
- 100%+ conversion of EBITDA into operating cash flow
- Expected FY 2019 tax rate of 15% to 16%

Currency assumptions for 2019 guidance

In preparing the 2019 guidance, the Company has assumed the following:

- USD to Euro exchange rate of 0.881;
- USD to GBP exchange rate of 0.757; and
- USD to CHF exchange rate of 1.00.

Conference call and webcast

At 18.30 CET / 17.30 GMT / 12.30 EST, today, 17 July 2019, Max Chuard, CEO, and Takis Spiliopoulos, CFO, will host a conference call to present the results and offer an update on the business outlook, which can be followed either through the dial-in numbers or webcast. Listeners who have not pre-registered can access the conference call using the following dial in numbers:

+41 (0) 58 310 50 00 (Europe & RoW)
+44 (0) 207 107 0613 (UK)
+1 (1) 631 570 56 13 (USA)

The webcast can be accessed by clicking on this [Webcast link](#).

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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/>.

IFRS 16

Temenos has implemented IFRS 16 for reporting period 1st January 2019 onwards using the modified retrospective method. Under the modified retrospective method the 2018 and prior results will not be restated under IFRS 16. From 2019, the reporting results will only be provided under IFRS 16.

For more information on the impact of IFRS 16, please visit the Temenos Investor Relations website:

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

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 2019 non-IFRS guidance:

- FY 2019 estimated deferred revenue write down of USD 4m
- FY 2019 estimated amortisation of acquired intangibles of USD 48m
- FY 2019 estimated restructuring costs of USD 5m

Restructuring costs include realizing R&D, operational and infrastructure efficiencies. These estimates do not include impact of any further acquisitions or restructuring programs commenced after 17 July 2019. The above figures are estimates only and may deviate from expected amounts.

Investor and media contacts

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About Temenos

Temenos AG (SIX: TEMN), headquartered in Geneva, is the world's leader in banking software, 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 both the daily transactions and client interactions of more than 500 million banking customers. Temenos offers cloud-native, cloud-agnostic front office and core banking, payments, fund management and wealth management software products enabling banks to deliver both consistent, frictionless customer journeys and gain operational excellence. 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.

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Appendix I – Q2 2019 IFRS primary statements

TEMENOS AG

All amounts are expressed in thousands of US dollars

except earnings per share

	Three months to 30 June 2019	Three months to 30 June 2018	Year to date 30 June 2019	Year to date 30 June 2018
Revenues				
Software licensing	92,560	83,245	155,776	137,625
SaaS & subscription	13,493	7,593	25,417	15,564
Total software licensing	106,053	90,838	181,193	153,189
Maintenance	86,850	77,257	171,596	153,556
Services	43,063	38,018	86,938	72,094
Total revenues	235,966	206,113	439,727	378,839
Operating expenses				
Sales and marketing	(49,259)	(42,553)	(94,272)	(80,398)
Services	(38,174)	(35,318)	(77,978)	(67,568)
Software development and maintenance	(65,178)	(55,358)	(127,646)	(108,741)
General and administrative	(25,686)	(27,469)	(47,471)	(49,463)
Total operating expenses	(178,297)	(160,698)	(347,367)	(306,170)
Operating profit	57,669	45,415	92,360	72,669
Other expenses				
Net interest expenses	(4,502)	(5,554)	(8,415)	(8,609)
Borrowing facility expenses	(420)	(420)	(840)	(5,442)
Foreign exchange gain / (loss)	253	(457)	(430)	97
Total other expenses	(4,669)	(6,431)	(9,685)	(13,954)
Profit before taxation	53,000	38,984	82,675	58,715
Taxation	(8,039)	(5,682)	(13,093)	(8,599)
Profit for the period	44,961	33,302	69,582	50,116
Earnings per share (in US\$):				
basic	0.64	0.48	1.00	0.72
diluted	0.62	0.46	0.96	0.69
non-IFRS	0.80	0.68	1.32	1.09

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All amounts are expressed in thousands of US dollars

	30 June 2019	31 March 2019	31 December 2018	30 June 2018
Assets				
Current assets				
Cash and cash equivalents	87,281	96,811	287,439	87,959
Trade receivables	267,519	258,896	254,935	241,500
Other receivables	39,667	38,761	35,039	39,865
Total current assets	394,467	394,468	577,413	369,324
Non-current assets				
Property, plant and equipment	60,112	59,494	18,021	16,776
Intangible assets	989,945	998,129	1,008,873	765,134
Trade receivables	5,759	6,990	7,534	8,533
Other long term assets	19,616	19,519	18,876	4,479
Deferred tax assets	20,328	20,560	17,663	22,013
Total non-current assets	1,095,760	1,104,692	1,070,967	816,935
Total assets	1,490,227	1,499,160	1,648,380	1,186,259
Liabilities and equity				
Current liabilities				
Trade and other payables	177,757	153,480	166,545	145,693
Deferred revenues (Contract liabilities)	239,632	265,054	262,861	225,151
Income tax liabilities	41,584	37,828	38,568	38,715
Borrowings	18,315	21,421	107,797	102,567
Total current liabilities	477,288	477,783	575,771	512,126
Non-current liabilities				
Borrowings	635,882	624,793	706,278	401,924
Deferred tax liabilities	34,018	35,886	37,594	13,344
Trade and other payables	17,166	17,725	19,646	25,702
Retirement benefit obligations	10,470	10,322	10,320	8,365
Total non-current liabilities	697,536	688,726	773,838	449,335
Total liabilities	1,174,824	1,166,509	1,349,609	961,461
Shareholders' equity				
Share capital	240,943	235,294	233,217	233,217
Treasury shares	(264,608)	(264,608)	(264,608)	(230,453)
Share premium and capital reserves	(287,956)	(283,087)	(289,095)	(299,645)
Fair value and other reserves	(129,119)	(118,491)	(121,491)	(103,247)
Retained earnings	756,143	763,543	740,748	624,926
Total shareholders' equity	315,403	332,651	298,771	224,798
Total equity	315,403	332,651	298,771	224,798
Total liabilities and equity	1,490,227	1,499,160	1,648,380	1,186,259

