

Temenos announces very strong Q2 total software licensing growth of 23%

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

	Non-IFRS (under IAS 18)				IFRS			
	Q2-18 (IAS 18)	Q2-17 (IAS 18)	Change	CC*	Q2-18 (IFRS 15)	Q2-18 (IAS 18)	Q2-17 (IAS 18)	Change (IAS 18)
<i>USDm, except EPS</i>								
Software licencing	72.5	57.4	26%	24%	83.2	72.5	57.4	26%
SaaS & subscription	17.3	15.4	12%	10%	7.6	17.3	15.0	15%
Total software licencing	89.7	72.8	23%	21%	90.8	89.7	72.4	24%
Maintenance	75.0	66.8	12%	10%	77.3	75.0	66.8	12%
Services	39.3	35.1	12%	8%	38.0	39.3	35.1	12%
Total revenues	204.0	174.7	17%	14%	206.1	204.0	174.3	17%
EBIT	57.7	48.0	20%	20%	45.4	42.4	34.7	22%
EBIT margin	28.3%	27.5%	1% pts	1% pts	22.0%	20.8%	19.9%	1% pts
EPS (USD)	0.64	0.52	23%		0.46	0.42	0.35	20%

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 and a full reconciliation is provided in the appendix.

Q2 2018 highlights

- Very strong quarter driven by broad based demand across all tiers and geographies
- Digital, regulatory and competitive pressures on banks continue to intensify, with open banking and payments a key focus
- Competitive deals contributed 41% of software licencing, 13 new customer wins
- Europe lapped strong comparative, driven by large number of deals across all tiers
- APAC growth driven by significant progress in Australia
- Traction in US with signing of Northern Trust for its European operations and a US digital neo-bank
- Third party recognition of leadership position, pulling ahead of the competition
- Strong start to Q3, committed spend from tier 1 and 2 banks giving confidence in 2018 guidance

Q2 2018 financial summary (non-IFRS, IAS 18)

- Non-IFRS total software licencing revenues up 23%
- Non-IFRS maintenance growth of 12%
- Non-IFRS total revenue growth of 17%
- Non-IFRS EBIT up 20%, LTM non-IFRS EBIT margin of 30.5%
- Non-IFRS EPS increase of 23%
- Operating cash flow up 52%, cash conversion at 116%
- DSOs down 10 days Y-o-Y to 114 days

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

“We had a very strong second quarter, building on the momentum from Q1. There has been a marked increase in engagement by banks across all regions around front-to-back digital renovation this year, which is reflected in both our signings and pipeline growth. We are seeing more and more clients focused on open banking, what it means for their businesses going forward and how they plan to use core IT renovation to achieve their digital ambitions. We also increasingly see payments as a pain point for banks which is bringing more of them to the table.

This quarter we were once again recognised as a leader by Gartner, who highlighted our ability to execute and the strength of our vision. This reflects our relentless focus on innovation and ensuring client success through our rigorous implementation methodologies.”

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

“We had a very strong performance in Q2, with total software licensing growth of 23% and total revenue growth of 17%. These results were driven by broad based demand across all tiers and geographies, with Australia in particular driving growth in Asia and Europe lapping a strong comparative driven by a large number of deals across tiers. We also had good traction in the US with the signing of Northern Trust and a digital neo-bank.

We had a strong start to Q3 and our revenue visibility continues to increase driven by committed spend from tier 1 and 2 clients undergoing progressive renovation. I am confident we will be above the mid-point of our guidance for FY 2018.”

Revenue

IFRS (IFRS 15) revenue for the quarter was USD 206.1m.

IFRS (IAS-18) revenue were USD 204.0m, an increase of 17% vs. Q2 2017. Non-IFRS (IAS 18) revenue was USD 204.0m for the quarter, an increase of 17% vs. Q2 2017.

IFRS (IFRS 15) total software licensing revenue for the quarter was USD 90.8m.

IFRS (IAS 18) total software licensing revenue for the quarter was USD 89.7m, an increase of 24% vs. Q2 2017.

Non-IFRS (IAS 18) total software licensing revenue was USD 89.7m for the quarter, an increase of 23% vs. Q2 2017.

EBIT

IFRS (IFRS 15) EBIT was USD 45.4m for the quarter.

IFRS (IAS 18) EBIT was USD 42.4m for the quarter, an increase of 22% vs. Q2 2017. Non-IFRS (IAS 18) EBIT was USD 57.7m for the quarter, an increase of 20% vs. Q2 2017. Q2 2018 non-IFRS (IAS 18) EBIT margin was 28.3%, up 1% points vs. Q2 2017.

