

Temenos announces outstanding FY 2017 with total software licensing growth of 22% and earnings growth of 18%

GENEVA, Switzerland, 13 February 2018 – Temenos Group AG (SIX: TEMN), banking software company, today reports its fourth quarter and full year 2017 results.

<i>USDm, except EPS</i>	Non-IFRS						IFRS					
	Q4 17	Change	CC*	FY 17	Change	CC*	Q4 17	Change	CC*	FY 17	Change	CC*
Software licencing	99.2	26%	22%	248.5	21%	20%	99.2	26%	22%	248.5	21%	20%
SaaS and subscription	19.1	46%	40%	67.5	32%	31%	18.8	46%	40%	66.2	32%	31%
Total software licencing	118.3	29%	25%	316.1	23%	22%	118.0	29%	25%	314.8	23%	22%
Maintenance	73.1	12%	10%	274.8	10%	10%	73.1	12%	10%	274.8	10%	10%
Services	41.2	21%	17%	145.8	13%	13%	41.2	21%	17%	145.8	13%	13%
Total revenues	232.6	22%	18%	736.7	16%	15%	232.3	22%	18%	735.4	16%	15%
EBIT	87.6	17%	15%	223.5	20%	17%	75.1	13%	10%	178.3	19%	15%
EBIT margin	37.7%	-1% pts	-1% pts	30.3%	1% pts	1% pts	32.3%	-3% pts	-2% pts	24.2%	1% pts	0.2% pts
EPS (USD)	1.00	14%		2.45	18%		0.85	10%		1.90	18%	

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

Q4 and FY 2017 highlights

- Continued outstanding performance in 2017 on back of very strong 2016
- Strong double-digit growth across all geographies
- Digital and regulatory pressure and move to open banking are driving market growth
- Tier 1 and 2 banks contributed 71% of total software licencing in Q4 and 59% in FY 2017
- 19 new customer wins in Q4, total of 65 in FY 2017
- Competitive deals contributed 56% of software licencing in Q4 and 41% of software licencing in FY 2017
- Market leader, raising barriers to entry and pulling ahead of the competition
- Strong start to Q1 2018, highest ever revenue visibility driven by pipeline growth and committed spend

Q4 and FY 2017 financial summary

- Non-IFRS total software licencing revenues up 25% in Q4 17 and up 22% in FY 17 (c.c.)
- Non-IFRS maintenance growth of 10% in Q4 17 and 10% in FY 17 (c.c.)
- Non-IFRS EBIT up 17% in Q4 17, FY 17 non-IFRS EBIT margin of 30.3%
- FY 17 non-IFRS EPS increase of 18% to USD 2.45
- FY 17 non-IFRS services margin improvement of 0.6% pts to 9.7%
- FY 17 cash conversion of 114%
- DSOs down 8 days Y-o-Y to 119 days
- Profit and cash flow strength support proposed dividend of CHF 0.65, an 18% annual increase
- 2018 guidance of non-IFRS total software licencing growth of 13.5% to 18.5%, non-IFRS total revenue growth of 10% to 13% (c.c.) and non-IFRS EBIT of USD 255m to 260m (guidance under IAS 18, pre-adoption of IFRS 15)

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

“I am delighted with our performance in Q4, in which the business has continued to accelerate and capitalise on the significant momentum in our end market. We have ended the year in a very strong position, with double digit growth across all our geographies, which is a testament to the dedication and talent of all our colleagues and our ability to consistently execute at a very high standard year after year.

2017 has been a year in which our traction and leadership with tier 1 and 2 banks has been clearly demonstrated. We won deals with Openbank, Itau, KBC and a US tier 1 bank among others, which speaks to our global relevance and the strength of our value proposition. Our clients are looking for a software partner that will help them understand and address the pressures of digitization, regulation and the new world of open banking. With the leading packaged, upgradeable and open banking software in the market, we are the vendor of choice for the world’s largest banks.

Looking forward to 2018, I am hugely excited by the opportunities we have. We continue to grow our addressable market and our end market is expanding rapidly. I am confident we will continue to take market share and pull ahead of the competition in 2018.”

