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Temenos Group

Temenos – Q1 2024 Results

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COMPANY REPRESENTATIVES

Andreas Andreades, CEO

Takis Spiliopoulos, CFO

Thibault de Tersant

Adam Snyder, Head of Investor Relations

PRESENTATION

Snyder Adam

Thank you very much, everyone, for joining us today. Before we go through the results materials, I would first like to hand over to our Non-Executive Chairman of the Board, Thibault de Tersant, to make some opening remarks regarding this evening's announcements. Over to you, Thibault.

De Tersant Thibault

Thank you, Adam. Thank you all for joining our results call today. I would like to say just a few brief words regarding this evening's announcement. On behalf of the Temenos board, I am delighted to announce that Jean-Pierre Brulard will join Temenos from 1 May as our new CEO. Jean-Pierre is a highly experienced executive and a proven leader of large, global and high-growth organisations.

With a world-class track record in leading global sales organisations, he spent the last 14 years at VMware, where he was executive vice president, worldwide sales, and a member of the executive committee, and he successfully oversaw the migration of VMware business model to subscription and SaaS, whilst delivering strong ARR and revenue growth.

Jean-Pierre brings to Temenos excellent strategic planning expertise and a strong understanding of the SaaS transformation requirements of our clients, having worked with some of the world's largest banks in his previous role. His combination of strategic insight, and energy and enthusiasm for working collaboratively with his colleagues, to deliver for all his stakeholders across clients, partners and shareholders, will be key to driving Temenos in its next stage of growth.

I look forward to him starting formally next week and to you all meeting Jean-Pierre in the near future. I would also like to take this opportunity to warmly thank Andreas for taking the CEO role during the extended search period. His commitment, his passion and determination have been absolutely critical in building Temenos into a global leader in banking software.

With independent report published last week and the appointment of our new CEO, my fellow board members and I are looking forward to focusing again on the business and supporting our executive team in delivering on Temenos' strong growth potential. I will be staying on the call and available to take questions at the end. With that, I would now like to hand over the call to Andreas, to talk you through the quarterly results. Andreas.

Andreades Andreas

Thank you, Thibault. Good afternoon and welcome to our Q1 24 results call. I'd like first to talk through our performance and some of the highlights from the quarter, before handing over to Takis to run through the financials and the outlook.

Q1 was clearly a tough sales quarter for Temenos. We saw temporary lengthening of the sales cycle due to the shorts seller allegations. Some of our clients and prospects spent time considering the allegations, which added complexity to the sales cycle. And some waited for the publication of the Temenos independent report, before resuming engagements. The sales organisation clearly had more work to do in order to move sales campaigns forward. However, despite these challenges, there are some really important positives in the quarter.

We have been working relentlessly to transition to a recurring revenue business model, as you are aware, establishing ARR as our key performance indicator across the business, SaaS and on-premise. And in particular, as I explained during our Q4 and Capital Markets Day, ARR is now fully operationalised and sales targets for 2024 are based on ARR. This transition has helped reduce the volatility in our business, as shown by the Q1 results.

Despite total software licensing declining, our ARR still grew 12% in Q1. Our sales force is highly focused on recurring revenue deals. We are seeing the benefit of value uplift on renewals. We have the positive impact of CPI linkages in our recurring contracts. And we had a particularly strong maintenance growth of 10% this quarter, which drove ARR, as well as profits and cash flows, of course. On top of this, our SaaS revenue continue to grow double digits, driven by VACV signing last year. Our total revenue still grew and we had a strong profitability and cash flow quarter.

All in all, I believe that the investment we made with the shift to a recurring revenue model is starting to show through our numbers. Perhaps most importantly for me, our pipeline continued to grow in Q1. Now that the independent examination report has been published, we are seeing positive responses from clients with some delayed deals already signing and others moving forward again in the sales process.

From a regional perspective, APAC and Europe still grew year-on-year, with the Americas flat and Middle East and Africa declining, especially also given the strong comparative, which was expected. Subscription revenue continued to grow as a percentage of the license mix and we had a healthy nine new client wins in the quarter.

