

Temenos announces strong Q2 results with total software licensing revenue growth of 22%

GENEVA, Switzerland, 19 July 2017 – Temenos Group AG (SIX: TEMN), the software specialist for banking and finance, today reports its second quarter 2017 results.

<i>USDm, except EPS</i>	Non-IFRS				IFRS			
	Q2-17	Q2-16	Change	CC*	Q2-17	Q2-16	Change	CC*
Software licensing	57.4	47.8	20%	21%	57.4	47.8	20%	21%
SaaS & subscription	15.4	12.6	22%	24%	15.0	12.4	22%	23%
Total software licensing	72.8	60.4	21%	22%	72.4	60.1	20%	22%
Maintenance	66.8	61.2	9%	11%	66.8	61.2	9%	11%
Services	35.1	32.2	9%	12%	35.1	32.2	9%	12%
Total revenues	174.7	153.8	14%	15%	174.3	153.6	14%	15%
EBIT	48.0	38.7	24%	21%	34.7	28.9	20%	17%
EBIT margin	27.5%	25.2%	2% pts	1% pts	19.9%	18.8%	1% pts	0% pts
EPS (USD)	0.52	0.42	24%		0.35	0.29	21%	

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 2017 highlights

- Strong momentum across all KPIs
- Digital and regulatory pressure on banks driving market growth
- Recognised as a Leader in the Gartner Magic Quadrant for Global Retail Core Banking 2017¹ and as a Leader in The Forrester Wave™: Digital Banking Engagement Platforms, Q3 2017²
- Strong growth in signings and pipeline generation across all geographies
- Acquisition of Rubik closed in May, bringing scale and presence in the Australian market
- Strong start to Q3, increased visibility and strength of pipeline gives confidence for full year guidance

Q2 2017 financial summary

- Non-IFRS total software licensing revenues up 22% y-o-y (c.c.)
- Non-IFRS maintenance growth of 11% y-o-y (c.c.)
- Non-IFRS total revenue growth of 15% y-o-y (c.c.)
- Non-IFRS EBIT up 21% y-o-y (c.c.), LTM non-IFRS EBIT margin of 30.0%
- Non-IFRS EPS increase of 24%
- Q2 2017 LTM cash conversion of 117%
- DSOs at 124 days, down 6 days y-o-y
- 2016 share buyback of CHF 99m completed in June 2017

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

“I am very pleased with our performance this quarter, which has been excellent across the board. We saw strong levels of activity in Q2 across all of our geographies, client tiers and segments and competed successfully, winning significant market share.

We see continued pressure on banks to transform, driven by end-customer adoption of digital banking services as well as regulation. This is translating into significant growth in our market as banks embark on front-to-back progressive renovation of their legacy systems.

The strength of our business model is enabling us to pull ahead of our competition and Temenos has been recognised as a Leader in Global Retail Core Banking by Gartner and in Digital Banking Engagement Platforms by Forrester.”

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

“We have continued to execute very well and this was reflected in our revenue and profit growth. We grew total software licensing 22% in the quarter and our EBIT was up 21%. We are investing in the business, in particular in Sales and Marketing, to ensure we are well positioned to continue taking market share.

We completed the acquisition of Rubik in May, which has given us scale and presence in the growing Australian market, and we are already seeing a high level of pipeline activity for core banking renovation and wealth.

With strong growth in both signings and pipeline generation in the second quarter, our revenue visibility is very high for the year. We have had a strong start to Q3 and I am very confident in achieving our guidance for the full year.”

Revenue

IFRS total revenue for the quarter was USD 174.3m, up from USD 153.6m in Q2 2016. Non-IFRS total revenue was USD 174.7m for the quarter, up from USD 153.8m in Q2 2016, representing an increase of 15% in constant currencies. IFRS total software licensing revenue for the quarter was USD 72.4m, and non-IFRS total software licensing revenue for the quarter was USD 72.8m, an increase of 22% from Q2 2016 in constant currencies.

EBIT

IFRS EBIT was USD 34.7m this quarter, up from USD 28.9m in Q2 2016. Non-IFRS EBIT was USD 48.0m in this quarter, an increase of 21% in constant currencies. Q2 2017 non-IFRS EBIT margin was 27.5%, up 1% point on Q2 2016.

Earnings per share (EPS)

IFRS EPS for the quarter was USD 0.35, an increase of 21% vs. Q2 2016. Non-IFRS EPS was USD 0.52 for the quarter vs. USD 0.42 in Q2 2016.

Operating cash flow

IFRS operating cash was an inflow of USD 44.0m in Q2 2017 compared to USD 37.7m in Q2 2016. For LTM to June 2017, operating cash flow was USD 276.7m representing a conversion of 117% of IFRS EBITDA into operating cash.

