

PRESS RELEASE

FOR IMMEDIATE RELEASE
October 20, 2022

Ad hoc announcement pursuant to Art. 53 LR

Temenos announces Q3 2022 results

- Q3-22 results in line with pre-announcement
- Subscription revenues of USD17.2m significantly below expectations
- Total software licensing of USD76.3m, YoY decline of 17%
- SaaS ACV of USD18m, SaaS revenue growth of 41%
- SaaS momentum driving ARR growth of 16%
- Total Bookings growth of 4% YoY; 13% YTD
- EBIT decline of 54%, driven mainly by lower subscription revenue and cost increases
- Free Cash Flow (FCF) decline of 88% YoY, driven mainly by subscription transition and EBIT decline; FCF down 17% LTM
- Revised FY-22 guidance provided October 13, 2022

GENEVA, Switzerland, October 20, 2022 –Temenos AG (SIX: TEMN), the banking software company, today reports its third quarter 2022 results.

Annual Recurring Revenue and Total Bookings

<i>USDm, except EPS</i>	Q3-22	Q3-21	Change	CC*
Annual Recurring Revenue	595.9	530.8	12%	16%
Total Bookings	154.7	153.0	1%	4%

Income statement

<i>USDm, except EPS</i>	Non-IFRS				IFRS			
	Q3-22	Q3-21	Change	CC*	Q3-22	Q3-21	Change	CC*
Subscription	17.2	2.3	664%	678%	17.2	2.3	664%	678%
Term License	16.6	61.2	-73%	-72%	16.6	61.2	-73%	-72%
Software-as-a-Service	42.5	31.3	36%	41%	42.5	31.3	36%	41%
Total Software Licensing	76.3	94.8	-19%	-17%	76.3	94.8	-19%	-17%
Maintenance	100.2	98.6	2%	4%	100.2	98.6	2%	4%
Services	36.3	38.2	-5%	3%	36.3	38.2	-5%	3%
Total revenues	212.8	231.6	-8%	-5%	212.8	231.6	-8%	-5%
EBIT	40.8	86.0	-53%	-54%	10.2	40.8	-75%	-76%
EBIT margin	19.2%	37.2%	-18% pts	-20% pts	4.8%	17.6%	-13% pts	-14% pts
EPS (USD)	0.38	0.92	-59%		0.03	0.39	-92%	

The definition of non-IFRS adjustments is set out 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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Q3-22 business update

- Lengthening sales cycles and sales execution impacted deal closures; subscription revenue of USD 17.2m significantly below expectation; larger banks more cautious in their decision making given future macro economic uncertainty
- Accelerating growth in SaaS revenue from mix of new business and additional consumption from existing clients
- Good growth in ARR in the quarter, up 16% (c.c.)
- Action on sales leadership taken, the Chief Revenue Officer and President of the Americas have left the business effective immediately
- Responsibility for U.S. Operations and U.S. sales to Colin Jarrett and Philip Barnett, two long-tenured members of Temenos management
- Cost increases driven by combination of wage inflation and increased services costs; majority of operational costs in the quarter were as expected
- Revised FY-22 guidance provided with pre-announcement; ARR growth of 17-18%, Total Software Licensing growth of 0% and EBIT decline of 25%
- Success of partner strategy resulted in a decline in customised development licenses in the last 12 months
- Excluding customised development licenses, LTM-Q3 total software licensing grew 11% (c.c.), expected to grow c.4% (c.c.) for FY-22
- We target a continued acceleration in ARR in FY23 driven by SaaS and subscription transition, driving profitability growth
- We expect locked in SaaS revenue by year-end to contribute c.10% points of growth in FY-23 on total software licensing
- FY-23 guidance and medium term targets will be given in February 2023 with the Q4-22 results and Capital Markets Day

Q3-22 financial summary (non-IFRS)

- Annual Recurring Revenue (ARR) growth of 16% c.c. in Q3-22
- Total Bookings growth of 4% c.c. in Q3-22
- USD17.2m of subscription licenses signed in the quarter
- SaaS Annual Contract Value (ACV) of USD18m in Q3-22
- Non-IFRS SaaS revenue growth of 41% c.c. in Q3-22
- Non-IFRS total software licensing revenues decline of 17% c.c. in Q3-22
- Non-IFRS total revenue decline of 5% c.c. in Q3-22
- Non-IFRS EBIT decline of 54% c.c. in Q3-22
- Q3-22 non-IFRS EBIT margin of 19.2%, down 20% points c.c.
- Operating Cash Flow decline of 49% and Free Cash Flow decline of 88% in Q3-22; FCF down 17% LTM
- Leverage at 2.0x at end of Q3-22
- DSOs at 112 days

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

“We had a disappointing quarter, with significantly lower subscription revenue than expected. Sales cycles lengthened on a number of deals, with banks delaying decisions due to the worsening macro environment. We also had some sales execution issues. We have conducted a thorough review of our pipeline and de-risked our guidance. We have also made leadership changes, with the departure of both the Chief Revenue Officer and President of the Americas, and the appointment of two of our most senior Executives to run our US business. SaaS was a bright spot this quarter, with SaaS ACV of USD17.9m and SaaS revenue growth accelerating to 41%. We had good levels of demand from smaller banks and non-incumbents, which reflects the diversity in our client base.