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

“We have had a very strong performance in 2017, with total software licensing growth of 22% and total revenue growth of 15%. We also grew profit by 17% and delivered margin expansion of 98bps year-on-year. Our cash conversion of 114% for 2017 is significantly above our target of 100% of EBITDA and means we are recommending a 2017 dividend of CHF 0.65, an increase of 18% on 2016.

We have announced our guidance for 2018 which reflects our expectation of continued strong growth in the year. We are guiding for non-IFRS total software licensing growth of 13.5% to 18.5% and non-IFRS total revenue growth of between 10% and 13%. We are guiding for 2018 non-IFRS EBIT of USD 255m to 260m, which implies a margin of over 31%. Given the acceleration we saw during 2017 and the strong start to 2018 we expect our sales momentum to continue accelerating. We have excellent revenue visibility driven by committed spend and our pipeline growth, and I am confident in achieving our 2018 guidance.”

Revenue

IFRS revenue for the quarter was USD 232.3m, up from USD 190.8m in Q4 2016. Non-IFRS revenue was USD 232.6m for the quarter, up from USD 191.1m in Q4 2016, representing an increase of 18% in constant currencies. IFRS total software licensing revenue for the quarter was USD 118.0m, and non-IFRS total software licensing revenue for the quarter was USD 118.3m, an increase of 25% from Q4 2016 in constant currencies.

EBIT

IFRS EBIT was USD 75.1m for the quarter, up from USD 66.5m in Q4 2016. Non-IFRS EBIT was USD 87.6m in Q4 2017, an increase of 15% in constant currencies. FY 2017 non-IFRS EBIT margin was 30.3%, up 98bps on FY 2016.

Earnings per share (EPS)

IFRS EPS for the quarter was USD 0.85, an increase of 10% vs. Q4 2016. Non-IFRS EPS was 1.00 for the quarter vs. USD 0.88 in Q4 2016. For FY 2017, non-IFRS EPS was USD 2.45, and increase of 18%.

Operating cash flow

For FY 2017 IFRS operating cash was an inflow of USD 299.7m compared to USD 257.6m in FY 2016, representing a conversion of 114% of IFRS EBITDA into operating cash.

Dividend

Taking into account the strength of profit growth and cash generation, as well as the expected strength of future cash flows, subject to shareholder approval at the AGM on 15 May 2018, Temenos intends to pay a dividend of CHF 0.65 per share for 2017. The timing for the dividend payment will be as follows:

- 15 May AGM approval
- 18 May Shares trade ex-dividend
- 22 May Record date
- 23 May Payment date

As with previous years, the 2017 dividend will be paid as a distribution of capital contribution reserves and therefore be exempted of withholding tax. Temenos' policy is to distribute a sustainable to growing dividend.

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 on both the previous reporting standards basis and under IFRS 15, which will allow for comparability against 2017 and prior year results. From 2019, the reporting of results will be provided only under IFRS15. For more information on the impact of IFRS15, please visit the Temenos Investor Relations website:

<https://www.temenos.com/en/about-temenos/investor-relations/>

2018 guidance

Our guidance for 2018 in constant currency is based on the previous reporting standards i.e. before the adoption of IFRS 15. The guidance is as follows:

- Non-IFRS total software licensing growth at constant currency of 13.5% to 18.5% (implying total software licensing revenue of USD 363m to USD 379m)
- Non-IFRS revenue growth at constant currency of 10% to 13% (implying revenue of USD 819m to USD 840m)
- Non-IFRS EBIT at constant currency of USD 255m to 260m (implying non-IFRS EBIT margin of 31.1% - 31.0%)
- 100%+ conversion of EBITDA into operating cashflow
- Tax rate of 15% to 16%

Medium term targets

Our medium term targets are as follows:

- Non-IFRS total software licensing growth of at least 15% CAGR
- Non-IFRS revenue growth of 10% - 15% CAGR
- Non-IFRS EBIT margin improvement of 100 to 150bps on average p.a.
- Non-IFRS EPS growth of at least 15% CAGR
- Cash conversion over 100% of EBITDA p.a.
- DSOs reducing by 5-10 days p.a.
- Tax rate of 17% to 18%

Currency assumptions for 2018 guidance

In preparing the 2018 guidance, the Company has assumed the following:

- USD to Euro exchange rate of 0.846;
- USD to GBP exchange rate of 0.719; and
- USD to CHF exchange rate of 0.946.

