

PRESS RELEASE

FOR IMMEDIATE RELEASE
July 21, 2022

Ad hoc announcement pursuant to Art. 53 LR

Temenos announces Q2 2022 results

- Accelerating demand for subscription ahead of expectations driving ARR to 16% growth
- Supportive demand environment, Total Bookings growth of 12%
- Total software licensing growth of 8%, below FY guidance due to large tier 1 European deal slippage expected to close shortly
- SaaS ACV of USD11m, SaaS revenue growth of 36%
- EBIT decline of 9% with cost management reducing impact of slower total software licensing growth in the quarter
- Free Cash Flow (FCF) decline of 42% y-o-y with faster-than-expected shift to subscription; FCF down 5% LTM
- FY-22 guidance reconfirmed

GENEVA, Switzerland, July 21, 2022 –Temenos AG (SIX: TEMN), the banking software company, today reports its second quarter 2022 results.

Annual Recurring Revenue and Total Bookings

<i>USDm</i>	Q2-22	Q2-21	Change	C.C.*
Annual Recurring Revenue	581.9	514.4	13%	16%
Total Bookings	182.0	165.1	10%	12%

Income statement

<i>USDm, except EPS</i>	Non-IFRS				IFRS			
	Q2-22	Q2-21	Change	CC*	Q2-22	Q2-21	Change	CC*
Subscription	30.6	5.7	441%	451%	30.6	5.7	441%	451%
Term License	31.8	60.9	-48%	-47%	31.8	60.9	-48%	-47%
SaaS	38.7	29.3	32%	36%	38.7	29.3	32%	36%
Total software licensing	101.1	95.9	5%	8%	101.1	95.9	5%	8%
Maintenance	99.9	98.6	1%	3%	99.9	98.5	1%	3%
Services	37.1	41.5	-11%	-6%	37.1	41.5	-11%	-6%
Total revenues	238.1	236.0	1%	4%	238.1	236.0	1%	4%
EBIT	78.3	85.4	-8%	-9%	50.9	64.7	-21%	-22%
EBIT margin	32.9%	36.2%	-3% pts	-4% pts	21.4%	27.4%	-6% pts	-7% pts
EPS (USD)	0.83	0.89	-7%		0.51	0.65	-22%	

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

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Q2-22 highlights

- Demand for subscription model is accelerating ahead of expectations, driving ARR growth of 16%, up from 14% in Q1-22; EBIT growth to track 75% of prior year ARR growth from 2023
- Supportive demand environment reflected in 12% Total Bookings growth
- Total software licensing growth of 8%, below FY guidance due to large tier 1 European deal slippage expected to close shortly
- SaaS ACV of USD11m driven by largely new signings growth
- EBIT decline of 9% with cost management reducing impact of slower total software licensing growth in the quarter
- Free cash flow decline of 42% as expected despite faster than expected transition to subscription license model
- US activity remains high, won top 20 US bank for core banking renovation, deal expected to close in H2-22
- Europe recovery continues with double digit growth in Total Bookings and increased SaaS demand
- APAC performed particularly well with a number of new signings
- Tier 1 and 2 banks contributed 31% of total software licensing in the quarter, with increasing commitment among large banks to IT transformation
- Strong sales activity with partner deals in the quarter with focus on building partner channel
- 16 new client wins in the quarter, predominantly for core banking
- 83 go-lives including 23 implementation go-lives in the quarter
- FY-22 guidance reconfirmed

Q2-22 financial summary (non-IFRS)

- Annual Recurring Revenue (ARR) growth of 16% c.c. in Q2-22
- Total Bookings growth of 12% c.c. in Q2-22
- USD30.6m of subscription licenses signed in the quarter
- SaaS Annual Contract Value (ACV) of USD11m in Q2-22
- Non-IFRS SaaS revenue growth of 36% c.c. in Q2-22
- Non-IFRS total software licensing revenues up 8% c.c. in Q2-22
- Non-IFRS total revenue up 4% c.c. in Q2-22
- Non-IFRS EBIT decline of 9% c.c. in Q2-22
- Q2-22 non-IFRS EBIT margin of 32.9%, down 4% points c.c.
- Operating Cash Flow decline of 22% and Free Cash Flow decline of 42% in Q2-22; FCF down 5% LTM
- Leverage at 1.8x at end of Q2-22
- DSOs at 114 days

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

“I was pleased with the demand for subscription this quarter, having only introduced this new pricing model at the start of the year. Demand was ahead of our expectations and, along with our strong SaaS revenue, drove 16% growth in our Annual Recurring Revenue, up from 14% in Q1-22. I expect this trend to continue, and we are guiding for ARR growth of 18-20% for the full year.