We have a strong and resilient business model and the continued growth in SaaS provides the foundation for further growth in ARR. Our pipeline continued to grow in Q3 across territories and client tiers and we expect further acceleration in ARR in 2023 which will also drive profit growth. We expect locked in SaaS revenue by year-end to contribute c.10% points of growth in FY-23 on total software licensing.

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With nearly USD600m of ARR at the end of Q3, our recurring revenue base gives greater visibility on future growth than ever before. We are selling into a massive market, we are market leading, and we have a significant global client base. I am confident we will weather this storm and come out stronger than before.”

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

“A key consideration for us this quarter has been our cost structure. While the majority of our operating costs were in line with expectations, there was a significant increase in services costs around a number of partner implementations and we were affected, to a lesser extent, by inflationary pressures on wages in a tight labour market. We expect these non-recurring services costs to remain high in Q4 and then to start coming down in Q1-23. We will continue investing in our business, in particular in sales and R&D, to drive our future growth.

Cash was impacted by the lower signings in the quarter and the subscription transition, with USD34.8m of operating cash generated and USD5m of Free Cash Flow.

We revised our guidance for 2022 last week at the pre-announcement and are now expecting ARR growth of 17-18%, Total Software Licensing revenue growth of 0% and an EBIT decline of -25%. We expect to continue converting 100%+ of EBITDA into operating cash, and we expect Free Cash Flow to decline by c.50%, largely due to the EBIT decline and subscription transition as well as higher cash costs mainly due to increased service costs as explained. We expect our FY-22 tax rate to be between 18-20%. We will issue our FY-23 guidance and revised medium term targets in February 2023 at the Q4 results and Capital Markets Day.”

Q3-22 financial summary (IFRS and non-IFRS)

Revenue

IFRS and non-IFRS revenue was USD 212.8m for the quarter, a decrease of 8% vs. Q3-21.

IFRS and non-IFRS total software licensing revenue for the quarter was USD 76.3m, a decrease of 19% vs. Q3-21.

EBIT

IFRS EBIT was USD 10.2m for the quarter, a decrease of 75% vs. Q3-21.

Non-IFRS EBIT was USD 40.8m for the quarter, a decrease of 53% vs. Q3-21.

Non-IFRS EBIT margin was 19.2%, down 18% point vs. Q3-21.

Earnings per share (EPS)

IFRS EPS was USD 0.03 for the quarter, a decrease of 92% vs. Q3-21.

Non-IFRS EPS was USD 0.38 for the quarter, a decrease of 59% vs. Q3-21.

Cash flow

IFRS operating cash was an inflow of USD 34.8m in Q3-22, a decrease of 49% vs. Q3-21, representing an LTM conversion of 117% of IFRS EBITDA into operating cash. USD 4.8m of Free Cash Flow was generated in Q3-22, a decrease of 88% vs. Q3-21 due essentially to the change in revenue mix towards subscription, which impacts the upfront free cash flow profile of the company, as well as lower EBIT for the quarter.

Transition to subscription revenue and impact on future reporting

Temenos aims to sell five-year subscription contracts for on-premise license and maintenance as standard from 2022 onwards, including for renewals. Temenos expects that this transition will accelerate growth by capturing greater contract value and will also contribute to the shift to more predictable financial performance driven by a much higher proportion of recurring revenues. To reflect this change, in Temenos' income statement, the Total Software Licensing Revenue line is now reported in three sub-segments: Subscription license, Term license and SaaS.

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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 the income statement, cash and ARR is shown for illustrative purposes below:



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

Revised 2022 non-IFRS guidance

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

- ARR growth of 17-18%
- Total Software Licensing Revenue growth of 0%
- EBIT decline of -25%
- 100%+ conversion of EBITDA into operating cash flow
- FCF expected to decline c.50% in FY-22 due to EBIT decline, subscription transition and increased cash costs
- Expected FY 2022 tax rate of 18-20%

For reference, the previous guidance was as follows:

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

Currency assumptions for 2022 guidance

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

- EUR to USD exchange rate of 1.02;
- GBP to USD exchange rate of 1.14; and
- USD to CHF exchange rate of 0.96

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The guidance provided above and other statements about Temenos' expectations, plans and prospects in this press release constitute forward-looking financial information and represent the Company's current view and estimates as of 20 October 2022. We anticipate that subsequent events and developments may cause the Company's guidance and estimates to change. Future events are inherently difficult to predict. Accordingly, actual results may differ materially from those indicated by these forward-looking statements as a result of a variety of factors. More information about factors that potentially could affect the Company's financial results is included in its annual report available on the Company's website.

