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October 16, 2019

Temenos announces strong Q3 2019 SaaS ACV growth of 164%; total software licensing growth of 15% in Q3 and 20% YTD

GENEVA, Switzerland, October 16, 2019 – Temenos AG (SIX: TEMN), the banking software company, today reports its third quarter 2019 results.

USDm, except EPS	Non-IFRS				IFRS			
	Q3-19	Q3-18	Change	CC*	Q3-19	Q3-18	Change	CC*
Software licensing	83.5	80.5	4%	7%	83.5	80.5	4%	7%
SaaS & subscription	14.6	7.8	87%	93%	13.5	7.8	73%	79%
Total software licensing	98.1	88.4	11%	15%	97.0	88.4	10%	13%
Maintenance	88.6	78.9	12%	12%	88.6	78.9	12%	12%
Services	42.3	40.6	4%	6%	42.3	40.6	4%	6%
Total revenues	229.1	207.9	10%	12%	228.0	207.9	10%	11%
EBIT	79.1	68.2	16%	16%	61.5	59.0	4%	5%
EBIT margin	34.5%	32.8%	2% pts	1% pt	27.0%	28.4%	-1% pt	-2% pts
EPS (USD)	0.90	0.76	18%		0.68	0.65	5%	

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.

**SaaS ACV is Annual Contract Value which is the annual value of incremental business taken in-year (bookings). This includes new customers, up-sell and cross-sell. It only includes the recurring element of the contract and excludes variable elements.

Q3 2019 highlights

- Digital, regulatory and cost pressures and move to open banking continue to drive market growth
- Good sales momentum in Europe, Asia and the Americas, in particular in the US, continuing the trend from H1
- Key wins in Q3 include a tier 1 US bank for fund administration, a tier 1 Australian bank for Infinity and multiple sales to existing tier 1 European clients
- Strong momentum in SaaS, with revenue up 93% and ACV up 164%
- SaaS signings included a high profile challenger bank entering Australian market, a UK challenger bank focusing on SMEs and multiple wins across countries in Europe for neo-banks and new entrants
- Continued momentum in sales into the installed base, increasing share of wallet
- Weak sales execution in MEA region impacted signings in Q3, plan in place to regain momentum in the region by early 2020
- Acquisition of Kony, the market leader in digital banking, significantly enhances the Temenos Infinity platform and strengthens SaaS and cloud and US presence and strategy

Q3 2019 and 2019 YTD financial summary (non-IFRS)

- Non-IFRS total software licensing revenues up 15% in Q3, 20% YTD c.c.
- Non-IFRS maintenance growth of 12% in Q3, 12% YTD c.c.
- Non-IFRS total revenue growth of 12% in Q3, 17% YTD c.c.

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- Non-IFRS EBIT up 16% in Q3, 20% YTD c.c., Q3 EBIT margin of 34.5%
- Non-IFRS EPS increase of 18% in Q3, 19% YTD
- Operating cash flow of USD 50m, LTM cash conversion of 107% of IFRS EBITDA
- DSOs at 123 days reported, of which 9 are due to Kony acquisition

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

“We have continued the momentum from the first half and have now delivered total software licensing growth of 20% in the first three quarters of 2019 and total revenue growth of 17%, and I am particularly pleased with the SaaS performance with our ACV more than doubling. We continue to see strong demand across geographies, with Europe, Asia and the US in particular contributing to the quarter. We also had multiple signings with tier 1 banks, again across a broad range of countries, as we continue winning new names and increasing the penetration of our existing client base.

Key SaaS signings included a high profile challenger bank entering the Australian market, Alba, a UK challenger bank focusing on SMEs and multiple wins across countries in Europe for neo-banks and new entrants.

We continue to execute well on our US strategy and the closing of the Kony acquisition brings significant additional digital, cloud and SaaS expertise in the US in particular, as well as strengthening Temenos Infinity, our award-winning digital front office platform. We have already started to build pipeline on the back of this acquisition and have seen some early success in Q4.”

Commenting on the results, **Temenos CFO Takis Spiliopoulos said:**

“We had a good level of signings in the quarter and delivered total software licensing growth of 15%, total revenue growth of 12% and EBIT growth of 16%, which is in line with our sustainable annual growth targets. We also delivered an EBIT margin improvement of 127bps. The signings were across all of our six drivers of growth including Transact, Infinity, fund administration and SaaS. I am particularly pleased with the strong momentum in SaaS with revenues up 93% and ACV up 164%.

