

Temenos announces FY 2014 results

GENEVA, Switzerland, 10 February 2015 – Temenos Group AG (SIX: TEMN), the market leading provider of mission-critical software to financial institutions globally, today reports its fourth quarter and full year 2014 results.

USDm, except EPS	Non-IFRS				IFRS			
	Q4 2014	Q4 2013	Change	LFL*	Q4 2014	Q4 2013	Change	LFL*
Software licencing	48.3	54.8	-12%	-9%	48.3	54.8	-12%	-9%
Software-as-a-Service	2.1	1.6	34%	34%	2.1	1.6	34%	34%
Total software licencing	50.4	56.4	-11%	-8%	50.4	56.4	-11%	-8%
Maintenance	56.9	55.9	2%	6%	56.9	55.9	2%	6%
Services	25.7	32.4	-21%	-18%	25.7	32.4	-21%	-18%
Total revenues	133.1	144.6	-8%	-5%	133.1	144.6	-8%	-5%
EBIT	60.3	53.5	13%		57.9	49.1	18%	
EBIT margin	45.3%	37.0%	8% pts		43.5%	34.0%	9% pts	
EPS (USD)	0.74	0.63	17%		0.71	0.58	22%	

The definition of non-IFRS adjustments is below with a full reconciliation of IFRS to non-IFRS results can be found in Appendix II

* Like-for-like (LFL) excludes contributions from acquisitions and adjusts for movements in currencies

** Earnings before interest, tax, depreciation and amortisation (EBITDA) into cash generated from operations

Q4 and FY 2014 financial highlights

- LFL software licensing growth down 9% in Q4; FY growth of 2%
- LFL maintenance growth of 6% in 2014
- 14% pts improvement in Q4 non-IFRS services margin taking FY margin to 5%, up 9% pts
- Non-IFRS EBIT up 13% in Q4 and FY; 2014 non-IFRS EBIT margin of 27.3%
- FY non-IFRS EPS up 18%
- Q4 operating cashflows of USD 118.5m; FY inflow of USD 190.3m, up 12% on 2013
- FY cash conversion** of 113% with DSOs down 18 days in the year
- Strength of profit growth and cashflows supports 14% increase in annual dividend
- 2015 guidance of total software licensing growth of 15% to 20%, including software licensing growth of 10%+

Q4 and FY 2014 operational highlights and outlook

- Value of competitive deals won in 2014 increased by half – taking market share
- Temenos positioned as a leader for the sixth consecutive year in the 2014 report 'Magic Quadrant for International Retail Core Banking'
- Acquisition of Akcelerator announced today - additional scale in North America and expands product portfolio
- Strong and growing levels of demand, especially for core banking and digital channels
- Signing of Julius Baer validates belief in product, executability and strategy
- Increasing levels of new business as the market backdrop improves
- Confidence in delivery of the full year

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

“Despite disappointing software licensing revenue in Q4 which impacted full year growth, we have made good progress on our strategic initiatives with the signing of Julius Baer at the start of this year validating our belief in our products and on our ability to execute on key deals. We have taken the necessary actions to address the issues faced at the end of last year and expect strong growth in 2015.

The structural drivers for technology renewal are stronger than ever and we are executing against a clear strategy with key priorities to extend our lead on core banking and wealth, accelerating our penetration of the US market, taking advantage of our first mover advantage in SaaS and industrialising our sales and partner alignment. This strategy will produce strong software licensing growth every year, with an increasing recurring revenue base.”

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

“We were pleased to be able to report good growth in profit for the year despite the weaker Q4 software licensing performance, highlighting the high levels of variability within our cost base. Our focus on cash generation saw a full year cashflow of USD 190m, up 12% on 2013, with DSOs once again materially down and cash conversion comfortably over our target of 100%.

We expect strong growth in 2015 with software licensing growth of 15% to 20% and revenue growth of between 8% and 13%. Despite significant margin expansion over the past few years, we still expect our non-IFRS EBIT margin to expand by a further 130 basis points in 2015, in line with our target of increasing margins by 100 to 150 basis points every year. With our multiple levers for growth combined with strong cost control and our focus on cash, I am confident that we will deliver our full year guidance.”

