Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's Temenos Q3 2018 Results Call.

At this time all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. At which time if you wish to ask a question, you will need to press star one on your telephone and wait for your name to be announced.

I must advise you that this conference is being recorded today, Wednesday, 17th of October, 2018. I would like to hand the call over to your speaker today, David Arnott, please go ahead.

Thank you, operator, and good afternoon, everybody, and thank you very much for taking the time to join today's call. We hope you've been able to access the results presentation on our website. And Max and I are going to be using this results presentation as a backdrop to our discussion of the quarter.

So assuming you've all found it, I'm going to start with some comments on our third quarter performance, and then I'll hand over to Max for an overview of the financials, and then I'll take it back for some concluding remarks before we take any questions you'd like to ask.

Starting on Slide 7. The first quarter was an outstanding quarter across all our KPIs. We grew total software licensing by 20 percent and total revenues by 16 percent,
which reflects both the underlying market growth as well the strength of our leadership position. We've signed a large number of deals. It goes across all geographies, and it has enabled us to convincingly lap some comparatives without the contribution of a single, very large transformational Tier 1 deal in the quarterly revenue.

We consistently highlighted that IT spend is now strategic and not discretionary. And we think that our performance both in the third quarter and, of course, the previous few quarters leading up to today is very strong evidence of this. Pressures on banks to provide real-time fulfillment for their customers are already increasing the move to open banking, and banks are limited in their ability to address these demands using legacy software.

We were also very pleased that once again we're named as a leader in the Forrester Wave Global Digital Banking Platform, which speaks to the strengths of our product offering and our ability to support our client as they are undergoing their digital transformation.

Given that our outstanding Q2 results come on the back of a very strong first half, today we are increasing our full year guidance and this reflects both our sales momentum as well as our increased revenue visibility at this point of the year.

We move now to Slide 8, I'd like to dig a little bit more into the underlying sales performance for the third quarter, where once again, the demand across the quarter was broad based across all of our geographies and all tiers of clients. We signed 17 new customers in the quarter, including 3 challenger banks, one each from the U.S., Europe and Asia.

The fact that new and innovative start-up banks that we're seeing today are selecting us is a testament to the strength of our products as well as our investment in innovation. Focusing on the individual regions, we had very strong performance
in the Americas, and I'll come back to that in a second with our strongest-ever quarter in the U.S.

We had broad-based growth in Europe across our client tiers and Australia continues to perform very well in Asia Pacific, including the signing of a new tier 1 name in the country. Given our success on the back of the Rubik acquisition last year, we're also planning to establish an office in New Zealand where we see similar growth opportunities.

Lastly, we continue to invest in sales and marketing as well as continued product investment, of course, to capture the market opportunity ahead of us.

Turn to Slide 9 now, I'd like to briefly focus on the U.S. As I said, this is our strongest-ever quarter and demonstrates the momentum that we continue to build. We had multiple signing across our suite including our core digital suites and our fund management suites in the quarter, winning against the incumbent U.S. competition.

The neo-bank that we mentioned at the time of our Q2 results, we can now name as Varo Money, which is the first pan-national mobile-only bank in U.S. history and very high profile. They're implementing in the cloud, which will significantly derisk the implementation process and allow the management team to focus on their business and go-to-market strategy as soon as they're live.

Our ongoing implementations with Commerce Bank and State Street are progressing well, and we continue to strengthen the U.S. organization with a total of 350 employees now based in the U.S. And the pipeline continues to build as we gain traction in the market.

Moving to Slide 10 now, a little bit on services. We had 21 implementation go-lives in the third quarter, which brings the total implementation go-lives year-to-date to
70. It's very important for our clients and prospects, of course, that we can demonstrate that we can get them live successfully, on time and on budget and the Forrester Wave highlighted our ability for testing and delivery both on premise and in the cloud, so testing and delivery is a service as second to none, and this is something that we pride ourselves on.

We've seen a steady increase in the number of banks implementing in the cloud, which brings a number of advantages in terms of speed and reducing complexity. If you include both the incumbent banks such as Banco Itau for their private banking, Coventry Building Society for their savings and mortgages as we announced earlier in the year as well as digitally native neo-banks that we've been talking about such as Judo in Australia and Varo Money in the U.S.

The key to our implementation strategy is working with our strategic partners and the involvement of these partners continues to increase. This has helped drive our services margin to 11.5 percent over the last 12 months, and we continue to invest heavily in the Temenos Learning Community to drive growth in partner consulting numbers.

Turning to Slide 11 now. I'd just like to give you our view on the market outlook looking forward. External pressures on banks are increasing as they face new digitally native competition, both from neo-banks as well as new entrants to the market such as telecoms, companies, retailers and technologists.

