

# Temenos Group

## Temenos' acquisition of Kony, Inc.

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### COMPANY REPRESENTATIVES

**Max Chuard** – *Chief Executive Officer*

**Panagiotis Spiliopoulos** – *Chief Financial Officer*

**Thomas E. Hogan** – *Chairman and Chief Executive Officer of Kony*

**Adam Snyder** – *Head of Investor Relations*

## PRESENTATION

### **Operator**

Ladies and Gentlemen, welcome to the Temenos' Acquisition of Kony, Conference Call and Live Webcast. I am Andre, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. The presentation will be followed by a Q&A session. You can register for questions at any time by pressing \* and 1 on your telephone. For operator assistance, please press \* and 0. The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to handover to Adam Snyder. Please go ahead.

### **Adam Snyder**

Good afternoon, everyone, this is Adam Snyder, Head of Investor Relations for Temenos. Thank you very much for joining today's call. Before I handover to Max, I would just like to highlight that our speakers on the call are in various locations around the world, including U.S. and Switzerland, so please do bear with us when it comes to Q&A, if we need a bit of time to allocate questions among us. With that, I will handover to Max.

### **Max Chuard**

Thank you, Adam. Good afternoon and thank you for joining this call at such a short notice. Today we've announced the acquisition of Kony, the number 1 player in U.S. SaaS digital banking. This is hugely exciting for both Temenos and Kony and I'm delighted to be joined on the call by Tom Hogan, the Chairman and CEO of Kony as well as Takis, our CFO. I hope you've been able to access the presentation on our website which we will walk through on this call.

Starting with slide 5, Temenos is acquiring Kony for an enterprise value of 559 million Dollar and an earn-out of 21 million Dollars. Kony is a leading vendor of digital banking software in the U.S. one of our key strategic markets. This acquisition significantly exit Temenos Infinity, our award-winning digital front office product by combining Infinity with Kony's digital banking and multi-experience development platform to create the most advanced digital banking product in the market.

Kony has a global team of 1'500 people with very strong digital and cloud expertise. These are both IRs where banks are investing significantly and it is a massive advantage for Temenos to have this expertise.

It is also a transformation for our business in the U.S. as we are gaining additional scale, digital banking expertise, credibility, clients in that market specifically. Finally, we expect the acquisition to close early Q4 subject to regulatory approvals.

Turning to slide 6, this is the largest and most strategic acquisition in the history of Temenos and let me tell you why. The acquisition will enable us to create the richest and most technology-advanced digital banking product globally. We will combine Kony's digital banking experience and multi-experience development platform with the best components of Temenos Infinity and Avoka to build the leading digital banking product in the market. This is hugely exciting and this opportunity to accelerate our growth in the digital front office both in the U.S. but as well globally.

Kony's transformation for Temenos in the U.S. in particular as they have a proven digital front-office platform that can integrate with any core the significant US client base, the majority of which are large banks and credit unions, as well as a broad sales coverage of the U.S. market. This gives us the opportunity to cross-sell Temenos products including T24 Transact into the Kony client base. Kony has a very strong management team and Tom, who you will hear from shortly, will be joining the Temenos Executive Committee as President of Temenos North America. Tom brings significant expertise to the Temenos Management team with an extensive career in the U.S. software industry. Tom has held executive positions at HP, at Siebels, and sat on 3 public company Boards. Globally, Kony has 1'500 employees that are experts in digital banking and will help drive our growth in this space. They have a large development center in India that will complement our existing R&D centers and will become the Temenos staff for our digital banking R&D. And finally, Kony's business model is also highly attractive with recurring revenues making up over 60% of total revenues, the majority of this are SaaS and the results are significant contribution from maintenance and recurring license.

On slide 7, I'd like to give an overview of the digital banking opportunity that we are addressing through the combination of Temenos Infinity and Kony. The addressable market for digital front-office banking software is estimated to be circa 23 billion Dollars globally. The acquisition of Kony brings us market-leading products, sales expertise, scale and client in the digital front-office and is a very significant step in our journey to capture this market.

The digital banking competitive landscape is highly fragmented, with a range of different players, none of which will be able to compete against our combined offering. The incumbent banking software vendors typically lack digital banking expertise, and the specialist front office vendors tend to lack the scale and deep domain knowledge that banks need from front to back to be fully digital.

