AN EXCELLENT YEAR ACROSS KPIs

"We had an excellent set of results in 2019, with total software licensing growth of 19% and total revenue growth of 17%. Our EBIT grew by 20% and we delivered a full year EBIT margin of 32.4%, an increase of 87bps year-on-year. We saw double-digit growth in Temenos Transact and even stronger growth in Temenos Infinity. The integration of Kony and Avoka has significantly strengthened the Temenos Infinity platform and this was reflected in client demand."

Introduction

Opening thoughts

We had an excellent performance in 2019, delivering non-IFRS total software licensing growth of 19% and non-IFRS total revenue growth of 17%. Over the last five years, we have grown total software licensing at a CAGR of 25%, and total revenue at a CAGR of 16%, demonstrating the sustained revenue growth in our business. Our profit growth has also been very robust, growing non-IFRS EBIT at a CAGR of 20% and non-IFRS EPS at a CAGR of 19% over the last five years, as we continue to drive strong operational leverage through our business model of packaged, upgradeable software, significant R&D investment and our use of strategic M&A to accelerate our organic growth and our R&D roadmap.

Our DSOs reached 120 days reported and 114 days organic by year end, and we closed the year with USD 153 million of cash on our balance sheet and leverage of 2.6x net debt to non-IFRS EBTIDA* after we closed the acquisition of Kony in September 2019.

IFRS vs non-IFRS

To ensure that the presentation of results reflects the underlying performance of the business, Temenos publishes its key metrics on a non-IFRS basis as well as on an IFRS basis. For transparency purposes, Temenos also publishes full reconciliations between IFRS and non-IFRS measures. Full definitions of non-IFRS adjustments can be found on page 41. Non-IFRS comparatives are based on non-IFRS (IFRS 15) rather than non-IFRS (IAS 18) as in prior years.

Highlights

Full year highlights (non-IFRS) include:

- Total software licensing growth of 19% reported
- Maintenance growth of 14% reported
- Total revenue growth of 17% reported
- Services margin of 11.0%, representing a margin expansion of 1 percentage points
- EBIT of USD 317.9 million and margin of 32.4%
- EPS of USD 3.47, an increase of 18%
- Operating cash flow of USD 364 million with cash conversion of 100% of EBITDA, in line with our guidance
- DSOs ended at 120 days reported and 114 days organic
- Recommended annual dividend of CHF 0.85 per share, an increase of 13%.

Key Figures 31 December

USDm, except EPS	2019	2018
Non-IFRS revenue	**980.6**	841.0
Non-IFRS EBIT	**317.9**	265.3
Non-IFRS EBIT margin	**32.4%**	31.5%
Cash generated from operations	**364.3**	365.1
Total assets	**2,322.4**	1,649.2
Non-IFRS earnings per share	**USD 3.47**	USD 2.95

* For the purpose of leverage calculations, non-IFRS EBITDA adjusted for IFRS 16 impact USD 15.9 million, and net debt adjusted to exclude lease liability of USD 51.3 million.

Revenues
IFRS
IFRS group revenues were USD 972.0 million for 2019, an increase of 16% versus 2018 on a reported basis.

IFRS total software licensing grew 17% in the year on a reported basis, with significant demand for Temenos Transact and even stronger demand for Temenos Infinity. We saw very strong growth in demand for SaaS and cloud. SaaS Annual Contract Value increased 68% (constant currency) to reach USD 21 million and Total Contract Value (TCV) increased 44% in 2019 to reach USD 76 million by year end.

IFRS maintenance revenues grew 14% on a reported basis, and IFRS services revenues grew 16% on a reported basis.

Non-IFRS
Total non-IFRS group revenue in 2019 was USD 980.6 million, an increase of 17% compared to 2018 on a reported basis. The USD 8.6 million difference between the IFRS and non-IFRS revenue is due to adjustments made for the write down of deferred revenue linked to the acquisitions of Kony and Avoka.

Cost base
IFRS
Full year costs on an IFRS basis were USD 736.6 million, up from USD 622.1 million in 2018. The increase in cost was driven by our continued investments in the business, in particular in Sales and Marketing, and Product, as well as the contribution from the acquired business of Avoka in December 2018 and Kony in September 2019.

Non-IFRS
Full year costs on a non-IFRS basis were USD 662.7 million, up from USD 575.7 million in 2018. Of the USD 73.9 million difference between the IFRS and non-IFRS cost base, USD 55.2 million is due to adjustments made for the amortization of acquired intangibles costs and USD 18.7 million is due to adjustments made for restructuring costs and acquisition-related charges.

EBIT (Operating profit) and Earnings Per Share (EPS)
IFRS
Full year IFRS EBIT was USD 235.4 million compared to USD 218.8 million in 2018. IFRS EPS for 2019 was USD 2.46, compared to USD 2.31 in 2018.

