

Temenos announces very strong Q3 results, full year guidance raised

GENEVA, Switzerland, 17 October 2018 – Temenos AG (SIX: TEMN), the banking software company, today reports its third quarter 2018 results.

	Non-IFRS (under IAS basis)				IFRS			
	Q3-18 (IAS 18)	Q3-17 (IAS 18)	Change	CC*	Q3-18 (IFRS 15)	Q3-18 (IAS 18)	Q3-17 (IAS 18)	Change (IAS 18)
<i>USDm, except EPS</i>								
Software licensing	74.5	59.9	24%	25%	80.5	74.5	59.9	24%
SaaS & subscription	20.1	19.7	2%	5%	7.8	20.1	19.4	3%
Total software licensing	94.6	79.6	19%	20%	88.4	94.6	79.3	19%
Maintenance	76.8	69.9	10%	12%	78.9	76.8	69.9	10%
Services	41.6	37.1	12%	13%	40.6	41.6	37.1	12%
Total revenues	213.0	186.6	14%	16%	207.9	213.0	186.3	14%
EBIT	71.3	60.6	18%	20%	59.0	62.1	49.8	25%
EBIT margin	33.5%	32.5%	1% pts	1%pts	28.4%	29.1%	26.7%	2% pts
EPS (USD)	0.80	0.68	18%		0.65	0.69	0.55	25%

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.

Q3 2018 highlights

- Outstanding quarter driven by broad based demand across geographies and tiers
- 17 new customer wins including challenger banks in the US, Asia and Europe
- Very strong quarter in the US
- Broad based growth in Europe across client tiers
- Strong performance in Australia, tier 1 bank signed
- Significant increase in appetite for cloud adoption and SaaS
- 2018 guidance raised on back of sales momentum and increased revenue visibility
- Structural drivers and strong pipeline provide confidence for medium term

Q3 2018 financial summary (non-IFRS, IAS 18)

- Non-IFRS total software licensing revenues up 20% c.c.
- Non-IFRS maintenance growth of 12% c.c.
- Non-IFRS total revenue growth of 16% c.c.
- Non-IFRS EBIT up 20% c.c., LTM non-IFRS EBIT margin of 30.8%
- Non-IFRS EPS increase of 18%
- Operating cash flow up 31%, cash conversion at 116%
- DSOs down 10 days Y-o-Y to 114 days

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

“We continued the momentum from the first half of the year into Q3, with a significant number of deals signed across all geographies. We have seen increased demand across all tiers, from top tier incumbent banks right through to new challenger bankers, which demonstrates our products are capable of supporting the most innovative new entrants to financial services.

In Q3 we were named as a Leader in the Forrester Wave: Global Digital Banking Platforms, which reflects our relentless investment in R&D and aggressive innovation roadmaps that make our software product the best digital banking platform in the market.

With the robust levels of activity across tiers and geographies and continued growth in our pipeline, we remain confident in our ability to deliver long term value for all of our stakeholders.”

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

“Q3 was an outstanding quarter, with total software licensing growth of 20% and total revenue growth of 16%. We saw broad based demand across geographies, with a very strong quarter in the US, Australia continuing to perform very well and Europe also delivering strong growth.

Given our sales momentum and the increased revenue visibility at this point in the year, we have raised our guidance for 2018. We are now guiding for total software licensing growth of 15% to 20%, up from 13.5% to 18.5%, and total revenue growth of 12% to 14%, up from 10% to 13%.”

Revenue

IFRS (IFRS 15) revenue for the quarter was USD 207.9m.

IFRS (IAS-18) revenue were USD 213.0m, an increase of 14% vs. Q3 2017. Non-IFRS (IAS 18) revenue was USD 213.0m for the quarter, an increase of 14% vs. Q3 2017.

IFRS (IFRS 15) total software licensing revenue for the quarter was USD 88.4m.

IFRS (IAS 18) total software licensing revenue for the quarter was USD 94.6m, an increase of 19% vs. Q3 2017. Non-IFRS (IAS 18) total software licensing revenue was USD 94.6m for the quarter, an increase of 19% vs. Q3 2017.

EBIT

IFRS (IFRS 15) EBIT was USD 59.0m for the quarter.

IFRS (IAS 18) EBIT was USD 62.1m for the quarter, an increase of 25% vs. Q3 2017. Non-IFRS (IAS 18) EBIT was USD 71.3m for the quarter, an increase of 18% vs. Q3 2017. Q3 2018 non-IFRS (IAS 18) EBIT margin was 33.5%, up 1% point vs. Q3 2017.

