

FOR IMMEDIATE RELEASE
July 15, 2020

Temenos announces strong recurring revenue growth up 17% in Q2, gradual improvement expected in Q3 and Q4 2020

Reconfirming guidance for at least 13% recurring revenue growth, at least 7% EBIT growth and conversion of 100% of IFRS EBITDA into operating cash

GENEVA, Switzerland, July 15, 2020 – Temenos AG (SIX: TEMN), the banking software company, today reports its second quarter 2020 results.

USDm, except EPS	Non-IFRS				IFRS			
	Q2-20	Q2-19	Change	CC*	Q2-20	Q2-19	Change	CC*
Software licencing	58.1	92.6	(37%)	(36%)	58.1	92.6	(37%)	(36%)
SaaS & subscription	23.1	14.6	58%	62%	18.9	13.5	40%	43%
Total software licencing	81.2	107.2	(24%)	(22%)	77.0	106.1	(27%)	(26%)
Maintenance	95.1	86.9	10%	10%	95.1	86.9	10%	10%
Services	39.4	43.1	(8%)	(7%)	39.4	43.1	(8%)	(7%)
Total revenues	215.7	237.1	(9%)	(8%)	211.5	236.0	(10%)	(9%)
EBIT	67.3	73.1	(8%)	(7%)	56.5	57.7	(2%)	(1%)
EBIT margin	31.2%	30.9%	0% pts	0% pts	26.7%	24.4%	2% pts	2% pts
EPS (USD)	0.70	0.80	(13%)		0.59	0.62	(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.

Q2 2020 highlights

- Strong growth in recurring revenue
- Q2 sales continued to be impacted by Covid-19
- Many banks remain focused on business continuity; limited visibility on when implementations could start also a continued cause of delay
- One third of deals delayed from Q1 signed in Q2
- Deals that did not sign in Q1 and Q2 continue to be delayed, not cancelled
- Double-digit growth in new pipeline opportunities year-on-year
- Exclusive partnership signed with HCL in Q2 which positively impacted total software licensing and EBIT
- Positive momentum in MEA and North America, which benefited from HCL partnership
- Travel restrictions impacted the sales force's ability to close deals in particular in Europe
- SaaS growth remained strong, SaaS ACV growth of 21% c.c.
- Key tier 1 wins across Japan and Australia, and first SaaS signing in MEA
- 12 new client wins in Q2 across products
- Recurring revenue growth, cost base flexibility and strong cost control driving EBIT and cash performance
- Continued investment, in particular in R&D, to extend product advantage
- Structural drivers of digital, regulation, cost pressures and move to open banking are intact and likely to accelerate post-crisis, adoption of SaaS and cloud also likely to accelerate

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Q2 2020 financial summary (non-IFRS)

- Non-IFRS total software licensing revenues down 22% c.c.
- Non-IFRS maintenance growth of 10% c.c.
- Non-IFRS recurring revenue growth of 17% c.c.
- Non-IFRS total revenue down 8% c.c.
- Non-IFRS EBIT down 7% c.c., Q2 EBIT margin of 31.2%
- Non-IFRS EPS down 13% in Q2
- Operating cash flow of USD 94m, up 21%, LTM cash conversion of 115% of IFRS EBITDA
- DSOs at 107 days reported, 105 days organic, down 2 days vs. Q1 2020

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

“I am very proud that Temenos has rapidly adapted to the global crisis, and we have focused on supporting our clients, employees and the communities in which we operate in these challenging times. Our sales and services teams have done an outstanding job of working with our clients remotely and we have maintained our very high R&D productivity as we continue to innovate and drive our product roadmaps forward. Clients have been quick to move to remote sales and implementation processes, which is reflected in the increase in implementation go-lives this quarter compared to Q2 2019.

The crisis continued to impact new license signings in the second quarter, however we expect a gradual improvement in Q3 and Q4. Sales activity increased in the quarter, driven both by the dedication of our sales force as well increased engagement from clients around their digital transformations. We closed around one third of the delayed Q1 deals in the second quarter. I was also pleased with the partnership we signed with HCL in the quarter which positively impacted license and EBIT. Importantly, the deals that did not sign were delayed rather than cancelled, and we fully expect these deals to close over the coming quarters.

We have a very resilient business model with around 50% recurring revenue and a flexible cost base which we have actively managed through the quarter. This gives us strong visibility on our cash flow and profitability for the full year. This crisis is accelerating the structural drivers of our end market – the need for modern, open and resilient front and back office platforms to enable banks to adapt and thrive in this new environment. As such, I am confident in our sustainable long term annual growth targets.”