2017 guidance

Our guidance for 2017 is as follows*:

- Non-IFRS total software licensing growth at constant currency of 15% to 20% (implying total software licensing revenue of USD 291m to USD 304m)
- Non-IFRS revenue growth at constant currency of 10% to 13% (implying revenue of USD 693m to USD 712m)
- Non-IFRS EBIT at constant currency of USD 210m to 215m (implying non-IFRS EBIT margin of c.30.5%)
- 100%+ conversion of EBITDA into operating cash flow
- Expected FY 2017 tax rate of 14% to 15%

*Assumes FX rates as disclosed in the Q2 2017 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 July 2017, 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 920 016	(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 # 53258631

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 2017 non-IFRS guidance:

- FY 2017 estimated deferred revenue write down of USD 3m
- FY 2017 estimated amortisation of acquired intangibles of USD 35m
- FY 2017 estimated acquisition related charges of USD 2m
- FY 2017 estimated restructuring costs of USD 7m

Restructuring costs include realising R&D, operational and infrastructure efficiencies and the integration of Rubik. These estimates do not include impact of any further acquisitions or restructuring programmes commenced after 19 July 2017.

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 2,000 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.

¹ Gartner Magic Quadrant for Global Retail Core Banking, 10.7.17

² The Forrester Wave™: Digital Banking Engagement Platforms, Q3 2017, 11.7.17

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Appendix I – Q2 2017 IFRS primary statements
TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

except earnings per share

	Three months to 30 June 2017	Three months to 30 June 2016	Twelve months to 30 June 2017	Twelve months to 30 June 2016
Revenues				
Software licensing	57,375	47,752	219,853	190,871
SaaS & subscription	15,032	12,365	53,749	39,978
Total software licensing	72,407	60,117	273,602	230,849
Maintenance	66,833	61,246	260,341	242,555
Services	35,064	32,200	134,197	122,629
Total revenues	174,304	153,563	668,140	596,033
Operating expenses				
Sales and marketing	38,248	29,539	126,687	111,959
Services	33,304	31,563	120,845	114,270
Software development and maintenance	48,373	44,412	183,739	172,658
General and administrative	19,670	19,119	75,610	75,589
Total operating expenses	139,595	124,633	506,881	474,476
Operating profit	34,709	28,930	161,259	121,557
Other expenses				
Net interest expenses	(3,963)	(3,869)	(14,716)	(16,922)
Borrowing facility expenses	(420)	(342)	(1,680)	(1,411)
Foreign exchange loss	(648)	(631)	(286)	(2,786)
Total other expenses	(5,031)	(4,842)	(16,682)	(21,119)
Profit before taxation	29,678	24,088	144,577	100,438
Taxation	(4,393)	(3,150)	(18,450)	(14,481)
Profit for the period	25,285	20,938	126,127	85,957
Earnings per share (in US\$):				
basic	0.36	0.30	1.81	1.28
diluted	0.35	0.29	1.75	1.22
non-IFRS	0.52	0.42	2.25	1.84

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	30 June 2017	31 March 2017	31 December 2016	30 June 2016
Assets				
Current assets				
Cash and cash equivalents	252,911	209,889	194,340	97,372
Trade receivables	220,656	213,467	208,802	205,225
Other receivables	29,314	33,869	27,024	32,838
Total current assets	502,881	457,225	430,166	335,435
Non-current assets				
Property, plant and equipment	17,841	16,287	15,788	15,231
Intangible assets	787,849	692,605	690,097	728,613
Trade receivables	7,489	12,027	12,801	9,573
Other receivables	3,820	3,839	3,649	3,593
Deferred tax assets	24,580	21,105	19,001	16,676
Total non-current assets	841,579	745,863	741,336	773,686
Total assets	1,344,460	1,203,088	1,171,502	1,109,121
Liabilities and equity				
Current liabilities				
Trade and other payables	113,296	124,171	114,327	83,715
Deferred revenues	212,256	217,285	216,251	197,109
Income tax liabilities	31,277	30,701	28,992	25,756
Borrowings	110,246	104,815	102,780	3,634
Total current liabilities	467,075	476,972	462,350	310,214
Non-current liabilities				
Borrowings	442,633	274,217	269,182	382,160
Deferred tax liabilities	19,749	15,470	16,617	20,059
Income taxes payable	1,869	1,801	1,801	1,765
Trade and other payables	15,754	10,586	13,237	15,460
Retirement benefit obligations	9,862	9,143	9,176	8,552
Total non-current liabilities	489,867	311,217	310,013	427,996
Total liabilities	956,942	788,189	772,363	738,210
Shareholders' equity				
Share capital	232,192	232,075	226,058	225,654
Treasury shares	(54,430)	(26,753)	(66,487)	(4,666)
Share premium and capital reserves	(201,327)	(201,924)	(154,249)	(171,560)
Fair value and other reserves	(111,772)	(125,575)	(131,168)	(116,676)
Retained earnings	522,855	537,076	524,985	438,159
Total shareholders' equity	387,518	414,899	399,139	370,911
Total equity	387,518	414,899	399,139	370,911
Total liabilities and equity	1,344,460	1,203,088	1,171,502	1,109,121