We had a large European deal move from Q2-22 into Q3-22 which was a headwind on our total software licensing revenue this quarter. We are seeing increased activity with large tier 1 and 2 banks across all regions which, whilst it can be hard to time the closing of these deals, is clearly a positive and indicative of overall market activity which remains robust. This is particularly true in the Wealth space, where we are engaged in discussions with a number of global tier 1 private banks around transformational IT renovation.

We see strong levels of activity in the US and reached a significant milestone in the quarter as we won a top 20 US bank for core banking replacement. This builds on the Commerce Bank go-live which is opening up opportunities for us in the US market. We also had a good number of deals signed with partners, which is a channel we are increasingly focused on and expect to drive more sales through this channel going forward. With accelerating demand for subscription, we are well on our way to building a robust and more predictable recurring revenue business model.”

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

“We had strong demand for subscription this quarter, with USD31m of subscription licenses signed, significantly ahead of our expectations. Our total software licensing was impacted by one large deal that we expect to close shortly.

SaaS continues to perform well, with USD11m of SaaS ACV almost entirely won from new customers, and SaaS revenue accelerating to 36% growth year-on-year. This strong growth in subscription and SaaS is driving an acceleration in ARR, which grew 16% this quarter and which we expect to continue to accelerate. Overall, the demand environment remained robust with USD182m of total bookings in the quarter, up 12%.

Our cost base grew 11% in the quarter through a combination of H1-22 investments and post-Covid normalization. We remain very focused on our costs, with strong cost control in place whilst making investments in the right areas of our business to deliver our growth plans. The growth in costs and lower total software licensing impacted our EBIT, which declined 9% in the quarter. I remain confident that, with a strong pipeline supporting our revenue growth in the second half of the year, our EBIT growth will recover.

In terms of cash, we generated USD87m of operating cash flow, a decline of 22%, and USD50m of Free Cash Flow, a decline of 42% due to the shift to subscription.

We reiterate our guidance for 2022, with ARR growth of 18-20%, Total Software Licensing growth of 16-18% and Total Revenue growth of at least 10%. Lastly, we expect EBIT to grow 9-11% for the year. We expect to continue converting 100%+ of EBITDA into operating cash, and we expect our FY-22 tax rate to be between 18-20%.”

Revenue

IFRS revenue was USD 238.1m for the quarter, an increase of 1% vs. Q2-21.

Non-IFRS revenue was USD 238.1m for the quarter, an increase of 1% vs. Q2-21.

IFRS total software licensing revenue for the quarter was USD 101.1m, an increase of 5% vs. Q2-21.

Non-IFRS total software licensing revenue was USD 101.1m for the quarter, an increase of 5% vs. Q2-21.

EBIT

IFRS EBIT was USD 50.9m for the quarter, a decrease of 21% vs. Q2-21.

Non-IFRS EBIT was USD 78.3m for the quarter, a decrease of 8% vs. Q2-21.

Non-IFRS EBIT margin was 32.9%, down 3% point vs. Q2-21.

Earnings per share (EPS)

IFRS EPS was USD 0.51 for the quarter, a decrease of 22% vs. Q2-21.

Non-IFRS EPS was USD 0.83 for the quarter, a decrease 7% vs. Q2-21.

Cash flow

IFRS operating cash was an inflow of USD 86.8m in Q2-22, a decrease of 22% vs. Q2-21 and representing an LTM conversion of 116% of IFRS EBITDA into operating cash. USD 49.9m of Free Cash Flow was generated in Q2-22, a decrease of 42% vs. Q2-21 due to the accelerating move to subscription and lower term licenses.

