

Temenos reports very strong Q3 results, full year guidance raised and share buyback announced

GENEVA, Switzerland, 18 October 2017 – Temenos Group AG (SIX: TEMN), the software specialist for banking and finance, today reports its third quarter 2017 results.

<i>USDm, except EPS</i>	Non-IFRS				IFRS			
	Q3-17	Q3-16	Change	CC*	Q3-17	Q3-16	Change	CC*
Software licensing	59.9	51.7	16%	14%	59.9	51.7	16%	14%
SaaS & subscription	19.7	13.1	50%	46%	19.4	12.8	51%	47%
Total software licensing	79.6	64.8	23%	20%	79.3	64.6	23%	20%
Maintenance	69.9	63.4	10%	9%	69.9	63.4	10%	9%
Services	37.1	32.6	14%	11%	37.1	32.6	14%	11%
Total revenues	186.6	160.8	16%	14%	186.3	160.6	16%	14%
EBIT	60.6	50.8	19%	16%	49.8	41.4	20%	16%
EBIT margin	32.5%	31.6%	1% pts	1% pts	26.7%	25.8%	1% pts	1% pts
EPS (USD)	0.68	0.58	17%		0.55	0.46	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

Highlights

- Strong momentum across all KPIs, FY 2017 guidance raised
- Lapped two years of Q3 transformational tier 1 contributions through broad based momentum
- Digital and regulatory pressure on banks continue to drive market growth
- Continue to take market share and pulling further ahead of the competition
- Signed Openbank, the digital bank of Santander Group, in Q4 2017
- Robust tier 1 activity following signings with Nordea, Standard Chartered, Bank of Ireland and Openbank
- Acceleration in pipeline growth and deal signings
- Intention to launch share buyback of up to CHF 150m in Q4 2017 subject to regulatory approvals

Q3 2017 financial summary

- Non-IFRS total software licensing revenues up 23% y-o-y
- Non-IFRS total revenue growth of 16% y-o-y
- Non-IFRS EBIT up 19% y-o-y, LTM non-IFRS EBIT margin of 30.3%
- Non-IFRS EPS increase of 17%
- Q3 2017 LTM cash conversion of 111%
- DSOs at 124 days, down 5 days y-o-y

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

“This has been another excellent quarter for Temenos. We had great sales momentum globally and our pipeline has seen substantial growth across markets.

Banks are challenged with digital and regulatory pressures which is driving our market growth. We have continued to take market share and are pulling further ahead of the competition. In particular I am delighted that in Q4 we announced the signing of Openbank, the digital bank of Santander Group, demonstrating that Temenos is the partner of choice for the world’s largest banks.

The robust levels of tier 1 activity, continued roll out across our customer base and acceleration in our pipeline underpins our confidence in 2018 and the medium term.”

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

“We have had another very strong quarter, with total software licensing up 23% and EBIT up 19%. We also had outstanding execution in our services business with 29 clients going live on our software and we continue to invest in Sales and Marketing and our product as we see the scale of the market opportunity in front of us.

With the signing of Openbank we have had a strong start to Q4 and have raised our full year guidance to reflect the market momentum and increased revenue visibility. We are now guiding for total software licensing growth of 20% to 22.5% and total revenue growth of 13% to 14.5%.”

Revenue

IFRS total revenue for the quarter was USD 186.3m, up from USD 160.6m in Q3 2016. Non-IFRS total revenue was USD 186.6m for the quarter, up from USD 160.8m in Q3 2016, representing an increase of 16% reported and 14% in constant currencies. IFRS total software licensing revenue for the quarter was USD 79.3m, and non-IFRS total software licensing revenue for the quarter was USD 79.6m, an increase of 23% reported and 20% in constant currencies from Q3 2016.

EBIT

IFRS EBIT was USD 49.8m this quarter, up from USD 41.4m in Q3 2016. Non-IFRS EBIT was USD 60.6m in this quarter, an increase of 19% reported and 16% in constant currencies. Q3 2017 non-IFRS EBIT margin was 32.5%, up 1% point on Q3 2016.

Earnings per share (EPS)

IFRS EPS for the quarter was USD 0.55, an increase of 20% reported vs. Q3 2016. Non-IFRS EPS was USD 0.68 for the quarter vs. USD 0.58 in Q3 2016.

Operating cash flow

IFRS operating cash was an inflow of USD 40.1m in Q3 2017 compared to USD 39.7m in Q3 2016. For LTM to September 2017, operating cash flow was USD 277.2m representing a conversion of 111% of IFRS EBITDA into operating cash.