Now on a personal note, this will be my last quarterly results call after 25 years with Temenos. It's been an absolute honour to work and lead this business. I would like to thank all of my colleagues, all our clients, our partners and shareholders, who have supported us over this time. I wish our new CEO every success for the future, and I'm confident Temenos will go from strength to strength. With that, I'd like to hand over to Takis.

Spiliopoulos Takis

Thank you, Andreas, and also welcome from my side. Starting with slide 12, I'll give an overview of the quarter. All figures are non-IFRS and in constant currency, unless otherwise stated. As Andreas highlighted, we had good growth in ARR this quarter, up 12% to reach 723 million by quarter end. The sequential decline of 1% versus Q4 23 is mainly linked to the weak SaaS HCV and subscription signings, combined with the timing of some down-sell and churn in the quarter. I therefore remain comfortable with our guidance of around 15% ARR growth for the full year.

The continued growth in ARR this quarter was supported by 20 million of subscription signings and 5 million of SaaS ACV, although these were both relatively weak compared to our regional forecast, due to the temporary lengthening of the sales cycles, as Andreas mentioned. Overall, total software licensing was down 8%. However, maintenance growth of 10% was a clear highlight, driven by value uplift on renewals, CPI escalators in our contracts and continued good momentum from premium maintenance.

Total revenue grew 2% in the quarter with a transition to recurring revenue, mitigating the volatility of the license revenues. EBIT was up 7% and our EBIT margin expanded 180 basis points in the quarter. Our cash flow remained solid and with good cash collection our free cash flow was up 26%.

Our DSOs reduced to 136 days in Q1 24, down five days from Q4 23, following the usual seasonal pattern, as we collect cash for deals signed late in Q4 and also helped be a reduction in services DSOs. We expect DSOs in 2024 to trend down, as we have reached the peak of the subscription transition impact. We also continued to deliver, with the quarter ending at 1.4 times leverage, down from 1.6 times at the end of 2023. Which is below our target range of 1.5 to 2 times, and which gives us tactical and strategic flexibility.

Moving to slide 13, I think the highlights for the quarter really were the strong growth in SaaS revenue, up 19% on the back of ACVs signed last year and the strong maintenance growth, as well as the resilience of our total revenue growth in the face of temporary sales challenges.

Operating costs were down 1% in the quarter, driven by lower G&A costs, lower services costs, as well as lower variable costs, such as commissions and travel, more directly linked to lower signings. We continued our focused investments in cloud and in key hirings across R&D and also sales and marketing. As an example, sales and marketing costs were up 7% in the quarter. Lastly, we delivered 73 million of EBIT in the quarter.

Next on slide 14 we have like-for-like revenues and costs, adjusting for the impact of M&A and FX. The figures are all organic and, therefore, in line with our constant currency growth rates. Looking in particular at our cost base, our services costs were down 3%, as forecast. Product related costs in the quarter were flat, as we continued our focused investments in cloud and in key hirings across both R&D and sales and marketing.

Looking at FX, the stronger pound sterling was a slight headwind on cost, but more than offset by a weaker Indian rupee. Overall, there was a 1 million positive impact from FX on EBIT.

On slide 15, net profit was up 7% in the quarter, slightly lower than EBIT growth, with higher tax charges offsetting lower financing costs and the impact from FX. EPS for the quarter was up 6%.

On slide 16, our LTM cash conversion was at 118% above our target of converting at least 100% of IFRS EBITDA into operating cash, and we continue to expect our cash conversion to be at least at 100% going forward.

Moving to slide 17, we have the key changes to the group liquidity in the quarter. We generated operating cash of 72 million and also drew down on our RCF with a bond due for refinancing earlier in April. We ended the quarter with 302 million of cash on balance sheet and net borrowings of 568 million. Our leverage is at 1.4 and I expect this to continue declining, assuming no M&A.

On slide 18 we have confirmed our 2024 guidance, which is non-IFRS and in constant currency. We are guiding for ARR growth of about 15%, as we continue to benefit from growth and subscription, SaaS revenues and the growth acceleration in maintenance. We expect total software licensing to grow 7 to 10% and EBIT to grow 7 to 9%, reflecting the investments we plan to make this year. We are guiding for EPS to grow 6 to 8%, with our tax rate expected to be between 20 and 22%. Lastly, we expect our free cash flow to grow at least 16%. We have put the EBIT and free cash flow bridges into the appendix for your reference.