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	Three months to 30 June 2017	Three months to 30 June 2016	Twelve months to 30 June 2017	Twelve months to 30 June 2016
Cash flows from operating activities				
Profit before taxation	29,678	24,088	144,577	100,438
<u>Adjustments:</u>				
Depreciation and amortisation	20,008	19,427	76,208	78,381
Other non-cash and non-operating items	9,995	8,701	39,327	47,960
<u>Changes in working capital:</u>				
Trade and other receivables	9,166	20,927	(14,231)	(583)
Trade and other payables, and retirement benefit obligations	(11,608)	(27,342)	19,710	(5,004)
Deferred revenues	(13,202)	(8,093)	11,116	38,266
Cash generated from operations	44,037	37,708	276,707	259,458
Income taxes paid	(4,000)	(260)	(12,843)	(7,717)
Net cash generated from operating activities	40,037	37,448	263,864	251,741
Cash flows from investing activities				
Purchase of property, plant and equipment	(1,720)	(1,031)	(7,153)	(4,704)
Purchase of intangible assets	(2,048)	(1,375)	(4,867)	(3,896)
Capitalised development costs	(11,812)	(11,313)	(46,484)	(45,924)
Acquisitions of subsidiary, net of cash acquired	(51,818)	-	(51,818)	(1,581)
Disposal of subsidiary or business, net of cash disposed	-	489	-	515
Settlement of financial instruments	1,317	(1,276)	11,463	(3,125)
Interest received	874	11	1,158	77
Net cash used in investing activities	(65,207)	(14,495)	(97,701)	(58,638)
Cash flows from financing activities				
Dividend paid	(39,506)	(31,733)	(39,506)	(31,733)
Acquisition of treasury shares	(31,480)	-	(99,949)	-
Repayments of borrowings	(10,200)	(14)	(10,133)	(103,295)
Proceeds from issuance of bonds	148,781	-	148,781	-
Interest paid	(5,698)	(5,810)	(12,204)	(13,998)
Payment of other financing costs	(540)	(672)	(3,366)	(5,763)
Payment of finance lease liabilities	-	-	-	(4)
Net cash generated from / (used in) financing activities	61,357	(38,229)	(16,377)	(154,793)
Effect of exchange rate changes	6,835	(955)	5,753	(607)
Net increase / (decrease) in cash and cash equivalents in the period	43,022	(16,231)	155,539	37,703
Cash and cash equivalents at the beginning of the period	209,889	113,603	97,372	59,669
Cash and cash equivalents at the end of the period	252,911	97,372	252,911	97,372



Appendix II – reconciliation of IFRS to non-IFRS Q2 2017 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 June						Change	
	2017 IFRS	Adjustment	2017 Non-IFRS	2016 IFRS	Adjustment	2016 Non-IFRS	IFRS	Non-IFRS
Total Software Licensing	72,407	373	72,780	60,117	265	60,382	20%	21%
Maintenance	66,833		66,833	61,246		61,246	9%	9%
Services	35,064		35,064	32,200		32,200	9%	9%
Total Revenue	174,304	373	174,677	153,563	265	153,828	14%	14%
Total Operating Expenses	(139,595)	12,882	(126,714)	(124,633)	9,542	(115,091)	12%	10%
Restructuring	(4,801)	4,801	-	(1,470)	1,470	-	227%	
Amort of Acquired Intangibles	(8,081)	8,081	-	(8,072)	8,072	-	0%	
Operating Profit	34,709	13,255	47,964	28,930	9,807	38,737	20%	24%
Operating Margin	20%		27%	19%		25%	1.1% pts	2.3% pts
Financing Costs	(5,031)		(5,031)	(4,842)		(4,842)	4%	4%
Taxation	(4,393)	(1,250)	(5,643)	(3,150)	(1,000)	(4,150)	39%	36%
Net Earnings	25,285	12,005	37,290	20,938	8,807	29,745	21%	25%
EPS (USD per Share)	0.35	0.17	0.52	0.29	0.13	0.42	21%	24%