These new competitors are able to offer a truly digital experience defined by the real-time fulfillment of customer demands at any time and through any channel. And frankly, incumbent banks are struggling to keep up, especially with added pressure from the regulator and rapidly evolving payment landscape as well. And these pressures taken together are forcing banks to invest in IT, with budgets and spend on third-party software increasing year after year.
Temenos is well-positioned to take advantage of these trends, both the on-premise as well as SaaS and cloud. Our SaaS and cloud bookings have increased 4x in 2018 year-to-date and this significant traction will materialize in the P&L from 2019 and I expect to comfortably achieve our target of 35 percent per annum growth in SaaS and SaaS revenue per annum over the medium term.

As it's incremental business, it opens up banks who previously would've probably done nothing and should accelerate the conversion of the in-house market, which remains 80 percent to 90 percent of the addressable spend today. So clearly, this is very exciting over the medium term.

We're also demonstrating the momentum that we're building in the U.S. and these factors taken together, mean that the medium-term outlook has, frankly, never been stronger, in particular given the level of committed spend from Tier 1 and Tier 2 institutions which underpin our progressive renovation revenues and the strength of our pipeline. In the medium term, we expect to grow total software licensing by at least 15 percent, total revenue by 10 percent to 15 percent and EPS by at least 15 percent per annum.

So with that, I'd like to hand you over to Max to update you on the financials.

Max Chuard: Thank you, David. Starting with Slide 13, I'll walk you through the financial highlights of the quarter. We had an outstanding quarter across PI's from revenue growth through to margin expansion and cash generation.

We've increased our guidance for the full year on the back of our strong sales momentum and increased visibility. I'll talk you through that in a moment. We signed a large number of deals across all geographies and client tiers in the quarter.

I was particularly pleased with our performance in the U.S. with multiple deals signed across a range of products. We drove total software licensing growth of 20
percent. Our maintenance also grew 12 percent and it continues to accelerate on the back of our strong license growth over the past years. Total revenue grew 16 percent in the quarter and EBIT was up 20 percent, with our LTM EBIT margin reaching 30.8 percent.

We also delivered very strong EPS growth of 18 percent. We generated $53 million of operating cash flow in the quarter, an increase of 31 percent year-on-year, and our DSOs continue to decline, reaching 114 days at the end of Q3. Lastly, we continue to benefit from the positive impact of our (partnering) strategy on our services margins, which reached 11.5 percent over the last 12 months, underpinned by our strong delivery model.

On Slide 14, I will highlight some of the most important numbers for the quarter. Our total software licensing grew 20 percent in constant currencies in the quarter and 24 percent over the last 12 months. And total revenue grew 16 percent, both in the quarter and over the last 12 months. Our market-leading position was again recognized this quarter when Forrester named us as a leader in the Forrester Wave.

We’ve seen continued momentum in SaaS and cloud adoption with booking growing by 4x in 2018 year-to-date. We expect this growth to be visible our 2019 models, using the lag between bookings and revenues of these products. We continue to benefit from strong operational leverage in the business. We set it up 20 percent in constant currencies this quarter and 22 percent over the last 12 months.

Our EBIT margin expanded by 100 basis points in the quarter and reached 30.8 percent in the LTM. And lastly, we continued to improve our services margin, which reached 11.5 percent in the LTM. We are able to do this through the strength of our delivery model, working closely with our partners as well as benefiting from working with more Tier 1 and Tier 2 clients.

On Slide 15, which show like-for-like revenues and cost, adjusting for the impact for M&A and FX. There was no impact from M&A this quarter as we closed the last
acquisition of Rubik in Australia in Q2 2017. In term of FX, the weaker euro was a headwind on revenues, while our cost based benefited from an order of currency weakening against the dollar. Taking to account currency movement and the hedging, FX was a small headwind on EBITDA this quarter.

We delivered very strong organic growth this quarter with total software licensing up 20 percent and maintenance up 12 percent as we continue to pull ahead in a growing markets. Total like-for-like cost increased 14 percent in the quarter driven by our ongoing investment in sales and marketing as well as product.

On Slide 16, we had a very strong growth in net profit as well, which was up 18 percent in the quarter and 20 percent over the last 12 months, and the increasing tax was mainly driven by the stronger earnings in this quarter with some impact from the increase of our group tax rate year-on-year, as it continues to approach our medium-term normalized rate of 17 percent to 18 percent. EPS was up 18 percent in the quarter and 21 percent in the last 12 months to reach $2.84.

On Slide 17, our cash conversion continues to be very strong. This quarter it was at 116 percent, well above our target of 100 percent of IFRS to EBITDA. Our DSOs decreased another 10 days year-on-year to end the quarter at 114 days. As a reminder, we expect DSOs to continue declining at around 5 to 10 days per year to reach (1) days in the medium term.

On Slide 18, we highlight the key changes to the group liquidity in the quarter. We generated $53 million of operating cash in the quarter, an increase of 31 percent year-on-year. We recorded higher payable outflows in Q3, which is due to outflows linked to viable compensation, as I had mentioned that on the last call in Q2. This was balanced by some maintenance being collected in Q3, which would have typically been collected in Q4.