We remain disciplined around our cash and balance sheet, with operating cash inflows of USD 50m in the quarter. We ended the quarter with DSOs at 123 days, 9 of which were due to the acquisition of Kony. Our leverage was 3.1x net debt to EBITDA at the end of the quarter, again driven by the acquisition of Kony and we expect this to come down to below 2.5x by year end.

We have revised our FY 2019 guidance for Kony. Our new guidance is for total software licensing growth of 19.5-22.5%, total revenue growth of 18-20% and EBIT of between USD 310-315m. The implied organic EBIT margin expansion remains at 150bps.”

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Revenue

IFRS revenue were USD 228.0m for the quarter, an increase of 10% vs. Q3 2018.

Non-IFRS revenue was USD 229.1m for the quarter, an increase of 10% vs. Q3 2018.

IFRS total software licensing revenue for the quarter was USD 97.0m, an increase of 10% vs. Q3 2018.

Non-IFRS total software licensing revenue was USD 98.1m for the quarter, an increase of 11% vs. Q3 2018.

EBIT

IFRS EBIT was USD 61.5m for the quarter, an increase of 4% vs. Q3 2018.

Non-IFRS EBIT was USD 79.1m for the quarter, an increase of 16% vs. Q3 2018.

Non-IFRS EBIT margin was 34.5%, up 2% points vs. Q3 2018.

Earnings per share (EPS)

IFRS EPS was USD 0.68 for the quarter, an increase of 5% vs. Q3 2018.

Non-IFRS EPS was USD 0.90 for the quarter, an increase of 18% vs. Q3 2018.

Operating cash flow

IFRS operating cash was an inflow of USD 50m in Q3 2019 compared to USD 53m in Q3 2018, representing an LTM conversion of 107% of IFRS EBITDA into operating cash.

2019 guidance

The 2019 guidance has been revised for the acquisition of Kony. Our guidance for 2019 is in constant currencies.

The revised guidance is as follows:

- Non-IFRS total software licensing growth at constant currencies of 19.5% to 22.5% (implying non-IFRS total software licensing revenue of USD 431m to USD 442m), revised from 17.5% to 22.5%
- Non-IFRS revenue growth at constant currencies of 18% to 20% (implying non-IFRS revenue of USD 970m to USD 986m), revised from 16% to 19%
- Non-IFRS EBIT at constant currencies of USD 310m to 315m, (implying non-IFRS EBIT margin of c. 31.9%, or 150bps expansion organically excluding the impact of Avoka and Kony)
- 100%+ conversion of EBITDA into operating cash flow
- Expected FY 2019 tax rate of 14% to 15%, revised from 15% to 16%

Currency assumptions for 2019 guidance

In preparing the 2019 guidance, the Company has assumed the following:

- EUR to USD exchange rate of 1.095;
- GBP to USD exchange rate of 1.210; and
- USD to CHF exchange rate of 0.980.

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Conference call and webcast

At 18.30 CET / 17.30 GMT / 12.30 EST, today, 16 October 2019, Max Chuard, CEO, and Takis Spiliopoulos, CFO, will host a conference call to present the results and offer an update on the business outlook, which can be followed either through the dial-in numbers or webcast. Listeners who have not pre-registered can access the conference call using the following dial in numbers:

+41 (0) 58 310 50 00 (Europe & RoW)
+44 (0) 207 107 0613 (UK)
+1 (1) 631 570 56 13 (USA)

The webcast can be accessed by clicking on this [webcast link](#).

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/>.

IFRS 16

Temenos has implemented IFRS 16 for reporting period 1st January 2019 onwards using the modified retrospective method. Under the modified retrospective method the 2018 and prior results will not be restated under IFRS 16. From 2019, the reporting results will only be provided under IFRS 16.

For more information on the impact of IFRS 16, please visit the Temenos Investor Relations website:

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

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 2019 non-IFRS guidance:

- FY 2019 estimated deferred revenue write down of USD 9-10m
- FY 2019 estimated amortisation of acquired intangibles of USD 58-60m

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- FY 2019 estimated restructuring costs of USD 13-15m

Restructuring costs include realizing R&D, operational and infrastructure efficiencies. These estimates do not include impact of any further acquisitions or restructuring programs commenced after 16 October 2019. The above figures are estimates only and may deviate from expected amounts.

Investor and media contacts

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About Temenos

Temenos AG (SIX: TEMN), headquartered in Geneva, is the world's leader in banking software, partnering with banks and other financial institutions to transform their businesses and stay ahead of a changing marketplace. Over 3,000 banks across the globe, including 41 of the top 50 banks, rely on Temenos to process both the daily transactions and client interactions of more than 500 million banking customers. Temenos offers cloud-native, cloud-agnostic front office and core banking, payments, fund management and wealth management software products enabling banks to deliver consistent, frictionless customer journeys and gain operational excellence.