Earnings per share (EPS)

IFRS (IFRS 15) EPS for the quarter was USD 0.65.

IFRS (IAS 18) EPS was USD 0.69 for the quarter, an increase of 25% vs. Q3 2017. Non-IFRS (IAS 18) EPS was 0.80 for the quarter, an increase of 18% vs. Q3 2017.

Operating cash flow

IFRS (IFRS 15) operating cash was an inflow of USD 52.7m in Q3 2018 compared to USD 40.1m in Q3 2017. For LTM to September 2018, operating cash was USD 344.5m 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/>

Revised 2018 guidance

Our guidance for 2018 is in constant currencies and under IAS 18. The revised guidance is as follows:

- Non-IFRS total software licensing growth at constant currencies of 15% to 20% (implying non-IFRS total software licensing revenue of USD 366m to USD 382m), up from 13.5% to 18.5%
- Non-IFRS revenue growth at constant currencies of 12% to 14% (implying non-IFRS revenue of USD 832m to USD 847m), up from 10% to 13%
- Non-IFRS EBIT at constant currencies of USD 262m to 264m, (implying non-IFRS EBIT margin of c. 31%), up from USD 255m to 260m
- 100%+ conversion of EBITDA into operating cash flow
- Expected FY 2018 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 0.868;
- USD to GBP exchange rate of 0.755; and
- USD to CHF exchange rate of 0.990.

Conference call

At 18.30 CET / 17.30 GMT / 12.30 EST, today, 17 October 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 # 7964688

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 17 October 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 – Q3 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 September 2018 (IFRS15)	Three months to 30 September 2018 (IAS 18)	Three months to 30 September 2017 (IAS 18)	Twelve months to 30 September 2018 (IAS 18)	Twelve months to 30 September 2017 (IAS 18)
Revenues					
Software licensing	80,538	74,543	59,935	291,475	228,074
SaaS & subscription	7,833	20,058	19,394	74,323	60,294
Total software licensing	88,371	94,601	79,329	365,798	288,368
Maintenance	78,859	76,837	69,943	298,988	266,837
Services	40,634	41,551	37,061	156,281	138,699
Total revenues	207,864	212,989	186,333	821,067	693,904
Operating expenses					
Sales and marketing	43,176	44,813	36,360	169,911	134,722
Services	36,139	36,139	33,428	138,658	124,791
Software development and maintenance	50,542	50,938	49,698	216,982	189,338
General and administrative	19,027	19,027	17,018	90,733	75,344
Total operating expenses	148,884	150,917	136,504	616,284	524,195
Operating profit	58,980	62,072	49,829	204,783	169,709
Other expenses					
Net interest expenses	(3,727)	(3,727)	(3,173)	(14,887)	(14,077)
Borrowing facility expenses	(470)	(470)	(420)	(6,332)	(1,680)
Foreign exchange (loss) / gain	(569)	(569)	(596)	(968)	(1,247)
Total other expenses	(4,766)	(4,766)	(4,189)	(22,187)	(17,004)
Profit before taxation	54,214	57,306	45,640	182,596	152,705
Taxation	(7,386)	(7,794)	(6,084)	(25,785)	(19,863)
Profit for the period	46,828	49,512	39,556	156,811	132,842
Earnings per share (in US\$):					
basic	0.68	0.71	0.56	2.26	1.90
diluted	0.65	0.69	0.55	2.17	1.84
non-IFRS	0.76	0.80	0.68	2.84	2.35