Banks are increasingly seeing the benefits of using third-party package software that they can customize and build application on. Banks can lower the maintenance and development costs; manage content and products, as well as, security more easily through a single platform. Banks want to differentiate in the digital front office and they can do this through designing super customer experiences, understanding the customer journey and applying desire-led thinking. Kony addresses these areas with multi experience development platform and out of the box digital banking experience platforms that banks can customize to the individual requirements.

Open API's are enabling banks to explore new business model, innovation and collaboration and this is an area that Temenos has been investing very heavily and we will continue to do so. Both Temenos Infinity and Kony use API's to enable integration with third-party application, as well as, with any core banking systems, giving banks full flexibility on how they approach the digital innovation, and how they partner with third-parties.

Turning to slide 8 the acquisition of Kony will significantly enhance our U.S. presence. The U.S. is the largest banking software market globally with an estimated addressable market of 22 billion Dollars annually. Kony will significantly accelerate our growth and market share in the U.S.

Kony's headquarter in Austin, Texas has 230 employees in the U.S. with the addition of Kony Temenos will have a total U.S. workforce of over 700 employees with particularly strong digital expertise across the Kony and Avoka teams. We will have offices in 7 locations from coast-to-coast and the U. S... total U.S. client base of over 1'300 banks and Credit Unions. Our pro forma U.S. revenue for 2019 is expected to be circa 200 million Dollar.

And lastly, as I said, I'm very pleased that Tom will become our President for North America and join the Temenos Executive Committee.

With that, I will hand over to Tom to give you further insights on Kony and its products.

### **Thomas Hogan**

Thanks Max. Let me just start by saying how excited I am about this combination and the opportunity to work with you and the rest of the Temenos leadership team, I've had the chance to get to know Max and his leaders over the past 3 or 4 months as we've explored this. And I think we share some fundamental qualities in terms of culture people and more importantly, the vision and the opportunity to grow and lead in this market.

So I am thrilled to be here, and I think it's also a great outcome for all the current stakeholders in Temenos and Kony and more importantly, the future customers that I think will go bring a lot of value to.

So let me start with slide 10, which is a bit of an overview. Kony was founded roughly a decade ago and have since established ourselves as the global leader in digital banking and low-code development. We have strong development and application capabilities in particular which have been recognized by a broad range of third-party industry analysts, including IDC, Forrester, Gartner and others who rank us as a leader in the markets we serve.

We have a global client base of over 100 banks spanning across the U.S. Europe, the Middle East and Asia with U.S. banks and Credit Unions making up roughly half of the banking client base. The majority of our U.S. clients are larger financial institutions with assets under management of 10 billion or more. We also have a strong cross sector client base both in the U.S. and around the world that will definitely benefit from the continued investment and resources that Temenos will and can make in the Kony solutions.

As Max mentioned, we are headquartered in Austin, Texas with roughly 230 people in the U.S. we have broad sales coverage in the market and a strong understanding of the digital requirements of U.S. financial institutions. Globally, we have roughly 1'500 employees with a strong culture and an understanding of digital and cloud solutions; it's the genesis and the heritage of our business.

We have a very similar R&D model to Temenos with a large center and concentration of our product and services people which totals around 1'100 in Hyderabad, India, which again compliments the presence that Temenos has already in Chennai, in Bangalore and Hyderabad will become the R&D hub for all the digital initiatives and solutions. I think our business model is also fairly compelling with recurring revenues contributing over 60% of our total revenue, and high levels of retention among our client base.

If we move to slide 11, I'll give you a quick overview of the Kony Quantum platform and digital banking experience, applications and platform as well. Quantum is a low-code, multi-experience development platform that enables the creation of web and mobile applications with exceptional customer experience across multiple devices from one set of tools. This strengthens Temenos Infinity with applications for advanced user experiences across all channels including personal wearables such as smart watches and augmented reality and conversational apps.

DBX is a flexible Omni-channel banking platform, which combines out-of-the-box applications with high levels of customizable experience to drive efficient marketing campaigns and improve customer acquisition and retention. The DBX platform allows banks to accelerate their time to market, provide exceptional Omni-channel experiences for customers while at the same time reducing their overall costs.

