Full Reviewed Transcription
Temenos Group
First Quarter 2023 Results

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COMPANY REPRESENTATIVES
Andreas Andreades, Executive Chairman and Acting CEO
Takis Spiliopoulos, CFO
PRESENTATION

Operator
Ladies and Gentlemen, welcome to the Temenos Q1 2023 Results Conference Call and Live Webcast. I am Sacha, 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 is my pleasure to hand over to Andreas Andreades, Executive Chairman and Acting CEO. Please go ahead, Sir.

Andreas Andreades
Thank you, operator. Good afternoon and thank you for joining today’s conference to our Q1 results. You can find the presentation on our website. I will run through the key developments in Q1 and the outlook for the rest of the year, and then I will hand over to Takis as usual to run through financials. All the usual disclosure is available in the presentation, but I will not be going slide-by-slide.

Starting with our performance, we delivered a strong start to the year with excellent growth across total software licensing, at 12% constant currency, ARR at 15% and free cash flow at 20% as well as EBIT at 11% picking up 4 percentage points of margin.

We are capitalizing on our strategic advantage that we outlined in detail at our Capital Markets Day in February. We benefit from a cloud native, functionally rich and upgradable platform that is totally agnostic to the size of our client or the deployment method.

The rise of cloud is driving our growth both for our subscription revenue, where clients can deploy the software on premise or in the cloud and they run it themselves, and our SaaS revenue where the software is deployed on Temenos banking cloud and run by our cloud operations teams. We had a lot of success in Q1 with top tier banks across multiple geographies. In the U.S., we signed with Regions, the 27th largest bank in the U.S. for core banking transformation on the Temenos Banking Cloud.
In Latin America, we signed a very exciting deal with a leading bank also for domestic core banking transformation in the cloud. Our Middle East region also performed very well with the top bank in MEA expanding significantly their relationship with us this quarter. And in Europe we signed a deal with a Top 10 global bank headquartered in Europe for the global transformation of their wealth business. So it’s clear we are winning with the world’s largest banks on the strength of our platform.

Our subscription transition is progressing well with subscription licenses contributing 77% of the license mix this quarter. Term licenses are down to 11% of total software licenses and about 5% of total product revenues. We also delivered a strong SaaS ACV of nearly 19 million, with significant contribution from new business in particular, as well as some additional consumption from existing clients.

Together, our subscription itself showed strong ARR growth of 15% and our cash flows are benefiting from the positive wealth and capital dynamics of the SaaS business, which minimizes the impact of the shift from term license to subscription with the minimum cash flow point from the transition behind us.

Looking elsewhere in the business, our services margin improved back to profitability this quarter, as our service cost base starts to normalize. A number of projects have been completed, and we have reached the inflection point in services revenue. I am happy with the progress we made in the last few months in the services business, and I am looking forward to more improvement over the next few quarters.

Overall, there was no further lengthening of sales cycles in Q1, but now have relatively more visibility on 2023 and medium term, they are benefiting from a high interest rate environment. The response of regulators on funding challenges was swift and robust, and this gives us confidence for the trajectory in the in the short term. As a result, I expect the sales environment to remain stable this year, with some banks still cautious around their IT spend.

Our pipeline continues to develop positively across bank tiers and geographies, with increasing demand for SaaS and cloud, a good number of Tier 1 deals developing in the pipeline. And we are delivering on our commitment for the completion of the transition to recurring revenues in 2023.

We’ve seen an underlying acceleration in total software licensing, which grew 14% this quarter excluding customized development licenses.
Our partners will continue to do most of the client specific work allowing us to focus our R&D on innovation, and reusable product but create strong recurring revenues.

The investments we made in 2022 across both R&D and sales... gives us a solid platform for growth in 2023, and we have already seen this in Q1 with our EBIT benefiting from this investments and good cost management. I’d also like to flag that that we are already... that we already reached the minimum cash flow point from the subscription transition, with a positive working capital impact of the SaaS business model of selling the remaining negative working capital from the subscription transition.

Lastly, I’d like to remind you that we are focused on ARR, as our primary KPI given our subscription transition and growth in SaaS, which are driving recurring revenues. ARR is expected to reach more than 70% of total revenue this year, and more than 80% of our product revenues. Our strong growth in ARR is also driving increasing visibility on profit and free cash flow.

And with this, now, I’d like to hand it over to Takis to talk through the numbers for the quarter.

**Takis Spiliopoulos**

Thank you, Andreas. Moving to Slide 15, I will give you an overview of our financial performance. All figures are in constant currency, unless otherwise stated. We delivered 33.8 million of subscription revenue for the quarter with a subscription share at 77% of the license mix in Q1 ’23. I expect it to be around this level of percentage of the mix over the coming quarters as well.