Earnings per share (EPS)

IFRS (IFRS 15) EPS for the quarter was USD 0.46.

IFRS (IAS 18) EPS was USD 0.42 for the quarter, an increase of 20% vs. Q2 2017. Non-IFRS (IAS 18) EPS was 0.64 for the quarter, an increase of 23% vs. Q2 2017.

Operating cash flow

IFRS (IFRS 15) operating cash was an inflow of USD 66.8m in Q2 2018 compared to USD 44.0m in Q2 2017. For LTM to June 2018, operating cash was USD 332.0m representing a conversion of 116% of IFRS (IAS 18) EBITDA into operating cash.

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 363m to USD 379m)
- Non-IFRS revenue growth at constant currency of 10% to 13% (implying revenue of USD 820m to USD 840m)
- 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 IFRS EBITDA into operating cashflow
- IFRS 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 0.859;
- USD to GBP exchange rate of 0.754; and
- USD to CHF exchange rate of 0.990.

Conference call

At 18.30 CET / 17.30 GMT / 12.30 EST, today, 18 July 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 # 5193514

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 13m

Restructuring costs include realising R&D, operational and infrastructure efficiencies. Acquisition costs include the costs associated with the bid for Fidessa.

These estimates do not include impact of any further acquisitions or restructuring programmes commenced after 18 July 2018. The above figures are estimates only and may deviate from expected amounts.

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About Temenos

Temenos 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 – Q2 2018 IFRS primary statements
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All amounts are expressed in thousands of US dollars
except earnings per share

	Three months to 30 June 2018 (IFRS15)	Three months to 30 June 2018 (IAS 18)	Three months to 30 June 2017 (IAS 18)	Twelve months to 30 June 2018 (IAS 18)	Twelve months to 30 June 2017 (IAS 18)
Revenues					
Software licensing	83,245	72,459	57,375	276,867	219,853
SaaS & subscription	7,593	17,258	15,032	73,659	53,749
Total software licensing	90,838	89,717	72,407	350,526	273,602
Maintenance	77,257	74,974	66,833	292,094	260,341
Services	38,018	39,344	35,064	151,791	134,197
Total revenues	206,113	204,035	174,304	794,411	668,140
Operating expenses					
Sales and marketing	42,553	44,188	38,248	161,458	126,687
Services	35,318	35,318	33,304	135,947	120,845
Software development and maintenance	55,358	54,617	48,373	215,742	183,739
General and administrative	27,469	27,469	19,670	88,724	75,610
Total operating expenses	160,698	161,592	139,595	601,871	506,881
Operating profit	45,415	42,443	34,709	192,540	161,259
Other expenses					
Net interest expenses	(5,554)	(5,554)	(3,963)	(14,333)	(14,716)
Borrowing facility expenses	(420)	(420)	(420)	(6,282)	(1,680)
Foreign exchange (loss) / gain	(457)	(457)	(648)	(995)	(286)
Total other expenses	(6,431)	(6,431)	(5,031)	(21,610)	(16,682)
Profit before taxation	38,984	36,012	29,678	170,930	144,577
Taxation	(5,682)	(5,250)	(4,393)	(24,075)	(18,450)
Profit for the period	33,302	30,762	25,285	146,855	126,127
Earnings per share (in US\$):					
<i>basic</i>	0.48	0.44	0.36	2.11	1.81
<i>diluted</i>	0.46	0.42	0.35	2.03	1.75
<i>non-IFRS</i>	0.68	0.64	0.52	2.72	2.25