2017 guidance

The company raises its outlook for full year 2017 as follows*:

- Non-IFRS total software licensing growth at constant currencies of 20% to 22.5% (implying non-IFRS total software licensing revenue of USD 309m to USD 315m), up from 15% to 20%
- Non-IFRS revenue growth at constant currencies of 13% to 14.5% (implying non-IFRS revenue of USD 724m to USD 732m), up from 10% to 13%
- Non-IFRS EBIT at constant currencies of USD 219m to 223m, (implying non-IFRS EBIT margin of c. 30.4%), up from USD 210m to 215m
- 100%+ conversion of EBITDA into operating cash flow
- Expected FY 2017 tax rate of 14% to 15%

*Assumes FX rates as disclosed in the Q3 2017 results presentation - <https://www.temenos.com/en/about-temenos/investor-relations>

Share buyback

- Board approval has been given for a share buyback of up to a total of CHF 150m
- This will be funded through our strong cash flow generation and we expect to maintain our leverage at 1-1.5x EBITDA by year end
- Temenos intends to use the repurchased shares to cover future employee stock ownership plans (ESOP) and/or for potential acquisitions
- Launch is planned for Q4 2017
- The buyback will be subject to regulatory approval

Conference call

At 18.30 CET / 17.30 GMT / 12.30 EST, today, 18 October 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)
0844 571 8892	(UK local)
+44 (0) 207 192 8000	(UK and International)

Conference ID # 99668199

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 18 October 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.

Appendix I – Q3 2017 IFRS primary statements
TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

except earnings per share

	Three months to 30 September 2017	Three months to 30 September 2016	Twelve months to 30 September 2017	Twelve months to 30 September 2016
Revenues				
Software licensing	59,935	51,714	228,074	192,341
SaaS & subscription	19,394	12,849	60,294	44,541
Total software licensing	79,329	64,563	288,368	236,882
Maintenance	69,943	63,447	266,837	247,017
Services	37,061	32,559	138,699	127,732
Total revenues	186,333	160,569	693,904	611,631
Operating expenses				
Sales and marketing	36,360	28,325	134,722	110,525
Services	33,428	29,482	124,791	117,514
Software development and maintenance	49,698	44,099	189,338	175,938
General and administrative	17,018	17,284	75,344	74,762
Total operating expenses	136,504	119,190	524,195	478,739
Operating profit	49,829	41,379	169,709	132,892
Other expenses				
Net interest expenses	(3,173)	(3,812)	(14,077)	(16,199)
Borrowing facility expenses	(420)	(420)	(1,680)	(1,489)
Foreign exchange loss	(596)	365	(1,247)	(1,698)
Total other expenses	(4,189)	(3,867)	(17,004)	(19,386)
Profit before taxation	45,640	37,512	152,705	113,506
Taxation	(6,084)	(4,671)	(19,863)	(15,263)
Profit for the period	39,556	32,841	132,842	98,243
Earnings per share (in US\$):				
basic	0.56	0.47	1.90	1.45
diluted	0.55	0.46	1.84	1.37
non-IFRS	0.68	0.58	2.35	1.93

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	30 September 2017	30 June 2017	31 December 2016	30 September 2016
Assets				
Current assets				
Cash and cash equivalents	161,076	252,911	194,340	115,836
Trade receivables	228,425	220,656	208,802	208,728
Other receivables	28,348	29,314	27,024	30,306
Total current assets	417,849	502,881	430,166	354,870
Non-current assets				
Property, plant and equipment	17,297	17,841	15,788	16,317
Intangible assets	797,636	787,849	690,097	726,349
Trade receivables	8,137	7,489	12,801	9,529
Other receivables	3,958	3,820	3,649	3,696
Deferred tax assets	26,280	24,580	19,001	18,089
Total non-current assets	853,308	841,579	741,336	773,980
Total assets	1,271,157	1,344,460	1,171,502	1,128,850
Liabilities and equity				
Current liabilities				
Trade and other payables	118,763	113,296	114,327	92,507
Deferred revenues	175,553	212,256	216,251	163,623
Income tax liabilities	37,660	31,277	28,992	30,753
Borrowings	3,807	110,246	102,780	105,882
Total current liabilities	335,783	467,075	462,350	392,765
Non-current liabilities				
Borrowings	435,063	442,633	269,182	283,075
Deferred tax liabilities	15,589	19,749	16,617	18,705
Income taxes payable	1,986	1,869	1,801	1,765
Trade and other payables	26,520	15,754	13,237	16,490
Retirement benefit obligations	10,137	9,862	9,176	8,021
Total non-current liabilities	489,295	489,867	310,013	328,056
Total liabilities	825,078	956,942	772,363	720,821
Shareholders' equity				
Share capital	232,192	232,192	226,058	225,854
Treasury shares	(47,124)	(54,430)	(66,487)	(4,666)
Share premium and capital reserves	(201,001)	(201,327)	(154,249)	(164,631)
Fair value and other reserves	(100,399)	(111,772)	(131,168)	(119,528)
Retained earnings	562,411	522,855	524,985	471,000
Total shareholders' equity	446,079	387,518	399,139	408,029
Total equity	446,079	387,518	399,139	408,029
Total liabilities and equity	1,271,157	1,344,460	1,171,502	1,128,850