SaaS revenue was up 30% in Q1 ’23 and with a strong SaaS ACV in this quarter and from last year, we have a good level of SaaS revenue locked in for the following quarters, and good visibility to meet our respective 2023 targets.

Total software licensing grew 12% driven by subscription and SaaS. While the headwind from the decline in customized development licenses is now behind us, there was a 2% negative impact on Q1 ’23. Excluding this headwind, total software licensing grew 14% in Q1 ’23 in constant currency. Maintenance grew 3% as indicated and in line with the growth of Q4, ’22, total revenue grew 4%. EBIT was up 11% benefiting from good cost management, the anticipated improvement in services and the investments we made last year. Our EBIT margin improved by 2 percentage points to 29.7%.
Operating cash amounted to 71 million, up 17% with our operating cash conversion of 108%. We delivered 39 million of free cash flow up 20%. For the full year I still expect free cash flow to grow in line with ARR of at least 12%. DSOs ended the quarter at 125 days down 4 days sequentially, and we ended the quarter with 716 million of net debt and with a leverage of 1.9 times. I expect our leverage to decrease further at the end of the year.

Moving to Slide 16, subscription and SaaS revenue were really the key highlights in the P&L this quarter, with subscription becoming the significant majority of the license mix by the end of the year. As Andreas mentioned, we signed a number of deals with top tier banks across different geographies. I would flag that the deal with the top global bank headquartered in Europe was signed in Q1 ’23 and that revenue will be unlocked once we reach various milestones over the course of 2023. I would also highlight that operating cost were up 2% this quarter.

We already made significant investments in 2022 in R&D, cloud and sales and we will continue making positive investments this year in the same areas. We are also benefitting from the normalization of our services cost base as anticipated, with a number of loss making projects now live. Lastly, we delivered 67 million of EBIT in the quarter, and our EBIT margin expanded 2 percentage points in constant currency.

Next on Slide 17, we have like-for-like revenues and costs, adjusting for the impact of M&A and FX. Although we have not done any M&A since 2019, the figures are all organic and therefore in line with our constant currency growth rates. I have already outlined the main impacts on revenue and cost this quarter.

In terms of FX, we saw the Dollar strength creating a headwind on revenues in particular from the Europe. While we saw some change going on cost in particular from sterling and rupee. Overall, we had a small positive impact at EBIT from FX this quarter of slightly more than 1 million.

On Slide 18, net profit was up 11% in the quarter, our cash lower than the EBIT growth with the impact from higher financing costs and higher tax rate. EPS for the quarter was up 10%.

On Slide 19, Q1 ’23 LTM cash conversion was 108%, well above our target of converting at least 100% of IFRS EBITDA into operating cash. We also expect our cash conversion to be at least at 100% for 2023.
Next on Slide 20, we show the key changes to the group liquidity over the year. We generated total operating cash of 71 million and ended the quarter with 112 million of cash on balance sheet and net borrowings of 729 million. Our leverage was at 1.9 times and expected to decline further by the end of the year.

On Slide 21, we confirm our 2023 guidance which is non-IFRS and in constant currency. We are guiding for ARR growth of at least 12% driven by the move to subscription and the strong growth of our SaaS business. We started the year with a significant majority of our ARR locked-in through committed SaaS revenue, subscription and maintenance. And our strong Q1 ’23 SaaS ACV and subscription revenue will also contribute to this. We are guiding for total software licensing of at least 6%. This combines subscription, term license and SaaS revenue.

As a reminder, we already have approximately 10 percentage points of total software licensing growth locked-in from SaaS ACV signed in 2022 and early 2023. I would also flag that the headwind from the decline in customized development licenses is now behind us and this alone acted as a circa 5% headwind on total software licensing in 2022. This is an additional reason why I feel comfortable with our TSL guidance for 2023.

As a quick reminder, our confidence in our SaaS revenue growth comes from 3 elements. Strong new logo wins in 2022 and in Q1 ’23, the improved visibility on the additional consumption from existing clients and the introduction of overage revenues in 2022 where we charge customers at the premium for consumption over the contracted volumes until they commit to more incremental ACV.

In fact, SaaS revenue growth just from new logo wins in the last few quarters is higher than reported SaaS revenue growth and this also helps the visibility for future SaaS growth. We are guiding for EBIT growth of at least 7% and EPS growth of at least 6%. We also expect our free cash flow to grow in line with ARR so at least 12% growth for 2023 with a material contribution from growth in deferred revenues.