We continued our share buyback which was $44 million of shares in the quarter and we ended the quarter with $92 million of cash on balance sheet. Our total
borrowings at the end of Q3 were $531 million and our net debt was at $439 million, equal to a leverage of 1.4x.

And finally, on Slide 19, we have given our revised 2018 guidance. We've raised our full year guidance on the back of our strong sales momentum as well as our increased revenue visibility as we approach the year-end. Our guidance is based on IAS 18, and it is in constant currencies.

We've provided the FX rate in the appendix. We are guiding for full year total software licensing growth of 15 percent to 20 percent, up from 13.5 percent to 18.5 percent. We are guiding for total revenue growth of 12 percent to 14 percent, up from 10 percent to 13 percent. Our EBIT guidance is now in the range of $262 million to $264 million, up from $255 million to $260 million.

This implies a full year margin of circa 31 percent, which represents 100 basis points expansion in constant currencies. I still expect the 2018 tax rate of between 15 percent to 16 percent, and finally, expect to convert over 100 percent of EBITDA into cash. I am confident that we will deliver stronger growth and margin expansion for 2018 and in the medium term.

With that, I will hand back to David.

David Arnott: Thank you, Max. So in conclusion, we had an outstanding third quarter across all of our KPIs. Digital and regulation continued to be very much of a focus for banks with open banking and payment in particular driving demand.

We have very strong momentum across all geographies, client tiers and segments in the quarter, driven by the increasing strategic priority banks are placing on their IT spend and IT strategy. Our position as a market leader was reconfirmed this quarter, and we continue to pull ahead of the competition.
We raised our full year guidance on the back of our strong sales momentum and increased revenue visibility at this time of the year, and Tier 1 and Tier 2 committed spend and the strength of our pipeline give us confidence beyond that up into the medium term. And of course, Max and I look forward to updating you again in February at the time of the fourth quarter results.

So with that, operator, we'd like to open up the call for questions, please.

Operator: Thank you. Ladies and gentlemen, as a reminder, to ask a question please press star one.

Your first question comes from the line of Takis Spiliopoulos from Bank Vontobel.

Panagiotis Spiliopoulos: Two questions from my side. The one is, you talked a little bit about very good regional performance – I mean, maybe, specifically, on any progress you had with Tier 1 banks transformational type of deals? We haven't seen now anything for a while, maybe across regions, a bit more granularity on this one? That will be question number one.

And number two, on specifically the SaaS, some very optimistic statements here. What has changed? Has the sales approach changed this year that you had such an increasing bookings? Or is the customer readiness just now such that you can book those deals?

Max Chuard: Takis. This is Max. Listen, I'll take the first one. Yes, as we said broad based, very strong regional performance. On the Tier 1, specifically, we said we do slightly more than 50 percent of our total software comes from Tier 1, so clearly Tier 1 seems to grow and we are very pleased with this situation.
We saw delivering of another Tier 1, a new Tier 1 in Australia in the quarter. And now, more specifically around what we call those very large transformational deals, which for us both are very strategic and highly material from a novice point of view and which we don't include them in the guidance.

Clearly, those takes longer to assess. Clearly, there is a very good pipeline on those, but the timing is difficult. So I think we are very pleased that we are able to grow at those rates, at 20 percent, without the contribution from a transformational deal like that. So I think, we're very pleased with that. But clearly they are in the pipeline, and we continue to open on those fronts.

David Arnott: OK, Takis, thanks for your comments to the beginning. Let me take the SaaS point. The market is moving faster than we thought and frankly, the industry thought.

I don't want to overplay it yet in terms of its willingness to adopt software and take it in the public cloud and also to take further services around it because, of course, they're different. You can buy software, pay for it up front, take no extra services, only install it in somebody else's cloud if you want – if it's an infrastructure decision and it's not software as a service, which is a rental model.

So they're very different things. We've seen for 2 or 3 years now, an increasing willingness of larger banks to use the public cloud, which has gained a lot of credibility. It started out – it was more of a small, start up, micro-finance type of initiative but when you see banks like Banco Itau in the private wealth space and people like Coventry installing the software in the public cloud, that makes the economics from their point of view much, much more compelling, because they can remove the infrastructure costs on a go-forward basis, which we couldn't do with the legacy systems.

Linked to cloud provisioning of the software, more and more services get provided and you're seeing an acceleration to move towards SaaS. Initially, an area like testing, upgrading, monitoring moving towards more of a mindset that your
software vendor could be left in peace to run the whole IT layer, and you can focus on your business. So this is a trend that's just emerging.

So the elevated thing if you like is, install the software once in the cloud, take it as a service, never need to upgrade again. Really quite compelling messages, and the industry itself is starting – only just starting, I would say, to find its feet in terms of trusting vendors to provide software in a broader services architecture, if you like, and certainly they're further ahead in trusting cloud storage as a mechanism for their – replacing for their own infrastructure. So over the medium term, quite exciting, but don't want to overplay it just yet.

Operator: The line of Chandra Sriraman from MainFirst Bank is now open.