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

“We continued to see an impact on license signings in the second quarter due to Covid-19, however we expect a gradual improvement in Q3 and Q4. We delivered excellent growth in recurring revenues, which were up 17% in the quarter, well ahead of our full year guidance of at least 13%. SaaS revenue grew 62%, SaaS ACV grew 21%, and Maintenance was up 10%. I am particularly pleased by our sustained focus on cash, delivering strong operating cash flow of USD 94m, up 21% in the quarter and equal to a cash conversion of 115%. We ended the

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quarter with DSOs at 107 days reported, down 2 days versus Q1 2020. Our leverage remained at 2.6x net debt to EBITDA at the end of the quarter and we still expect this to come down to around 2x by year end.

We are reconfirming our guidance for the year. We are guiding for recurring revenue growth of at least 13%, and EBIT growth of at least 7%. We retain our operating cash conversion target of at least 100% and expect DSOs to be around 110 days at year end and leverage to be around 2x.”

Revenue

IFRS revenues were USD 211.5m for the quarter, a decrease of 10% vs. Q2 2019.

Non-IFRS revenue was USD 215.7m for the quarter, a decrease of 9% vs. Q2 2019.

IFRS total software licensing revenue for the quarter was USD 77.0m, a decrease of 27% vs. Q2 2019.

Non-IFRS total software licensing revenue was USD 81.2m for the quarter, a decrease of 24% vs. Q2 2019.

EBIT

IFRS EBIT was USD 56.5m for the quarter, a decrease of 2% vs. Q2 2019.

Non-IFRS EBIT was USD 67.3m for the quarter, a decrease of 8% vs. Q2 2019.

Non-IFRS EBIT margin was 31.2%, up 0.4% points vs. Q2 2019.

Earnings per share (EPS)

IFRS EPS was USD 0.59 for the quarter, a decrease of 5% vs. Q2 2019.

Non-IFRS EPS was USD 0.70 for the quarter, a decrease of 13% vs. Q2 2019.

Operating cash flow

IFRS operating cash flow was USD 94m in Q2 2020 compared to USD 77m in Q2 2019, representing an LTM conversion of 115% of IFRS EBITDA into operating cash.

2020 guidance

The 2020 guidance is based on the assumption that the recessionary crisis due to COVID-19 had the largest impact in H1 2020, with continued gradual improvement in our end market environment in Q3 and Q4 2020 as banks adapt to the crisis and lockdowns are gradually relaxed. Our guidance for 2020 is in constant currencies.

The FY 2020 guidance remains unchanged and is as follows:

- Non-IFRS recurring revenue growth (SaaS and Maintenance combined) of at least 13%
- Non-IFRS EBIT growth of at least 7%
- 100%+ conversion of IFRS EBITDA into operating cash flow
- DSOs to be around 110 days at year end
- Expected FY 2020 tax rate of 14% to 15%
- Net leverage of c.2x by year end

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Currency assumptions for 2020 guidance

In preparing the revised 2020 guidance, the Company has assumed the following:

- EUR to USD exchange rate of 1.10;
- GBP to USD exchange rate of 1.23; and
- USD to CHF exchange rate of 0.96.

Webcast

At 18.30 CET / 17.30 GMT / 12.30 EST, today, July 15, 2020, Max Chuard, CEO, and Takis Spiliopoulos, CFO, will host a webcast to present the results and offer an update on the business outlook. The webcast can be accessed through the following link:

[Q2 2020 webcast link](#)

Please use the webcast in the first instance if at all possible to avoid delays in joining the call. For those who cannot access the webcast, the following dial-in details can be used as an alternative. Please dial-in 15 minutes before the call commences.

Switzerland / Europe: + 41 (0) 58 310 50 00

United Kingdom: + 44 (0) 207 107 06 13

United States: + 1 (1) 631 570 56 13

A recording of the call will be made available on the Company website shortly after the call. 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 2020 non-IFRS guidance:

- FY 2020 estimated deferred revenue write down of USD 13m
- FY 2020 estimated amortisation of acquired intangibles of USD 65-70m

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- FY 2020 estimated restructuring costs of USD 25m

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 July 15, 2020. The above figures are estimates only and may deviate from expected amounts.

Other definitions

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. This includes new customers, up-sell and cross-sell. It only includes the recurring element of the contract and excludes variable elements.

Investor and media contacts

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About Temenos

Temenos AG (SIX: TEMN) is the world's leader in banking software. 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 and AI-driven front office, core banking, payments and fund administration software enabling banks to deliver frictionless, omnichannel customer experiences and gain operational excellence.