We feel comfortable with our free cash flow guidance given the strong visibility we have from SaaS revenue and ARR growth. However, we are also being prudent at this stage as it's still early in the year. We still expect cash conversion to remain at over 100% of IFRS EBITDA into operating cash. Lastly, we expect a 2023 tax rate of 19% to 21%.
Next on Slide 22, this is a slide we showed last quarter, so I won't spend too much time on it. It outlines the elements impacting our EBIT in 2023. This is for illustrative purposes only to give you a feel of the relative size of contribution of the different elements. Essentially, SaaS and maintenance profit growth will have a positive impact as well as the improving profitability of our services business through the year. This will be offset by our investment in selected areas of the business, some wage inflation and increased variable costs.

On Slide 23, again for illustrative purposes only, we have outlined the moving parts of our free cash flow this year. A considerable part of our free cash flow growth will be driven by the strong growth in deferred revenues from SaaS, bearing in mind that any SaaS contract signed this year will contribute to deferred revenue growth. We will also have a strong contribution from subscription, where we now also collect the second year of cash from contracts signed last year. These tailwinds more than offset the negative impact from lower term licenses. This is the last time we have this headwind from term licenses as the transition to subscription will be largely complete by the end of this year.

Lastly, on Slide 24, we have our midterm targets that we have announced at the Capital Markets Day in February. These are for ARR to reach at least 1.3 billion EBIT to reach at least 570 million, and free cash flow to reach at least 700 million.

With that, I will hand back to Andreas to conclude.

**Andreas Andreades**

Thank you, Takis. And so, to give a quick summary, we continue to press with our strategic advantage of a cloud-native package, an upgradable platform that can be implemented on premise or in the cloud. Our pipeline is developing nicely, and we are making excellent progress on our transition to subscription in a recurring revenue business.

Demand for SaaS and cloud is increasing and driving our revenue growth, and our investments in 2022 have given us a strong platform for growth in 2023. I expect our ARR to continue growing strongly, which will increase our visibility on profit and free cash flow. With more than 95% of product revenues now being recurring, I actually expect the ARR and total product revenue growth to converge over time.

With that, operator, I'd like to open the call to Q&A. Thank you.
QUESTION & ANSWER

Operator
We will now begin the Question and Answer Session. Anyone who wish to ask a question or make a comment may press* and 1 on their touchtone 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 is from James Goodman from Barclays. Please go ahead.

James Goodman
Thanks very much. And firstly, maybe just we could dig into the situation in the banking backdrop a little bit more, and maybe you could structure the answer there between the U.S., sort of regional bank situation and anything that's affecting your conversations regarding your pipeline there, but also you know, in Europe with the Credit Suisse scenario, could you talk about any direct impact? And if you're baking in a stable environment this year, I mean, are you comfortable with that sufficient buffer given the backdrop?

Second question around the successful move from term licenses to subscription, I wondered, are you still seeing really parity there in terms of the proportion of licenses unbundled into the quarter on those deals? And you know, maybe you could answer that through commenting on any upsell you're able to achieve, if you're seeing any average duration increase there, or maybe the sort of price element more generally in terms of the impact on the quarter. Thank you.

Andreas Andreades
Thank you, James. It's Andreas. I'm going to take the first answer, and then Takis will take the first question, and then Takis will take the second one. In terms of the banking market, what we are seeing, we do expect overall a stable base environment for 2023, consistent with the assumptions we made, if you like, at the beginning of the year. Within the regional banking market in the U.S., let me say first of all that we haven't seen an impact in our business from the events, if you like, around that segment of the market. We clearly saw in regions in Q1, which is an important data point. For sure, this has been in the pipeline for quite some time, but still, it does show that banks in that segment are making decisions.
And what I wanted to say is that the regional banking market is a very large group of banks, very diverse, some of them extremely conservative, with very successful franchises in both retail banking and corporate. And these banks, they continue to go about their businesses and investing in infrastructure and technology and anticipating the needs of their customers. So, for us, it is business as usual in that segment. I wanted also to remind everybody that this is just one segment of the U.S. market that we are operating. We are selling to neo-banks and Fintechs.

Banking as a service embedded finance is big in the United States, and it’s funding part of our growth, as well as credit unions, where we’ve got a successful franchise with more than 600 credit unions being already clients of Temenos. So, just to wrap it up, you know, we haven’t seen an impact, and we continue to operate it like with confidence and successfully in that part of the market.

The second part of your question related to Credit Suisse in Europe, as we previously communicated, we didn’t have any direct impact from that. I think your question was about direct impact, and we do not. Credit Suisse continues to use our software, and we expect that it will continue to use our software for quite some time. And in fact, what is happening in Switzerland is perhaps an opportunity for us therefore, and overall, in European banking, we haven’t seen like stresses coming out of that event that would concern us as it were. So that’s all in all on your first question. Takis?