TEMENOS AG

All amounts are expressed in thousands of US dollars

	30 September 2018 (IFRS 15)	30 September 2018 (IAS18)	30 June 2018 (IAS18)	31 December 2017 (IAS 18)	30 September 2017 (IAS 18)
Assets					
Current assets					
Cash and cash equivalents	91,930	91,930	87,959	167,855	161,076
Trade receivables	247,676	255,668	250,392	233,822	228,425
Other receivables	33,629	28,695	35,327	28,777	28,348
Total current assets	373,235	376,293	373,678	430,454	417,849
Non-current assets					
Property, plant and equipment	17,040	17,040	16,776	16,385	17,297
Intangible assets	752,645	752,645	765,134	795,961	797,636
Trade receivables	8,182	8,182	8,533	6,753	8,137
Other receivables	3,268	3,268	4,479	3,787	3,958
Deferred tax assets	23,123	23,123	22,013	21,943	26,280
Total non-current assets	804,258	804,258	816,935	844,829	853,308
Total assets	1,177,493	1,180,551	1,190,613	1,275,283	1,271,157
Liabilities and equity					
Current liabilities					
Trade and other payables	127,486	127,486	145,693	130,921	118,763
Contract liabilities (Deferred Revenue)	206,586	207,984	230,937	232,489	175,553
Income tax liabilities	38,342	37,854	37,819	41,042	37,660
Borrowings	105,644	105,644	102,567	5,885	3,807
Total current liabilities	478,058	478,968	517,016	410,337	335,783
Non-current liabilities					
Borrowings	425,094	425,094	401,924	434,299	435,063
Deferred tax liabilities	12,019	12,019	13,344	15,408	15,589
Income taxes payable	-	-	-	-	1,986
Trade and other payables	22,543	22,543	25,702	27,990	26,520
Retirement benefit obligations	8,552	8,552	8,365	7,736	10,137
Total non-current liabilities	468,208	468,208	449,335	485,433	489,295
Total liabilities	946,266	947,176	966,351	895,770	825,078
Shareholders' equity					
Share capital	233,217	233,217	233,217	232,192	232,192
Treasury shares	(269,274)	(269,274)	(230,453)	(197,750)	(47,124)
Share premium and capital reserves	(292,007)	(292,007)	(299,645)	(186,287)	(201,001)
Fair value and other reserves	(112,463)	(112,463)	(103,247)	(93,341)	(100,399)
Retained earnings	671,754	673,902	624,390	624,699	562,411
Total shareholders' equity	231,227	233,375	224,262	379,513	446,079
Total equity	231,227	233,375	224,262	379,513	446,079
Total liabilities and equity	1,177,493	1,180,551	1,190,613	1,275,283	1,271,157

TEMENOS AG

All amounts are expressed in thousands of US dollars

	Three months to 30 September 2018 (IFRS 15)	Three months to 30 September 2018 (IAS 18)	Three months to 30 September 2017 (IAS 18)	Twelve months to 30 September 2018 (IAS 18)	Twelve months to 30 September 2017 (IAS 18)
Cash flows from operating activities					
Profit before taxation	54,214	57,306	45,640	182,596	152,705
<u>Adjustments:</u>					
Depreciation and amortisation	22,932	22,932	22,667	92,716	80,127
Other non-cash and non-operating items	17,451	17,451	12,042	71,481	40,291
<u>Changes in working capital:</u>					
Trade and other receivables	(3,863)	(2,567)	(6,095)	(35,789)	(18,476)
Trade and other payables, and retirement benefit obligations	(20,156)	(20,156)	4,404	(680)	16,272
Contract liabilities (Deferred revenues)	(17,880)	(22,268)	(38,533)	34,226	6,263
<i>Cash generated from operations</i>	52,698	52,698	40,125	344,550	277,182
Income taxes paid	(4,679)	(4,679)	(2,724)	(18,842)	(11,357)
Net cash generated from operating activities	48,019	48,019	37,401	325,708	265,825
Cash flows from investing activities					
Purchase of property, plant and equipment	(2,261)	(2,261)	(2,363)	(6,772)	(7,079)
Purchase of intangible assets	(1,188)	(1,188)	(1,069)	(3,608)	(5,057)
Capitalised development costs	(13,006)	(13,006)	(13,396)	(52,766)	(49,092)
Acquisitions of subsidiary, net of cash acquired	-	-	-	2,038	(51,818)
Settlement of financial instruments	(2,007)	(2,007)	(2,261)	(3,158)	7,306
Interest received	546	546	470	1,486	1,581
Net cash used in investing activities	(17,916)	(17,916)	(18,619)	(62,780)	(104,159)
Cash flows from financing activities					
Dividend paid	-	-	-	(46,134)	(39,506)
Acquisition of treasury shares	(44,427)	(44,427)	-	(357,074)	(99,949)
Proceeds from borrowings	20,000	20,000	-	95,000	-
Repayments of borrowings	(30)	(30)	(1,370)	(71)	(11,492)
Proceeds from issuance of bonds	-	-	-	-	148,781
Repayment of bond	-	-	(105,401)	-	(105,401)
Interest paid	(674)	(674)	(4,354)	(11,829)	(12,109)
Payment of other financing costs	(437)	(437)	(541)	(8,975)	(2,867)
Net cash (used in) / generated from financing activities	(25,568)	(25,568)	(111,666)	(329,083)	(122,543)
Effect of exchange rate changes	(564)	(564)	1,049	(2,991)	6,117
Net increase / (decrease) in cash and cash equivalents in the period	3,971	3,971	(91,835)	(69,146)	45,240
Cash and cash equivalents at the beginning of the period	87,959	87,959	252,911	161,076	115,836
Cash and cash equivalents at the end of the period	91,930	91,930	161,076	91,930	161,076



