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Temenos

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COMPANY REPRESENTATIVES

Jean-Pierre Brulard, Chief Executive Officer
Takis Spiliopoulos, Chief Financial Officer

PRESENTATION

Brulard, Jean-Pierre

Good evening, good afternoon, and thank you all for joining us for our Q2 2024 results, my first call as the CEO of Temenos. And let me tell you that it's both an honour and privilege to be with you today. So starting with the highlights of the quarter, we have seen a good incremental improvement versus Q1 across most of our KPIs, and even more importantly, our customers reaffirm their confidence in Temenos, with all the delayed deals from Q1 closing in Q2, 100%, and as well as strong attendance at the Temenos Community Forum in early May.

In this context, looking at our two most important KPIs, our ARR grew a healthy 12%, and free cash flow grew 16% in the quarter, which clearly shows the resilience of the business that we have as we move to a recurring revenue model. This quarter also, we announced the launch of Temenos SaaS Foundation, our next-gen SaaS platform for banking, which I will detail later on.

However, we didn't catch up the two months lost in most sales campaigns due to the short seller report earlier this year, where that clearly impacted the quarter. So given this H1 performance, we have issued revised guidance for the years. And importantly as well, this guidance assumes a return to growth, while de-risking the second half of the year.

So having said that, I would like to take a minute to briefly introduce myself as well. I joined Temenos at the start of May and have relocated myself to Zurich for this role. I have spent more than 30 years in the software industry, and I would like to share two key experiences that I believe are particularly relevant to this new chapter of Temenos.

First of all, as CEO of VMware, a $13 billion revenue company, where I spent the last 14 years between London and Silicon Valley, I led the business transformation of VMware from a pure on-premise business to a SaaS and subscription. And prior to that, I was the EMEA President of Business Objects, where I learned the challenges for a non-US company to succeed on the global stage. And other software companies I've served, financial services was my first industry focus, and I had the privilege as well of helping our banking customers to run and transform their business.

So coming from my first 80 days, it has been an exciting three months at Temenos for me, a listening and learning tour. And I have the pleasure and the privilege of meeting many of our clients and partners and, more importantly, hundreds of our employees in our offices around the world, from London to Paris and Amsterdam to New York, and lastly, in India, in Chennai and Bangalore.

One of the first events I also attended as the CEO was the Temenos Community Forum in Dublin. As you know, it's our annual ecosystem event, with clients and partners coming together to share success stories and learn about our latest innovation. Clearly speaking, I was impressed to see over 1,400 people, with higher attendance, higher than last year. And for me, that really shows our clients and partners reaffirming their commitment to Temenos.

From this listening and learning tour, I would like to share my initial impression with you. And it's clear to me that we are servicing a large and growing market, with clients that are under increasing pressure. And from my client meetings, I can see we have a strong customer relationship, where we are a trusted partner really at the heart of the operation. And the love and loyalty of the customers is something you cannot buy.

And to me, this gives us a strong foundation to continue serving them and also create upsell and cross-sell opportunities. And despite the uncertainty driven by recent events, our level of attrition remained very low. And I have been impressed by the level of commitment and passion of our employees for the company and our clients.

Last but not least, let me share with you from my past experience in the software industry. So successful software companies always, always combine two major ingredients, customer centricity and innovation. And I strongly believe from my customer meetings that Temenos has this winning combination of leading functionalities and the latest technology that makes me very confident for the future.

So let me start with customer centricity by sharing with you two proof points. So the first is the number of customers going live in our product in Q2 alone. We have 101 go-lives, up from 62 in Q1 this year. This includes customers going live for the very first time, customers going live on additional modules, where we upsell or cross-sell to them, and customers upgrading to the latest version of our products.

The second proof point, it was a testimony from BIL, Banque Internationale of Luxembourg. This bank goes live on Temenos core, payments and wealth front office. This is a great example of upsell and cross-sell, as BIL was already a core banking customer for Temenos, and they have adopted much more core modules and, as well, other products from Temenos, like payments and wealth.

And by partnering with Temenos, BIL has achieved greater flexibility to respond to regulatory and commercial change and, as well, operational efficiency and scalability to allow them to onboard high-volume clients. And I do believe, at the first glance, in general, we have many untapped upsell on cross-sell opportunities in our installed base, and I've specifically asked for our sales force to focus on it.