Takis Spiliopoulos
Yes, maybe let me add to Credit Suisse. Hi, James. Clearly, it’s not just an important and long standing customer, but actually, we see an opportunity to do more business in an... in large group you know, as part of UBS whenever that happens, and to expand the business with UBS. Integration will take 3 to 4 years, what we see and here in Switzerland is that Credit Suisse brand will be retained in quite some areas. And so, we don’t see a risk to what we currently have in terms of business with Credit Suisse today which is largely a maintenance revenue stream. And even in a worst case scenario, this will probably not be much more than 1% of our maintenance revenue base. So something that is definitely handled on.

On subscription, bear in mind that since we announced it all the new deals or almost all new deals that came into the pipeline were for subscription 5 year standard subscription term. And clearly, this data has continued you know, throughout Q1 and so this is the standard default model. Now, you will still see some term licensees and we’re trying to convert them, but what you are seeing as term licensed business is what has been in the term license before in the pipeline where customers for whatever reason don’t want to convert, but as you see, this is a small part.
And it's actually even lower than it looks, because keep in mind, on the term licenses, we also report this customized development elements, so that the real term license number is still even is much lower than you'll see in the Q1 reported number. We still have some term license business throughout the year, we're very happy with the 77% mix we achieved in Q1 and that should be definitely be the target for the year.

James Goodman
That's really helpful. Thank you, but just on pricing specifically, I mean, can you not comment on that, because you've switched ultimately to this new pricing subscription format or can you say pricing was a certain talent to growth?

Andreas Andreades
We don't... I mean, we don't look at pricing per se now, because we haven't converted any deals, but what we maintained in the first quarters of last year, where we said we would expect an uplift on this 30% to 60% range, that was clearly something, we would still say was the realized number. Now, when subscription deals come in and clearly we sell them at a higher value, because there is a benefit for the client as well as we would expect on a like-for-like basis. If there was anything converted it would still be in that range.

James Goodman
Helpful. Thank you. Thank you very clear answers.

Operator
The next question is from Toby Ogg from JP Morgan. Please go ahead.

Toby Ogg
Yes. Hi, good evening, and thanks for taking the question. Perhaps just firstly, just on the guidance, so you come in with 12% total software licensing growth on... you know, that could be the most difficult comp of the year, as you mentioned customized license headwinds are now behind you. You said the sales environment has stabilized and no impact from the regional banking crisis. So what's holding you back from upgrading the minimum threshold of 6% on the total software licensing guidance? And similar question on the EBIT guidance as well, just given that you're trending well above that minimum threshold? And then just on the CEO search, any update on how that's progressing? Thank you.
Takis Spiliopoulos
Hi Toby, let me take the... your first question first. Now, as we said that the start of the year in February, when we gave the guidance, yes, we expect a stable environment, but there is still some uncertainty out there. Now we delivered 2 months later a stable environment as Andrea said, we still continue to be stable. But I think we all agree there is still some uncertainty out there in terms of what form or shape the economy will take soft landing, no landing, hard landing. So that's number 1. And we tried to be prudent.

Number 2, I think we still stand by what we said, there is still also a large number of you know, large deals with Tier 1 and Tier 2 banks in the pipeline, and which we also... and as part of our portfolio of deals we want to sign. So, timing... and always be something which is difficult to predict. So I would say yes, it's a... it's an early success. But let's get us... let's give us some more visibility on what's happening with the larger deals and there still can be volatility between the quarters.

Now EBIT, which is, as we have seen now with Q1, if we deliver a better EBIT number, that is pure profits draws down to EBIT. So EBIT guidance is linked to really the TSL guidance, we're comfortable in making the investments we plan to do to present constant currency cost growth, if you exclude the services, cost reversal or improvement where we're investing quite a better cost is up 6% excluding services which as we had said at the start of the year will have a sizable positive impact on our cost base.

So if you want the underlying investment is still being done excluding services. So I think we feel comfortable and at this point in time, I think is the right prudent guidance we issued in February which is still valid.

Andreas Andreades
I'll take the second question on the CEO search. As we communicated before, the process is underway it's led by Thibault and the Board and Thibault will update the market when it's appropriate.

Ogg Toby
That's great. Thank you.

Operator
The next question comes from Levin Josh from Autonomous. Please go ahead.
Levin Josh
Hello, good evening. 2 questions from me. With regards to the regions, you won in the U.S.? Why do you think you won it? What specifically differentiated Temenos from its competitors? And then the second question, you know, the company has a state of flux and uncertainty. You’re still looking to bring in a new CEO and then the CEO will need to devise his or her strategy. How do you manage that flux and uncertainty vis-à-vis your employees? How do you keep them focused and motivated? Thank you.