On slide 19 we have confirmed our mid-term targets, which are to reach ARR of at least 1.3 billion, EBIT of at least 570 million, and free cash flow of at least 700 million in the next three to five years.

In conclusion on slide 21, despite the sales challenges in this quarter, resilience of our business model was clearly demonstrated with strong ARR growth and reduced quarterly volatility with the shift to a recurring revenue model, both at the revenue and profit level. I was pleased that the pipeline continued to grow and we expect the publication of the independent report on the allegations to restore normal deal closure rates. We expect the sales environment to remain stable through the year and have confirmed our 2024 guidance.

Finally, on a personal note, I'd like to thank Andreas for his significant contribution to the success of Temenos and for supporting the leadership team. I have appreciated your guidance, insights and ideas over the years. With that, Operator, I'd like to open the call to questions.

QUESTION & ANSWER

Operator

We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touch-tone 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 star and two. Questioners on the phone are requested to use only handsets and eventually turn off the volume of the webcast. Anyone with a question may press star and one at this time.

Our first question comes from Frederic Boulan from Bank of America. Please go ahead.

Boulan Frederic

Good evening. You mentioned the findings were impacted by temporary delays on the short seller allegations. I know the results of the review is (inaudible), but can you maybe share with us how discussions are shaping up. How should we think about the discussion trajectory in the coming quarters?

And more broadly, you seem to expect a pretty stable environment, but we are seeing the macro backdrop of fairly poor demand on the IT spending on the banking side. It would be great to have your assumptions from a demand side on the spending and then, in particular, how we should think about subscription growth going forward? Thank you.

Spiliopoulos Takis

OK let me take this one, Fred. I think on the IT spending environment we have not seen any changes in terms of the first four months. As we have mentioned also in the February call, it's actually the same as last year, where we ended. There is still a strong propensity from clients to do and to go forward with IT renovation projects, so that hasn't really changed at all.

Cloud is still top of mind, i.e. how quickly and how can we help clients shifting workloads and the core banking workloads to the cloud. This is either going to be one of the two deployment models that we have mentioned in the past. Either they buy a subscription and run it themselves, or they take up our SaaS offering.

This is something we expect to remain and it's something we see across all tiers. The, if you want, IT investment budget for core renovations, for core modernisation, as we have seen over the last couple of months definitely have developed positively. And this despite there is still some macro uncertainty out there.

In terms of macro backdrop or macro assumption, I think we're in line with consensus, either calling for a soft landing or no landing at all. I think this is what we can say.

The impact from the allegations clearly was, as Andreas mentioned, some clients for their own internal compliance reasons, they needed to wait for the report to be published. We talk here about regulated entities which run our software, so it definitely added to the complexity. Clearly now, for the last seven or eight days, those discussions have resumed. We've even signed some deals which were basically suspended on the back of this. We would expect this eventually that we can catch up on what we missed out in Q1. And this is also the reason, given the visibility we have, that we have reconfirmed the 2024 guidance across all items. Did I get everything? Did I miss anyone?

Boulan Frederic

I think you did. I don't know if you can be a bit more specific on the subscription side, which was a fairly big slowdown sequentially. But I think you answered in terms of catching up in Q2 and beyond.

Spiliopoulos Takis

I think it's a better comparison with the previous year. Clearly there is always a substantial slowdown, or if you want, decline, from any Q4 to Q1.

Q4 always accounting for 45% of the full year and Q1 being our by far smallest quarter. If you look at the delta versus consensus, which is probably more in the 10 to 15 million range, I think this is something where we are comfortable to catch up in the remainder of the year.

Clearly we saw the strongest impact on subscription, as by now we review term license deals remaining in the pipeline. I think on Q2 you would already expect a much more pronounced seasonality than you would see in a normal Q1 versus Q2, so that on a H1 basis we're still confident.

Boulan Frederic
Perfect, thank you very much.

Operator
The next question comes from Charles Brennan from Jefferies. Please go ahead.

