# Full Reviewed Transcription

# Temenos Group

## Q3 2024 Results

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### COMPANY REPRESENTATIVES

Jean-Pierre Brulard, CEO

Takis Spiliopoulos, CFO

## PRESENTATION

**Brulard Jean-Pierre**

Good evening. Good afternoon. Thank you all for joining us today for our Q3 2024 results call. I would like to first talk through our key performance and operational highlights for the quarter before handing over to Takis.

Starting with the highlights of Q3, I was pleased that we saw continued engagement from customers for the quarter. Sales cycles already normalised in Q2 and the sales environment was stable across all our regions. We saw strong demand from our installed base in Q3, as well as signing a good number of new clients.

However, we did have some sales execution issues in our Middle East-Africa region, which resulted in total software licensing of revenue of $96 million, a bit below consensus expectation. We have carried out a deep review of our sales pipeline and addressed the sales leadership issue, with our CRO stepping in to support the Middle East-African region through Q4 as we look to strengthen our sales team. This issue was limited to the Middle East-Africa region and we have already taken the necessary action to address it.

On the point of leadership, I am pleased on the good progress we are making to attract talent. In particular, I am pleased that Barb Morgan has joined, as our Chief Product and Technology Officer. We will continue to invest on new talent across the business as we execute our investment plan.
Looking at other KPIs, ARR reached $761 million in Q3, up 9% year-over-year. Free cash flow was down 21%. However, adjusting for one-off payments we made related to the independent investigation, free cash flow grew a very healthy 26% in the quarter. We have issued slightly revised guidance for FY-24 and guidance for Q4, taking a conservative view on our Q4 pipeline. However, importantly, our EBIT and EPS guidance are unchanged.

As for customer success, we are very focussed on our customer success. In Q3, we had another 61 go-lives across our products and reached 224 go-lives in the first three quarters of the year. Combining the efforts made by our professional services team and partners, we continue our strong success in helping our customers modernise.

To demonstrate our customer-centric approach, I'd like to focus on one particular customer case study from Q3. MidWestOne Bank is a regional bank in the US with operations across four states. They went live in Q3 with Temenos digital onboarding, consuming it as a SaaS on AWS.

And MidWestOne wanted to improve and streamline their customer digital experience and enhance their own operation efficiency.

Having a highly scalable platform was really important for them, so they chose Temenos to achieve their operation and business goal. Using Temenos for onboarding and origination, our client has already seen a significant improvement in speed, performance and customer engagement through their digital channels, with customers completing an application in an average of two minutes. We are very proud to work with MidWestOne as we look to expand our presence in the US banking market.

I'd also like to share a deal this quarter from the Middle East-Africa region. Boubyan Bank is the second-largest Islamic bank in Kuwait. They have selected Temenos to modernise their core banking and they will migrate to Temenos core banking across their retail, corporate and wealth operations. Boubyan has a vision to become one of the top Islamic banks in the world with innovative products and services.

It's a testimony of the strength of our core banking product that they have chosen to work with Temenos. I'm confident we have a strong competitive position in the Middle East and Africa region where we will continue to invest to capture this fast-growing market. I will give more details on how we will continue to increase our market share across geographies in the strategic plan we will present at our Capital Market Day on November 12th.

This market-leading position and competitive strength is also recognised by the latest industry analyst reports. We were once again ranking first in the IBS sales league tables for core banking, as well as being ranking first in many other categories, including digital channels, neo- and challenger banks and retail payments. IDC also published their review of core banking vendors across North America, EMEA and APAC, and Temenos continues to be a leader in every single market.

We have continued to reinforce the strength of our leadership team this quarter with the hiring of Barb Morgan as our new Chief Product and Technology Officer. Barb is a fantastic hire for Temenos, bringing 25 years of experience leading global product development organisations, with particular expertise in banking and financial services. She joined us from London Stock Exchange Group, and prior to this, she served as Chief Technology Development Officer at FIS, leading their global payments and banking product engineering.