Temenos software is proven to enable its top-performing clients to achieve cost-income ratios of 26.8%, half the industry average, and returns on equity of 29%, three times the industry average. These clients also invest 51% of their IT budget on growth and innovation versus maintenance, which is double 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 – Q2 2020 IFRS primary statements

TEMENOS AG

All amounts are expressed in thousands of US dollars

except earnings per share

	Three months to 30 June 2020	Three months to 30 June 2019	Twelve months to 30 June 2020	Twelve months to 30 June 2019
Revenues				
Software licensing	58,079	92,560	314,277	359,707
SaaS & subscription	18,890	13,493	69,833	41,118
Total software licensing	76,969	106,053	384,110	400,825
Maintenance	95,110	86,850	375,332	332,393
Services	39,409	43,063	173,723	168,532
Total revenues	211,488	235,966	933,165	901,750
Operating expenses				
Sales and marketing	(25,813)	(49,259)	(182,318)	(181,656)
Services	(36,218)	(38,174)	(159,397)	(148,467)
Software development and maintenance	(73,661)	(65,178)	(289,470)	(247,427)
General and administrative	(19,309)	(25,686)	(91,658)	(85,738)
Total operating expenses	(155,001)	(178,297)	(722,843)	(663,288)
Operating profit	56,487	57,669	210,322	238,462
Other expenses				
Net interest expenses	(7,576)	(4,502)	(28,200)	(15,976)
Borrowing facility expenses	(413)	(420)	(2,986)	(1,680)
Foreign exchange gain / (loss)	(417)	253	3,430	(1,444)
Total other expenses	(8,406)	(4,669)	(27,756)	(19,100)
Profit before taxation	48,081	53,000	182,566	219,362
Taxation	(5,130)	(8,039)	(25,050)	(31,667)
Profit for the period	42,951	44,961	157,516	187,695
Earnings per share (in US\$):				
basic	0.60	0.64	2.21	2.70
diluted	0.59	0.62	2.15	2.60
non-IFRS	0.70	0.80	3.26	3.20

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TEMENOS AG

All amounts are expressed in thousands of US dollars

	30th June 2020	31 March 2020	31 December 2019	30 June 2019
Assets				
Current assets				
Cash and cash equivalents	121,244	103,134	152,785	87,281
Trade receivables	270,283	281,055	316,484	267,519
Other receivables	46,707	72,596	72,173	39,667
Total current assets	438,234	456,785	541,442	394,467
Non-current assets				
Property, plant and equipment	69,044	65,349	67,283	60,112
Intangible assets	1,623,354	1,612,229	1,659,822	989,945
Trade receivables	6,365	7,501	6,838	5,759
Other long term assets	27,008	27,699	27,861	19,616
Deferred tax assets	22,438	21,455	19,155	20,328
Total non-current assets	1,748,209	1,734,233	1,780,959	1,095,760
Total assets	2,186,443	2,191,018	2,322,401	1,490,227
Liabilities and equity				
Current liabilities				
Trade and other payables	180,707	205,808	223,356	177,757
Deferred revenues (Contract liabilities)	295,061	280,536	287,325	239,632
Income tax liabilities	68,002	65,498	62,925	41,584
Borrowings	21,110	23,292	100,595	18,315
Total current liabilities	564,880	575,134	674,201	477,288
Non-current liabilities				
Borrowings	1,097,267	1,084,621	1,073,972	635,882
Deferred tax liabilities	94,224	97,627	103,665	34,018
Trade and other payables	10,052	9,835	14,947	17,166
Retirement benefit obligations	11,456	10,841	10,536	10,470
Total non-current liabilities	1,212,999	1,202,924	1,203,120	697,536
Total liabilities	1,777,879	1,778,058	1,877,321	1,174,824
Shareholders' equity				
Share capital	247,316	246,432	241,858	240,943
Treasury shares	(264,608)	(264,608)	(264,608)	(264,608)
Share premium and capital reserves	(255,983)	(260,359)	(258,384)	(287,956)
Fair value and other reserves	(170,175)	(181,487)	(143,742)	(129,119)
Retained earnings	852,014	872,982	869,956	756,143
Total shareholders' equity	408,564	412,960	445,080	315,403
Total equity	408,564	412,960	445,080	315,403
Total liabilities and equity	2,186,443	2,191,018	2,322,401	1,490,227

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All amounts are expressed in thousands of US dollars