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	Three months to 30 September 2017	Three months to 30 September 2016	Twelve months to 30 September 2017	Twelve months to 30 September 2016
Cash flows from operating activities				
Profit before taxation	45,640	37,512	152,705	113,506
<u>Adjustments:</u>				
Depreciation and amortisation	22,667	18,748	80,127	77,355
Other non-cash and non-operating items	12,042	11,078	40,291	45,078
<u>Changes in working capital:</u>				
Trade and other receivables	(6,095)	(1,850)	(18,476)	13,130
Trade and other payables, and retirement benefit obligations	4,404	7,842	16,272	(5,164)
Deferred revenues	(38,533)	(33,680)	6,263	18,602
Cash generated from operations	40,125	39,650	277,182	262,507
Income taxes paid	(2,724)	(4,210)	(11,357)	(10,015)
Net cash generated from operating activities	37,401	35,440	265,825	252,492
Cash flows from investing activities				
Purchase of property, plant and equipment	(2,363)	(2,437)	(7,079)	(5,518)
Purchase of intangible assets	(1,069)	(879)	(5,057)	(3,655)
Capitalised development costs	(13,396)	(10,788)	(49,092)	(45,931)
Acquisitions of subsidiary, net of cash acquired	-	-	(51,818)	(1,581)
Disposal of subsidiary or business, net of cash disposed	-	-	-	515
Settlement of financial instruments	(2,261)	1,896	7,306	95
Interest received	470	47	1,581	101
Net cash used in investing activities	(18,619)	(12,161)	(104,159)	(55,974)
Cash flows from financing activities				
Dividend paid	-	-	(39,506)	(31,733)
Acquisition of treasury shares	-	-	(99,949)	-
Repayments of borrowings	(1,370)	(11)	(11,492)	(113,284)
Proceeds from issuance of bonds	-	-	148,781	-
Repayment of bond	(105,401)	-	(105,401)	-
Interest paid	(4,354)	(4,449)	(12,109)	(13,232)
Payment of other financing costs	(541)	(1,040)	(2,867)	(6,295)
Net cash used in financing activities	(111,666)	(5,500)	(122,543)	(164,544)
Effect of exchange rate changes	1,049	685	6,117	273
Net (decrease) / increase in cash and cash equivalents in the period	(91,835)	18,464	45,240	32,247
Cash and cash equivalents at the beginning of the period	252,911	97,372	115,836	83,589
Cash and cash equivalents at the end of the period	161,076	115,836	161,076	115,836



Appendix II – reconciliation of IFRS to non-IFRS Q3 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 September						Change	
	2017 IFRS	Adjustment	2017 Non-IFRS	2016 IFRS	Adjustment	2016 Non-IFRS	IFRS	Non-IFRS
Total Software Licensing	79,329	296	79,625	64,563	265	64,828	23%	23%
Maintenance	69,943		69,943	63,447		63,447	10%	10%
Services	37,061		37,061	32,559		32,559	14%	14%
Total Revenue	186,333	296	186,629	160,569	265	160,834	16%	16%
Total Operating Expenses	(136,504)	10,484	(126,020)	(119,190)	9,129	(110,061)	15%	15%
Restructuring	(904)	904	-	(1,149)	1,149	-	(21%)	
Amort of Acquired Intangibles	(9,580)	9,580	-	(7,980)	7,980	-	20%	
Operating Profit	49,829	10,780	60,610	41,379	9,394	50,773	20%	19%
Operating Margin	27%		32%	26%		32%	1.0% pts	0.9% pts
Financing Costs	(4,189)		(4,189)	(3,867)		(3,867)	8%	8%
Taxation	(6,084)	(1,313)	(7,397)	(4,671)	(1,000)	(5,671)	30%	30%
Net Earnings	39,556	9,467	49,024	32,841	8,394	41,235	20%	19%
EPS (USD per Share)	0.55	0.13	0.68	0.46	0.12	0.58	20%	17%