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	30 June 2018 (IFRS 15)	30 June 2018 (IAS18)	31 March 2018 (IAS18)	31 December 2017 (IAS 18)	30 June 2017 (IAS 18)
Assets					
Current assets					
Cash and cash equivalents	87,959	87,959	195,306	167,855	252,911
Trade receivables	241,500	250,392	243,432	233,822	220,656
Other receivables	39,865	35,327	39,596	28,777	29,314
Total current assets	369,324	373,678	478,334	430,454	502,881
Non-current assets					
Property, plant and equipment	16,776	16,776	16,711	16,385	17,841
Intangible assets	765,134	765,134	802,673	795,961	787,849
Trade receivables	8,533	8,533	9,033	6,753	7,489
Other receivables	4,479	4,479	4,231	3,787	3,820
Deferred tax assets	22,013	22,013	24,905	21,943	24,580
Total non-current assets	816,935	816,935	857,553	844,829	841,579
Total assets	1,186,259	1,190,613	1,335,887	1,275,283	1,344,460
Liabilities and equity					
Current liabilities					
Trade and other payables	145,693	145,693	134,761	130,921	113,296
Contract liabilities (Deferred Revenue)	225,151	230,937	243,307	232,489	212,256
Income tax liabilities	38,715	37,819	41,660	41,042	31,277
Borrowings	102,567	102,567	110,813	5,885	110,246
Total current liabilities	512,126	517,016	530,541	410,337	467,075
Non-current liabilities					
Borrowings	401,924	401,924	339,394	434,299	442,633
Deferred tax liabilities	13,344	13,344	15,345	15,408	19,749
Income taxes payable	-	-	-	-	1,869
Trade and other payables	25,702	25,702	29,729	27,990	15,754
Retirement benefit obligations	8,365	8,365	8,265	7,736	9,862
Total non-current liabilities	449,335	449,335	392,733	485,433	489,867
Total liabilities	961,461	966,351	923,274	895,770	956,942
Shareholders' equity					
Share capital	233,217	233,217	233,283	232,192	232,192
Treasury shares	(230,453)	(230,453)	(197,750)	(197,750)	(54,430)
Share premium and capital reserves	(299,645)	(299,645)	(175,577)	(186,287)	(201,327)
Fair value and other reserves	(103,247)	(103,247)	(87,105)	(93,341)	(111,772)
Retained earnings	624,926	624,390	639,762	624,699	522,855
Total shareholders' equity	224,798	224,262	412,613	379,513	387,518
Total equity	224,798	224,262	412,613	379,513	387,518
Total liabilities and equity	1,186,259	1,190,613	1,335,887	1,275,283	1,344,460

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	Three months to 30 June 2018 (IFRS 15)	Three months to 30 June 2018 (IAS 18)	Three months to 30 June 2017 (IAS 18)	Twelve months to 30 June 2018 (IAS 18)	Twelve months to 30 June 2017 (IAS 18)
Cash flows from operating activities					
Profit before taxation	38,984	36,012	29,678	170,930	144,577
<u>Adjustments:</u>					
Depreciation and amortisation	23,005	23,005	20,008	92,451	76,208
Other non-cash and non-operating items	10,603	10,603	9,995	66,072	39,327
<u>Changes in working capital:</u>					
Trade and other receivables	(9,235)	(13,029)	9,166	(39,317)	(14,231)
Trade and other payables, and retirement benefit obligations	16,841	16,841	(11,608)	23,880	19,710
Contract liabilities (Deferred revenues)	(13,356)	(6,590)	(13,202)	17,961	11,116
<i>Cash generated from operations</i>	66,842	66,842	44,037	331,977	276,707
Income taxes paid	(6,146)	(6,146)	(4,000)	(16,887)	(12,843)
Net cash generated from operating activities	60,696	60,696	40,037	315,090	263,864
Cash flows from investing activities					
Purchase of property, plant and equipment	(2,461)	(2,461)	(1,720)	(6,874)	(7,153)
Purchase of intangible assets	(1,056)	(1,056)	(2,048)	(3,489)	(4,867)
Capitalised development costs	(13,151)	(13,151)	(11,812)	(53,156)	(46,484)
Acquisitions of subsidiary, net of cash acquired	-	-	(51,818)	2,038	(51,818)
Settlement of financial instruments	(3,558)	(3,558)	1,317	(3,412)	11,463
Interest received	337	337	874	1,410	1,158
Net cash used in investing activities	(19,889)	(19,889)	(65,207)	(63,483)	(97,701)
Cash flows from financing activities					
Dividend paid	(46,134)	(46,134)	(39,506)	(46,134)	(39,506)
Acquisition of treasury shares	(161,151)	(161,151)	(31,480)	(312,647)	(99,949)
Proceeds from borrowings	75,000	75,000	-	75,000	-
Repayments of borrowings	(39)	(39)	(10,200)	(1,411)	(10,133)
Proceeds from issuance of bonds	-	-	148,781	-	148,781
Repayment of bond	-	-	-	(105,401)	-
Interest paid	(8,875)	(8,875)	(5,698)	(15,509)	(12,204)
Payment of other financing costs	(3,313)	(3,313)	(540)	(9,079)	(3,366)
Net cash (used in) / generated from financing activities	(144,512)	(144,512)	61,357	(415,181)	(16,377)
Effect of exchange rate changes	(3,642)	(3,642)	6,835	(1,378)	5,753
Net (decrease) / increase in cash and cash equivalents in the period	(107,347)	(107,347)	43,022	(164,952)	155,539
Cash and cash equivalents at the beginning of the period	195,306	195,306	209,889	252,911	97,372
Cash and cash equivalents at the end of the period	87,959	87,959	252,911	87,959	252,911