Brennan Charles
Thanks very much for taking my question. Just a couple from me. I missed the phasing in your last response. You're obviously assuming you're going to catch up the missed 15 million in the remainder of the year. Do we assume that all comes in Q2 or do you think it comes evenly phased through the rest of the three quarters?

And then just on costs, we don't often see software companies able to linearly reduce costs to match fallen license expectations in the quarter. Can you just talk about how you're able to be so nimble on the cost line. Is that just a temporary timing issue and costs will rebuild later in the year? Or are there some structural savings in Q1 that we can extrapolate to the rest of the year? Thank you.

Spiliopoulos Takis
Hi, Charlie. I think it's probably too early, despite the positive evidence we have seen over the last few days, to already confirm that we're going to sign up the delta or the miss all in Q2. Clearly that is our ambition, but we would expect this to happen maybe over rather two quarters because you don't know whether there is going to be just days or weeks of delays. But clearly, for the full year, that should be definitely the case. For me to give you now a number on Q2, let's say a substantial part of the miss will be recovered in Q2 and maybe some in Q3. I think that's the best view today.

On costs, yes, they were down 1% year-on-year, but that was driven, if you look at the year ago delta on G&A costs, clearly there is a structural element in there.

Quite clearly, we have reduced internal software costs, optimised our own cloud usage across many applications. The results are some lower services costs, which as we have explained over the last few quarters, is also structural. We have put the services business on new footing and maintain profitability.

Then the remaining delta is maybe two reasons. Clearly lower variable costs in terms of commissions and bonus accruals because we didn't hit the Q1 numbers, so that should revert back if we deliver the numbers on the variables side. And clearly there was some travel and marketing, which I believe is also more timing related.

Ultimately, the last element, which is investments, we haven't changed our investment plans for the full year. Again, some phasing and timing related to this. I wouldn't, other than the G&A and service element, the rest is more timing, so we wouldn’t expect a change in terms of the full-year cost base would still see up 40, 45 million versus last year.

Brennan Charles
And then just lastly, I think we can probably all understand some temporary impact on the sales cycles, but we don't often see companies impacted to this magnitude by external events, whether it's short selling reports or bid talks or any other external influence. Why do you think you've been impacted more than we normally see in these sort of situations?

Spiliopoulos Takis
Number one, again we serve regulated entities, which have to fulfil a lot of compliance and regulatory restrictions. Things like that obviously immediately raise a lot of alerts and people have to react, so this is more from an internal stakeholder perspective, when the CIOs told us we need to see this report for our board, for our risk committee. It's a lot of internal elements which play to this.

Number two, as you know, we sell relatively larger ticket items. To miss 10 or 15 million, these are not hundreds of small ticket item deals, it's a few larger ones which get impacted, and immediately you have a substantial impact. There were one or two larger deals scheduled to sign in Q1, which got delayed and which we are confident that they will come pretty soon.

Lastly, it's a small quarter, so any deal slipped or missed has a more pronounced impact, also on the back of a very strong Q1, which shows then in terms of the negative growth rate.

Now if you put 10 or 15 million into perspective to a full-year license number of 250 million, it's 5, 6%, which is not that much and definitely not something you can't recover.

Andreades Andreas

If I could add perhaps a little bit of perspective here. Our clients are buying software from us that are mission critical. They run the banks' operations on our software, highly strategic. Their business continuity plans are based on Temenos and for a bank to say I'm going to make a 15- or 20-year decision, do I make this on 31 March or do I make it 15 April, when I will have the independent report out and all concerns validated?

It becomes for boards of banks, which are regulated entities themselves, as Takis said, it becomes a pretty simple decision. They say two weeks, we are still going to make the decision, we'll still invest, we'll still go ahead, but it's a check in the box that compliance and risk departments and boards, frankly, were expecting. But in the scheme of things, if you are committing to strategic software for 15 or 20 years, this is how you would be thinking about the decision.

Brennan Charles

Perfect, thanks.