By combining Kony with Temenos Infinity we'll unify the development platform for digital banking journeys across multiple channels and devices and bring rich out-of-the-box applications that banks can use and customize.

Go to slide 12; the combination of Temenos and Kony will create the global market leader in the digital banking space. The combined organization will be the leading front office software provider to banks with unparalleled expertise, scale and reach. We'll be the only provider with specialist digital banking expertise from front to back providing a core agnostic digital front office product that can be integrated with any core banking engine, but also offering a vertically integrated stack of front office and core to banks that want to embark on a continuous renovation of their existing systems.

Temenos Infiniti and Kony have abstracted banking capabilities into their front office which means it contains rules, workflows, and business logic where needed based on data and products and ensures the front office is not constrained or limited by a legacy core banking engine.

The combined product will be available across all key banking verticals and contain the market leading customer acquisition and onboarding capabilities from the Avoka platform acquired by Temenos last year.

Kony's Quantum platform is the leading platform for enabling low-code, code once-deliver anywhere platforms. This is a key competitive advantage as banks customers increasingly expect a seamless and integrated experience across multiple channels.

Lastly, the combined platform will support a human to digital channel through the product called Engage are highly personalized and sophisticated messaging application that enables banking personnel to interact directly with their customers.

I'd now like to hand it over to Takis to take you through the financial details of the acquisition.

## **Takis Spiliopoulos**

Thank you, Tom and welcome to the Temenos team. On slide 14, I will run you through the details of the transaction. We are acquiring Kony for a total enterprise value of U.S. Dollar 559 million and an earn-out of U.S. Dollar 21 million. Kony has U.S. Dollar 50 million of debt on balance sheet which will be adjusted in the final consideration.

We are funding the acquisition through debt specifically our existing revolving credit facility and a bridge loan with our strong cash flow profile our debt leverage will be below 2.5 times net debt to EBITDA by the end of 2019 and below 1.5 times by the end of 2020.

The acquisition is subject to U.S. antitrust approvals which we expect to take 4 to 6 weeks to complete which means we expect the acquisition to close in early Q4 this year. In terms of the financial impact of the acquisition we expect Kony to generate total revenues of around U.S. Dollar 115 million in 2020. This represents a growth rate in excess of Temenos sustainable annual revenue growth target.

Looking at the composition of Kony's revenue, over 60% of its total revenue is recurring. The majority of this is SaaS with the rest of their recurring revenue stemming from maintenance and recurring licenses. The balance to total revenue is from services. We expect the acquisition to be neutral to non-IFRS EPS in 2020 and accretive to non-IFRS EPS in 2021. We expect it to reach group margins within 3 years.

We will incur onetime total integration and restructuring costs of U.S. Dollar 10 to 12 million of which U.S. Dollar 2 to 3 million will be expensed in 2019 and the remainder will be booked in 2020. We will also incur onetime acquisition related costs of U.S. Dollar 3 million, which we will be booked in 2019.

On slide 15, we expect to drive significant revenue synergies from the combination of Kony and Temenos. Digital banking as you heard is a major area of investment for banks globally and the combination of the Kony platform and Temenos Infinity will put us in a very strong position to capitalize on this trend.

The main drivers of revenue synergies we have identified come from 3 main areas. Firstly, we will cross-sell the Kony DBX and Quantum platforms to Temenos global client base outside of the U.S. as well as, ultimately selling the combined Kony and Temenos Infinity platform to all our clients globally.

Secondly, we plan to accelerate the sales of Kony DBX and Quantum in the U.S. by leveraging a larger combined sales force and cross-selling to the Temenos U.S. client base.

And thirdly, we see an excellent opportunity to cross-sell Temenos products into the Kony client base, both in the U.S. and globally including T24 Transact our market leading core banking product. We will drive cost synergies mainly through G&A optimization.

Turning to slide 16, we have reconfirmed our sustainable annual growth targets that we announced at our Capital Markets Day in May. These targets are non-IFRS. We expect to deliver long-term total software licensing growth of at least 15% total revenue growth of 10% to 15% and EPS growth of at least 15% annually.