Andreas Andreades
I'll take both questions. We won the regions back on the strength of our platform our product on the technology credentials. On the upgradability and functional richness of the platform, the scalability, the localization, we have a U.S. model bank that is prudent and our capability to run successful SaaS operations. And in fact, if you look at... if you look at the whole of this is like competitive advantage, it's our view that we are significantly ahead of our U.S. competitors, the U.S. incumbents. And ultimately this is why we won it. And we've got successful references in the United States and when it comes to running mission critical systems on modern platform a success from references is clearly very, very important.

Now, your second question regarding focus and... of employees and in general how we operate we have a very exciting year ahead of us, we have a very exciting strategy, what is happening with the platform and the product and with winning the best banks in the world as customers is what drives our people. When quarter-after-quarter we are winning, it’s like top tier banks, that are doing a quite advanced and far reaching transformations with us that excites people. We also have a very stable management team that is very focused and committed to the business and they are also very very excited with what is happening and with Temenos.

So, while you may think that there is uncertainty because of the CEO transition, I would say people take that in their stride and they say well, you know, Temenos is winning and therefore I find it a very exciting place to be. So, that's how we go.

Levin Josh
Thank you.

Operator
The next question is of Chandra Sriraman from Stifel. Please go ahead.
Chandra Sriraman
Yes, hi. Thanks a lot. Good evening Andreas. Good evening Takis. Just a couple from my side. Firstly, I noticed a big bounce in the competitive deals. Just wondering what drove this change. Particularly in a different macro, I would assume you will go back to add-ons to the installed base. Is this the impact of the move to subscriptions or anything else that you could highlight?

And my second question is on ACV growth. It’s been in low single-digits for the last 5 quarters. You have highlighted the impact of the sperafico business, but just wondering are you still comfortable with the 25% growth in SaaS revenues for the year? Thanks.

Andreas Andreades
Thank you for the questions. I will take the first one and then Takis will deal with the second one. I think what is happening in the market is that the maturity of cloud solutions and I have been saying that Temenos is really creating the SaaS market for the core banking industry. We have been leading this industry for years, people are looking at us to bring a mature cloud solution to the market that is functionally rich that you can run all the banks, over Tier 1 organizations, complex organizations on modern cloud-native software. And I think what we’ve seen in the last 3 or 4 years progressively, I think that bigger banks... okay we had COVID. We had all of that, but I think both banks have been waiting really is for that maturity in the solution and we are crossing significant milestones in that we are actually proving the solution and we are getting to the point where top organizations are able to put their trust in Temenos.

And I think this is what is happening and it’s happening both across... if you like the subscription side as well as the SaaS side of the business. I think that subscription pricing and the subscription model while perhaps it has some impact in making the sales job easier because you are not really selling CAPEX. You are selling OPEX. I don’t think it’s so fundamental in moving the market, but certainly the majority of the... of what we put on offer is moving the market. And I think we are winning in a significant way. So, that’s on the top tier deals, the bigger deals. Takis perhaps you take the question on ACV.

Takis Spiliopoulos
Yes, thanks, Chandra, clearly... and we are putting this SaaS growth slide showing the CAGR for this corpus because what we have seen in the past, we have had volatile ACV quarters depending on whether we have additional consumption from the existing clients or just now logos. I'll get to that.
So, it’s hard to predict when the additional consumption will heat in a particular quarter, but we have a good idea for the full year. Now, what you need to keep in mind and we gave the disclosure for the full year. We had new logo gross of more than 80% in 2022.

Now the ACV from new clients was up 3 times this quarter in Q1 ’23. So, if you look at this, it shows the underlying strength of our SaaS hopefully winning new clients. I think it’s also testimony to the maturity of our SaaS offering. So, we expect, yes, there will be volatility in the future as well, but if I look at the visibility we have from Q1 now, and Q2 will show very good growth on ACV again. So, with... if you want H1 ’23 ACV locked in or what we plan to deliver, we have got a very good visibility on delivering the 25% SaaS growth for the full year so feel very comfortable on this one. And don’t forget, we also benefit from overage, you know, clients using the platform above the purchase volumes. As I explained, they pay a higher price with subsequently even drive small incremental ACV. So, yes another you know, strong ACV quarter ahead which will protect our full year SaaS revenue gross guide.

**Chandra Sriraman**

Great, thank you.

**Operator**

The next question is from Woller Knut from Baader Bank. Please go ahead.

**Woller Knut**

Yes, thank you. Just on the deferred revenue side, it looks like deferred revenues didn’t follow the total revenue growth in the first quarter and looking at the sequential development, we learnt that a 28 million decline probably also helped to deliver the good start to the year at least if I put it into historical perspective and the years prior to 2022, the contribution from deferred revenues was noticeably lower than at the minus 28 we have seen now in Q1.