Temenos software is proven to enable its top-performing clients to achieve industry-leading cost-income ratios of 25.2% and returns on equity of 25.0%, 2X better than the industry average. These clients also invest over 53% of their IT budget on growth and innovation versus maintenance, which is 2.5X better than the industry average, proving the banks' IT investment is adding tangible value to their business.

For more information please visit www.temenos.com.

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Appendix I – Q3 2019 IFRS primary statements

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All amounts are expressed in thousands of US dollars
except earnings per share

	Three months to 30 September 2019	Three months to 30 September 2018	Year to date 30 September 2019	Year to date 30 September 2018
Revenues				
Software licensing	83,500	80,538	239,276	218,163
SaaS & subscription	13,536	7,833	38,953	23,397
Total software licensing	97,036	88,371	278,229	241,560
Maintenance	88,620	78,859	260,216	232,415
Services	42,336	40,634	129,274	112,728
Total revenues	227,992	207,864	667,719	586,703
Operating expenses				
Sales and marketing	(43,739)	(43,176)	(138,011)	(123,574)
Services	(37,458)	(36,139)	(115,436)	(103,707)
Software development and maintenance	(62,084)	(50,542)	(189,730)	(159,283)
General and administrative	(23,189)	(19,027)	(70,660)	(68,490)
Total operating expenses	(166,470)	(148,884)	(513,837)	(455,054)
Operating profit	61,522	58,980	153,882	131,649
Other expenses				
Net interest expenses	(5,234)	(3,727)	(13,649)	(12,336)
Borrowing facility expenses	(1,175)	(470)	(2,015)	(5,912)
Foreign exchange gain / (loss)	1,155	(569)	725	(472)
Total other expenses	(5,254)	(4,766)	(14,939)	(18,720)
Profit before taxation	56,268	54,214	138,943	112,929
Taxation	(6,974)	(7,386)	(20,067)	(15,985)
Profit for the period	49,294	46,828	118,876	96,944
Earnings per share (in US\$):				
basic	0.70	0.68	1.69	1.40
diluted	0.68	0.65	1.63	1.34
non-IFRS	0.90	0.76	2.22	1.86

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All amounts are expressed in thousands of US dollars

	30 September 2019	30 June 2019	31 December 2018	30 September 2018
Assets				
Current assets				
Cash and cash equivalents	76,711	87,281	287,439	91,930
Trade receivables	306,020	267,519	254,935	247,676
Other receivables	55,769	39,667	35,039	33,629
Total current assets	438,500	394,467	577,413	373,235
Non-current assets				
Property, plant and equipment	70,392	60,112	18,021	17,040
Intangible assets	1,631,913	989,945	1,008,873	752,645
Trade receivables	5,823	5,759	7,534	8,182
Other long term assets	20,781	19,616	18,876	3,268
Deferred tax assets	21,086	20,328	17,663	23,123
Total non-current assets	1,749,995	1,095,760	1,070,967	804,258
Total assets	2,188,495	1,490,227	1,648,380	1,177,493
Liabilities and equity				
Current liabilities				
Trade and other payables	195,277	177,757	166,545	127,486
Deferred revenues (Contract liabilities)	245,150	239,632	262,861	206,586
Income tax liabilities	47,384	41,584	38,568	38,342
Borrowings	21,036	18,315	107,797	105,644
Total current liabilities	508,847	477,288	575,771	478,058
Non-current liabilities				
Borrowings	1,196,542	635,882	706,278	425,094
Deferred tax liabilities	102,234	34,018	37,594	12,019
Trade and other payables	12,963	17,166	19,646	22,543
Retirement benefit obligations	12,978	10,470	10,320	8,552
Total non-current liabilities	1,324,717	697,536	773,838	468,208
Total liabilities	1,833,564	1,174,824	1,349,609	946,266
Shareholders' equity				
Share capital	241,537	240,943	233,217	233,217
Treasury shares	(264,608)	(264,608)	(264,608)	(269,274)
Share premium and capital reserves	(284,913)	(287,956)	(289,095)	(292,007)
Fair value and other reserves	(142,523)	(129,119)	(121,491)	(112,463)
Retained earnings	805,438	756,143	740,748	671,754
Total shareholders' equity	354,931	315,403	298,771	231,227
Total equity	354,931	315,403	298,771	231,227
Total liabilities and equity	2,188,495	1,490,227	1,648,380	1,177,493