We expect our DSOs to decline to less than 90 days and our EBIT margin to reach at least 36%. Our long-term tax rate is around 20%. And we expect to convert over 100% of EBITDA into operating cash flow every year. We are also re-confirming our 3 to 5-year target of expanding our EBIT margin by 100 to 150 basis points every year and a tax rate of 18% to 20%.

Finally, we plan to update our fiscal year '19 guidance, when we announced our Q3 results on the 16<sup>th</sup> of October, as we expect the deal to have closed by then. With that, I will hand back to Max to conclude the presentation.

### **Max Chuard**

Thank you, Takis. So in conclusion, the acquisition of Kony will significantly enhance Temenos Infinity by combining with Kony's leading digital banking products. By combining Infinity and Kony, we will be the leading digital banking product in the market, accelerating our growth in the digital front office space to become the global leader. Kony will transform our market presence and expertise in the U.S. through the addition of a high experienced team, significant sales coverage, and strong client base. It will also enhance our digital expertise globally, with the addition of 1'500 employees that are experts in digital banking and have also significant cloud expertise.

Kony SaaS-based business is also highly attractive with over 60% recurring revenues, which is multitasks. So this is, as I said, very exciting because this acquisition allow us to accelerate our 2 most strategic initiatives, which is the U.S., and which is digital banking. So very pleased with this. And I would like operator to open up the call for questions.



## QUESTION & ANSWER

### **Operator**

We will now begin the question and answer session. Anyone who wishes to ask a question, may press \* and 1 on their touch-tone telephone, you will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press \* and 2. Participants are requested to use only handsets while asking a question. Anyone who has a question may press \* and 1 at this time.

The first question comes from the line of James Goodman from Barclays. Please go ahead.

### **James Goodman**

Good evening. Yes. Thank you. And a couple of questions from me please. And the first one was just Thomas, if you could give us a little bit more just a flavor on the history of Kony? So has it been purely organic over that 10 years that you mentioned. And maybe you can help us a little bit just with the growth rate specifically that the business is seeing at the moment, and if it's that 2020 numbers that you gave. And then the other question is, you've articulated very clearly how additive the product will be to your Infinity product, but I'm a little unsure exactly where the overlap is in terms of what existing functionality you have in Infinity. And so, is there much overlap there? And will there be an element of running separate offerings or are you immediately going to combine that product set so you still have one sort of go-to-market approach in that front office? Thank you.

### **Max Chuard**

Takis, maybe I'll take the second and I'll leave you to the first one. Actually, we... the goal is to combine the offering. I think this is exciting, what is also exciting is in fact, if you look at Kony and if you look at Temenos, our front offices are quite complimentary. So if you look at where we are very strong for instance on the... on volume side, this is probably where Kony is less stronger. And when you look at the digital multi experience platform, which is extremely strong on native apps, this is probably where Temenos is less. So the combination of the 2 works extremely well.

In addition, Temenos on Infinity, I will say, a much broader spectrum of banking expertise as well. So we will be able to take the best from Kony, which complements very nicely our Infinity and offer the best product in the market by far. And clearly, we will go with the combined offering. And as you heard both of us working extensively through APIs, so the integration will be relatively straightforward. But actually the plan is to integrate and to combine the different products into one single product.

**Takis Spiliopoulos**

Hi, James, what we can say is definitely 2 things. Number 1, Kony's growth is definitely accretive to both our long-term guidance for total software license growth, but also accretive to total revenue growth. So as it is right now forecast for 2020 is, it's accretive to our growth rate. If you look at more specifically the individual lines, we're not going to disclose this, but SaaS growth, one of the main drivers for the acquisition is growing even faster than that. So let's say 25% plus on the SaaS.

**James Goodman**

That's very clear, thank you. And just has Kony been purely organic over the years or has it... has it sort of made from acquisitions as well?

**Thomas Hogan**

Yes, this time, I'll take that. Excuse me; the company's been around for a little over 10 years. The overwhelming majority of the P&L is purely organic. We did our first real acquisition about 10 months ago in the fall, but even that would be considered a tuck-in by our standards. So it's been almost exclusively organic. The one acquisition we did was to purchase the solution I referenced for sort of making banking personal again and linking the human and digital world through a product called Engage that was incubated by a regional bank in the northwest called Umpqua that we partnered with and acquired. So but again, that was extremely modest relative to the revenues.