Revenue

Both IFRS and non-IFRS revenue for the quarter was USD 133.1m, down from USD 144.6m in Q4 last year, representing a decrease of 5% on a like-for-like basis. Software licensing revenue for the quarter was USD 48.3m, taking full year LFL software licensing growth to 2%.

EBIT

Non-IFRS EBIT was USD 60.3m in Q4, 13% higher than in Q4 2013 with a non-IFRS EBIT margin in Q4 of 45.3%, up 8% points on Q4 2013. IFRS EBIT increased from USD 49.1m in Q4 2013 to USD 57.9m in Q4 2014 with a margin of 43.5%, up 9% points.

Earnings per share (EPS)

Non-IFRS EPS was USD 0.74 in the quarter, up 17% on Q4 2013. FY 2014 non-IFRS EPS was USD 1.44, up 18% on the previous 12 months. IFRS EPS for the quarter increased from USD 0.58 per share to USD 0.71 per share.

Pre-tax operating cash

Operating cashflow was USD 118.5m in Q4 2014 with a FY casflow of USD 190.3m, up 12% on 2013, representing a 113% conversion of EBITDA into operating cash.

Dividend

Temenos is highly cash generative with a strong balance sheet which enables investment in the business, including industry leading R&D spend, and funding for targeted acquisitions whilst also providing for returning value to shareholders.

Taking into account the strength of profit growth and cash generation, as well as the expected strength of future cashflows, subject to shareholder approval at the AGM on 6 May 2015, Temenos intends to pay an annual dividend of CHF 0.40 on 15 May 2015, representing an increase of 14% over last year's CHF dividend. The dividend record date will be set on 13 May 2015 with the shares trading ex-dividend on 11 May 2015. Temenos policy is to distribute a sustainable to growing dividend.

2015 guidance*

Our guidance for 2015, which includes the impact of the Akcelerant acquisition, on a non-IFRS basis is:

- Total non-IFRS revenue growth of 8% to 13% (implying non-IFRS revenue of USD 482m to USD 504m)
- Total software licensing growth of 15% to 20% (implying total software licensing revenue of USD 164m to USD 172m)
 - includes software licensing growth of 10%+ (implying software licensing revenue of at least USD 149m)
- Non-IFRS EBIT margin of 28.5% (implying non-IFRS EBIT of USD 137m to USD 144m)
- 100%+ conversion of EBITDA into operating cashflow
- Tax rate of 17% to 18%

*Growth at constant currency (assumptions below).

Medium term targets

Our medium term targets on a non-IFRS basis are:

- Non-IFRS revenue growth of 5% to 10% on average per annum with
 - total software licensing growth of 15%+ on average per annum
 - services contributing c.20% of group revenue
- Non-IFRS EBIT margin improvement of 100 to 150bps on average per annum
- 100%+ conversion of EBITDA into operating cashflow
- DSOs reducing by 10 to 15 days per annum
- Tax rate of 17% to 18%

Conference call

At 18.30 CET / 12.30 EST / 17.30 BST, today, 10 February 2015, David Arnott, CEO, and Max Chuard, CFO, 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:

0445 804 282	(Swiss Local Call)
0800 650 024	(Swiss Free Call)
+1 866 254 0808	(USA Free Call)
+44 (0)1452 541 003	(UK and International)
0800 694 5707	(UK Free Call)

Conference ID # 74774372.

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/>.

Currency assumptions for 2015 guidance

In preparing the 2015 guidance, the Company has assumed the following:

- USD to Euro exchange rate of 0.891;
- USD to GBP exchange rate of 0.666; and
- USD to CHF exchange rate of 0.890.

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.