Chandramouli Sriraman: I just have a couple of question. So first thing I noticed an increase in competitive deals, I was just wondering what is driving it, is the competitive landscape changing? Or you just – you're going after some new customers? So that's my first question.

Second one, for Max specifically, in terms of your last 12 months move in margins, you're tracking slightly below your medium-term guidance, I guess, a bit of FX impact. But any thoughts on how you see that moving over the next couple of years? Would be quite helpful.

David Arnott: OK. Thanks, Chandra. Let me take the – I guess, you're referring to Slide 27 for everyone's benefit there's a little table of pie charts on Slide 27 which show that in the last – in the third quarter, competitive deals accounted for 30 percent compared to 23 percent in the quarter.

Listen, it's very difficult on a quarterly to pick up trends from this. If you look at the bottom half of that table, you see in the last 12 months 45 percent comes from
competitive deals and 55 percent from the installed based. Broadly though, across the time line, if you look at the last 2 or 3 years, we've been doing 2 things very well.

First of all, we've been winning the lion's share as new deals that come to market. And as we become established as the player that is winning the bigger deals more and more if you defend your position, as neo-bank come – neo-banks make a decision. They want to buy the same as the rest are buying frankly for a number of reasons.

So the competitive deals as a percentage of our revenue, which we clearly won is increasing but at the same time, the foundations for Temenos and this is why the model has become so good in the last few years is once you get a foot in the door, you fix one of their problems, maybe it's a tactical or you solve a line of business.

It's a progressive renovation story by which they come back and they slowly, slowly change it, but we'll have to consume the bank's capital for 10 years in one massive project like the occasionally Tier 1 is doing which carves those out for the time being. But it's not very – each one is very important.

It's very important to win the lion's share as a new business coming to market. You can't afford to claim you could do better coming in and you're not. But it is also important that as banks start their progressive renovation with us, we impress them enough to continue. The last thing we need is a long sales process, get a foot in the door, do something and they – for whatever reason they don't come back.

So both have their own merits, both are very important for the business model going forward. But increasingly as the market itself gains momentum, you see the new-name wins, the competitive wins are gaining. So that's – if you take the mathematics of the 2 parts of the pie chart, it means that the market itself, in total, is accelerating.
Max Chuard: Hey, Chandra, it's Max. On the margin, as we said quite a few times, we are confident to of including margin between 120 basis points per year. And clearly, we've been very successful in doing so over the last 4 years.

And as you know, the visibility we've got on that is quite high as this has come mainly from the incremental and cumulative working revenues which we have in our business, which we protect and goes down to the bottom line.

So I am confident, as you've seen we reiterate, we've increased the guidance and again, we expect 100 basis points improvement. And I continue to expect this for the medium term.

Chandramouli Sriraman: OK, perfect. Maybe a quick follow-up in terms of something that you alluded to in your comments. So you've done exceeding well without any single, large deal announcement. So I'm just trying to get a sense of your sensitivity in terms of signing these large deals, would you be able to grow at these rates without signing these large deals, say, in 2019 or '20?

Max Chuard: Listen, Chandra, what we've said, and, in fact, David even now on the call made the pointed medium term, we believe we can grow sustainably at 15 percent more on total cost of licensing. Now clearly the last 4 years we've been growing faster than that, we've been growing towards more the 20 percent and so on.

So clearly, we believe that we can grow more than 15 percent in the medium term without the contribution of those mega transformational deals because this is business as usual for us.

Now clearly, as I said, we expect to continue to be winning all those classes, and we've done that in the past. As you know, the last 4 transformational deals that came to market, we won them, and we expect to continue to win the majority of them, and Chandra, we are very confident in the medium term.
Operator: The line of Josh Levin from Citigroup is now open.

Josh Levin: I have two questions. The first, in the past you've said that the U.S. penetration story is a slow and steady story as you need to build reference clients. This quarter, you're talking about building momentum and key wins in the U.S. and of course, you don't want to overstate the U.S. story. But would it be fair to say that the U.S. story is accelerating? Or approaching an inflection point of sorts?

And then second question is, some of the large IT consulting firms, I think Accenture among them, have said that their European financial services practices were weak in the third quarter as some large projects rolled off, I've been – they said that they expect projects to pick up in the second half of 2019. It seems like you didn't see any of this weakness in Europe. And I guess, what would be our outlook?

David Arnott: OK, Josh, let me take both of those. OK, we don't want to overplay the U.S. The – it's a long term – it's a long game, it's a huge market, far more important that we get our references lined as soon as possible and that we win the deals that are coming to market.

So obviously, we had a fantastic quarter, it's a great data point, but I wouldn't – personally, I wouldn't accelerate anything in your model. It's great that the momentum seems to be building.

OK, so the Accenture point. Listen, we – it's not for us to speak on behalf of any one system integrator, and certainly, I wouldn't want to try and justify whatever statements they're making, but if you're adding value fronts to banks and you're delivering value by putting in modern software that allows them to compete to grow revenues then we continue to see well, so maybe there's – maybe there the model of having large teams of externals to run the bank has different fundamentals to the business models that we were adopting for financial services. So we don't see it, to be very clear. And we're very happy.
Operator: The line of Mohammed Moawalla from Goldman Sachs is now open.