Non-IFRS
EBIT on a non-IFRS basis was USD 317.9 million, up from USD 265.3 million in 2018, an increase of 20% on a reported basis. EPS was USD 3.47, up from USD 2.95 in 2018, an increase of 18%.

Non-IFRS continued

Non-IFRS EBIT margin was 32.4%, up from 31.5% in 2018, benefiting from the faster integration of Kony and underlying leverage on our cost base in particular across G&A and Services. Our Services operating margin was 11.0% for the year, up from 10.1% in 2018. Our Partner program continues to mature and we see an increasing number of Partners involved in our implementation projects.

Cash flows

We generated USD 364 million of operating cash in 2019, representing a cash conversion of 100% of EBITDA. We have maintained our guidance for 100%+ conversion of EBITDA into operating cash flow in 2020, and we are confident of delivering this driven by the continued growth in our recurring maintenance and SaaS revenue and strong cash collection on license and services revenue.

DSOs ended the year at 114 days organically, flat on 2018, however the acquisition of Kony added six days of DSOs such that we ended the year at 120 days reported. We have moved our target of reaching DSOs of 90 days to our medium term targets and expect to achieve this in the next three to five years. We generated free cash flow of USD 269 million in the year.

Balance sheet and financing

Temenos is highly cash generative with a strong balance sheet which enables:

- The servicing of our debt obligations
- Investment in the business, including industry leading R&D spend
- Funding for targeted acquisitions
- The payment of an annual dividend
- Deliver value to shareholders through share buybacks.

We continue to actively pursue acquisition opportunities as a driver of shareholder value creation, as well as investing in the business to position ourselves for the market opportunity.

We ended 2019 with a leverage ratio of 2.6x net debt to non-IFRS EBITDA*, and have capacity to pursue inorganic growth opportunities to accelerate our organic growth in line with our M&A strategy if they arise.

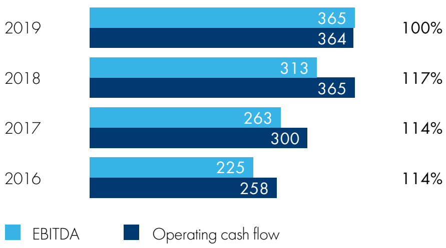
DSOs

Day

120 Days

Cash conversion

USDm



Medium term targets

90 Days

DSOs of

36%+

EBIT margin of

18-20%

Tax rate

Dividend

We have announced a dividend of CHF 0.85 per share for 2019, representing an increase of 13%. This is subject to shareholder approval at the AGM on 20 May 2020. The shares will trade ex-dividend on 22 May 2020, and the dividend record date will be set on 25 May 2020. The dividend will be paid on 26 May 2020. Out of the total dividend of CHF 0.85, half of it (CHF 0.425) will be treated in line with previous years and be paid as a distribution of reserve from capital contributions, therefore exempted of withholding tax (share premium dividend). Half of the dividend (CHF 0.425) will be taxable (Withholding Tax of 35%) taken out from the retained earnings (cash dividend). Temenos' policy is to distribute a growing dividend.

Looking forward

Guidance for 2020

Our 2020 non-IFRS guidance is as follows (in constant currencies):

- Non-IFRS total software licensing growth at constant currency of 18.5% to 23.5% (implying total software licensing revenue of USD 527 million to USD 550 million)
- Non-IFRS total revenue growth at constant currency of 16% to 20% (implying total revenue of USD 1,137 million to USD 1,177 million)
- Non-IFRS EBIT at constant currency of USD 380 million to USD 385 million (implying non-IFRS EBIT margin of c.33%)
- SaaS ACV to grow by more than 100%, implying at least USD 42 million of ACV for full year 2020
- 100%+ conversion of EBITDA into operating cash flow
- Tax rate of 15% to 16%.

Sustainable long term annual targets

We have confirmed our sustainable long term annual targets, which are as follows:

- Non-IFRS total software licensing growth of at least 15% CAGR
- Non-IFRS total revenue growth of 10-15% CAGR
- Non-IFRS EPS growth of at least 15% CAGR
- Cash conversion of over 100% of EBITDA p.a.
- Tax rate of c.20%

Medium term targets

In addition to our sustainable long term annual targets, we have confirmed our medium term targets, which are as follows:

- DSOs to reach 90 days
- Non-IFRS EBIT margin to reach 36%+
- Tax rate of 18% to 20%.