Barb has a strong background in integrating AI technology, building high-performance teams and launching transformative products, working closely with sales operations to deliver growth.
I'm delighted to have her already on board and look forward to introduce her at the CMD next November 12th.

Lastly, I would like to give an update on our priorities going forward. We have defined our senior leadership team, which is the 40 top leaders below executive committee, and they are already actively contributing to our strategic plan and they will be key to driving cultural change across the organisation.

We have attracted new talent. In particular in sales, we have started to execute our investment plan with hires in the US and continue to recruit sales in both US and Western Europe in particular. In terms of go-to-market, in addition to push ahead with new hire, we are laser-focused on our operational excellence and we are starting our efficiency programme to reduce management layers across the organisation.

For product and technology, with our new leadership on board, we are reviewing our product and technology roadmap to simplify it and define the key areas of innovation we want to focus on. Even more importantly, we have defined our strategic and operational plan and the roadmap for executing this. We will share that at the Capital Market Day on November 12th.

Now I would like to hand over to Takis to take us through the other business and financial highlights of the quarter.

**Spiliopoulos Takis**
Thank you, Jean-Pierre. On slide 14, I'll start with an overview of the quarterly financials. All figures are non-IFRS and in constant currency, unless otherwise stated. While our software licensing revenue was impacted by sales execution issues, our ARR continued to grow, reaching 761 million at the end of Q3-24, up 9% year-on-year. ARR is now equal to 85% of our product revenue, and over 75% of total revenue over the last 12 months.

It shows the amount of progress we have made in moving to a recurring revenue business model. Despite the quarterly P&L volatility, we have very good visibility on our cash flow growth over the coming 12 months from our strong ARR. SaaS ACV this quarter was 9.4 million and included two new logo wins. We expect sizable deals to sign soon and therefore to drive strong growth in Q4 SaaS ACV.

Maintenance continues its strong growth trajectory, again up 10% in Q3-24. I expect maintenance growth of around 8% to 9% in Q4-24 as we start to lap strong comparatives. Total revenue grew 4% for the quarter and EBIT was particularly strong, up 19%, again benefiting from lower variable costs across commissions and bonuses, some of which will revert in Q4-24. We have been expanding our sales coverage since July, with a particular focus on sales in the US and Western Europe, but these new hires from Q3 and Q4 will only have a limited impact on costs this year.

We generated 22 million of free cash flow this quarter, which was down 21% year-on-year, as we absorbed the full impact of the independent investigation in our Q3 cash flow. However, excluding this impact, our free cash flow would have grown 26% this quarter and 21% year-to-date. DSOs were 134 days at quarter-end and I now expect DSOs to be slightly higher by year-end than in 2023 due to the change in revenue mix we have seen this year, with greater contributions from subscription licenses and lower contribution from SaaS.

Looking at capital allocation and the balance sheet, we completed our CHF 200 million share buyback in September, purchasing 4.3% of the registered shares. These shares will be cancelled next year post our AGM. We ended the quarter with 775 million of net debt and leverage at 1.8 times, and this should trend down by year-end towards the lower end of our target range of 1.5 to 2 times.

Moving to slide 15, it is worth noting that subscription grew 17% this quarter, even with the sales execution issues we faced, with sales into our installed base particularly strong in the quarter. Operating costs were down 1% in the quarter, despite the annual salary increases in July and sales hiring, as we have started to benefit from some of the cost savings we are realising from our efficiency programme and with lower variable costs in the quarter. EBIT grew 19% with the EBIT margin expanding by four percentage points.

On slide 16, 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 rate. Our services costs were down another 9% and our services margin continued to improve. Product costs were up only 1% as we started to benefit from our efficiencies programme, while continuing to invest in key areas around sales, products and technology. We will continue hiring in Q4 and will give more details on our investment plan as well as efficiencies at the Capital Markets Day in November.