Conference call and webcast

At 18.30 CET / 17.30 GMT / 12.30 EST, today, October 20, 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:

[Q3 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

The supplemental non-IFRS information presented in this press release is subject to inherent limitations. Non-IFRS measures are 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 measures may not be comparable to similarly titled non-IFRS measures used by other reporting 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 14m

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 October 20, 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.

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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 – Q3 2022 IFRS primary statements

TEMENOS AG

All amounts are expressed in thousands of US dollars

except earnings per share

	Three months to 30 September 2022	Three months to 30 September 2021	Twelve months to 30 September 2022	Twelve months to 30 September 2021
Revenues				
Subscription *	17,233	2,255	61,384	15,631
Term license *	16,605	61,236	199,898	273,330
SaaS	42,502	31,309	152,967	115,291
Total software licensing	76,340	94,800	414,249	404,252
Maintenance	100,177	98,622	400,390	389,745
Services	36,326	38,159	147,006	160,062
Total revenues	212,843	231,581	961,645	954,059
Operating expenses				
Sales and marketing	(65,928)	(54,601)	(250,514)	(209,266)
Services	(41,099)	(36,121)	(154,148)	(141,985)
Software development and maintenance	(72,822)	(69,045)	(279,235)	(266,821)
General and administrative	(22,825)	(30,984)	(77,849)	(88,015)
Total operating expenses	(202,674)	(190,751)	(761,746)	(706,087)
Operating profit	10,169	40,830	199,899	247,972
Other expenses				
Net interest expenses	(5,728)	(5,874)	(20,963)	(23,634)
Borrowing facility expenses	(336)	(649)	(1,588)	(2,410)
Foreign exchange (loss) / gain	(843)	632	(807)	(1,042)
Total other expenses	(6,907)	(5,891)	(23,358)	(27,086)
Profit before taxation	3,262	34,939	176,541	220,886
Taxation	(1,125)	(6,678)	(33,090)	(36,457)
Profit for the period	2,137	28,261	143,451	184,429
Earnings per share (in US\$):				
basic	0.03	0.40	2.00	2.56
diluted	0.03	0.39	2.00	2.54

* 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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All amounts are expressed in thousands of US dollars

	30 September 2022	30 June 2022	31 December 2021	30 September 2021
Assets				
Current assets				
Cash and cash equivalents	73,422	105,737	139,322	85,463
Trade receivables	242,748	257,483	272,040	275,154
Other receivables	89,739	98,873	67,194	69,545
Total current assets	405,909	462,093	478,556	430,162
Non-current assets				
Property, plant and equipment	59,921	63,657	59,415	59,220
Intangible assets	1,511,330	1,540,490	1,597,110	1,608,442
Trade receivables	51,252	47,777	38,479	15,831
Other long term assets	54,283	27,338	37,396	25,221
Deferred tax assets	31,730	27,306	23,128	29,945
Total non-current assets	1,708,516	1,706,568	1,755,528	1,738,659
Total assets	2,114,425	2,168,661	2,234,084	2,168,821
Liabilities and equity				
Current liabilities				
Trade and other payables	198,993	192,743	191,930	187,844
Deferred revenues *	335,978	355,907	371,613	295,806
Income tax liabilities	101,047	105,625	98,274	89,561
Borrowings	19,123	18,179	211,009	211,299
Total current liabilities	655,141	672,454	872,826	784,510
Non-current liabilities				
Borrowings	852,648	880,859	748,849	846,846
Deferred tax liabilities	88,745	91,736	96,405	96,869
Trade and other payables	8,923	3,710	1,277	924
Deferred revenues *	14,409	17,618	26,117	21,929
Retirement benefit obligations	9,360	9,292	13,822	13,056
Total non-current liabilities	974,085	1,003,215	886,470	979,624
Total liabilities	1,629,226	1,675,669	1,759,296	1,764,134
Shareholders' equity				
Share capital	253,347	252,844	252,467	252,100
Treasury shares	(464,778)	(464,778)	(464,778)	(464,778)
Share premium and capital reserves	(179,534)	(193,399)	(218,330)	(228,856)
Fair value and other reserves	(200,659)	(176,488)	(175,387)	(156,871)
Retained earnings	1,076,823	1,074,813	1,080,816	1,003,092
Total shareholders' equity	485,199	492,992	474,788	404,687
Total equity	485,199	492,992	474,788	404,687
Total liabilities and equity	2,114,425	2,168,661	2,234,084	2,168,821

* 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 September 2021 has been restated

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All amounts are expressed in thousands of US dollars