Equally important to the customer base, we need to win new logos. And our next-gen SaaS platform that we launched at TCF will be an important asset to achieve this goal. And in a few words, Temenos SaaS Foundation is a single platform and portal to consume SaaS solutions with operational automation and management tools.

And as you can see here, Temenos SaaS Foundation is a single platform and portal based on hyperscalers like Azure and AWS and take out the complexity of the cloud architecture. And it's not only an announcement, as we have already a client live on Temenos SaaS Foundation which is the leading tier one bank in Europe. We have gone live for its international operation.

To allow customers to adapt and go live very quickly, we have also released our next-generation enterprise services on top of Temenos SaaS Foundation. And these enterprise services are fully integrated and package front-to-back capabilities from digital to core, with preconfigured banking products and end-to-end business processes for specific banking verticals, like retail, corporate and wealth.

I am also excited about the strength of our executive leadership team, which has been recently reinforced through internal promotion and new hires. Starting with internal promotions, Will Moroney, who was our President of International Business, has been promoted to CRO, with responsibility for global revenue. Will is bringing over 25 years of sales and leadership experience and joined Temenos in 2020 from Finextra.

Rodrigo Silva has been promoted to President Americas, with responsibility for the P&L and growing our business in North and South America. Rodrigo joined Temenos two years ago as LatAm Managing Director, and more recently has been running sales for the Americas. And prior to this, Rodrigo spent over 20 years at Pfizer, holding many senior sales and management roles.

And we have also made two senior hirings, both in the US, in the West Coast. Isabelle Guis joins us as CMO, bringing over a decade of SaaS experience, driving go-to-market growth strategy and overseeing product marketing for global SaaS organisations like Salesforce.

And Monty Bhatia joins us as EVP of Global Alliances and Partner Ecosystem, and as well, Monty drives our partner strategy to accelerate the growth of the company's partner ecosystem. He has over 30 years of industry experience in management and commercial leadership roles in software and technology companies, including VMware, AWS and Deloitte.

Lastly, I would like to outline our three main priorities for the second half of the year. And let me start with cultural leadership, absolutely indispensable to open this new chapter of Temenos. Second priority is the assessment of our product and technology, critical to defining our strategy going forward. And based on these two streams, we are working on our strategic and financial plan that we will share at our Capital Markets Day on 12 November, just after the US election.

Even prior to that, to accelerate our presence in the US and Western Europe markets, we are making immediate incremental investments in go-to-market in H2. With that, I would like now to hand over to Takis, our CFO, to take you through the other business and financial highlight of the quarter.

Spiliopoulos, Takis
Thank you, Jean-Pierre. I'll start with an overview of the quarterly financials on slide 16. All figures are non-IFRS and in constant currency, unless otherwise stated. ARR grew a healthy 12% this quarter to reach $742 million and also returned to the normal pattern of sequential growth after the small decline in Q1 24.

All delayed deals from Q1 24 signed in Q2. This is an important data point, as it demonstrates our clients and prospects have fully re-engaged with us after the independent report was published. We also saw our sales cycles normalise in terms of rate of progress, and we saw growth in demand for both core banking and digital in Q2 24. However, many of our deals were impacted by the two-month earlier delay in the year. As we said, the sales environment remained stable.

The growth in ARR was driven by all our three recurring revenue lines, subscription, SaaS and maintenance. Subscription revenue was $39 million in the quarter, up double-digit year on year. SaaS revenue grew 8% but declined sequentially, as we had flagged at the Q1 24 results, due to the temporary impact of elevated down-sell and churn in the first quarter, which have now normalised.

We signed $9.4 million of SaaS ACV, nearly double that of Q1 24. And this included a new logo win with Haventree Bank in Canada.

This SaaS HCV will drive sequential growth in SaaS revenue again in Q3, Q4 and into 2025. We have a good SaaS ACV pipeline, and I would expect returning to growth in Q3 2024.

Maintenance was again a bright spot in Q2 24, growing 11% and driven by sales of extended and premium maintenance. And I expect maintenance to grow high single-digit in Q3 and Q4 to reach around 10% growth for the full year. The shift of sales commissions to ARR at the start of the year is driving the desired behaviour in our sales force to focus on recurring revenues.