For Q4, as an indication, I expect our cost base to increase by more than 30 million sequentially, driven by the usual seasonality and with higher commissions and variable costs in particular driving the increase.

I would also like to flag that our net capitalised development costs have continued to decline, coming down to 1.3 million in Q3-24. We now expect net capitalised development costs to be around 12 million for the year, down from 18 million from 2023. Looking at FX, there was almost zero impact on EBIT this quarter.

On Slide 17, net profit was up 24% ahead of EBIT with higher tax charges offset by FX gains. EPS was similarly up 25% in the quarter. On Slide 18, our LTM cash conversions were 150%, well above our target, and we expect a strong cash quarter in Q4 as usual.

Moving to slide 19, the main impact on liquidity this quarter was the share buyback. We generated 52 million of operating cash and bought back 187 million worth of shares in the quarter. We ended the quarter with 107 million of cash on balance sheet and net borrowings of 798 million. Our leverage is at 1.8 times and I expect our leverage to be towards the lower end of our target range by year-end. We do not currently plan to launch another share buyback this year, but given our strong cash generation and assuming no acquisitions, we would have scope for further buybacks next year.

And lastly, on Slide 20, we have given some guidance for Q4-24 and revised our 2024 guidance, which are non-IFRS and in constant currency. I would note that our EBIT and EPS guidance for the full year has not changed. Given the sales execution issues in Q3, we have taken a more conservative view on our Q4 guidelines.

In Q4-24 specifically, we are expecting total software licensing growth of about 5%. For the full year, we are guiding for ARR growth of 11% to12%, down from about 13%, and now expect flattish total software licensing growth instead of 3% to 6%. We still expect EBIT to grow 7% to 9%, which gives us plenty of headroom to make our planned investments this year, whilst also benefiting from our efficiencies programme, which we started in Q3. And we still expect EPS to grow 6% to 8%.

Lastly, we now expect free cash flow to grow at least 12%, which takes into account the 5 percentage points headwind from the independent investigation payment and the lower forecast total software licensing growth. Our tax rate is expected to remain in the 20% to 22% range. As previously stated, we will be revisiting our mid-term targets at the Capital Markets Day in November. With that, Operator, please can we open the call for questions?

## QUESTION & ANSWER

**Operator**

We now begin the question-and-answer session. Anyone wishing to ask a question may press star and one on their telephone. If you wish to remove yourself from the question queue, you can press star and two. The first question is from Chandra Sriraman with Stifel. Please go ahead.

**Sriraman Chandra**

Great, thank you. I have a couple of questions. Just wanted to get your thoughts in terms of the conversion rates in geographies other than MEA where you had some execution issues. Are they back to the pre-Hindenburg levels? That was my first one.

The second one, in terms of the guidance for Q4, I'm just trying to get a sense of how conservative you are, given that the SaaS side of the business is growing around mid-single digits. As of now, do you think you're conservative enough for Q4 specifically? I just wanted to get a sense of the various moving parts within the DSL side of things. Thank you.

**Brulard Jean-Pierre**

I will take the first part of the question. In a way, in the three other geos, in the US, the North Americas, Europe and APAC, our pipeline conversion was in a way more or less the same that we observed the last quarter. No surprise. The surprise came from the Middle East, as we mentioned, which was mostly on the execution of the closing of the deals. In a way, we have some last minute surprises in this conversion of pipeline.

But given that, learning lessons from that, in a way, to the second part of your question as well, having analysed the pipeline in two different lenses. One, all the deals below 1 million, we apply the conversion rate of the last quarter and Q4 last year and Q4 of the year before. And for all the deals more than 1 million, I'm talking about in a way the software licensing outside the SaaS, we review carefully one by one. This time I was involved personally with the CRO to review deal by a deal, in a way, the range and our estimate to be close in the quarter.