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All amounts are expressed in thousands of US dollars

	Three months to 30 September 2019	Three months to 30 September 2018	Year to date 30 September 2019	Year to date 30 September 2018
Cash flows from operating activities				
Profit before taxation	56,268	54,214	138,943	112,929
<u>Adjustments:</u>				
Depreciation and amortisation	31,163	22,932	91,714	69,211
Other non-cash and non-operating items	7,477	17,451	26,271	48,064
<u>Changes in working capital:</u>				
Trade and other receivables	(28,599)	(3,863)	(46,252)	(31,896)
Trade and other payables, and retirement benefit obligations	596	(20,156)	11,588	(8,141)
Deferred revenues (Contract liabilities)	(17,046)	(17,880)	(39,994)	(24,543)
Cash generated from operations	49,859	52,698	182,270	165,624
Income taxes paid	(532)	(4,679)	(13,440)	(15,136)
Net cash generated from operating activities	49,327	48,019	168,830	150,488
Cash flows from investing activities				
Purchase of property, plant and equipment	(3,776)	(2,261)	(6,874)	(6,130)
Disposal of property, plant and equipment	-	-	358	-
Purchase of intangible assets	(781)	(1,188)	(3,238)	(2,841)
Capitalised development costs	(15,187)	(13,006)	(43,632)	(38,756)
Acquisitions of subsidiary, net of cash acquired	(592,029)	-	(594,089)	-
Settlement of financial instruments	(3,031)	(2,007)	(5,761)	(1,137)
Interest received	98	546	876	1,284
Net cash used in investing activities	(614,706)	(17,916)	(652,360)	(47,580)
Cash flows from financing activities				
Dividend paid	-	-	(52,361)	(46,134)
Acquisition of treasury shares	-	(44,427)	-	(205,578)
Proceeds from borrowings	565,001	20,000	567,686	95,000
Repayments of borrowings	-	(30)	(110,000)	(71)
Repayment of bond	-	-	(100,652)	-
Payment of lease liabilities	(3,998)	-	(11,294)	-
Interest paid	(729)	(674)	(13,428)	(11,711)
Payment of other financing costs	(4,070)	(437)	(5,253)	(8,429)
Net cash generated from / (used in) financing activities	556,204	(25,568)	274,698	(176,923)
Effect of exchange rate changes	(1,395)	(564)	(1,896)	(1,910)
Net (decrease) / increase in cash and cash equivalents in the period	(10,570)	3,971	(210,728)	(75,925)
Cash and cash equivalents at the beginning of the period	87,281	87,959	287,439	167,855
Cash and cash equivalents at the end of the period	76,711	91,930	76,711	91,930

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Appendix II – reconciliation of IFRS to non-IFRS Q3 2019 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.

Reconciliation of IFRS to non-IFRS

IFRS - Non- IFRS Reconciliation Thousands of US Dollars	3 Months Ending 30 September						Change	
	2019 IFRS	Non-IFRS adjustments	2019 Non-IFRS	2018 IFRS	Non-IFRS adjustment	2018 Non-IFRS	IFRS	Non-IFRS
Software licensing	83,500		83,500	80,538		80,538	4%	4%
SaaS & subscription	13,536	1,100	14,636	7,833	-	7,833	73%	87%
Total Software Licensing	97,036	1,100	98,136	88,371	-	88,371	10%	11%
Maintenance	88,620		88,620	78,859		78,859	12%	12%
Services	42,336		42,336	40,634		40,634	4%	4%
Total Revenue	227,992	1,100	229,092	207,864	-	207,864	10%	10%
Total Operating Expenses	(166,470)	16,515	(149,955)	(148,884)	9,223	(139,661)	12%	7%
Restructuring	(4,193)	4,193	-	(122)	122	-	3337%	
Amort of Acquired Intangibles	(12,322)	12,322	-	(9,101)	9,101	-	35%	
Operating Profit	61,522	17,615	79,137	58,980	9,223	68,203	4%	16%
Operating Margin	27%		35%	28%		33%	-1.4% pts	1.7% pts
Financing Costs	(5,254)	685	(4,569)	(4,766)		(4,766)	10%	(4%)
Taxation	(6,974)	(1,960)	(8,934)	(7,386)	(1,163)	(8,549)	(6%)	5%
Net Earnings	49,294	16,340	65,634	46,828	8,060	54,888	5%	20%
EPS (USD per Share)	0.68	0.22	0.90	0.65	0.11	0.76	5%	18%