Total revenue grew 5% in the quarter, and EBIT was again up 7%, benefiting from lower-than-expected variable costs across commissions, bonus accruals, travel and marketing. Some of this is expected to come back in H2 24 when we return to stronger growth, along with new hires, although this will only have a small impact on H2 24 costs, given the phasing. Our EBIT margin expanded one percentage point to reach 37.4% in Q2 24.

Cash flows remained strong in Q2, with $73 million of free cash flow generated, up 16%. And we had further reduction in our DSOs, which were down to 133 days, again helped by good cash collection and the reduction in services DSOs. I still expect our DSOs to decline year on year, as previously guided.

Looking at capital allocation and the balance sheet, we launched a CHF 200 million Swiss share buyback in June, and we have so far bought back shares worth 110 million. We ended the quarter with $563 million of net debt, and leverage stood at 1.4 times, slightly below our target of 1.5 to two times. I expect our leverage to be towards the lower end of our target range by year end, after the share buyback and assuming no M&A.

Moving to slide 17, I was pleased that subscription grew 10%, despite the delays in sales processes earlier this year. On an LTM basis, all product-related revenue lines, such as subscription, SaaS, total software licensing and maintenance, remained on a solid trajectory, and also demonstrating the health of the business despite the quarterly volatility seen in H1 24 due to recent events.

Moving to slide 18, 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. On services costs, we were down another 5%, and the margin in our services business continues to improve, as we expected. Product-related costs in the quarter were up 6%, again, from our ongoing investments in go-to-market in SaaS, cloud and hiring across the business.

Looking at FX, it was a similar trend to Q1, with the stronger pound sterling a slight headwind on cost but offset by a weaker Indian rupee. Overall, including hedging, there was no impact from FX on EBIT this quarter. As Jean-Pierre elaborated, we are making continued investments in our go-to-market, but we're also investing in other areas, such as cloud and SaaS.

On slide 19, net profit was up 11%, ahead of EBIT, with lower net financing charges offsetting higher tax charges. EPS for the quarter was up 8%. On slide 20, our LTM cash conversion was 121%, well above our target.

Turning to slide 21, the main movement in our group liquidity was generating $97 million of operating cash, repaying a bond in April and starting our share buyback. We ended the quarter with $194 million of cash on balance sheet and net borrowings of $572 million. Our leverage is at 1.4 times, and I expect our leverage to be towards the lower end of our target range by year end, after the share buyback and assuming no M&A.

And lastly, on slide 22, we have revised our 2024 guidance, which is non-IFRS and in constant currency. Our progress on sales campaigns in Q2 24 showed us that it is increasingly unlikely that we will catch up everything by year end. So we have issued this revised guidance which assumes return to growth, 8% to 10% in the second half for total software licensing, while at the same time de-risking the second half of the year.

We are guiding for ARR of about 13%, down from about 15%, and now expect total software licensing to grow 3% to 6% instead of 7% to 10%. We still expect EBIT to grow 7% to 9%, which gives us ample headroom to fund the incremental investments in go-to-market Jean-Pierre has talked about. We are guiding for EPS to grow 6% to 8% and our free cash flow to grow at least 16%. Our tax rate is expected to remain in the 20% to 22% range. We have put the EBIT and free cash flow bridges into the appendix for your reference.

A couple of things I would highlight for H2 24. We expect Q3 to be a bit better than Q2 for total software licensing, given the delays we have seen from H1, which is not our normal seasonality for TSL. Our cost evolution will be a similar cadence to last year, plus a few million more. And in terms of cash, we will be paying all of the invoices related to the independent investigation in Q3, so our free cash flow growth rate will be lower in Q3, which is why we have kept our 2024 guidance for free cash flow of at least 16% growth unchanged. We will be revisiting our mid-term targets at the Capital Markets Day in November as well. With that, Operator, please can we open the call for questions?

QUESTION & ANSWER

Operator

We now begin the question-and-answer session. Anyone who wishes to ask a question or make a comment may press star and one on their telephone. Anyone who has a question may press star and one at this time. The first question comes from the line of Charles Brennan with Jefferies. Please go ahead.