It's a mix between, in a way, conversion rate, to your first part of the equation, and to be one by one on the major deals and our range is more than 1 million. We have reviewed all these deals and we'll continue to review these deals on a periodic way as well.

It’s the reason why... in a way, it is based on our pipeline. As you know, in Q4 we cannot create additional pipeline. So, it’s based on our current assessment of the pipeline and the conversion rate that we are quite conservative. Of course, we have a range of deals that could increase, but it’s a balancing act, in a way, our estimate about the conversion of the pipeline.

**Spiliopoulos Takis**

Chandra...

**Sriraman Chandra**

Great, thank you. Sorry, go on.

**Spiliopoulos Takis**

I think you pointed out the main building blocks. With SaaS being almost locked in at 57, 58 million, somewhere there, I think the remaining delta is what we expect to contract on the licensing side, almost all coming from subscription. So, no change to the evolution there.

**Sriraman Chandra**

Thank you. Because that was my... Just to follow up on the SaaS side of things. You’ve grown in the first three quarters by around 10%. That 57, 58, is that locked in and with no overages included that could be upside? Or should we assume 57, 58 is the most reasonable number for Q4 in terms of SaaS?

**Spiliopoulos Takis**

Yes, I think this is where we should land, as we said, back after Q1 results when we said full-year sales revenue would end up at 9 to 10%. That’s still valid and you are correct, no overages are included in that.

**Sriraman Chandra**

Perfect. Thank you.

**Operator**

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

**Boulan Frederic**

Hi, good evening. Two questions, please. First of all to Jean-Pierre around key priorities. I think last time we discussed, you identified go-to-market as a key focus area initially.

Any further thoughts in terms of key investment areas for you five months into the job around technology, breadth of the offering, etc.?

I'm keen to understand a bit more what has changed on the software licence side. I get it on MENA, but anything else? I think you guys were pretty confident back at Q2 about reaching about 10% growth in H2. Now we're looking at new guidance of 5% in Q4. Anything else beyond MENA that we should be aware of? Thank you.

**Brulard Jean-Pierre**

Basically, Q3, it's mostly focussed on Middle East-Africa. Traditionally, we have significant numbers and new logo coming from Middle East-Africa. As you may know as well, it was driven by our Middle East-Africa leader, Will Moroney, that has been promoted to CRO. Basically I asked for Will to come back. It's time for us to search for new leaders in Middle East to review the pipeline, to review the deals one by one, to know, first of all, what's happened and to make the corrective action as well very quickly.

From last board as well, we have made significant progress on go-to-market operational excellence. We have recruited one VP of sales operations that joined us in September. He was working with me in the past as well based in London, a German VP, and he's in charge to bring the rigour and discipline in our operational excellence, starting of course with forecast and pipeline and larger deals, which is basically absolutely important in regards of what's happened in Q3.

But as well, he's working on looking forward on coverage, territory segmentation, pricing, discounting, compensation, etc., etc., just to bring the right level of standard in our sales execution. As well, to make an assessment about the sales skills and about the sales enablement as well. So, a complete assessment and review in a way to elevate the standard of go-to-market. It's absolutely important.

Regarding product and technology, we have completed our assessment that we will present in Capital Market Day. It will be absolutely a good foundation for Barb Morgan as well to start with. She was part of the final step of this assessment as well, to know what kind of incremental investment we need to do to fulfil our 2025 plan and, more importantly, our three-year plan. It's a little bit, it's not the occasion to lay out, of course, what we will discuss in Capital Market Day. But to your question, Frederic, we have now a good assessment where we are in terms of product and technology.

And last point as well regarding the update, if you remember well, last time I was telling you that we have released some investments for sales coverage in the US and we are middle of the journey. I told you that we would like to complete between 10 and 11 hirings by the end of the year to be up and running for 2025. We have already hired on the last two months five reps that are signing up their working contract with us in the US. And we continue the effort as well to be on track for 2025 in terms of US coverage.