So, you also mentioned the large deal in Europe. So, why didn’t we figure a stronger tailwind from this large deal in Europe. Takis, where... if I understood you correctly said that the revenues will hit the P&L once milestones are hit. Then secondly is also the deferred revenue momentum, the reason why you’re still sticking to Q1 because if we strip out deferred revenues, then the underlying momentum from new business was apparently then not as strong as the reported numbers suggest. Is that a fair way to look at things? Thank you.
Takis Spiliopoulos

Thank Knut. Okay, so the way we look at it is, you know, deferred revenues, comparing it to the recurring revenues because this is where you pay ahead and deferred revenues grew actually 11% on the current side. If we do it across current and noncurrent, the growth was 7%. This compares to recurring revenues on an LTM basis, growing 9% as it’s not you know, far off. There can be always deviations depending on what kind of advance cash collections we had and that was maybe a bit higher in the year, but clearly we would expect deferred revenues to largely track on a yearly basis. As we have seen last year, the growth in recurring revenues you know, about there. So, we would expect to see clearly some acceleration in there, I think 1, 2 percentage points they we are talking at and always happen in a particular project.

Now the European deal you were referring to, clearly this is yes we signed that, but was you know, we didn’t talk about you know, the rev rank if you want, clearly that will be dependent as we have said on some milestones throughout the year. So, there was very limited revenue from this deal in Q1 and we can also then limit cash.

Woller Knut

Okay. And do I understand it correctly Takis that this is already included in the deferred revenues?

Takis Spiliopoulos

No, it’s not into that.

Woller Knut

Okay. Not in the deferred revenues. Okay, got it. Thank you. And just getting the math done on certain marketing costs which had only been up 3% despite solid total software licensing growth. How can I square that? Thank you.

Takis Spiliopoulos

Yes, I think you know on the individual costs, you know, the IFRS costs are always a bit difficult to read because there are some restructuring costs in there and there is obviously also the IFRS costs included in there. So, if you look at... as I mentioned, you know, if you want the sales and marketing costs underlying showed quite good growth. And this... there’s nothing, you know, specific in there. Clearly, we have, as Andreas mentioned, we had invested ahead quite a bit last year we are still doing incremental hiring’s. What definitely has increased on a year-on-year basis is, you know, travel. Now, there is quite a bit more travel, which is included in our guidance.
So we will continue to selectively hire, you know, senior sales people, especially to maintain this trend we have seen with the larger clients.

**Woller Knut**
Okay. Thank you Takis.

**Operator**
The next question is from Frederic Boulan from Bank of America. Please go ahead.

**Frederic Boulan**
Hi, good evening. If we can get an update on what you are seeing from the competitive standpoint versus some of the... you main U.S. players. I think you gave us very useful contrasting compared the CMD, but just you know, maybe give us an update on what you are seeing any particular player, whether that the incumbents some of the last generation ones being more impactful. And then I’m looking at your mix Tier 1, Tier 2 at 45% so that’s improving. If you can maybe discuss your expectations on that going forward. If you expect to see that dynamic continuing this year. Thanks.

**Andreas Andreades**
For competitiveness if you like, for the U.S. market, as I said earlier, I believe that what we’ve managed to achieve in the U.S. is to be well ahead of our competitors, improving a modern or that can run successfully at scale with American localization, American regulations and also the maturity of a SaaS operation that can large... that can run successfully large operations.

When we talked at Capital Markets Day about our SaaS business running 150 million account installations. Now, this kind of sizes of operations they are extremely rare if at all existent in a modern SaaS business. And it’s this advantage that we are pressing ahead with in the United States and this would apply to all U.S. incumbents and it would also apply... also with respect to newcomers because they haven’t proven this and when we compete for a mission critical application like core banking, having proving is vital. So it is about the maturity of what we offer. It is about the modern technology, the scale, the localization and having done it successfully in other banks.

**Takis Spiliopoulos**
That’s right. Let me take the second part. Clearly, yes, we had seen a high percentage in terms of competitive deals but that’s a result of what we had before. We won, you know, against competition quite some larger new deals, new logos which obviously help this ratios. I would not read too much into one particular quarter.
We usually look at this and this is why we disclosed the numbers on an LTM basis, which you know, can loosen the quarterly volatility, given our large install base, you know, we always said, maybe, 60% most the business should come, you know, from your... from add-one, from the install base, and 30% from new locals, very happy that, you know, we keep reading new logos, especially good logos and with large deals, but probably that won't be the case in every quarter considering a time it's difficult to predict.

Frederic Boulan
Okay. Thank you.

Operator
Then next question is from Mohammed Moawalla from Goldman Sachs. Please go ahead.