Mohammed Essaji Moawalla: I'm just curious, firstly, in terms of the opportunity set and the pipeline you have. Are you seeing sort of significantly more growth in some of these digital-first banks? Or some of these sort of alternative, sort of, players entering the kind of financial market? And any of those sales cycles and sales processes clearly proceeding much faster?

And then as you sort of take that into the U.S. market, that's where – that's sort of accelerating momentum is? And then in the U.S. specifically, where are you on some of those regional bank opportunities? And if you can update us where you are on sort of Commerce Bank, just to sort of get a sense of – is there sort of a dual-track momentum here, particularly in the U.S?

David Arnott: OK. Let me take the second one. I'm going to have to ask you to repeat the first one because we want to make sure we understood it correctly. So the U.S. is performing very well. And one point I should have made earlier is it is across our different suites.

We have a broad range of offerings from retail to private wealth to fund management. And we've seen increased action and pipeline activity on a broader scale than we have seen in the past. So for example, one of the names that we are allowed to talk about is Northern Trust. We signed a deal with Northern Trust in the third quarter.

The – I won't comment specifically on a segment of the market and what our sales activity is, but obviously, above about – above a certain asset size, maybe $3 billion to $5 billion. It's smaller than that. It kind of doesn't make sense, frankly, to buy software like ours, at least in the traditional delivery model.
But the larger banks have the same challenges everybody else does. They need to contend against digital newcomers. They need to be agile. They need real-time systems. And they see that as something absent from the other players. And that applies to the regional banks where a lot of consolidation is going on and lets you restore profitability very quickly and grow your revenue.

You've got a real strategic challenge. It's down by about 30 percent, the number of those regional and sub-regional banks in the last 4 or 5 years. So there's a lot of consolidation, a lot of strategic challenges those banks face. And we are one of the solutions that can get them out of that problem.

So – and above that, you get into the Tier 1, Tier 2 space, and it's the State Streets and the Commerces and the Northern Trusts, where clearly, our value proposition, as we demonstrate referenceability, is absolutely fantastic and very compelling. And in that context on Commerce Bank, I would just like to say that we're hitting all of our milestones.

They're very pleased with this, can talk publicly about being very pleased with this. We're very happy to be using them as a launching pad and as a reference in the U.S. markets, so progressing very well.

Mohammed Essaji Moawalla: And my first question, David, was more around, as you look at sort of the opportunity set sort of across the board, are – with some of the banks that you've worked with, even the Tier 1 and Tier 2s, many of them are launching some of the digital-only offerings.

Do you feel that sort of the opportunity set and the pace at which you can go there is much faster versus on the more kind of existing side where it's perhaps progressive renovation and that momentum is maybe still relatively slower?
David Arnott: That's a very interesting question. We've seen a lot more of this, actually. If you look at Santander, Santander's Openbank initiative is exactly that. It's spinning off a new digital bank effort from the existing bank with its own branding. They didn't call it Santander Digital. They called it Open, targeting a different demographic. And therefore, Equitable's the same. It was the spinoff of TD in Canada. Pepper Bank (sic) (Pepper) for Leumi.

So there is an increasing trend to banks wanting to stand up a brand-new digital bank, comes back to the – as you know, one of the 3 models that we support. You can stand up a new digital bank. You don't have to put on the critical part, the documentation of the legacy system. You're up and running quickly. And for banks to see more – get back in the market, the strategic priority is to – cost cuts to be able to go-to-market quickly with a new, very nimble bank is something, obviously, we support.

It plays perfectly to Temenos' strength, which is why we're seeing that across all the tiers. But on the other hand, there are banks who want to do progressive renovation, and there's banks who want to follow very different models. But in particular, this trend toward banks standing up a new digital separate offering and then moving the books and records across later once you're up and running and out in the market with your new, cool digital bank is something that plays exactly to Temenos' strength. It's a good observation.

Mohammed Essaji Moawalla: So OK. And that so essentially then drives much more sort of consistently repeatable growth essentially rather than these big lumpy deals that happen sort of every couple of years. Is that a fair comment?

David Arnott: Well, the revenue opportunity comes out of the time as you build these things, but progressive renovation is also a very familiar. You hack away at a line of business one year and you do payments and then you come back and you do deposits, more sort of a Phase 3 Commerce type of model that we've seen. So those few have visibility. I think that's the point. We've come a long way from the (big bang) approach of doing nothing or doing everything.
I suppose for those who – for whatever reason progressive renovation or big bang was unpalatable. The fact that you can dip a toe in the water and launch a new digital bank quite quickly using Temenos' technology probably, if anything, opens up and accelerates the market for banks who previously would've done nothing.

So as the first of these banks like Equitable, like Santander, like Leumi have launched new digital banks and we’re taking them live extremely quickly, then you’d expect that, that trend – trend to continue, then Temenos would able to write that.