Brennan, Charles

Yes, hi. Good evening, everyone, and welcome, Jean-Pierre. If I just start with one on the investment and the guidance, if I can. You've obviously lowered your software licensing ambitions for the year, but you've kept EBIT unchanged. That obviously implies OpEx lower than expected. It implies something like a 15 million to 20 million saving in OpEx. On the other hand, Jean-Pierre, you're talking about immediate investments into the go-to-market function. How do we square those incremental investments with the lower OpEx we're seeing in the guidance?

Brulard, Jean-Pierre

Yes, I will let maybe Takis start with the expenses, and then we'll go to the investment after that.

Spiliopoulos, Takis

Yes, hi, Charlie. A couple of things here. If you do the math, we're still basically looking for an 80 million-plus incremental cost, H2 versus H1. Clearly, a lot is going to be on the variable side, commissions, which we didn't hit H1. But assuming we hit H2, that's going to be a substantial chunk, also accruals for bonuses and now clearly also some more travel and marketing expected. Then you have big chunks coming in as we do the annual pay rise, always starting in July. And we still have made some investments, and they're going to hopefully hit H2.

Now, what we are also seeing is a lot of efficiencies coming through over the last six months, and this is basically freeing up more than enough space for Temenos and Jean-Pierre's initiatives to invest. So yes, we can argue that maybe the previous EBIT guidance was a bit on the conservative side, and it's still on the conservative side, and we have ample room to invest. Please also bear in mind, even if we hire now a large amount of people from, let's say, September onwards, the in-year impact is usually just three or four months. So the message is that there is ample room to invest, and not just this year.

Brulard, Jean-Pierre

And the second part. Good evening, Charlie. The answer as well is that we would like to be ready for 2025. So, of course, you know the game. We need to hire now, and both in the US and Western Europe as well, which is our growth opportunities, to be full speed in Q1 2025 as well. So it's the reason why I free up as well a couple of investments in both theatres, to be ready to go and full speed as well in 2025.

Brennan, Charles

Perfect. Thank you.

Operator

The next question is from Sven Merkt with Barclays. Please go ahead.

Merkt, Sven

Great. Good evening and thank you for taking my question. I was wondering if you can comment on the implied TSL guidance for H2 and the pipeline that supports this. How derisked is this, and how do the assumptions in terms of pipeline conversion compare to prior years? Thank you.

Spiliopoulos, Takis

Hi, Sven. In Q2, clearly we have seen a normalisation in terms of the conversion rates, but not a massive improvement so that we could have maintained the full year guidance. So if we look at now the pipeline volume for Q3 and Q4, and obviously having good visibility on Q3, it supports clearly the revised guidance. What we didn't want to do is run a high risk, maintain the current or the previous guidance and run then a risk that we end up at the end of the year missing out. So I think this is now… We call it definitely quite a bit derisked. We have some space in there, as you would expect.

And the growth which is implied on TSL, clearly we have very good visibility on our SaaS revenues, because they are basically now locked in. So the rest is all coming from subscription. And I think, clearly we would expect that the subscription volume implied for the second half, it's clearly covered by what we have in terms of pipeline. And I would say we have also seen an improvement in the quality of the pipeline.

Brulard, Jean-Pierre

And clearly speaking, then our H2 is in line with our normal growth rate of business as well. So we are really penalised by the H1 performance.

So we didn't change too much our H2 trajectory here. But of course, in an annual guidance, that of course has some implications in terms of guidance as well.

And the second piece as well, in a way, is the change of philosophy as well. And you will see that in Capital Markets. We would like as well to provide a long-term and strategic, as well, milestone, and not running after the magic deal of the quarter that could penalise us as well, as we can leave a lot of discounting on the table as well. Of course, we need to do both as a public company, but not sacrifice short term to the long term.

Merkt, Sven
Very clear. Thank you for all the details.

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

Moawalla, Mohammed
Yes. Thank you very much. Hi, Jean-Pierre. Hey, Takis. Jean-Pierre, you mentioned in your prepared remarks about some of the experiences you bring, having run global software businesses. What are your early impressions on perhaps some of the changes that you may need to make to improve Temenos's execution or realisation of some of the opportunities ahead, particularly in the US? Thank you.