Operator

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

Ogg Toby

Hi and thanks for taking the questions. Perhaps just on the delays on the on-premise side. You mentioned the 10 to 15 million delta there on the signings that you expect to catch up. Could you quantify or just give us a sense for the magnitude of the amount that's already been signed in Q2? And then what actually gives you the confidence that you will be able to close these deals out?

Then if we move onto the delays on the SaaS side. You generated 5 million of SaaS ACV in the quarter. Could you help us again with the magnitude of the delayed ACV on this side, how much you closed out so far and confidence levels around your ability to recoup that over the next few quarters?

Thank you.

Spiliopoulos Takis

First of all, on the on-premise, so the subscription, we have signed some proportion of that, less than 50% of what we have missed, which has been signed in the first three weeks of April. So again, confident that we can catch up this over the next weeks and months, that’s what we have seen.

Now in terms of, and this gives you some confidence, none of the deals which was supposed to sign in Q1 got cancelled. So, yes, they have been suspended, discussions have resumed, as said, some have signed, but as Andreas has explained, we need to go through this phase in the next few weeks and months.

On ACV, clearly that was disappointing and had a stronger than expected impact. We were going for a much higher number in terms of the ACV number. This will also come back over the next quarters, but this is clearly going to have a considerable negative impact on SaaS revenues for the year. While we have confirmed the full-year guidance for total software licenses, the mix we see now is a bit different than before. So, more subscription and less SaaS revenues, ACV being the largest impact. We were going for a much bigger number and I think this will have an impact on the full-year number.

Clearly, as also been evident in our ARR number, there was timing of down-sell and attrition was earlier than expected, also having a negative impact this quarter. Ultimately, we have now better visibility in terms of overages, which we see with some customers slowing a bit down, so clearly that has also negative impact in terms of our SaaS revenue growth.

In a nutshell, if you put this all together, the weaker ACV, earlier down-sell and earlier churn, we now see SaaS growing about 10% this year, we were at 20% before, and the delta higher growing in terms of subscription.

Ogg Toby

Understood, thank you. Maybe just one follow-up on how we should then think about the SaaS revenue growth evolution beyond 2024? If it's trending at the 10% level this year, what then drives the implied acceleration beyond that?

Spiliopoulos Takis

I think you will see this is what we expect. It's obviously a better ACV performance towards the end of the year, which then should drive SaaS revenue growth acceleration next year and beyond.

I think it's probably a bit too early to look at 2025, depending on how quickly we can deliver this ACV growth we expect. But we would expect then an acceleration of SaaS revenue growth in 25 and beyond. So, it's really phasing affecting 2024 and less the outer years.

Ogg Toby

Understood, thank you.

Operator

The next question comes from Laurent Daure from Kepler Cheuvreux. Please go ahead.

Daure Laurent

Thank you. Good evening, Gentlemen. A couple from me, as well. The first one is on the support growth of 10%. You give us the main drivers and I was wondering into the next quarter, which are the ones that will continue to support the growth and what shall we expect on this?

My second question is back to your previous comment on the SaaS growing only 10% versus 20%. Am I right to understand that it's not coming from the issue with the allegation or do you have in your 10% for the year somewhat an impact from that?

My last question is another way to ask the previous question, on the cost base in the first quarter, if you had 10 or 15 million more of licenses, what would you have had in terms of cost growth? I'm trying to get what is the impact on the provisioning of bonusses and variable outcomes. Thank you.

Spiliopoulos Takis

Laurent, let me take maintenance first. Maintenance clearly is something we're very happy about and it was a clean quarter in terms of evolution, as we said. Subscription deals we signed in the past year, but also this year, will give us very high quality in terms of uplift, so that's in there. Also the uplift we generate on renewals, CPI, which we have been very adamant in maintaining. And ultimately, as we also said, the premium maintenance element.

So for this year, and also given the visibility we have now on these elements, we would see maintenance growth growing rather 7, 8% this year from 5 to 6 before. I think that's the right number. In terms of Q2 specifically, you know we don't guide on individual quarters, but I think a similar growth rate as in Q1 for plus/minus flat absolute number Q2 versus Q1, it's probably not a bad estimate.