Operator: The line of Jacob Kruse from Autonomous is now open.

Jacob Max Kruse: I guess just 2 questions. Firstly, could you talk a little about what level of revenue contribution you get from some of the suites, especially things like payments, I guess, open banking? Just in relation to what you're making from the core banking business, or in terms of existing, in terms of new sales, just to sort of get a sense of the relative quarters there?

And secondly, just on the discussion on transformational deals. Are we talking here about – when you talk about the pipeline, are you talking about the kind of national champion retail bank-type entities? That way you say that there is a pipeline of deals that you're working on? And in that, what are the kind of pushbacks? What are the stumbling blocks that you're seeing to get those to move from being in the pipeline to being live or being in progress?

David Arnott: OK, Jacob. Thank you for this question. So we don’t split out revenue by product. It's extremely fungible. A bank may have a problem somewhere, wants to test this tactically in payments. A bank may start in private wealth to test Temenos' low volume, relative low profile. But what they're really after, like in Nordea's case, was understanding whether Temenos is a valued partner for their retail business later.
So it's very, very fungible, and splitting it out would – we don't use it internally. It makes no sense to us. Far more important is to identify an entry point into the bank, which quite often is tactical, and expand on that in the way that you turn that tactical opportunity into a strategic opportunity.

You build a dialogue at the top level and you agree that sort of progressive renovation roadmap and you turn the initial thing they thought into a test case for that. And that's been exactly the model. So breaking it up isn't frankly that helpful. It would probably confuse the story.

Far more important is that the KPIs that we track at the back of our data should be percentage of revenue, therefore, you can turn into dollars for growth in our revenue for digital business. So 50 percent roughly of our business comes from Tier 1, Tier 2s, and about the same percentage comes from continued selling to existing banks. Where – the order in which they spend, very difficult to predict. It's very dependent on what their own imperatives are. And that links into your second question, which is around these megadeals.

So let's be clear on how we define these megadeals. This is a – potentially a flagship bank, if I could say one bank in a country, but maybe not. All this is, is a different way of getting to the same journey that other people are getting to. We're signing Tier 1 banks every single day, and I even talked about one that we've signed with us in Australia this quarter.

But most quarters, we start some journey with a Tier 1 bank and the intention of that journey from both parties is to progressively renovate everything. And they do that in a way that doesn't consume all the capital in massive renovation. It gives money for other things like business agility on the front end, a little bit of shareholder value creation or margin expansion. But I clearly know where they're going.
They just want to take their time to do it. However, occasionally, a bank comes along and see if the IT challenge is such a burning platform that they just want to get on with the whole thing in one go. Example being Nordea and Santander, of course, starting with their digital journey.

It's very difficult to predict whether you – whether at some point, a salesperson, somebody will say, "Look, just let this go. Get this over and done with. Buy everything. Do a massive project, and let's be done with this in 3 years." Ultimately, far – many conversations start like that, but ultimately, they say, "Well, let's test with a module, and let's start with a line of business."

So – and frankly, it doesn't matter. Far more important is – from an operational point of view, it doesn't matter as long as we win the deals, we impress them, we continue to replace their IT legacy landscape and we build fans out there that recommend us to other banks so we can start the journey somewhere else.

The only complication is the financial metric because if someone chooses to buy everything from you upfront, the financials becomes extremely lumpy as opposed to buying them over 5 years.

But let's be very clear. We have a very significant number of Tier 1 banks today already spending comparable amounts to the revenue that we're seeing from the Tier 1 banks that we've made. Often, they're national flagships, but often, they're larger Tier 2 banks as well, or even global banks like Standard Chartered, which is more of a global opportunity.

Operator: The line of Gerardus Vos from Barclays is now open.

Gerardus Vos: Just 2 questions for me as well. Just going back on the kind of deals you signed with the neo-bank, could you help me understand a bit around kind of efforts, deal sizes?
Is that comparable with kind of a more kind of traditional business? And how long will it take for implementation on the public cloud here?

And then secondly on the guidance, it looks that it implies a very rapid slowdown on the revenue sink line of Q4. Perhaps this just kind of conservatism, but I just wanted to kind of check what was on the line there.

David Arnott: OK. I will be a bit crystal on these ones. So we can't comment on the deal size to these neo-banks. Yes, can't say really, but over time, (hopefully) as they grow. The one that I'd like to give it out, they grow – obviously, they represent revenue opportunities, but they're a small size. Often, they're relatively small.

Implementation times are slightly quicker. But with pure model bank implementations, you don't need to spend 6 months documenting their migration from the legacy code to the new code and doing a sort of operating model target definition.

So clean sheet of paper and our model bank approach, where we pre-configure a bank in a box, if you like, pre-configure this robust library of model banks, so you could just drop in and then customize it for kind of their own consumption. Means their shorter size would take probably around first of the 12 months than the 18 months.