Move to subscription revenue and impact on future reporting

Temenos will sell five-year subscription contracts for on-premise license and maintenance as standard from 2022, including for renewals. This will accelerate growth by capturing greater contract value and accelerate the shift to more financial performance driven by a much higher proportion of recurring revenues. To reflect this change, on the P&L the License revenue is split into either Subscription license or Term license, depending on the nature of contract.

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Total Software Licensing (old)	Total Software Licensing (new)
+ License + SaaS	+ Subscription + Term license + SaaS
=Total Software Licensing	=Total Software Licensing

The impact of the move to a subscription model on P&L, cash and ARR is shown for illustrative purposes below:



Note: Based on our standard 5 year term contract and based on IFRS15 standards

2022 non-IFRS guidance

The guidance for 2022 is non-IFRS and in constant currencies.

- ARR growth of 18-20%
- Total Software Licensing growth of 16-18%
- Total revenue growth of at least 10%
- EBIT growth of +9-11%
- 100%+ conversion of EBITDA into operating cash flow
- Expected FY 2022 tax rate of 18-20%

Medium term targets by/for 2025

The medium-term targets by/for are non-IFRS and in constant currencies.

- ARR growth of 20-25% CAGR 2021-25 to reach c.USD1.3bn of ARR by 2025
- Total Software Licensing growth of 15-20% CAGR 2021-25
- Total revenue growth of 10-15% CAGR 2021-25
- EBIT margin to reach c.41% by 2025
- Free Cash Flow growth of 10-15% CAGR 2021-26 to reach >USD600m by 2026

Currency assumptions for 2022 guidance

In preparing the 2022 guidance, the Company has assumed the following:

- EUR to USD exchange rate of 1.05;
- GBP to USD exchange rate of 1.24; and
- USD to CHF exchange rate of 0.96

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Conference call and webcast

At 18.30 CET / 17.30 GMT / 12.30 EST, today, July 21, 2022, 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 2022 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

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. The Company's non-IFRS figures exclude share-based payments and related social charges costs, any deferred revenue write-down resulting from acquisitions, discontinued activities that do not qualify as such under IFRS, acquisition related charges such as financing costs, advisory fees and integration costs, charges as a result of the amortisation of acquired intangibles, costs incurred in connection with a restructuring program or other organizational transformation activities planned 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 2022 non-IFRS guidance.

- FY 2022 estimated share-based payments and related social charges charges of c.5% of revenue
- FY 2022 estimated amortisation of acquired intangibles of USD 50m
- FY 2022 estimated restructuring costs of USD 10m

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 21, 2022. The above figures are estimates only and may deviate from expected amounts.

Other definitions

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.

Total Bookings includes fair value of license contract value, committed maintenance contract value on license, and SaaS committed contract value. All must be committed and evidenced by duly signed agreements.

– Ends –

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About Temenos

Temenos (SIX: TEMN) is the world's leading open platform for composable banking, creating opportunities for over 1.2 billion people around the world every day. We serve two-thirds of the world's top 1,000 banks and 70+ challenger banks in 150+ countries by helping them build new banking services and state-of-the-art customer experiences. The Temenos open platform helps our top-performing clients achieve return on equity three times the industry average and cost-to-income ratios half the industry average.

For more information, please visit www.temenos.com.

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Appendix I – Q2 2022 IFRS primary statements

TEMENOS AG

All amounts are expressed in thousands of US dollars

except earnings per share

	Three months to 30 June 2022	Three months to 30 June 2021	Twelve months to 30 June 2022	Twelve months to 30 June 2021
Revenues				
Subscription *	30,627	5,664	46,406	15,992
Term license *	31,811	60,932	244,529	262,037
SaaS	38,688	29,294	141,774	103,796
Total software licensing	101,126	95,890	432,709	381,825
Maintenance	99,864	98,546	398,835	387,714
Services	37,116	41,533	148,839	162,300
Total revenues	238,106	235,969	980,383	931,839
Operating expenses				
Sales and marketing	(62,500)	(49,062)	(239,187)	(193,052)
Services	(39,071)	(34,942)	(149,170)	(142,734)
Software development and maintenance	(67,977)	(67,009)	(275,458)	(262,311)
General and administrative	(17,644)	(20,299)	(86,008)	(70,690)
Total operating expenses	(187,192)	(171,312)	(749,823)	(668,787)
Operating profit	50,914	64,657	230,560	263,052
Other expenses				
Net interest expenses	(5,235)	(6,028)	(21,109)	(25,192)
Borrowing facility expenses	(479)	(471)	(1,901)	(2,438)
Foreign exchange gain / (loss)	150	(738)	668	(1,233)
Total other expenses	(5,564)	(7,237)	(22,342)	(28,863)
Profit before taxation	45,350	57,420	208,218	234,189
Taxation	(8,671)	(10,182)	(38,643)	(37,040)
Profit for the period	36,679	47,238	169,575	197,149
Earnings per share (in US\$):				
basic	0.51	0.66	2.37	2.73
diluted	0.51	0.65	2.36	2.70