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All amounts are expressed in thousands of US dollars

	Three months to 30 June 2019	Three months to 30 June 2018	Year to date 30 June 2019	Year to date 30 June 2018
Cash flows from operating activities				
Profit before taxation	53,000	38,984	82,675	58,715
<u>Adjustments:</u>				
Depreciation and amortisation	30,378	23,005	60,551	46,279
Other non-cash and non-operating items	5,529	10,603	18,794	30,613
<u>Changes in working capital:</u>				
Trade and other receivables	(7,985)	(9,235)	(17,653)	(28,033)
Trade and other payables, and retirement benefit obligations	22,477	16,841	10,992	12,015
Deferred revenues (Contract liabilities)	(25,933)	(13,356)	(22,948)	(6,663)
Cash generated from operations	77,466	66,842	132,411	112,926
Income taxes paid	(6,256)	(6,146)	(12,908)	(10,457)
Net cash generated from operating activities	71,210	60,696	119,503	102,469
Cash flows from investing activities				
Purchase of property, plant and equipment	(1,613)	(2,461)	(3,098)	(3,869)
Disposal of property, plant and equipment	-	-	358	-
Purchase of intangible assets	(779)	(1,056)	(2,457)	(1,653)
Capitalised development costs	(14,296)	(13,151)	(28,445)	(25,750)
Acquisitions of subsidiary, net of cash acquired	54	-	(2,060)	-
Settlement of financial instruments	(1,748)	(3,558)	(2,730)	870
Interest received	203	337	778	738
Net cash used in investing activities	(18,179)	(19,889)	(37,654)	(29,664)
Cash flows from financing activities				
Dividend paid	(52,361)	(46,134)	(52,361)	(46,134)
Acquisition of treasury shares	-	(161,151)	-	(161,151)
Proceeds from borrowings	2,685	75,000	2,685	75,000
Repayments of borrowings	-	(39)	(110,000)	(41)
Repayment of bond	-	-	(100,652)	-
Payment of lease liabilities	(3,721)	-	(7,296)	-
Interest paid	(9,300)	(8,875)	(12,699)	(11,037)
Payment of other financing costs	(579)	(3,313)	(1,183)	(7,992)
Net cash used in financing activities	(63,276)	(144,512)	(281,506)	(151,355)
Effect of exchange rate changes	715	(3,642)	(501)	(1,346)
Net decrease in cash and cash equivalents in the period	(9,530)	(107,347)	(200,158)	(79,896)
Cash and cash equivalents at the beginning of the period	96,811	195,306	287,439	167,855
Cash and cash equivalents at the end of the period	87,281	87,959	87,281	87,959

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Appendix II – reconciliation of IFRS to non-IFRS Q2 2019 Income Statement

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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.

Reconciliation of IFRS to non-IFRS

IFRS - Non- IFRS Reconciliation Thousands of US Dollars	3 Months Ending 30 June						Change	
	2019 IFRS	Non-IFRS adjustments	2019 Non-IFRS	2018 IFRS	Non-IFRS adjustment	2018 Non-IFRS	IFRS	Non-IFRS
Software licensing	92,560		92,560	83,245		83,245	11%	11%
SaaS & subscription	13,493	1,100	14,593	7,593	-	7,593	78%	92%
Total software licensing	106,053	1,100	107,153	90,838	-	90,838	17%	18%
Maintenance	86,850		86,850	77,257		77,257	12%	12%
Services	43,063		43,063	38,018		38,018	13%	13%
Total Revenue	235,966	1,100	237,066	206,113	-	206,113	14%	15%
Total Operating Expenses	(178,297)	14,375	(163,922)	(160,698)	15,217	(145,481)	11%	13%
Restructuring	(2,063)	2,063	-	(5,904)	5,904	-	(65%)	
Amort of Acquired Intangibles	(12,312)	12,312	-	(9,313)	9,313	-	32%	
Operating Profit	57,669	15,475	73,144	45,415	15,217	60,632	27%	21%
Operating Margin	24%		31%	22%		29%	2.4% pts	1.4% pts
Financing Costs	(4,669)	-	(4,669)	(6,431)	2,200	(4,231)	(27%)	10%
Taxation	(8,039)	(1,958)	(9,997)	(5,682)	(1,687)	(7,369)	41%	36%
Net Earnings	44,961	13,517	58,478	33,302	15,730	49,032	35%	19%
EPS (USD per Share)	0.62	0.18	0.80	0.46	0.22	0.68	35%	18%