Brulard, Jean-Pierre
As I mentioned in my introduction as well, we have work on three different streams. The first, maybe it's unusual, which is culture and leadership as well, just to shape. And, of course, always the case with a chapter one which is driven by the founder, that's in a way a specific culture and behaviour as well. So I would like really, first of all, to attack this point and, in a way, to shape a new culture based on initiative, based on, as well, long-term strategy, based about the fact that we can embrace change as well.

And it was really my first trip that we have done with a third-party consultant with the top management, and then we will extend to the senior leadership team as well, to co-construct with them the strategy and to have more a participative contribution to the strategy rather than top down, number one.

Number two, I've made, as well, a product and technology assessment to know which are our strategic investments. As you may know, we have 4,000 people in India just in product and technology, which is close to two thirds of our staff, so to know, basically, if we have the right assessment about what we will do.

And thirdly, of course, to know in the strategic plan where we would like to fight, we'd like to win, differentiated, what we can do in our installed customer base and the growing market as well. So it's basically the three streams that we have engaged. And that should converge in a Capital Markets Day on 12 November, when we will lay out as well our strategic plan and mid-term guidance, as Takis mentioned before.

Moawalla, Mohammed
Thank you.

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

Ogg, Toby
Yes, hi. Good evening, and thanks for the questions. And welcome, Jean-Pierre from my side as well. Perhaps just firstly for Jean-Pierre, just on the comments in the press release about it being clear there are areas Temenos needs to improve on and invest in. Could you just help us with how big you think the investment requirements are, and what those areas are as well that are going to be needed to get Temenos into the right place?

And then just secondly, for Takis, just back on the TSL guidance. As you said, 8% to 10% TSL growth in the second half, so pretty significant acceleration there in the second half versus the first half. Could you just walk us through the steps that you went through in order to derisk that TSL guidance, specifically in terms of pipeline metrics, if you've gone through risk-adjusting deals, assumed lower conversion rates, and how is the pipeline coverage tracking? Thank you.

Brulard, Jean-Pierre
Yes, thank you, Toby, for the question. So of course, I cannot lay out the strategy, because it will be communicated and shared with you and the capital market on 12 November. I can only share a couple of leading indicators that, in a way, will drive our reflection as well. So I cannot say, about the investment, what we will double-click, in a way, if we have to make some trade-offs as well.

Leading indicators are pretty straightforward. First of all, we need to differentiate the core products, which are core banking, payments and wealth and digital, from the rest, number one. Number two, to differentiate three different criteria. The first one is theatre, geo theatre. We have the emerging markets, where we are doing a lot of business today between Middle East, Africa, the small APAC countries, LatAm and Eastern Europe, from the US and from the mature market, composed of Western Europe, Canada, Japan and ANZ. It is one parameter, of course, with the tiering of banks as well.

The second parameter is the banking segment, between retail, corporate, wealth and payments. And the third one is about the deployment between SaaS, on-premise and cloud native. And the last one, of course, we need to differentiate our strategy and our investment for the installed base and, as well, for the growing market. And on top of that, we need to take into account basically the affordability in terms of product capabilities, our skills and our trade-offs. So if we take into account all these ingredients, it will be basically the leading indicators. We will construct as well our strategic plan in line, of course, with our mid-term financial guidance. And I will let Takis comment on the second half.

Spiliopoulos, Takis
Yes. Hi, Toby. Maybe a different way to look at it to help you with the modelling. Last year, we did 238 million of licensing, so subscription plus term. And if you look at our guidance for this year, it basically implies roughly the same number, maybe a bit less. So this is point number one, where we're not baking in massive growth in terms of that.

Second element to look at, we did 193 million of TSL first half last year, and this year, we got to 186 million, despite the massive negative impact we have seen from Hindenburg. So yes, it's minus 4% on the first half, but it's not like everything completely changed, although then we lost two months on many deals.

Now, on your third point, conversion rates, so the exit conversion rate has normalised. However, having maintained the guidance, we would have needed to see an improvement so that we could catch everything. So if you want, the conversion rate is now back to where it was pre-Hindenburg allegations.

What makes us confident? Clearly, because of just timing and not losing deals, we have now good visibility, or better-than-usual visibility on Q3. And this is why we said, yes, it's going to be an unusual seasonality this year, so Q3 better than Q2.