	Three months to 30 June 2020	Three months to 30 June 2019	Twelve months to 30 June 2020	Twelve months to 30 June 2019
Cash flows from operating activities				
Profit before taxation	48,081	53,000	182,566	219,362
<u>Adjustments:</u>				
Depreciation and amortisation	37,093	30,378	144,929	107,018
Other non-cash and non-operating items	(7,426)	5,529	46,247	45,568
<u>Changes in working capital:</u>				
Trade and other receivables	17,038	(7,985)	547	(21,934)
Trade and other payables, and retirement benefit obligations	(11,477)	22,477	(29,342)	26,171
Deferred revenues (Contract liabilities)	10,336	(25,933)	40,232	8,354
Cash generated from operations	93,645	77,466	385,179	384,539
Income taxes paid	(4,370)	(6,256)	(12,219)	(23,331)
Net cash generated from operating activities	89,275	71,210	372,960	361,208
Cash flows from investing activities				
Purchase of property, plant and equipment	(983)	(1,613)	(9,868)	(7,534)
Disposal of property, plant and equipment	-	-	-	358
Purchase of intangible assets	(583)	(779)	(2,867)	(4,496)
Capitalised development costs	(17,991)	(14,296)	(71,877)	(55,320)
Acquisitions of subsidiary, net of cash acquired (includes escrow earn out (deposit) /repayment)	27,662	54	(564,869)	(244,522)
Acquisition of long term loan instruments	-	-	(6,000)	(15,000)
Settlement of financial instruments	(238)	(1,748)	(3,314)	(7,485)
Interest received	89	203	854	1,800
Net cash generated from / (used in) investing activities	7,956	(18,179)	(657,941)	(332,199)
Cash flows from financing activities				
Dividend paid	(63,355)	(52,361)	(63,355)	(52,361)
Acquisition of treasury shares	-	-	-	(44,427)
Proceeds from borrowings	48,367	2,685	733,323	127,685
Repayments of borrowings	(50,017)	-	(523,013)	(110,051)
Proceeds from issuance of bonds	-	-	219,043	174,418
Repayment of bond	-	-	-	(100,652)
Payment of lease liabilities	(4,939)	(3,721)	(18,966)	(7,296)
Interest paid	(10,244)	(9,300)	(21,905)	(14,325)
Payment of other financing costs	(1,101)	(579)	(6,815)	(2,144)
Net cash (used in) / generated from financing activities	(81,289)	(63,276)	318,312	(29,153)
Effect of exchange rate changes	2,168	715	632	(534)
Net increase / (decrease) in cash and cash equivalents in the period	18,110	(9,530)	33,963	(678)
Cash and cash equivalents at the beginning of the period	103,134	96,811	87,281	87,959
Cash and cash equivalents at the end of the period	121,244	87,281	121,244	87,281

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Appendix II – reconciliation of IFRS to non-IFRS Q2 2020 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 June						Change	
	2020 IFRS	Non-IFRS adjustments	2020 Non-IFRS	2019 IFRS	Non-IFRS adjustment	2019 Non-IFRS	IFRS	Non-IFRS
Software licensing	58,079		58,079	92,560		92,560	(37%)	(37%)
SaaS & subscription	18,890	4,225	23,115	13,493	1,100	14,593	40%	58%
Total Software Licensing	76,969	4,225	81,194	106,053	1,100	107,153	(27%)	(24%)
Maintenance	95,110		95,110	86,850		86,850	10%	10%
Services	39,409		39,409	43,063		43,063	(8%)	(8%)
Total Revenue	211,488	4,225	215,713	235,966	1,100	237,066	(10%)	(9%)
Total Operating Expenses	(155,001)	6,605	(148,396)	(178,297)	14,375	(163,922)	(13%)	(9%)
Restructuring	(10,654)	10,654	-	(1,778)	1,778	-		
Acquisition related cost	20,407	(20,407)	-	(285)	285	-		
Amort of Acquired Intangibles	(16,358)	16,358	-	(12,312)	12,312	-	33%	
Operating Profit	56,487	10,830	67,317	57,669	15,475	73,144	(2%)	(8%)
Operating Margin	27%		31%	24%		31%	2.3% pts	0.4% pts
Financing Costs	(8,406)		(8,406)	(4,669)		(4,669)	80%	80%
Taxation	(5,130)	(2,881)	(8,011)	(8,039)	(1,958)	(9,997)	(36%)	(20%)
Net Earnings	42,951	7,949	50,900	44,961	13,517	58,478	(4%)	(13%)
EPS (USD per Share)	0.59	0.11	0.70	0.62	0.18	0.80	(5%)	(13%)