* Effective 1 January 2022, presentation of Software licensing is split into either Subscriptions or Term license, depending on the nature of the contract. Comparative periods have been re-presented.

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TEMENOS AG

All amounts are expressed in thousands of US dollars

	30 June 2022	31 March 2022	31 December 2021	30 June 2021
Assets				
Current assets				
Cash and cash equivalents	105,737	96,248	139,322	87,582
Trade receivables	257,483	269,096	272,040	267,834
Other receivables	98,873	76,648	67,194	65,653
Total current assets	462,093	441,992	478,556	421,069
Non-current assets				
Property, plant and equipment	63,657	62,600	59,415	63,202
Intangible assets	1,540,490	1,586,172	1,597,110	1,634,019
Trade receivables	47,777	39,947	38,479	4,216
Other long term assets	27,338	41,060	37,396	25,578
Deferred tax assets	27,306	25,160	23,128	28,745
Total non-current assets	1,706,568	1,754,939	1,755,528	1,755,760
Total assets	2,168,661	2,196,931	2,234,084	2,176,829
Liabilities and equity				
Current liabilities				
Trade and other payables	192,743	202,384	191,930	182,021
Deferred revenues *	355,907	346,728	371,613	317,342
Income tax liabilities	105,625	104,967	98,274	79,889
Borrowings	18,179	211,825	211,009	210,414
Total current liabilities	672,454	865,904	872,826	789,666
Non-current liabilities				
Borrowings	880,859	669,292	748,849	886,132
Deferred tax liabilities	91,736	94,680	96,405	99,679
Trade and other payables	3,710	1,457	1,277	846
Deferred revenues *	17,618	24,216	26,117	27,080
Retirement benefit obligations	9,292	13,965	13,822	13,284
Total non-current liabilities	1,003,215	803,610	886,470	1,027,021
Total liabilities	1,675,669	1,669,514	1,759,296	1,816,687
Shareholders' equity				
Share capital	252,844	252,537	252,467	251,371
Treasury shares	(464,778)	(464,778)	(464,778)	(459,077)
Share premium and capital reserves	(193,399)	(206,419)	(218,330)	(252,505)
Fair value and other reserves	(176,488)	(162,371)	(175,387)	(154,478)
Retained earnings	1,074,813	1,108,448	1,080,816	974,831
Total shareholders' equity	492,992	527,417	474,788	360,142
Total equity	492,992	527,417	474,788	360,142
Total liabilities and equity	2,168,661	2,196,931	2,234,084	2,176,829

* Deferred revenue balance which represents prepayment for performance obligation to be wholly satisfied over 12 months after the balance sheet date has been classified as non-current and comparative at 30 June 2021 has been restated

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All amounts are expressed in thousands of US dollars