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About Temenos

Founded in 1993 and listed on the Swiss Stock Exchange (SIX: TEMN), Temenos Group AG is the market leading provider of banking software systems to retail, corporate, universal, private, Islamic, microfinance and community banks, wealth managers, and other financial institutions. Headquartered in Geneva with 57 offices worldwide, Temenos software is proven in over 1,600 installations in more than 150 countries across the world. Temenos' products provide advanced technology and rich functionality, incorporating best practice processes that leverage Temenos' expertise around the globe. Temenos customers are proven to be more profitable than their peers: in the period 2008-2012, Temenos customers enjoyed on average a 32% higher return on assets, a 42% higher return on equity and an 8.1 percentage point lower cost/income ratio than banks running legacy applications.



Appendix I – Q4 and FY 2014 IFRS primary statements

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

except earnings per share

	Three months to 31 December 2014	Three months to 31 December 2013	Twelve months to 31 December 2014	Twelve months to 31 December 2013
Revenues				
Software licensing	48,306	54,764	139,667	137,758
Software-as-a-Service	2,146	1,606	7,962	4,822
Total software licensing	50,452	56,370	147,629	142,580
Maintenance Services	56,940	55,852	223,398	212,496
	25,727	32,400	97,675	112,726
Total revenues	133,119	144,622	468,702	467,802
Operating expenses				
Sales and marketing	18,843	26,273	92,237	98,564
Services	19,070	29,094	93,142	118,886
Software development and maintenance	25,461	24,085	106,090	96,723
General and administrative	11,888	16,043	59,038	60,130
Total operating expenses	75,262	95,495	350,507	374,303
Operating profit	57,857	49,127	118,195	93,499
Other expenses				
Net interest expenses	(2,570)	(2,192)	(9,729)	(7,516)
Borrowing facility expenses	(353)	(330)	(1,438)	(1,415)
Foreign exchange gain/(loss)	(423)	(292)	(695)	(2,153)
Total other expenses	(3,346)	(2,814)	(11,862)	(11,084)
Profit before taxation	54,511	46,313	106,333	82,415
Taxation	(6,447)	(6,116)	(14,702)	(14,200)
Profit for the period	48,064	40,197	91,631	68,215
Earnings per share (in US\$):				
basic	0.73	0.59	1.36	0.99
diluted	0.71	0.58	1.32	0.98
non-IFRS	0.74	0.63	1.44	1.22



TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	31 December 2014	30 September 2014	31 December 2013 Re-presented*
Assets			
Current assets			
Cash and cash equivalents	192,610	137,385	115,649
Trade receivables	210,128	223,595	227,879
Other receivables	24,662	28,165	28,918
Total current assets	427,400	389,145	372,446
Non-current assets			
Property, plant and equipment	14,089	13,239	12,945
Intangible assets	437,808	447,622	473,946
Trade receivables	20,537	21,460	25,300
Other receivables	2,149	2,223	8,842
Deferred tax assets	23,865	20,046	24,817
Total non-current assets	498,448	504,590	545,850
Total assets	925,848	893,735	918,296
Liabilities and equity			
Current liabilities			
Trade and other payables	83,324	97,812	100,885
Deferred revenues	179,894	133,891	171,830
Income tax liabilities	14,177	7,902	13,903
Borrowings	12,860	11,537	11,598
Total current liabilities	290,255	251,142	298,216
Non-current liabilities			
Borrowings	279,232	288,169	201,487
Deferred tax liabilities	1,087	1,371	2,781
Income taxes payable	1,782	1,844	1,848
Trade and other payables	5,098	1,661	1,733
Retirement benefit obligations	6,356	4,449	4,063
Total non-current liabilities	293,555	297,494	211,912
Total liabilities	583,810	548,636	510,128
Shareholders' equity			
Share capital	228,357	228,357	239,798
Treasury shares	(152,942)	(116,699)	(131,775)
Share premium and capital reserves	(59,187)	(57,030)	16,442
Fair value and other reserves	(80,639)	(69,398)	(59,225)
Retained earnings	406,449	359,869	342,928
Total equity	342,038	345,099	408,168
Total liabilities and equity	925,848	893,735	918,296

* Comparative information has been re-presented to reflect the finalisation of the initial accounting of TriNovus Capital LLC.



TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	Three months to 31 December 2014	Three months to 31 December 2013	Twelve months to 31 December 2014	Twelve months to 31 December 2013
Cash flows from operating activities				
Profit before taxation	54,511	46,313	106,333	82,415
<u>Adjustments:</u>				
Depreciation and amortisation	11,862	13,492	49,584	48,997
Other non-cash items	2,481	8,711	23,536	28,216
<u>Changes in working capital:</u>				
Trade and other receivables	8,539	11,410	6,046	17,415
Trade and other payables, and retirement benefit obligations	(9,963)	(834)	(14,306)	(21,582)
Deferred revenues	51,115	47,239	19,139	13,839
Cash generated from operations	118,545	126,331	190,332	169,300
Income taxes paid	(1,235)	(2,131)	(8,445)	(7,838)
Net cash generated from operating activities	117,310	124,200	181,887	161,462
Cash flows from investing activities				
Purchase of property, plant and equipment	(1,903)	(670)	(5,865)	(3,334)
Disposal of property, plant and equipment	-	-	24	9
Purchase of intangible assets	(714)	(1,742)	(4,350)	(5,124)
Disposal of intangible assets	2,000	-	2,000	-
Capitalised development costs	(13,933)	(12,717)	(43,181)	(41,872)
Acquisitions of subsidiary, net of cash acquired	-	-	-	(12,710)
Disposal of subsidiary or business, net of cash disposed	-	-	43	316
Settlement of financial instruments	2,063	(4,194)	3,352	(6,395)
Interest received	17	82	103	224
Net cash used in investing activities	(12,470)	(19,241)	(47,874)	(68,886)
Cash flows from financing activities				
Acquisition of treasury shares	(46,499)	-	(119,948)	(53,647)
Proceeds/(repayments) of borrowings	(19)	(45,000)	(8,023)	(113,608)
Proceeds from issuance of bonds	-	(104)	112,332	104,080
Interest payments	(456)	(800)	(6,345)	(5,031)
Dividend paid	-	-	(26,633)	(20,400)
Payment of other financing costs	(460)	(803)	(1,964)	(5,842)
Payment of finance lease liabilities	(6)	(77)	(137)	(291)
Net cash used in financing activities	(47,440)	(46,784)	(50,718)	(94,739)
Effect of exchange rate changes	(2,175)	299	(6,334)	78
Net increase/(decrease) in cash and cash equivalents in the period	55,225	58,474	76,961	(2,085)
Cash and cash equivalents at the beginning of the period	137,385	57,175	115,649	117,734
Cash and cash equivalents at the end of the period	192,610	115,649	192,610	115,649

Appendix II – reconciliation of IFRS to non-IFRS Q4 2014 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 be read not 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 31 December						Change	
	2014 IFRS	Adjustment	2014 Non-IFRS	2013 IFRS	Adjustment	2013 Non-IFRS	IFRS	Non-IFRS
Total Software Licensing	50,452		50,452	56,370		56,370	(10%)	(10%)
Maintenance	56,940		56,940	55,852		55,852	2%	2%
Services	25,727		25,727	32,400		32,400	(21%)	(21%)
Total Revenue	133,119		133,119	144,622		144,622	(8%)	(8%)
Total Operating Expenses	(75,262)	2,440	(72,822)	(95,495)	4,400	(91,095)	(21%)	(20%)
Restructuring	(589)	589	-	(1,122)	1,122	-	(48%)	
Acquisition related charges			-			-		
Amort of Acquired Intangibles	(1,851)	1,851	-	(3,278)	3,278	-	(44%)	
Operating Profit	57,857	2,440	60,297	49,127	4,400	53,527	18%	13%
Operating Margin	43%		45%	34%		37%	28%	22%
Financing Costs	(3,346)		(3,346)	(2,814)		(2,814)	19%	19%
Taxation	(6,447)	(304)	(6,751)	(6,116)	(1,400)	(7,516)	5%	(10%)
Net Earnings	48,064	2,136	50,200	40,197	3,000	43,197	20%	16%
EPS (\$ per Share)	0.71	0.03	0.74	0.58	0.05	0.63	22%	17%