	Three months to 30 September 2022	Three months to 30 September 2021	Twelve months to 30 September 2022	Twelve months to 30 September 2021
Cash flows from operating activities				
Profit before taxation	3,262	34,939	176,541	220,886
<u>Adjustments:</u>				
Depreciation and amortisation	34,001	34,830	141,833	144,514
Other non-cash and non-operating items	19,849	31,706	78,275	59,598
<u>Changes in working capital:</u>				
Trade and other receivables	(586)	(25,850)	(44,946)	(18,144)
Trade and other payables, and retirement benefit obligations	(7,608)	15,138	(3,778)	2,533
Deferred revenues	(14,086)	(22,723)	52,816	34,304
Cash generated from operations	34,832	68,040	400,741	443,691
Income taxes paid	(6,786)	(3,351)	(14,731)	(20,777)
Net cash generated from operating activities	28,046	64,689	386,010	422,914
Cash flows from investing activities				
Purchase of property, plant and equipment	(1,397)	(2,882)	(15,611)	(8,705)
Disposal of property, plant and equipment	-	-	44	67
Purchase of intangible assets	(575)	(567)	(2,684)	(3,363)
Capitalised development costs	(21,297)	(20,919)	(95,107)	(80,852)
Acquisitions of subsidiary, net of cash acquired (includes escrow earn out (deposit) /repayment)	-	-	-	(1,920)
(Acquisition) / disposal of long term loan instruments	(15,178)	-	(25,178)	(13,900)
Disposal of investment in equity	-	-	-	14,052
Purchase and settlement of financial instruments	(2,109)	(2,020)	(1,982)	(6,876)
Interest received	131	168	228	780
Net cash used from investing activities	(40,425)	(26,220)	(140,290)	(100,717)
Cash flows from financing activities				
Dividend paid	9	-	(74,405)	(71,427)
Acquisition of treasury shares	-	(5,701)	-	(200,171)
Proceeds from borrowings	91,443	25,001	375,294	347,942
Repayments of borrowings	(102,376)	(53,150)	(336,908)	(384,233)
Repayment of bond	-	-	(180,723)	-
Payment of lease liabilities	(3,529)	(3,704)	(15,608)	(17,369)
Interest paid	(2,126)	(1,149)	(19,354)	(19,963)
Settlement of financial instruments	-	-	2,298	-
Payment of other financing costs	(706)	(1,199)	(3,886)	(3,589)
Net cash used from financing activities	(17,285)	(39,902)	(253,292)	(348,810)
Effect of exchange rate changes	(2,651)	(686)	(4,469)	(1,312)
Net decrease in cash and cash equivalents in the period	(32,315)	(2,119)	(12,041)	(27,925)
Cash and cash equivalents at the beginning of the period	105,737	87,582	85,463	113,388
Cash and cash equivalents at the end of the period	73,422	85,463	73,422	85,463

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Appendix II – reconciliation of IFRS to non-IFRS Q3 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 September						Change	
	2022		2022	2021		2021	IFRS	Non-IFRS
	IFRS	Non-IFRS adjustments	Non-IFRS	IFRS	Non-IFRS adjustment	Non-IFRS		
Subscription	17,233		17,233	2,255		2,255	664%	664%
Term license	16,605		16,605	61,236		61,236	(73%)	(73%)
SaaS	42,502		42,502	31,309		31,309	36%	36%
Total Software Licensing	76,340	-	76,340	94,800	-	94,800	(19%)	(19%)
Maintenance	100,177		100,177	98,622		98,622	2%	2%
Services	36,326		36,326	38,159		38,159	(5%)	(5%)
Total Revenue	212,843	-	212,843	231,581	-	231,581	(8%)	(8%)
Total Operating Expenses	(202,674)	30,662	(172,012)	(190,751)	45,207	(145,544)	6%	18%
Restructuring	(4,784)	4,784	-	(5,180)	5,180	-	(8%)	
Acquisition related cost	(300)	300	-	(1,400)	1,400	-	(79%)	
Amort of Acquired Intangibles	(11,108)	11,108	-	(12,394)	12,394	-	(10%)	
Share based payment	(14,470)	14,470	-	(26,233)	26,233	-	(45%)	
Operating Profit	10,169	30,662	40,831	40,830	45,207	86,037	(75%)	(53%)
Operating Margin	5%		19%	18%		37%	-12.9% pts	-18.0% pts
Financing Costs	(6,907)	-	(6,907)	(5,891)	-	(5,891)	17%	17%
Taxation	(1,125)	(5,305)	(6,430)	(6,678)	(7,128)	(13,806)	(83%)	(53%)
Net Earnings	2,137	25,357	27,494	28,261	38,079	66,340	(92%)	(59%)
EPS (USD per Share)	0.03	0.35	0.38	0.39	0.53	0.92	(92%)	(59%)