**James Goodman**

Yes, that's great. Thank you.

**Operator**

The next question comes from the line of Adam Wood from Morgan Stanley. Please go ahead.

**Adam Wood**

Hi, good evening and thanks for taking the question. I have also got a few if I could. Maybe just first of all on the current margin profile on Kony, could you give us an idea how much gap there is to close between the 2 businesses? And then maybe could we just go into a little bit more detail around the integration of the products, and could we think about this from 2 points of view. Firstly, maybe how long you think it would take to come and bring these offerings that you have on the front end and around the more digital side to market?

And then maybe more importantly given the cross-sell opportunities, could you give us a little bit of a feel of what the basis of the 2 installed-bases using today's (unintelligible) particularly on the Kony's side.

Are there any Temenos customers in there, on the middle and back office side and how much do you think banks are looking to integrate these today versus that being more a kind of 3, 5, 7 years view would be a nice to have, presumably the development work and the thought process of how they run the 2 sides, you know relatively different? And then maybe just finally, could you just remind us and confirm that the target you have given for the mid and long term they are organic and obviously wouldn't include the accretive growth from deals like this? Thank you.

**Max Chuard**

Takis, do you want to take the first and the last one and I will take the second and third one.

**Takis Spiliopoulos**

Yes, I will take that. Hi Adam. You know we have not disclosed the historic margin profile of Kony, but what we can say profitability has been, you know going up over the last years and we expect that to continue. We have given some hints in terms of you know the EPS impact, obviously, you know there is... that is going to take a while to reach the group margin i.e. what Temenos is right now so within 3 years, I think that's what we can say right now.

In terms of the acceleration, you know we have given total software license growth of 15% plus which is basically everything between, let's say, 15% to 17%-18%. So there is an accretive impact same goes for total revenues, you know if it is... I think that's, you know, given that the relative sides of Kony and Temenos, I think that's what we can say, so definitely improving the growth profile for Temenos both on total software revenues but also total revenue.

**Max Chuard**

Adam, yes so clearly accretive to grow this transaction and maybe I start with the third question which links to the growth. Kony is mainly a U.S. player, not just U.S. but it is mainly a U.S. player. And hence I will say it is complimentary to what we do and so there is little overlap I will say on the customer base. Yes, we do have some large customer in common, for instance HSBC that we can name, but the fact that there are much more I would say... they have got much more, many more customers at the high end of the market than we have it's very complimentary in that sense.

And for us really the opportunity and specifically in the U.S. if you look at the top 5 U.S. banks have investments so much in this front, so that there is such an opportunity right now we see for banks to take a package to be able to compete against the investment that have been made by the largest banks in the U.S. and this is what the opportunity that Kony is going after and you know, we will be able to capture even more that opportunity together.

But ultimately what is also very exciting is, we believe that a true transformation... digital transformation only happens when you really go back to front and overtime we are convinced that those customers will also want to renovate the backend. And we have seen many, many cases where... when our customers are using our frontend as, you know sometime using a third party back office or an in-house back, they feel the limitation of what they can do with the software at the front and hence there is really a benefit to go back to front. So I think that's very, very exciting for us.

Now, to go back again to the integration of the products with your second question, as I said the fact that we are open to APIs, this clearly facilitates, so immediately there is more product to sell. I think that's very importantly and some very exciting product like the one that Tom mentioned around Engage how you can interact on a personal basis with your bankers, that is the 3 super cool as a product, but ultimately, the end-to-end combination or integration will take around 12-20 months to be fully completed but already you know, we will be able very, very fast to go-to-market with a combined offerings for APIs which we will be, you know... actually that we will be able to sell.

**Adam Wood**

Perfect. Thank you very much.

**Operator**

The next question comes from the line of Michael Foeth from Vontobel. Please go ahead.