	Non-IFRS			IFRS		
USDm, except EPS	2019	2018	**Change**	2019	2018	**Change**
Software licensing	378.4	341.6	**11%**	378.4	341.6	**11%**
SaaS and subscription	66.6	31.4	**112%**	57.9	31.3	**85%**
Total software licensing	445.0	372.9	**19%**	436.3	372.8	**17%**
Maintenance	357.7	314.4	**14%**	357.7	314.4	**14%**
Services	178.0	153.7	**16%**	178.0	153.7	**16%**
Total revenues	980.6	841.0	**17%**	972.0	840.9	**16%**
EBIT	317.9	265.3	**20%**	235.4	218.8	**8%**
EBIT margin	32.4%	31.5%	**1%pts**	24.2%	26.0%	**-2%pts**
EPS (USD)	3.47	2.95	**18%**	2.46	2.31	**6%**

* For the purpose of leverage calculations, non-IFRS EBITDA adjusted for IFRS 16 impact USD 15.9 million, and net debt adjusted to exclude lease liability of USD 51.3 million.

Engines of growth in 2019 and the medium term

We continue to benefit from multiple structural drivers of growth, which we will capitalize on to deliver our medium term targets.

The total global spend we can address today with our products is estimated to be USD 60 billion, of which only USD 14 billion is spent with third party vendors. The spend with third parties is estimated to be growing at an 8% CAGR as banks are under digital, regulatory and cost pressure as well as pressure from the move to Open Banking.

The Temenos Value Benchmark has demonstrated that best-in-class banks running Temenos software can achieve Cost/Income ratios at half of the industry average, returns on equity of three times the industry average and allocate twice the amount of IT spend to growth and innovation compared to the industry average. The operational and performance benefits from working with the market leader are clear.

Temenos has a unique value proposition that enables us to beat the competition. We are solely focused on the banking space with deep domain expertise. We have the winning combination of leading functionality with advanced technology and are continuously investing in innovation and R&D to ensure we stay at the forefront of the industry. Our products are open, independent and enable banks to continuously renovate their IT. We benefit from a significant global ecosystem of clients, Partner consultants, developers and fintechs that can work with us to continuously innovate and facilitate change within our clients.

Tier 1 and 2 clients contributed 43% of total software licensing revenues in 2019 and we expect this client group to grow as a percentage of the mix in the medium term. We are also building strong momentum in North America, with the acquisitions of Kony and Avoka bringing significant digital and SaaS expertise. We now have 700 employees in the US, with seven major offices and over 1,300 US clients.

We are particularly pleased with the tectonic shift in growth acceleration in our SaaS business, with ACV bookings growing four times faster than license bookings in 2019 and expected to accelerate further in 2020. ACV reached US 21 million in 2019 and we expect this to at least double in 2020 to reach USD 42 million.

Final Remarks

We had an excellent performance in 2019, continuing the strong and sustainable growth we have delivered over the past five years. We benefit from a growing market, increasing momentum with tier 1 and 2 clients and have transformed our presence in the US in 2019 through the acquisitions of Kony and Avoka. I am personally honored to have joined the company as CFO in March 2019 and look forward to continuing to execute our strategy to drive growth and returns for our shareholders in the long term.

Panagiotis "Takis" Spiliopoulos
Chief Financial Officer

USDm	2019	2018
IFRS EBIT	**235.4**	218.8
Deferred revenue write-down	**8.6**	0.1
Amortization of acquired intangibles	**55.2**	37.2
Restructuring	**14.7**	3.3
Acquisition-related charges	**4.0**	5.9
Non-IFRS EBIT	**317.9**	265.3

USDm	2019	2018
IFRS EBIT	**235.4**	218.8
Depreciation and amortization	**130.6**	92.7
IFRS EBITDA	**366.0**	311.5
Deferred revenue write-down	**8.6**	0.1
Restructuring	**14.7**	3.3
Acquisition-related charges	**4.0**	5.9
Non-IFRS EBITDA	**393.3**	320.8

Sustainable long term annual targets

At least 15%

Total software licensing (CAGR)

10-15%

Total revenue (CAGR)

At least 15%

EPS (CAGR)

100%+

Cash conversion of EBITDA p.a.

c.20%

Tax rate

Definitions

Non-IFRS adjustments

Deferred revenue write-down
Adjustments made resulting from acquisitions.

Discontinued activities
Discontinued operations at Temenos that do not qualify as such under IFRS.

Acquisition related charges
Relates mainly to advisory fees, integration costs and earn outs.

Amortization of acquired intangibles
Amortization charges as a result of acquired intangible assets.

Restructuring
Costs incurred in connection with a restructuring plan implemented and controlled by management Severance charges, for example, would only qualify under this expense category if incurred as part of a company-wide restructuring plan.

Taxation
Adjustments made to reflect the associated tax charge relating to the above items.

EBITDA
Temenos defines earnings before interest, tax, depreciation and amortization (EBITDA) as operating profit excluding depreciation of property, plant and equipment and amortization of intangible assets.