Conference call

At 18.30 CET / 17.30 GMT / 12.30 EST, today, 13 February 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 920 016	(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 # 5093439

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

Restructuring costs include realising R&D, operational and infrastructure efficiencies. These estimates do not include impact of any further acquisitions or restructuring programmes commenced after 13 February 2018.

The above figures are estimates only and may deviate from expected amounts.

Investor and media contacts

Investors

Adam Snyder
Head of Investor Relations, Temenos
Email: asnyder@temenos.com
Tel: +41 22 708 1515

Media

Sabine Perone
Teneo for Temenos
Email: sabine.pirone@teneobluerubicon.com
Tel: +44 203 757 9253

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. For more information please visit www.temenos.com

Appendix I – Q4 and FY 2017 IFRS primary statements
TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

except earnings per share

	Three months to 31 December 2017	Three months to 31 December 2016	Twelve months to 31 December 2017	Twelve months to 31 December 2016
Revenues				
Software licensing	99,184	78,717	248,541	205,081
SaaS & subscription	18,775	12,825	66,244	50,058
Total software licensing	117,959	91,542	314,785	255,139
Maintenance	73,085	65,128	274,794	250,371
Services	41,209	34,124	145,784	128,526
Total revenues	232,253	190,794	735,363	634,036
Operating expenses				
Sales and marketing	41,309	33,889	142,142	114,603
Services	34,951	27,259	132,483	117,192
Software development and maintenance	58,680	44,779	203,239	178,669
General and administrative	22,243	18,393	79,194	74,349
Total operating expenses	157,183	124,320	557,058	484,813
Operating profit	75,070	66,474	178,305	149,223
Other expenses				
Net interest expenses	(2,551)	(3,446)	(13,182)	(15,295)
Borrowing facility expenses	(420)	(420)	(1,680)	(1,567)
Foreign exchange loss	(496)	752	(2,495)	(254)
Total other expenses	(3,467)	(3,114)	(17,357)	(17,116)
Profit before taxation	71,603	63,360	160,948	132,107
Taxation	(10,129)	(7,450)	(22,542)	(16,273)
Profit for the period	61,474	55,910	138,406	115,834
Earnings per share (in US\$):				
basic	0.88	0.81	1.98	1.69
diluted	0.85	0.77	1.90	1.61
non-IFRS	1.00	0.88	2.45	2.07

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	31 December 2017	30 September 2017	31 December 2016
Assets			
Current assets			
Cash and cash equivalents	167,855	161,076	194,340
Trade receivables	233,822	228,425	208,802
Other receivables	28,777	28,348	27,024
Total current assets	430,454	417,849	430,166
Non-current assets			
Property, plant and equipment	16,385	17,297	15,788
Intangible assets	795,961	797,636	690,097
Trade receivables	6,753	8,137	12,801
Other receivables	3,787	3,958	3,649
Deferred tax assets	21,943	26,280	19,001
Total non-current assets	844,829	853,308	741,336
Total assets	1,275,283	1,271,157	1,171,502
Liabilities and equity			
Current liabilities			
Trade and other payables	130,921	118,763	114,327
Deferred revenues	232,489	175,553	216,251
Income tax liabilities	41,042	37,660	28,992
Borrowings	5,885	3,807	102,780
Total current liabilities	410,337	335,783	462,350
Non-current liabilities			
Borrowings	434,299	435,063	269,182
Deferred tax liabilities	15,408	15,589	16,617
Income taxes payable	-	1,986	1,801
Trade and other payables	27,990	26,520	13,237
Retirement benefit obligations	7,736	10,137	9,176
Total non-current liabilities	485,433	489,295	310,013
Total liabilities	895,770	825,078	772,363
Shareholders' equity			
Share capital	232,192	232,192	226,058
Treasury shares	(197,750)	(47,124)	(66,487)
Share premium and capital reserves	(186,287)	(201,001)	(154,249)
Fair value and other reserves	(93,341)	(100,399)	(131,168)
Retained earnings	624,699	562,411	524,985
Total shareholders' equity	379,513	446,079	399,139
Total equity	379,513	446,079	399,139
Total liabilities and equity	1,275,283	1,271,157	1,171,502