	Three months to 30 June 2022	Three months to 30 June 2021	Twelve months to 30 June 2022	Twelve months to 30 June 2021
Cash flows from operating activities				
Profit before taxation	45,350	57,420	208,218	234,189
<u>Adjustments:</u>				
Depreciation and amortisation	35,251	36,042	142,662	146,556
Other non-cash and non-operating items	17,293	10,313	90,132	36,736
<u>Changes in working capital:</u>				
Trade and other receivables	(14,380)	463	(70,210)	5,490
Trade and other payables, and retirement benefit obligations	(7,836)	24,688	18,968	(20,695)
Deferred revenues	11,155	(17,317)	44,179	36,758
<i>Cash generated from operations</i>	86,833	111,609	433,949	439,034
Income taxes paid	(5,387)	(1,275)	(11,296)	(23,101)
Net cash generated from operating activities	81,446	110,334	422,653	415,933
Cash flows from investing activities				
Purchase of property, plant and equipment	(8,072)	(1,788)	(17,096)	(8,012)
Disposal of property, plant and equipment	-	-	44	67
Purchase of intangible assets	(1,090)	(1,095)	(2,676)	(3,662)
Capitalised development costs	(22,341)	(20,910)	(94,729)	(80,715)
Acquisitions of subsidiary, net of cash acquired (includes escrow earn out (deposit) /repayment)	-	-	-	(4,982)
(Acquisition) / disposal of long term loan instruments	(10,000)	(19,900)	(10,000)	(13,900)
Disposal of investment in equity	-	-	-	14,052
Purchase and settlement of financial instruments	1,655	(4,540)	(1,893)	(7,620)
Interest received	17	37	265	668
Net cash used from investing activities	(39,831)	(48,196)	(126,085)	(104,104)
Cash flows from financing activities				
Dividend paid	(74,414)	(71,427)	(74,414)	(71,427)
Acquisition of treasury shares	-	(105,356)	(5,701)	(194,470)
Proceeds from borrowings	258,851	193,520	308,852	342,941
Repayments of borrowings	(23,211)	(41,772)	(287,682)	(381,096)
Repayment of bond	(180,723)	-	(180,723)	-
Payment of lease liabilities	(4,560)	(4,427)	(15,783)	(18,813)
Interest paid	(8,487)	(9,584)	(18,377)	(20,664)
Settlement of financial instruments	2,298	-	2,298	-
Payment of other financing costs	(1,094)	(901)	(4,379)	(3,714)
Net cash used from financing activities	(31,340)	(39,947)	(275,909)	(347,243)
Effect of exchange rate changes	(786)	(505)	(2,504)	1,752
Net increase / (decrease) in cash and cash equivalents in the period	9,489	21,686	18,155	(33,662)
Cash and cash equivalents at the beginning of the period	96,248	65,896	87,582	121,244
Cash and cash equivalents at the end of the period	105,737	87,582	105,737	87,582

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Appendix II – reconciliation of IFRS to non-IFRS Q2 2022 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 30 June						Change	
	2022		2022	2021		2021	IFRS	Non-IFRS
	IFRS	Non-IFRS adjustments	Non-IFRS	IFRS	Non-IFRS adjustment	Non-IFRS		
Subscription	30,627		30,627	5,664		5,664	441%	441%
Term license	31,811		31,811	60,932		60,932	(48%)	(48%)
SaaS	38,688	-	38,688	29,294		29,294	32%	32%
Total Software Licensing	101,126	-	101,126	95,890	-	95,890	5%	5%
Maintenance	99,864		99,864	98,546		98,546	1%	1%
Services	37,116		37,116	41,533		41,533	(11%)	(11%)
Total Revenue	238,106	-	238,106	235,969	-	235,969	1%	1%
Total Operating Expenses	(187,192)	27,411	(159,781)	(171,312)	20,761	(150,551)	9%	6%
Restructuring	(2,261)	2,261	-	(1,925)	1,925	-	17%	
Amort of Acquired Intangibles	(11,330)	11,330	-	(12,849)	12,849	-	(12%)	
Share based payment	(13,820)	13,820	-	(5,987)	5,987	-	131%	
Operating Profit	50,914	27,411	78,325	64,657	20,761	85,418	(21%)	(8%)
Operating Margin	21%		33%	27%		36%	-6.0% pts	-3.3% pts
Financing Costs	(5,564)	-	(5,564)	(7,237)	-	(7,237)	(23%)	(23%)
Taxation	(8,671)	(4,832)	(13,503)	(10,182)	(3,570)	(13,752)	(15%)	(2%)
Net Earnings	36,679	22,579	59,258	47,238	17,191	64,429	(22%)	(8%)
EPS (USD per Share)	0.51	0.32	0.83	0.65	0.24	0.89	(22%)	(7%)