

Temenos raises full year guidance on back of strong Q3 results; announces share buyback

GENEVA, Switzerland, 19 October 2016 – Temenos Group AG (SIX: TEMN), the software specialist for banking and finance, today reports its third quarter 2016 results.

<i>USDm, except EPS</i>	Non-IFRS				IFRS			
	Q3-16	Q3-15	Change	CC*	Q3-16	Q3-15	Change	CC*
Software licensing	51.7	50.3	3%	4%	51.7	50.2	3%	4%
SaaS and subscription	13.1	11.7	12%	12%	12.8	8.3	55%	55%
Total software licensing	64.8	61.9	5%	5%	64.6	58.5	10%	11%
Maintenance	63.4	59.3	7%	9%	63.4	59.0	8%	10%
Services	32.6	27.6	18%	19%	32.6	27.5	19%	20%
Total revenues	160.8	148.9	8%	9%	160.6	145.0	11%	12%
EBIT	50.8	43.6	16%	17%	41.4	30.0	38%	38%
EBIT margin	31.6%	29.3%	2% pts	2% pts	25.8%	20.7%	5% pts	5% pts
EPS (USD)	0.58	0.49	18%		0.46	0.30	53%	

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

Q3 2016 highlights

- Outstanding performance across all KPIs, FY 2016 guidance raised
- Total software licensing grew 5.5% in constant currencies against tough comparative, which was up 95.5% and included Nordea, our largest deal ever
- On an LTM basis, total software licensing grew 32% in constant currencies and 20% LFL
- Digitalization and cost focus continue to drive strategic decision making and market growth
- Technology partner of choice for system modernization as demonstrated by Bank of Ireland (BOI), Standard Chartered Bank and Nordea
- Strong start to Q4 due to BOI, record level of revenue visibility
- Pipeline into 2017 is very strong, significant breadth and depth of deals
- Intention to launch share buyback of up to USD 100m in Q4 subject to regulatory approvals (see Q3 2016 results presentation for more details)

Q3 2016 financial summary

- Non-IFRS total software licensing up 5.5% (c.c.) and IFRS total software licensing up 11% (c.c.) Y-o-Y
- Non-IFRS maintenance growth of 9% (c.c.) and IFRS maintenance growth of 10% (c.c.) Y-o-Y
- Non-IFRS EBIT up 17% (c.c.) and IFRS EBIT up 38% (c.c.) Y-o-Y
- Non-IFRS EPS increase of 18% and IFRS EPS increase of 53% Y-o-Y
- Q3 2016 LTM cash conversion of 125%
- DSOs down 40 days Y-o-Y

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

“The business has performed very well in Q3, sustaining our strong momentum. We were able to grow against a tough comparative which included Nordea, and total software licensing is now up 32% in the last twelve months. Our performance has been driven by broad based client activity across geographies, tiers and verticals, and we are confident in building on this as we look towards 2017.

It is clear that banks are focused on moving to scalable, customer-centric models with digital at the heart of their transformation, and our solution is able to meet these demands as demonstrated by the multiple deals we have announced with Tier 1 and 2 banks in the last 2 years. I am particularly pleased with the deal we announced with Bank of Ireland for UniversalSuite, which shows the benefit of leveraging a vertically integrated solution across multiple business lines to prepare for a digital future.”

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

“Q3 has been an excellent quarter, in which we grew total revenues by 9% and profit by 17%. Our operating cash grew 8% and we ended the quarter with DSOs at 129 days, a decrease of 40 days in the last twelve months. With the announcement of the Bank of Ireland deal, we had a strong start to Q4 and have raised our guidance for the full year to reflect the revenue growth and visibility in the business. We are now guiding for total software licensing to grow 15% to 20%, and for total revenues to grow between 12.5% and 14.5%.”

Revenue

IFRS revenue for the quarter was USD 160.6m, up from USD 145.0m in Q3 2015. Non-IFRS revenue was USD 160.8m for the quarter, up from USD 148.9m in Q3 2015, representing an increase of 9% in constant currencies. IFRS total software licensing revenue for the quarter was USD 64.6m, and non-IFRS total software licensing revenue for the quarter was USD 64.8m, an increase of 5.5% from Q3 2015 in constant currencies. The year-on-year growth was driven by the Standard Chartered Bank deal and strong delivery in Europe, enabling the business to lap a tough comparative which included Nordea, our largest deal ever.

EBIT

IFRS EBIT was USD 41.4m this quarter, up from USD 30.0 in Q3 2015. Non-IFRS EBIT was USD 50.8m in Q3 2016, an increase of 17% from Q3 2015 in constant currencies. Q3 2016 non-IFRS EBIT margin was 31.6%, up 2% points on Q3 2015.

Earnings per share (EPS)

IFRS EPS for the quarter was USD 0.46 vs. USD 0.30 in Q3 2015. Non-IFRS EPS was 0.58 for the quarter vs. USD 0.49 in Q3 2015, an increase of 18%.

Pre-tax operating cash

IFRS operating cash was an inflow of USD 39.7m in Q3 2016 compared to USD 36.6m in Q3 2015. For LTM to September 2016, operating cash was USD 262.5m representing a conversion of 125% of IFRS EBITDA into operating cash.