Mohammed Moawalla
Great. Thank you. Hey, Takis. Hey, Andreas. 2 from me. Firstly, just on the investments. You talked about, sort of, investing significantly in 2022. What, sort of, gives you the comfort that rate of investment? Was there a sufficient as you've sort of looked forward and how would you sort of think about potentially any revenue upside or topline upside? Would you be kind of inclined to invest that away or drop to the bottom line? And then just related to that, you know, to the comment you made that, you know, Q1 saw sort of, you know, kind of lower rate of OPEX. Do you expect that, sort of, piece of OPEX to perhaps increase as sort of we move through the year or should we sort of assume this run rate?

The second question on the topline is sort of talked about not really seeing much of a, kind of, an impact from what's going on at this stage. But if you, sort of, maybe help us, kind of, understand the different deal flow in the pipeline, where they are at different stages. How have you, sort of, risk appraised that pipeline and maybe some of the assumptions you've taken around sort of closed rates, you know, over the course of the year, that would be great. Thank you.

Andreas Andreades
I will start with the last one because your questions were quite a few so I am not sure I remember the first one. So I will start with the last one. As I said, we expect a stable environment for sales and closing rates in the year. Clearly, we see different dynamics across the world. We had a very strong MEA, Middle East Africa business in Q1 and we expect that to continue. The U.S. is growing very robustly. We spoke a little bit about Europe. We expect Europe to improve in the second half and also the comps are getting easier in the second half for Europe.
So we are if you like operating the final and the pipeline on a weekly basis and we are looking at it as I said what we reported in Q4 but we look at it on portfolio basis and we want to have enough cover in our pipeline to be able to deliver on our focus. So not much different if you like to what we have usually done and given what we have in the final at this point in time is confident about the balance of year.

Takis Spiliopoulos
Hi Mohammed, let me take the cost one and I think we still have the same approach as we communicated in February, the raise and while you know, the headline numbers in terms of cost flows may look, you know, low. The underlying, I think, is still a healthy rate of investments. Yes, we had meetings plus cost flows last year, also on an underlying basis. But what you need to keep in mind is clearly there is, you know, above the 15 million to 20 million tailwind on services costs, which will not reoccur this year. And that’s providing, you know, ample headroom for investing. Obviously, we got wage inflation around 5% to maybe a bit more. This is offset, you know, to efficiency gains across the organization which we do, not as part of a large program, but clearly, you know, when it comes to that efficiency gains across, you know, leases, across other costs and so on. So we have, you know, plenty of room for investments, as I mentioned simply from the tailwind from lower services costs and then still have some top, which we can come clearly, you know, with variable cost growing, especially on SaaS. SaaS is growing quite substantially. So that’s on that one.

In terms of, you know, run rate of costs, no cost will obviously increase sequentially and then, you know, go throughout you know, also the second half of the year. So clearly the 159 million is the good number but it will increase. You will also see Q2, Q3, Q4 cost increase on a year-on-year basis. What we feel comfortable with the cost growth, you know, for this year. Again keep in mind, you know, 15 plus, 15 million, 20 million of tailwinds from last year from services.

Mohammed Moawalla
Okay. Thank you.

Operator
The next question is from Michael Briest from UBS. Please go ahead.

Michael Briest
Yes, thank you good evening. Just trying to dig in a little bit on to the regions bank deal, it was announced at the end of March, did it make into ACV for the quarter?
Would that be the full scope, I mean the way the deal is described if there is quite a substantial renovation of the client thinking back to something like Commerce Bank that was a multi-year program? Can you maybe talk about, how much of the business is already in the book if you like and how quickly it converts to revenue, additionally we'd see sort of there was a lot of delay between signing and revenues?

And then, in terms of the headcount, I think last year, Takis, it fell by 5% through the course of the year, so this refers to full time employees? Can you talk a little bit about the phasing of that, because that might have implications of the cost base if you had a lot more people on the payroll in Q1 last year than this year and its headcount growing again? And if you can address maybe Andreas that the attrition was quite high last year still how much that's come down by? Thanks.

Takis Spiliopoulos
Hi, Michael, yes, on the regions deal this was a SaaS ACV deal signed in March, so that has been in the ACV number, we reported as we always said, you know, there is a time lag between, you know, the ACV deal being reported and then once we start recognizing revenue, once it is live on the platform of about 1 quarter, so no, revenues from regions recognized so far.

Andreas Andreades
I will take the headcount and attrition questions, first of all let me say that we have seen a quite a significant reduction in attrition during the second half of last year, and in fact this continued even lower in Q1 of this year. So, very comfortable with the way it's trending, we... in Q1 of this year we have... as part of our SaaS is like development plans we've changed a lot the way we are operating in our development organizations and also in India and we have changed the way we organized this core teams and so on and so forth. And while this was not a cost exercise, because any headcount reduction that we have as a result of that we have invested back in capability almost immediately either with more senior people or different schemes, different SaaS schemes so on and so forth. So, a lot has gone, has gone there and I am very pleased with the way that has developed. So perhaps the headline, headcount number might actually not show much growth this year. But, the inflation number, the salary inflation number that Takis talked about will flow through to in like the total salary cost and employment cost as it were of the business.