Typically, we say 12 to 18 months. These ones would be definitely at the shorter end of that. And we talk about one in the U.S., in fact, last year, that went – ready to go-live within 9 months. So that's around the time frame.

Max Chuard: Yes. Just on the guidance, we're not going to guide on a quarterly basis. So my first – we're guiding now for 15 percent to 20 percent license to grow – licensing growth for the year, which I think, on the back of 3 years revenue growing at more 20 percent on average. It's a very strong performance.
And remember as well that in our guidance, we don't include any transformational deal as we had, for instance, in Q4 last year with Openbank. So I'm very pleased myself with the performance that we expect for the year.

Operator: The line of Vijay Anand from Jeffries is now open.

Vijay Anand Chandrasekaran: I have a couple. Firstly, regarding the U.S. market, I think you mentioned in the previous call, and I suppose you alluded to today as well that you've been pretty much spending all the Tier 1 deals that have been coming to the market.

Press reports suggest that during the quarter, MUFG Union Bank chose a competitor over T24. I don't know if this is accurate or not, but perhaps you can talk about the competitive environment a bit. Have you seen any change in behavior from the incumbents as they look to defend their market position? That's the first question.

The second question is on software development and maintenance cost. It was up only 2 percent in the quarter, whereas in the first 2 quarters it was up around 14 percent to 15 percent. Can you say why the growth was slower in Q3, and how should we think about Q4?

David Arnott: OK, we were scribbling there. The one I got was the one about MUFG Bank (sic) (MUFG Union Bank). So obviously, I can't comment on a specific bank. Occasionally – what I can say contextually is occasionally, you try and convince a bank to move off their existing supplier and it doesn't always work.

Often the business case doesn't come together and they stick where they are. So careful how others may – positioning moves, but I wouldn't comment specifically on any bank in that context. But the big important banks who've made their decision, as far as we're aware, have all come to Temenos.
The problem is, is that not enough of them are making it, and it's taking a while to build the momentum. So we're very happy with Commerce. We're very happy with Phase 3. We're happy that we've won now 2 neo-banks, both (popular ones), especially (Barrow). And the challenge is for the market to accelerate because, frankly, there's more than enough for all of us in that market.

It's half the world's banking spend. If we have to share with competitors 1 or 2 deals at the time, we haven't done yet, to our knowledge, to be very clear. Far more important is the opening up of the market – the market in absolute terms.

Max Chuard: Let me take the second one. So the – on the IT side, I think first, we need to look at it on the non-IFRS. We need to adjust for the restructuring factor linked to the acquisition of Rubik and some of the restructuring we had on the IT side and as well as the acquiring (inaudible).

And then the second factor that you need to adjust for, as I mentioned briefly around the timing of the variable mainly linked to the exercise charges in stock option between Q2 and Q3. And that is creating sort of your growth. And if you adjust for that, you will have a normalized (probably) growth rate that's around 7 percent to 8 percent.

Operator: The line of Michael Briest from UBS is now open.

Michael Briest: A couple from me, too. David, could you give us an update on Julius Baer in terms of where they are on the decision-making. I think the Asian rollout has gone successfully. Is there any news yet on Switzerland you can give?

And then Max, I think just coming back to your last comment there, there was something about cash flow and variable comp timing. It looks to me like that $25 million extra outflow on payables and reduction in deferred income, is that the
order of magnitude of cash effect? And should we therefore assume Q4 cash flow is about $25 million lower than normal?

David Arnott: Let me get the first one out. Let me get the Baer question, Michael. So you can make time to think if you can respond on the numbers. Yes, they did go live in Asia Pacific. Fantastic results.

We went live on time, and they've been extremely well received by not just the Baer users in Asia but also, obviously, in the head office. I'm definitely not going to comment, however, on the timing of a potential domestic replacement of that. We're very cautious. It would not be something to talk about.

Max Chuard: On the variable charges, I mentioned this in Q2, and that was probably around $20 million of impact between Q2 and Q3, but it would not have an impact in Q4. The impact on Q4 is the maintenance brought forward, and it's probably around 10 percent.

And you can look our differed – so if you look at our differed, it should be around 17 percent, which is way ahead of our maintenance growth, around 12 percent. It should normalize for a 12 percent maintenance rate growth, which could be the rate of our deferred growth. You'll see that you get more, an extra $10 million swing on that. And that will be an impact on Q4.

Michael Briest: OK. And then David, I think on Q2's call you said you're more confident of coming in at the upper end of the range. Obviously, you've raised the range today which is fantastic. But do you still stick with that view? Or since you answered this question earlier, the lower end of the guidance does seem to point to a big slowdown in Q4?

David Arnott: I'll let Max take that. I get in trouble whenever I'm asked a guidance question.
Max Chuard: So listen, I think what we've done today is increase the guidance and show confidence. And so I would say that compared to where we were last quarter, our level of confidence has increased. It has increased because of the sales momentum that we see and because of the increased visibility having delivered now 3 quarters in the year.