Appendix II – reconciliation of IFRS to non-IFRS 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 Sept		
	2018 IFRS (IFRS 15)	Impact of IFRS 15	2018 IFRS (IAS 18)
Software licensing	80,538	(5,995)	74,543
SaaS & subscription	7,833	12,225	20,058
Total Software Licensing	88,371	6,230	94,601
Maintenance	78,859	(2,022)	76,837
Services	40,634	917	41,551
Total Revenue	207,864	5,125	212,989
Total Operating Expenses	(148,884)	(2,033)	(150,917)
Restructuring	(122)		(122)
Amort of Acquired Intangibles	(9,101)		(9,101)
Operating Profit	58,980	3,092	62,072
Operating Margin	28%		29%
Financing Costs	(4,766)		(4,766)
Taxation	(7,386)	(408)	(7,794)
Net Earnings	46,828	2,684	49,512
EPS (USD per Share)	0.65	0.04	0.69



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 September						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	74,543		74,543	59,935		59,935	24%	24%
SaaS & subscription	20,058		20,058	19,394	296	19,690	3%	2%
Total Software Licensing	94,601	-	94,601	79,329	296	79,625	19%	19%
Maintenance	76,837		76,837	69,943		69,943	10%	10%
Services	41,551		41,551	37,061		37,061	12%	12%
Total Revenue	212,989	-	212,989	186,333	296	186,629	14%	14%
Total Operating Expenses	(150,917)	9,223	(141,694)	(136,504)	10,484	(126,020)	11%	12%
Restructuring	(122)	122	-	(904)	904	-	(87%)	
Amort of Acquired Intangibles	(9,101)	9,101	-	(9,580)	9,580	-	(5%)	
Operating Profit	62,072	9,223	71,295	49,829	10,780	60,610	25%	18%
Operating Margin	29%		33%	27%		32%	2.4% pts	1.0% pts
Financing Costs	(4,766)	-	(4,766)	(4,189)		(4,189)	14%	14%
Taxation	(7,794)	(1,163)	(8,957)	(6,084)	(1,313)	(7,397)	28%	21%
Net Earnings	49,512	8,060	57,572	39,556	9,467	49,024	25%	17%
EPS (USD per Share)	0.69	0.11	0.80	0.55	0.13	0.68	25%	18%

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 September		
	2018 IFRS (IFRS 15)	Non-IFRS adjustments	2018 Non-IFRS (IFRS 15)*
Software licensing	80,538		80,538
SaaS & subscription	7,833		7,833
Total Software Licensing	88,371	-	88,371
Maintenance	78,859		78,859
Services	40,634		40,634
Total Revenue	207,864	-	207,864
Total Operating Expenses	(148,884)	9,223	(139,661)
Restructuring	(122)	122	-
Amort of Acquired Intangibles	(9,101)	9,101	-
Operating Profit	58,980	9,223	68,203
Operating Margin	28%		33%
Financing Costs	(4,766)	0	(4,766)
Taxation	(7,386)	(1,163)	(8,549)
Net Earnings	46,828	8,060	54,888
EPS (USD per Share)	0.65	0.11	0.76

* 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 September 2018 from IFRS 15 reported to IAS 18

In thousands of US Dollars	30 Sept 2018	30 Sept 2018	30 Sept 2018
	IFRS 15 reported	Impact of IFRS15	IAS 18
Cash and cash equivalents	91,930	-	91,930
Trade receivable	255,858	7,992	263,850
Other receivable	36,897	(4,934)	31,963
Property, plant and equipment	17,040	-	17,040
Intangible asset	752,645	-	752,645
Deferred tax asset	23,123	-	23,123
Totals assets	1,177,493	3,058	1,180,551
Trade and other payables	150,030	-	150,030
Contract Liability (Deferred revenue)	206,586	1,398	207,984
Income tax liabilities	38,342	(488)	37,854
Borrowings	530,738	-	530,738
Deferred tax liabilities	12,019	-	12,019
Retirement benefit obligations	8,552	-	8,552
Total liabilities	946,266	910	947,176
Equity	(440,526)	-	(440,526)
Retained Earnings	671,754	2,148	673,902
Total Equity	231,227	2,148	233,375
Total liabilities and equity	1,177,493	3,058	1,180,551