On your second question, indirectly the allegations had an impact in terms of a lot of ACV deals delayed. As we know, ACV deals have usually even longer sell cycle than straightforward subscription deals. ACV being pushed out, that clearly has a negative impact also on Q2, but the main negative impact, other than ACV, for the full year is the overages, which we see now less. And the timing of down-sell and attrition, which is maybe also testimony to the still quite tough funding environment for some of the fintechs out there. This has an impact, so not related to the allegations.

Then finally on cost. If we had delivered as planned or let's say as per consensus, I think variable costs would probably have been higher by 4, 5 million. Make it easier, if you look at it on a sequential basis, we would see, given that we expect a strong recovery of the subscription business, we would see costs sequentially going up, maybe around 10 million or so. From 157 plus 10 million, and that's across variable costs and some of the investments which simply have been phased a bit differently.

Daure Laurent
Great, very clear. Thank you, Takis.

Operator
The next question comes from Mohammed Moawalla from Goldman Sachs. Please go ahead.

Moawalla Mohammed
Thank you. Good evening. I have two questions. The first one was really for Thibault. Now that the new CEO is in place, I wonder if you can talk through the agenda and the key priorities that you feel that the appointee will have.

Then secondly, I appreciate that it's been a long wait and he is starting quite soon, but you're also navigating the post-independent third-party review and trying to get the business back on track. Given his background with more go-to-market, do you foresee any immediate changes in terms of the organisation? And what gives you the confidence that with so many different things going on, there won't be any kind of disruption in terms of the execution of the business? Thank you.

De Tersant Thibault
Thank you, Mo. When we were doing this search for CEO, we were actually looking for someone with a lot of strength in go-to-market, and so this is one of our key areas of focus.

We believe that the coverage that we have, because of the strength of the solutions and products of Temenos, it's something that is critical in order to accelerate growth. That is to me one of the important agenda items.

It goes with sales coverage, marketing partners and geographic coverage, so all of these areas will be important. But he’s going to be full CEO, so will have to truly support and lead in all the areas of the business. But in terms of priorities, this is really what I would highlight.

Moawalla Mohammed
Got it. And what gives you the confidence?

De Tersant Thibault
In terms of management team, frankly, this is not my place to do that. It's going to be Jean-Pierre Brulard to the task. There is a strong management team at Temenos, people working well together in order to deliver the value to customers. But of course, he will have to step in, make his own judgment and get back to you.

Moawalla Mohammed
Got it, thank you.

Operator
The next question comes from Christian Bader from Zürcher Kantonalbank. Please go ahead.

Bader Christian
Good evening, Gentlemen, thanks for taking my questions. The first one is related to your costs. In your reported result you have recognised a restructuring charge of $5.3 million. I was wondering what is it for and how much more restructuring do we have to model for the rest of the year, please?

Spiliopoulos Takis
Hi. I'll take this one. 5.3 million which we had in terms of restructuring, there is an element of improvement in terms of our footprint for leases and rents and this type of thing. Office footprint optimisation, that’s one element in there, and clearly we’re always optimising in certain areas what we can do in terms of the mix, externals versus internals. We have a considerable element in there in terms of the costs for the third-party examination, which was or is quite costly.

If you look at the restructuring cost guidance, which we have increased from 12 million to 22 million, this is largely driven by the costs related to this third-party examination. And this is not just for the lawyers and forensic investigators, this is also additional audit costs and costs related to that.

The restructuring costs we gave you in February, the 12 million for the underlying business where we always have some areas to optimise in terms of also the regional footprint, as I mentioned, that has been unchanged.

Bader Christian
That’s very clear. Just for me to understand, when I look back over the last couple of years, you always have restructuring charges. I'm wondering, why do you strip those out? Those seem to be part of the business, so why is it non-recurring?

Spiliopoulos Takis
You don't know, it's 12 million and I think there is for a business of our size at 1 billion revenue, to have 0.1% in terms of revenues, in terms of costs to optimise, I think that's fair. Or if you want, 3 to 4% of EBIT. There is always something to do in a large, global organisation and it's not like is it recurring? It's a budget we define at the start of the year because we know there could be something coming. But there are sometimes unforeseen elements, something like the pandemic back in 2020 or when we faced the issues in 2022 with our services organisation, which account for now these allegations. It's a budget we have in there, it's not predictable from our perspective, and this is why we put it in there.