And finally, on the pipeline, yes, we don't want to start giving even more growth KPIs out there, but the pipeline clearly supports the second half guidance, as we have stated.

Ogg, Toby

That's great. Thanks a lot.

Operator

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

Boulan, Frederic

I welcome Jean-Pierre as well from my side. Hey, Takis. Maybe to come back to, first of all, the previous question. I'm also struggling a little bit on the confidence you have on that return to 8% to 10% on the software licensing, so it would be helpful to understand within that, on the SaaS side in particular, what you expect. Are we still in the 10%-ish vicinity for the year? Q2 was a bit below that. And then anything else you can help us around software licencing. It does seem like a pretty sharp recovery as well. So anything concrete you can discuss there would be helpful.

Maybe, as well, a question for you, Jean-Pierre, in terms of opportunities you identified. It seems to be more of a sales effort than a product investment, but it would be interesting to understand a little bit to what degree you think you need to free up more capacity to invest, and that's more a question for November, I guess, but we've had a pretty significant margin reset a couple of years ago, to what degree the expansion in margins we have embedded in the guidance is something you think is realistic, considering the investment requirements you have identified.

Spiliopoulos, Takis

Hi, Fred. Let me take the SaaS question first. So Q2 SaaS at 54 million was actually slightly better, because we had said the down-sell and the attrition we had seen would cause a 2 million to 3 million sequentially lower SaaS. So we came in at the 2 million. The SaaS, given we have now done ACV, we wanted to do more, but the ACV we have achieved so far supports still. It's the same roughly 10% SaaS growth for the full year, so sequentially will move up from the 54.2, 1-1.5 million up. And then for Q4, you're going to be at 57 million-plus, yes. And this is how you arrive. So SaaS unchanged from previous commentary.

Now, if you look at, as I said, on H1, we're slightly behind. After Q3, with the TSL we're targeting, you're probably going to be already ahead in terms of year-to-date nine-month 24 versus 23.

And then if you assume a, let's say, normal Q4 growth, again, we don't see any change in terms of macro or anything. So very similar to what SAP said, sales environment remains stable. It's still a good time for banks. So this is SaaS locked in with the growth, and then TSL in Q3, a slight improvement over Q2. And then for Q4, I think you should assume the normal, as we said, growth rate we should achieve. Again, conversion rates, everything has normalised. It's simply we're missing on some deals, those two months lost during the earlier part of the year.

Brulard, Jean-Pierre
And Fred, good evening, first. To your second part of the question, we will not trade off go-to-market investment versus product and technology. The thing is it was pretty obvious we were underinvested in sales force in the US and Western Europe. Basically, we have more salespeople in LatAm than US. So the correction was pretty obvious, that we need to invest in the US sales force and Western Europe. So it was really a basic decision-making process to do that.

Regarding product, as I mentioned earlier, we have made a high-level consultancy, by an independent consultant as well, to make an assessment about the level of our product and technology and, even more importantly, to adjust our investment and resources to our strategy. So we just need to know, which is the market demand for SaaS, in which deals, in which geography, to give you an example.

We need as well to make an assessment about composability, basically which is the market demand, which kind of application and module that we need to adjust to do that as well, and just to have, I think, a better market intelligence about the market demand and the investments that could pay off very quickly as well, and not to invest technology for technology. And so we are in the process to complete this assessment.

And, of course, it will be a very strong foundation in regard of our strategic exercise as well to know where we will bet. We know, for instance, that the tier one banks, they do prefer sometimes to manage on cloud and to deploy on cloud native rather than SaaS, to give you an example. So if we are betting on tier one, it's pretty obvious, and I am not suggesting that today, that we need maybe to double-click on cloud versus SaaS, just to give you a couple of concrete examples of the trade-offs that we need to operate in regard of the bet that we will share with you in November.

Boulan, Frederic
Okay. Thank you very much.

Operator

The next question is from Chandra Sriramanwith Stifel. Please go ahead.

Sriraman, Chandra

Yes, hi. Thanks for taking my question, and welcome from my side, Jean-Pierre. Hi, Takis. So just a couple of questions and a clarification. So if I take a step back, before Q1, you had a guidance out there, and then we had this negative impact from SaaS downgrades, which was compensated by the implied subscription upgrade, which you have now stepped back. So it seems that most of the downgrade that we see is just from the SaaS side of things. So I wanted to get a sense of how conservative is your subscription guidance for the year. That was one.