David Arnott: Just one point, we've been very clear today all along. We're not a quarterly guiding company. I guess if there's one point in the year when that catches you up is when you go into your fourth quarter. So it's impossible for anybody to predict absolutely any 1 quarter, including the fourth quarter.

What I would do is just say that the fundamentals remain intact, our pipeline remains extremely strong with (inaudible) in all geographies, different segment approach. So the retail, private, corporate, et cetera is working extremely well. So we're very, very positive about the medium term, and we've given some guidance, which we believe is achievable based on looking at that pipeline for the fourth quarter.

But I would definitely guide you, especially as we're going towards the end of the year, we need to look beyond that into '19 and '20 on the momentum that we feel is building in the end market beyond the end of the year. So all very good, frankly.

Operator: The line of Steven Goulden from Deutsche Bank is now open.

Steven James Goulden: I just wanted to talk about – touch on the U.S. again. I think you said that you'd won a few deals. Could you tell us a bit more about this, who you won, and maybe any kind of color on sort of who you're competing with? And within that, how do you see the U.S. competition? Because you've talked for about the incumbents they're doing a sort of more bank-in-a-box style model?
Are you seeing them maybe focus a little bit more on packaged software? Or are they upping their game in any way, focusing more on the larger clients that you're aiming at? And I wasn't quite sure before, I think you said that you'd want all the large deals in the U.S. Could you just clarify that point?

And then on my second question, I just wanted to talk about the challenger banks. You said before that was a shorter duration. Does that have any relevance for your margins on those deals? Are you being able to get them done quicker? Or is that kind of baked into the price?

And kind of taking that to the extreme, does a greater focus on cloud delivery mean that you can be a lot quicker to stand up these new banks, it can be more standardized, and potentially that in dealing with maybe the longer tail, does a quicker sales process and a lot of those hurdles and (inaudible) are taken away?

David Arnott: OK, Steven, I'm writing as fast as I can, that's if I can read my writing. To be quite crystal on the U.S. as we've covered it to an extent, so it is across a number of our suites. We competed against the usual incumbents, so people like FIS. We believe we've won all the large deals certainly in the last few years, if you go back after one of the deals with Zions Bank a long, long time ago that was public.

There may be other deals that we've missed, but certainly, everything that's been competitive and is competitive today, we feel we've won them. I would include in that basically Commerce, Allied Bank, which we are able to name as well, and (Barrow) and the other banks, which is (NYVD), which is going to market under a new name, which is the one that we talked about as our first new win.

Yes, we do feel that we've won certainly most. There may be 1 or 2 we've missed, but certainly, the big high-profile ones we've won. This point about the challenger banks, does that impact the economics, is kind of factored in to an extent. But I think, by far the most interesting part of your question from a value-add point of
view to everything I’ve ever said is your observations around what cloud fits one and attached to these, and every one of them is exactly right.

It's faster. You can replicate easier. It fine-tunes your model bank. You really have to do everything right. There's compliance there. You can extract more recurring revenue. Clearly, you can sell more services around it. You can bring in-house the value that they save from the infrastructure layer. And if you go – if you tell them that it is your base solution, you just sell them.

You get – they pay 1 price for everything. You're internally using your own stacks, your own partner stack. So you're doing your shortlist for sales cycle. Yes, lots of good things, everything on your list basically. But let's say that till we're ready to have a crystal discussion around what that means for Temenos. But so far so good.

Operator: The line of Gregory Ramirez from Bryan Garnier is now open.

Gregory K. Ramirez: Just to come back on the guidance revision, it looks to me that the revision was more related to what is outside total software licensing. Presumably, this is maybe related to services. And it is true that you’d posted double-digit growth in Q3.

Do – could you elaborate a bit on this topic – the services topic? And is the double-digit growth in services sustainable given the – your achievements in the license sales despite the presence of the partners who can implement the software?

Max Chuard: Sure. Again, as I said, very pleased to be in a better position that we were in Q2, hence the upgrading of the guidance, both the total software licensing but as well as the total revenue. And I think at the total revenue, you probably have an impact of all the revenue lines, meaning total software licensing and meaning maintenance and meaning services. I think all of them are driving up the total revenue upgrade to the guidance.
Now on services – on services alone, clearly, we've reached now around a ratio at around 20 percent of our revenues are done – comes from services, which is probably where we believe is the right level. We are slightly below now, in fact. And (hence), I think you will see services growing. Probably not as fast as a license, but I think growing nicely.

Ultimately, we've made a point, we are a product company, and clearly, for us, what we track is really the license and underneath it as we generate maintenance, so what we call the product revenues. Services is more margin business. Even though now, I'm pleased to say that we've improved significantly our margin. It's around maybe 11.5 percent on a (license) basis.

So I'm very pleased with that. And probably as we do more and more with Tier 1 banks, you'll see us doing more important work on a governance point of view, and hence, the services will continue to grow as it is now.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

David Arnott: Thank you, everybody, for taking the time to join the call. We look forward to speaking to you on the back of our fourth quarter results, if not earlier. Thank you.