Revised 2016 guidance

The company raises its outlook for the year as follows*:

- Non-IFRS total software licensing growth at constant currencies of 15% to 20% (implying non-IFRS total software licensing revenue of USD 245m to USD 256m), up from 10% to 15%
- Non-IFRS revenue growth at constant currencies of 12.5% to 14.5% (implying non-IFRS revenue of USD 621m to USD 632m), up from 7.5% to 11.0%
- Non-IFRS EBIT at constant currencies of USD 184m to 186m (implying non-IFRS EBIT margin of c.30%), up from USD 180m to USD 185m
- 100%+ conversion of EBITDA into operating cash flow
- Normalized tax rate of 17% to 18%

*Assumes FX rates as disclosed in Q3 2016 results presentation - <https://www.temenos.com/en/about-temenos/investor-relations>)

Conference call

At 18.30 CET / 17.30 GMT / 12.30 EST, today, 19 October 2016, 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 828 006	(Swiss Free Call)
1 866 966 9439	(USA Free Call)
0800 694 0257	(UK Free Call)
+44 (0) 1452 555 566	(UK and International)

Conference ID # 96581163

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 2016 non-IFRS guidance:

- FY 2016 estimated amortisation of acquired intangibles of USD 35m
- FY 2016 estimated restructuring costs of USD 4m

Restructuring costs include completion of Multifonds integration and realising R&D efficiencies in acquired products. These estimates do not include impact of any further acquisitions or restructuring programmes commenced after 19 October 2016.

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

Investor and media contacts

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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 2,000 firms across the globe, including 38 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: in the period 2008-2014, 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 – Q3 2016 IFRS primary statements
TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

except earnings per share

	Three months to 30 September 2016	Three months to 30 September 2015	Twelve months to 30 September 2016	Twelve months to 30 September 2015
Revenues				
Software licensing	51,714	50,244	192,341	155,278
SaaS & subscription	12,849	8,286	44,541	21,290
Total software licensing	<u>64,563</u>	58,530	<u>236,882</u>	176,568
Maintenance	63,447	58,985	247,017	229,123
Services	<u>32,559</u>	<u>27,457</u>	<u>127,732</u>	<u>101,541</u>
Total revenues	<u>160,569</u>	<u>144,972</u>	<u>611,631</u>	<u>507,232</u>
Operating expenses				
Sales and marketing	28,325	29,760	110,525	94,914
Services	29,482	26,238	117,514	93,009
Software development and maintenance	44,099	40,820	175,938	144,590
General and administrative	<u>17,284</u>	<u>18,110</u>	<u>74,762</u>	<u>70,250</u>
Total operating expenses	<u>119,190</u>	<u>114,928</u>	<u>478,739</u>	<u>402,763</u>
Operating profit	<u>41,379</u>	<u>30,044</u>	<u>132,892</u>	<u>104,469</u>
Other expenses				
Net interest expenses	(3,812)	(4,536)	(16,199)	(13,595)
Borrowing facility expenses	(420)	(342)	(1,489)	(2,154)
Foreign exchange gain/(loss)	<u>365</u>	<u>(723)</u>	<u>(1,698)</u>	<u>(888)</u>
Total other expenses	<u>(3,867)</u>	<u>(5,601)</u>	<u>(19,386)</u>	<u>(16,637)</u>
Profit before taxation	37,512	24,443	113,506	87,832
Taxation	<u>(4,671)</u>	<u>(3,891)</u>	<u>(15,263)</u>	<u>(11,747)</u>
Profit for the period	<u>32,841</u>	<u>20,552</u>	<u>98,243</u>	<u>76,085</u>
Earnings per share (in US\$):				
basic	0.47	0.31	1.45	1.16
diluted	0.46	0.30	1.37	1.12
non-IFRS	0.58	0.49	1.93	1.78

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	30 September 2016	30 June 2016	31 December 2015	30 September 2015
Assets				
Current assets				
Cash and cash equivalents	115,836	97,372	193,252	83,589
Trade receivables	208,728	205,225	221,828	226,302
Other receivables	30,306	32,838	25,734	26,216
Total current assets	354,870	335,435	440,814	336,107
Non-current assets				
Property, plant and equipment	16,317	15,231	15,610	16,893
Intangible assets	726,349	728,613	737,998	743,691
Trade receivables	9,529	9,573	13,865	14,015
Other receivables	3,696	3,593	3,380	3,607
Deferred tax assets	18,089	16,676	17,307	18,365
Total non-current assets	773,980	773,686	788,160	796,571
Total assets	1,128,850	1,109,121	1,228,974	1,132,678
Liabilities and equity				
Current liabilities				
Trade and other payables	92,507	83,715	104,019	92,027
Deferred revenues	163,623	197,109	213,197	143,084
Income tax liabilities	30,753	25,756	24,683	7,852
Borrowings	105,882	3,634	15,011	12,972
Total current liabilities	392,765	310,214	356,910	255,935
Non-current liabilities				
Borrowings	283,075	382,160	445,441	488,206
Deferred tax liabilities	18,705	20,059	23,181	27,629
Income taxes payable	1,765	1,765	1,765	1,782
Trade and other payables	16,490	15,460	18,472	18,232
Retirement benefit obligations	8,021	8,552	7,908	6,474
Total non-current liabilities	328,056	427,996	496,767	542,323
Total liabilities	720,821	738,210	853,677	798,258
Shareholders' equity				
Share capital	225,854	225,654	210,774	210,774
Treasury shares	(4,666)	(4,666)	(19,686)	(22,793)
Share premium and capital reserves	(164,631)	(171,560)	(148,516)	(158,422)
Fair value and other reserves	(119,528)	(116,676)	(110,084)	(101,007)
Retained earnings	471,000	438,159	442,809	405,868
Total equity	408,029	370,911	375,297	334,420
Total liabilities and equity	1,128,850	1,109,121	1,228,974	1,132,678