Appendix II – reconciliation of IFRS to non-IFRS Q2 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 30 June		
	2018 IFRS (IFRS 15)	Impact of IFRS 15	2018 IFRS (IAS 18)
Software licensing	83,245	(10,786)	72,459
SaaS & subscription	7,593	9,665	17,258
Total Software Licensing	90,838	(1,121)	89,717
Maintenance	77,257	(2,283)	74,974
Services	38,018	1,326	39,344
Total Revenue	206,113	(2,078)	204,035
Total Operating Expenses	(160,698)	(894)	(161,592)
Restructuring/acquisition costs	(5,904)		(5,904)
Amort of Acquired Intangibles	(9,313)		(9,313)
Operating Profit	45,415	(2,972)	42,443
Operating Margin	22%		21%
Financing Costs	(6,431)		(6,431)
Taxation	(5,682)	432	(5,250)
Net Earnings	33,302	(2,540)	30,762
EPS (USD per Share)	0.46	(0.04)	0.42



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 30 June						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	72,459		72,459	57,375		57,375	26%	26%
SaaS & subscription	17,258		17,258	15,032	373	15,405	15%	12%
Total Software Licensing	89,717	-	89,717	72,407	373	72,780	24%	23%
Maintenance	74,974		74,974	66,833		66,833	12%	12%
Services	39,344		39,344	35,064		35,064	12%	12%
Total Revenue	204,035	-	204,035	174,304	373	174,677	17%	17%
Total Operating Expenses	(161,592)	15,217	(146,375)	(139,595)	12,882	(126,714)	16%	16%
Restructuring / acquisition costs	(5,904)	5,904	-	(4,801)	4,801	-	23%	
Amort of Acquired Intangibles	(9,313)	9,313	-	(8,081)	8,081	-	15%	
Operating Profit	42,443	15,217	57,660	34,709	13,255	47,964	22%	20%
Operating Margin	21%		28%	20%		27%	0.9% pts	0.8% pts
Financing Costs	(6,431)	2,200	(4,231)	(5,031)		(5,031)	28%	(16%)
Taxation	(5,250)	(1,687)	(6,937)	(4,393)	(1,250)	(5,643)	20%	23%
Net Earnings	30,762	15,730	46,492	25,285	12,005	37,290	22%	25%
EPS (USD per Share)	0.42	0.22	0.64	0.35	0.17	0.52	20%	23%



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

IFRS - Non-IFRS Reconciliation (IFRS15) Thousands of US Dollars	3 Months Ending 30 June		
	2018 IFRS (IFRS 15)	Non-IFRS adjustments	2018 Non-IFRS (IFRS 15)*
Software licensing	83,245		83,245
SaaS & subscription	7,593		7,593
Total Software Licensing	90,838	-	90,838
Maintenance	77,257		77,257
Services	38,018		38,018
Total Revenue	206,113	-	206,113
Total Operating Expenses	(160,698)	15,217	(145,481)
Restructuring	(5,904)	5,904	-
Amort of Acquired Intangibles	(9,313)	9,313	-
Operating Profit	45,415	15,217	60,632
Operating Margin	22%		29%
Financing Costs	(6,431)	2,200	(4,231)
Taxation	(5,682)	(1,687)	(7,369)
Net Earnings	33,302	15,730	49,032
EPS (USD per Share)	0.46	0.22	0.68

* 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 30 June 2018 from IFRS 15 reported to IAS 18

In thousands of US Dollars	30 June 2018	30 June 2018	30 June 2018
	IFRS 15 reported	Impact of IFRS15	IAS 18
Cash and cash equivalents	87,959	-	87,959
Trade receivable	250,033	8,892	258,925
Other receivable	44,344	(4,538)	39,806
Property, plant and equipment	16,776	-	16,776
Intangible asset	765,134	-	765,134
Deferred tax asset	22,013	-	22,013
Totals assets	1,186,259	4,354	1,190,613
Trade and other payables	171,395	-	171,395
Contract Liability (Deferred revenue)	225,151	5,786	230,937
Income tax liabilities	38,715	(896)	37,819
Borrowings	504,491	-	504,491
Deferred tax liabilities	13,344	-	13,344
Retirement benefit obligations	8,365	-	8,365
Total liabilities	961,461	4,890	966,351
Equity	(400,128)	-	(400,128)
Retained Earnings	624,926	(536)	624,390
Total Equity	224,798	(536)	224,262
Total liabilities and equity	1,186,259	4,354	1,190,613