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	Three months to 31 December 2017	Three months to 31 December 2016	Twelve months to 31 December 2017	Twelve months to 31 December 2016
Cash flows from operating activities				
Profit before taxation	71,603	63,360	160,948	132,107
<u>Adjustments:</u>				
Depreciation and amortisation	23,505	18,625	85,007	76,074
Other non-cash and non-operating items	23,417	10,190	53,518	37,725
<u>Changes in working capital:</u>				
Trade and other receivables	(2,305)	(13,269)	(7,512)	1,633
Trade and other payables, and retirement benefit obligations	7,461	18,088	5,645	2,821
Deferred revenues	55,245	59,408	2,100	7,267
Cash generated from operations	178,926	156,402	299,706	257,627
Income taxes paid	(3,706)	(3,133)	(11,930)	(10,356)
Net cash generated from operating activities	175,220	153,269	287,776	247,271
Cash flows from investing activities				
Purchase of property, plant and equipment	(642)	(1,934)	(5,787)	(6,142)
Purchase of intangible assets	(767)	(1,178)	(4,646)	(4,518)
Capitalised development costs	(14,010)	(12,634)	(50,468)	(45,560)
Acquisitions of subsidiary, net of cash acquired	2,038	-	(49,780)	(1,581)
Disposal of subsidiary or business, net of cash disposed	-	-	-	489
Settlement of financial instruments	(2,021)	7,561	(2,276)	5,845
Interest received	202	48	1,735	132
Net cash used in investing activities	(15,200)	(8,137)	(111,222)	(51,335)
Cash flows from financing activities				
Dividend paid	-	-	(39,506)	(31,733)
Acquisition of treasury shares	(151,496)	(61,821)	(189,624)	(61,821)
Repayments of borrowings	-	84	(11,576)	(79,366)
Proceeds from issuance of bonds	-	-	148,781	-
Repayment of bond	-	-	(105,401)	-
Interest paid	(118)	(6)	(12,221)	(12,600)
Payment of other financing costs	(546)	(810)	(2,603)	(7,037)
Net cash used in from financing activities	(152,160)	(62,553)	(212,150)	(192,557)
Effect of exchange rate changes	(1,081)	(4,075)	9,111	(2,291)
Net increase / (decrease) in cash and cash equivalents in the period	6,779	78,504	(26,485)	1,088
Cash and cash equivalents at the beginning of the period	161,076	115,836	194,340	193,252
Cash and cash equivalents at the end of the period	167,855	194,340	167,855	194,340



Appendix II – reconciliation of IFRS to non-IFRS Q4 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 31 December						Change	
	2017 IFRS	Adjustment	2017 Non-IFRS	2016 IFRS	Adjustment	2016 Non-IFRS	IFRS	Non-IFRS
Total Software Licensing	117,959	369	118,328	91,542	265	91,807	29%	29%
Maintenance	73,085		73,085	65,128		65,128	12%	12%
Services	41,209		41,209	34,124		34,124	21%	21%
Total Revenue	232,253	369	232,622	190,794	265	191,059	22%	22%
Total Operating Expenses	(157,183)	12,182	(145,001)	(124,320)	8,026	(116,294)	26%	25%
Restructuring	(2,278)	2,278	-	(260)	260	-	776%	
Amort of Acquired Intangibles	(9,904)	9,904	-	(7,766)	7,766	-	28%	
Operating Profit	75,070	12,551	87,622	66,474	8,291	74,765	13%	17%
Operating Margin	32%		38%	35%		39%	-2.5% pts	-1.5% pts
Financing Costs	(3,467)		(3,467)	(3,114)		(3,114)	11%	11%
Taxation	(10,129)	(1,465)	(11,594)	(7,450)	(828)	(8,278)	36%	40%
Net Earnings	61,474	11,086	72,561	55,910	7,463	63,373	10%	14%
EPS (USD per Share)	0.85	0.15	1.00	0.77	0.11	0.88	10%	14%