Operator
The next question comes from Chandra Sriraman from Stifel. Please go ahead.

Sriraman Chandra
Hi. Thanks for taking my question, just a couple. I see you mentioned that your expectation of SaaS growth is now 10%, that’s about a 20 million drop in TSL, whereas the range of your TSL growth is still in the low teens. What gives you the confidence that you can still compensate for this drop in SaaS revenues?

If you can provide any kind of detail or colour in terms of any subsegments which are particularly weak, that would be super helpful.

Thanks.

Spiliopoulos Takis

Hi, Chandra. Yes, as you correctly figured out, this is about a 20 million drop in terms of SaaS revenues. What I mentioned before is about half of that is coming just from the ACV impact. If you sign 5 million versus a much higher number, which we had budged for, that's already half the drop explained. Then the rest is really the timing of some of the down-sell, which came earlier than expected. Which then also falls through and ultimately also some of the visibility on overages, where we had benefited last year and it looks like some of those clients either will do less or later, in terms of overages this year.

Now what gives us the visibility or the confidence? I think the 20 million, given we started also with a prudent guidance in February. Cleary, we have a very good pipeline and, given the evolution, we can still see that we can find those 20 million less SaaS revenues, we'll find them in terms of subscription deals. And this is why we maintain the guidance, it's offsetting SaaS with subscription for this year.

Sriraman Chandra

Thanks, Takis. Maybe a quick follow-up. Services margins, they're in the green. Is this sustainable or is this a one-off quarter?

Spiliopoulos Takis

No, I think the services margin is, as we mentioned in February, already we would see the services margin continue to evolve positively this year. We said we plan to go eventually to high single-digit, low double-digit. Again, this will not happen this year, but clearly we will make a sizeable step forward this year already, from 2% to a couple of percentage points upwards. There were no one-offs in Q1.

Are we always going to have the same margin every single quarter? Probably not, it depends on the individual projects finishing and going live, but clearly it will remain profitable in every quarter this year. Also, with resuming service revenue growth, that should also help.

To be clear on the previous one, why are we so confident on the TSL number? Ultimately, both subscription and SaaS, and as we have seen maintenance, they drive ARR. For us and for the sales force, being tuned on ARR, clearly they have the ambition to deliver on this KPI. If we have these delays on the ACV side, we're going to try to make it up with subscription, and maintenance is clearly a highlight, as we have shown. Which in terms of profitability helps a lot on the EBIT line.

Sriraman Chandra

Thank you.

Operator

The last question for today's call comes from Michael Foeth from Vontobel. Please go ahead.

Foeth Michael

Good evening, thank you. Just two from me. Can you repeat what the costs for the examination, the independent report were and if they've all been provisioned for in the first quarter or if there's more to come? I'm not sure if you said it.

And then a question probably for Thibault, is whether the CEO signing was at all impacted by the independent report? Given that he's now starting in a week already, is there a period during which Andreas will stay on board for the transition?

Spiliopoulos Takis

Let me take the first one and then Thibault the second. Michael, we don't have yet the full visibility. As you know, they just finished one week ago, we haven't received all the invoices yet. We have provisioned one part, what we have received basically in terms for Q1, but there will be a considerable amount coming also in Q2. We don't know the exact number, but we have increased restructuring from 12 to 22 million. Being on the conservative side, something mid to high single-digit is probably a fair estimate.

De Tersant Thibault

The CEO signing, actually, was not stopped by Hindenburg. Of course, any candidate was interested the findings by the examiners, independent third-party doing the examination, but at the same time, I have been for many years on the Temenos board and the chair of the audit committee for many years. And so, I was able to communicate confidence that the result of the examination would be positive, and was believed by the candidate.

And the transition, Andreas will do a transition during the month of May and then he has a 12-month notice, so will be able also to give advice to the new CEO, as needed, during this period of time.

Foeth Michael

Excellent, thank you very much.

Operator

Gentlemen, over to you for closing remarks.

De Tersant Thibault

Thank you for participating to this call. We look forward to meeting with you shortly. Have a good day.

- END -