**Michael Foeth**

Yes, hi. I have a question or 2 questions. The first one is in relation to the earn-out. Can you explain why the earn-out seems so small in the total mix of the consideration that you are paying? And the second question would be regarding the... you mentioned the addressable market of 9 billion in the U.S. 23 billion overall. How much of that market are you already addressing really and so maybe if you could quantify by how much you are really increasing your addressable market if that's possible at all?

**Max Chuard**

Hi, Michael.

**Takis Spiliopoulos**

Hi, Michael.

**Max Chuard**

Michael, I will take this.

**Takis Spiliopoulos**

Go ahead.

**Max Chuard**

You can see as we are not from the same location. I will start with the second one, on the 9 billion... the 23 billion we see the total market as we said. I think what is key about the transaction it is how it accelerates, our ability to capture that market. I think this is the key, this transaction strengthen our ability to capture it, accelerate our ability to capture that opportunity, the opportunity is the same, clearly there is some more products or you could stay that this is a little bit enhanced. But, the opportunity is still so massive, how can we capture it, how can we accelerate on grow faster to capture that market. Takis, I leave the first one for you.

**Takis Spiliopoulos**

Yes, hi, Michael. So, the earn out of 21 million, this is more or less linked to, you know, let's say some targets we have defined over the next let's say 6 to 9 months, keep in mind, you know, there is a lot of recurring business with a very good visibility. So, you know, we know what we are buying and therefore any potential upside would be basically linked to the... to the earn-out.

**Michael Foeth**

Okay. Thanks a lot.

**Operator**

The next question comes from the line of Paul Kratz, from Jefferies. Please go ahead.

**Paul Kratz**

Hi, everyone. Two questions from my side, I think first and foremost thinking about the 3 different revenue growth buckets, that Takis mentioned earlier.

Could you give us kind of a rough idea of kind of how these different buckets contribute in future growth. And I mean, secondly, thinking more also about the U.S. market and kind of past acquisitions that you guys have done, I think in the past we haven't maybe necessarily seen the kind of cross-sell that some might have hoped for. Could you maybe walk us kind of through what is different with this acquisition and is it in the way that you are approaching the market, is it maybe to your approaching it first from the front office standpoint or maybe just timing in its own right, but it would be great to have maybe your insights on that?

### **Takis Spiliopoulos**

Okay. I will take the first one on the 3 areas of basically revenue synergies, we have defined there is clearly we have a kind of an internal list for that, but keep in mind what Max said that there is going to be from day one more products to sell for all the sales people I think in the next... in a second step we will go and expand this throughout the regions and with all the products. And I think the key element for us is to get the sales teach-in quickly done that people know and have basically all the demo systems available to be able to sell more products from day one.

### **Max Chuard**

Okay. So, I will take the U.S. question. We have done and if you look at the last two acquisitions, we have done 3 acquisitions. But the first one was a very tiny one. And if you look at both Akcelerant and then if you look at Avoca, all of those were extremely successful transaction in the sense that they gave us a head start in the U.S. as they gave us credibility, they are allowed us to build a U.S. business and today we have got almost 500 people in the U.S. We have got some amazing customers in the U.S. and we have been able to do that by you know, through those different acquisition that were fully integrated and were able to distribute our product in the U.S.

I think now this transaction takes it to a different level, because we've probably done a lot of building up credibility, getting reference in the U.S. getting different products exposed to the U.S. market. And now this transaction takes it to the next level, it's you know, it brings much more scale and much more... many more customers, a team as well, the management team that will be able to support and lead this for the future. So, it's... I would say, it's a continuation of what we have done, and if you look at what we did with Avoca, that was an amazing acquisition with fantastic onboarding products, this now, this is a continuation and it's taking to the next level on the front end side. So I am very pleased and I can clearly see the synergies, I can see the benefits and I think both Tom and myself super excited of what we are going to do in the U.S. in the future.

**Paul Kratz**

Thanks.

**Operator**

Ladies and Gentlemen, that was the last question. I would now like to turn the conference back over to Mr. Chuard for any closing remarks.

**Max Chuard**

Well, thank you very much for joining in such a short notice. I will speak very soon on the back of Q3. So, thank you very much for joining.

**Operator**

Ladies and Gentlemen, the conference is now over. Thank you for choosing Chorus Call and thank you for participating in the conference. You may now disconnect your lines. Goodbye.

- END -