The second one is just a double check on associated risk with regards to large deals in the pipeline. Anything you can comment for H2? And lastly, a clarification on the SaaS side of things. Is that true, that you have caught up with all the slipped deals on the SaaS side as well? Thanks.

Spiliopoulos, Takis

Thanks, Chandra. Yes, on a subscription, you know what to call conservative, what to call prudent. Clearly, at the start of the year, as you correctly pointed out, we underestimated the impact from the H report. And ultimately, yes, we signed all subscription deals, to be precise. Some are still in the works for ACV, smaller ones. But on subscription, all done. So in hindsight, yes, we should have had a larger margin of error.

How confident are we? Again, if you look at what we have done last year in terms of just licensing, so without SaaS, in the second half, that was 142 million. And if you look at what the guidance implies for this year, it's maybe, let's say, 160 million. Yes? So we definitely have the pipeline for that. We don't need everything, because SaaS is still growing. Again, we feel confident on the subscription business.

The downside from the original guidance, you're correct, it was the 20 million SaaS or 10% SaaS growth. But on the contrary, now, given we have seen what we signed in the first half and what ACV deals we're going to sign, usually it's in September happening, will not have an impact on this year. So we know we have pretty good visibility on SaaS revenues for Q3 and Q4. Churn, down-sell has normalised. So that's basically the other element of total software licensing SaaS, where we still see the number in the 10% ballpark.

And then the final one on large deals. So the environment has not changed. We also signed a large deal in Q2. We had missed one in Q1. That got signed in Q2. As in previous years, there are quite a number of large deals with respective cover, also especially for Q4, not that many for Q3. So no change to the large deal topic.

Sriraman, Chandra

Perfect. Thank you.

Operator

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

Daure, Laurent

Yes, thank you. Good evening, gentlemen. A few from my side. The first is, if you could share with us… It's been a long time since you have not alluded to the fintech clients. So if you could share with us an update and if you start to see some improvement around that category of clients. My second point is also, on the four business lines, if you could share brief comments between back office, front office, wealth and fund management in terms of trends.

And finally, sorry to come back on the fourth quarter, but it requires quite a decent growth rate at the very end of the year. So I was wondering if you were relying on a couple of large deals to achieve your guidance or if it was just a large number of small deals. Then that would be less riskier for the end of the year. Thank you.

Spiliopoulos, Takis

Okay, Laurent, let me take number one and three, and Jean-Pierre will look at the second one. So on fintechs, I would say the situation has not materially changed. We still have a difficult funding environment. We have seen some smaller deals, and as you know, we're doing more with the established players than anyone else. Haventree is a good example of new, call them fintechs or similar banks being launched. So I would say it has stabilised.

Is it going to massively accelerate? I don't think so. I still believe their owners or the owners of the fintechs are still focusing more on profitability than growth. Clearly, eventually, even what they have bought in terms of volumes will be used up. But I think this should be more a 25 topic. If I look at the SaaS ACV pipeline and forecast for Q3 and Q4, we don't have that many fintechs in there, so not really dependent on this part of the market recovering.

Large deals, Q4. Maybe slightly less large deals involved versus Q4 last year, but still a considerable chunk has to come from large deals. Maybe what's better than in the past is we have better coverage, yes. So I think, as we have guided, there is clearly more cushion there. And so we don't need to get every one or even every second large deal done to hit the quota.

Brulard, Jean-Pierre

Yes, and let me take the second question, Laurent. Good evening. So, in fact, we have seen this quarter a pretty good growth, both on the front office and back office as well, with core and digital, and sometimes, as well, in a way, integrated deals between, as we mentioned for BIL, for instance. Payments remain steady. What we observe as well for us is more an add-on to transact than a standalone business as well. But at the same time, payment is highly demanding by our transact customers, to be more than an adjacency to our business as well. So what we are achieving as well is to integrate all these modules and applications together, and as I mentioned earlier as well, in our SaaS platform, to integrate all together in different verticals between retail, corporate and wealth.

Daure, Laurent

Thank you.

Operator

The last question comes from the line of Justin Forsythe with UBS. Please go ahead.