Michael Briest
Okay. And Takis, is that maybe the full scope of the regions bankers in this years... this quarters ACV, the one we move on a year or 2 as far as your... let you successfully upsell?
Takis Spiliopoulos
Yes, keep in mind you know, there is just one part of the bank we are doing right now. Now, with every large bank and every large client, we always have the ambition to do more business here over the course of the year. So, I think there is... you know, let us get to that, you know, in terms of what is the size. It's only... I think if you look about, we only do the systems or customer records and deposits. Now, every large bank has a lot more business lines and as we have seen with other large Tier 1 clients, Tier 2 clients over the course of the years, once you are successful, you can generate a lot more business than the initial one.

Michael Briest
Understood. Thank you.

Operator
The last question comes from the line of Justin Forsythe from Credit Suisse. Please go ahead.

Justin Forsythe
Hey, thank you so much for squeezing me in here. Good to talk to you Andreas and Takis. Just a couple from me, if you don’t mind. So, understand the regions bank win obviously a big win... 27th largest bank in the U.S., according to your number s, I guess. Can you talk about the competitiveness there? Was there an existing core-processing platform in the background there or was that insourced. And just around the market sizing like, have you done any of research around for instance the number of banks who look to migrate their core and on an given year say I don’t know, is it low-single digits, mid-single digit et cetera within the U.S. and how many of those are coming from incumbents versus an insource solution meaning competitive takeaway versus not?

And the other question was around Europe. So, you know, I think you did call out a little bit of a weakness there. I think you also mentioned during the call that, there was less concern in the environment in Europe. You also though highlighted at the CMD that you had pretty high win rates against competitions. So, I mean, can you talk a little bit about the dynamics there? Does that just mean there was not deals out there to win, do you expect the environment to be more robust in 2Q, 3Q, 4Q and just your thoughts on the European market going forward? Thanks a lot.

Takis Spiliopoulos Okay. I will try and take them in turn. Of course, there was an incumbent in regions. We are not privy to disclose the incumbent vendor in the bank. But let me say that, as I said earlier, this was a highly competitive bid and we came out very very strongly with that.
Now how and also let me say that the bank as you would expect, has existing relationships with most U.S. incumbent vendors for other software. So, the relationships with incumbent players were there.

As far as the U.S. market is concerned, we shared in Capital Markets Day, a lot about the size of the opportunity, as well as the segments of the market that we are competing with. I believe I was very clear that we are focusing on particular segments of the market, and not the entire U.S. market and that continues to be the case. I have to say that, out of all the regions in the world, I see more growth and more activity today in the United States than I see in Europe or in Asia. So, we are considering about the level of activity in that market.

Now moving over to Europe we do have, as you said, very competitive is like win rates and I can confirm that... and if like the slower development of Europe is not a win rate issue for us. It’s more an evolution of the market and the point at which the market is embracing what is happening with cloud... the rise of cloud and the rise of new technologies and at the pace with which banks are actually embracing these and moving forward with bigger projects. And as I said, we do expect an improvement in the European comps for the second half of the year.

Takis Spiliopoulos

Justin maybe to add, yes, keep in mind Q1 2022, we had Mirabaud signed in Europe, which was quite a sizable deal. So, Europe has a particularly difficult comparison base on top of it. But, yes, you know, H2 clearly should be better for Europe.

Justin Forsythe

Got it. That’s really helpful, both of you. Really appreciate it. Just wanted to clarify a little bit that first question. So, I guess my point was understood that the third party spend market is quite robust within the U.S. and globally as you correctly called out in the CMD slide. I guess what I was getting at is you know, that market in reality given you don’t have I guess there is much share as you might in Europe, it is kind of pre-requisite on banks churning their existing vendor, or is it insourced moving to someone like yourself. So, I guess, I was trying to get your view if you have one as to how often banks you believe are doing that in the U.S., because it feels like that would be your... the biggest part of your opportunity going forward?

Andreas Andreades

Okay, now I understand the question better.
The top tier banks as in the top many central banks if you like, are mostly insourcing technology, but below that... let’s say below the top 5 or 6 banks in the United States most of the rest of the market is actually using third-party software. So, they are quite used to working with vendors.

Justin Forsythe
Okay, got it. And you don’t have a view on percentage kind of churning each year?

Andreas Andreades
Very difficult to say.

Justin Forsythe
Got it. Okay, thank you both. Really appreciate the time. Cheers.

Operator
That was the last question.

Andreas Andreades
Thank you very much everybody for joining and for your participation on the call. Thank you very much.

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 -