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	Three months to 30 September 2016	Three months to 30 September 2015	Twelve months to 30 September 2016	Twelve months to 30 September 2015
Cash flows from operating activities				
Profit before taxation	37,512	24,443	113,506	87,832
<u>Adjustments:</u>				
Depreciation and amortisation	18,748	19,774	77,355	66,416
Other non-cash and non-operating items	11,078	13,960	45,078	32,512
<u>Changes in working capital:</u>				
Trade and other receivables	(1,850)	(15,563)	13,130	(2,237)
Trade and other payables, and retirement benefit obligations	7,842	8,003	(5,164)	(8,208)
Deferred revenues	(33,680)	(14,016)	18,602	8,137
Cash generated from operations	39,650	36,601	262,507	184,452
Income taxes paid	(4,210)	(1,912)	(10,015)	(9,333)
Net cash generated from operating activities	35,440	34,689	252,492	175,119
Cash flows from investing activities				
Purchase of property, plant and equipment	(2,437)	(1,624)	(5,518)	(6,780)
Disposal of property, plant and equipment	-	-	-	-
Purchase of intangible assets	(879)	(1,120)	(3,655)	(4,347)
Disposal of intangible assets	-	-	-	2,000
Capitalised development costs	(10,788)	(10,780)	(45,931)	(46,221)
Acquisitions of subsidiary, net of cash acquired	-	-	(1,581)	(297,727)
Disposal of subsidiary or business, net of cash disposed	-	-	515	8
Settlement of financial instruments	1,896	(1,323)	95	2,093
Interest received	47	23	101	68
Net cash used in investing activities	(12,161)	(14,824)	(55,974)	(350,906)
Cash flows from financing activities				
Dividend paid	-	-	(31,733)	(28,605)
Acquisition of treasury shares	-	-	-	(46,499)
Proceeds from/(repayments of) borrowings	(11)	9,978	(113,284)	22,582
Proceeds from issuance of bonds	-	-	-	190,569
Interest paid	(4,449)	(5,214)	(13,232)	(9,668)
Payment of other financing costs	(1,040)	(508)	(6,295)	(2,569)
Payment of finance lease liabilities	-	(3)	-	(37)
Net cash (used in)/generated from financing activities	(5,500)	4,253	(164,544)	125,773
Effect of exchange rate changes	685	(198)	273	(3,782)
Net increase/(decrease) in cash and cash equivalents in the period	18,464	23,920	32,247	(53,796)
Cash and cash equivalents at the beginning of the period	97,372	59,669	83,589	137,385
Cash and cash equivalents at the end of the period	115,836	83,589	115,836	83,589



Appendix II – reconciliation of IFRS to non-IFRS Q3 2016 Income Statement

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.

IFRS - Non-IFRS Reconciliation Thousands of US Dollars	3 Months Ending 30 September 2016						Change	
	2016 IFRS	Adjustment	2016 Non-IFRS	2015 IFRS	Adjustment	2015 Non-IFRS	IFRS	Non-IFRS
Total Software Licensing	64,563	265	64,828	58,530	3,401	61,931	10%	5%
Maintenance	63,447		63,447	58,985	348	59,333	8%	7%
Services	32,559		32,559	27,457	136	27,593	19%	18%
Total Revenue	160,569	265	160,834	144,972	3,885	148,857	11%	8%
Total Operating Expenses	(119,190)	9,129	(110,061)	(114,928)	9,716	(105,212)	4%	5%
Restructuring	(1,149)	1,149	-	(1,339)	1,339	-	(14%)	
Amort of Acquired Intangibles	(7,980)	7,980	-	(8,377)	8,377	-	(5%)	
Operating Profit	41,379	9,394	50,773	30,044	13,601	43,645	38%	16%
Operating Margin	26%		32%	21%		29%	5% pts	2% pts
Financing Costs	(3,867)		(3,867)	(5,601)		(5,601)	(31%)	(31%)
Taxation	(4,671)	(1,000)	(5,671)	(3,891)	(1,300)	(5,191)	20%	9%
Net Earnings	32,841	8,394	41,235	20,552	12,301	32,853	60%	26%
EPS (\$ per Share)	0.46	0.12	0.58	0.30	0.19	0.49	53%	18%