Forsythe, Justin

Thank you very much, and welcome to Jean-Pierre as well. And Takis, good to hear from you. A couple questions from me, if I may. First, just wondering. There's been a lot of questions on the difficulty of achieving the TSL guidance in the back half of the year. Jean-Pierre, and I guess Takis as well, did you just consider wiping the slate and pulling the guidance altogether, rather than being held to something that a prior regime is holding you to? And it does seem still, again, rough numbers, 30 million worth of licenses on a year-over-year growth basis, roughly, seems like quite a few deals. So just wondering, again, thoughts on your ability to achieve that.

The other one is, and this is a question for Jean-Pierre, you talked about your experience in the US and software, particularly in taking a European company and a foreign company into the US. You said you knew the attributes and what it takes to be successful.

Maybe you could just walk us through what you believe it is exactly, in a little bit of detail, that made that possible, and if you have any preliminary thoughts on how to disrupt the incumbents in the space, such as Fiserv, FIS and Jack Henry. Thank you.

Spiliopoulos, Takis

Hi, Justin. Thanks for your questions. I'll take the first one. When Jean-Pierre arrived, 1 May, clearly there was not any obligation to him to do anything specific with the guidance. He joined. As he explained, he looked at everything, the sales organisation, pipeline, product, everything. And clearly, we have analysed the situation. We have seen that we were catching up on the deals, and they got signed.

But we were also seeing, towards the end of the quarter, and so end of June and early July, that despite all the achievements and the sequential improvement, with summer holidays coming up, it would be increasingly unlikely to maintain and to deliver in a confident way the old guidance. Could it have been done? Yes, of course. Yes. But you don't run a company with that kind of a risk level. So it's also about derisking the second half. So there was nothing, no obligation for anyone to revise it. This is our own assessment, if you want.

Brulard, Jean-Pierre

And, yes, good evening, Justin. So to your question as well, as I say, I spent the last four years in Palo Alto and, of course, part of a US company. Ten years ago, or even more than ten years ago, I was working for a European software company, Business Objects. So in a way, I know how difficult it is for a non-US companies to face challenges in the US as well. Of course, we need to be American in America, no escape to that. So that's starting with our president, Rodrigo. Rodrigo is based in Dallas. He's an American citizen. As I mentioned, he spent 20 years at Pfizer. So in a way, he knows the culture and the code of American business.

I spent one full week with him in New York, with our new board member, Laurie Readhead from Bank of America, as well, to assess basically what we can do in the US in two dimensions. The product, how to close a couple of product gaps to fulfil regulation and compliance, where we would like to win in terms of tiering as well, as we know that tier four and tier five in the US are managed by the oligopoly of the three BPOs, between Fiserv, FIS and Jack Henry, and many tier one banks, they have in-house core banking developments as well.

So we have pretty good success, as you know, with Commerce and Regent, which are tier three regional banks.

So we are assessing very carefully which kind of investment we need to do in the US to be successful, again, both in product and go-to-market. And to your prior question, we have started with go-to-market because it's pretty obvious that we need to be ready for 2025. And with the product organisation as well, we are assessing what will be the quick wins.

I'm thinking, for instance, in corporate banking, to close a couple of gaps, both in functionalities and, as well, in regulation, to be seen as fully American providers and to have a playground that we can bring value to our customers. So it's basically a couple of things that we need to do. And I will spend at least one or two weeks per quarter in the US as well to reassess permanently our progress in the US.

Forsythe, Justin
Thanks a lot, both. And just, Takis, a quick follow-up on the medium-term guide. Should we consider that still valid for now, or is that considered technically pulled until the Capital Markets Day? Thanks a lot, both, and thank you, Jean-Pierre, as well.

Spiliopoulos, Takis
Yes, Justin, as I said in my comments, it will be revisited. So whether the numbers will stay and the timeline expanded or it's going to be a different mix, we don't know as of today. Yes.

Operator
Ladies and gentlemen, that was the last…

Brulard, Jean-Pierre
Okay, so…

Operator
Yes, sorry, please go ahead.

Brulard, Jean-Pierre
Yes. So just a quick word, Operator, and a conclusion. So thank you for your attendance tonight as well. And I look forward to meeting many of you in person in the next weeks and months. Thank you again.

- END -