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

**Ogg Toby**
Hi, good evening and thanks for the questions. Just coming back on the Q4 assumptions and the review. Just to check. So, deals below 1 million you're assuming the same conversion as in prior Q4? Just to check that I heard that right. If that's the case, what gives you the comfort on that conversion assumption? Then for the deals above 1 million gone through one by one, again, what have you assumed here just in terms of conversion rates? Just to give us comfort around that on the Q4.

Then just in terms of the MEA shortfall specifically, what is the current status of those deals that were meant to be closed in Q3 and what are you building in for Q4 with respect to the closure of any of those deals that are still in the pipe? Thank you.

**Brulard Jean-Pierre**
Thank you for your question. In a way, as I mentioned, we apply a statistical conversion less than 1 million. So, of course, it's statistical. But we took into account the dynamic of Q4, Q4 last year, the Q4 before and, of course, the dynamic of Q1, Q2, Q3, which is a little bit different. But in a way I'm pretty confident on the methodology that we have a pretty good conversion rate in regard of the past and to take a balancing stance as well.

For the rest, we cannot apply it, to my view, it's my philosophy, a statistical conversion, as we have a couple of binary deals as well. In a way, we need to go really one by one. The change of methodology here, we did that very early on the quarter. We mobilised as well all the executive resources to help to close this deal. And as well, it was a more bottom-up approach coming from the reps, from the sales representatives themselves.

 

I would like to avoid to have all the stacking of management, which is in a way, I believe, what the other manager will say and the other manager and then the sales account manager. The need really, as we are on Q4 as well, it's the end of the commission for many of them as we have an annual plan of commission, to know exactly where we are, to go one by one about the risk and exposure of each deal, and to make our judgement about how many of these deals will be closed, and of course it's not an exact science, will be closed in the quarter, balancing the risk and the opportunity.

**Spiliopoulos Takis**

Toby, on your last part of the question, clearly we were expecting a lot more than ultimately the consensus on the licensing side of 3, 4 million. I think it's fair to assume that a considerable part of those deals have signed in the first few weeks. But clearly we're taking a conservative approach, given what happened, and also listening to, I would say, the new paradigm, the new philosophy we are implementing now.

**Ogg Toby**

Understood. Thanks a lot.

**Operator**

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

**Merkt Sven**

Great. Good evening. Thank you for taking my questions. Just a few on the efficiency programme you launched. Can you speak a bit what is behind the programme? My sense was always that Temenos rather underinvested, at least in some areas. What layers and what complexity are you trying to address here? Can you also then quantify the size of the programme in terms of cost savings but also the restructuring costs? Then maybe finally, I know we will hear more about this at the CMD, but how should we read the efficiency programme regarding how you plan to balance growth and profitability?

**Brulard Jean-Pierre**

Thank you for your question, Sven. In a way, we have launched two steps of the programme. The first step, what I call a linear organisation, and we worked on the span of control. I already mentioned that last call as well in July. I'm very pleased with the progress we have made. To give you numbers, we started with 1'157 managers and as we talk today, we have 760. We went down close to 400 managers less.

That doesn't mean that we lay off the 400 managers, as many managers, they have one or two reporters and they were more mostly individual contributors. I'm working with our Chief People Officer as well to create two distinguished career paths, one for the people manager and the other one for the individual contributor based on expertise in each domain as well.

In terms of stacking of layers, we came down from 11 layers at the worst case between me and individual contributors to 9. I would like to go further and to go to 7. But I have to say that it has been done without any waves, without any restructuring plan. We will continue to do that, not only for cost saving, and Takis will take this point, but as well to give to our managers more empowerment and more accountability.

I was mentioning what's happened in Middle East. It's clearly that. We have an MD in Middle East and we have four or five layers between the MD and the sales reps. At the end of the day, that is not helping with the accountability and empowerment. It's a clear lesson of what we are doing is going to the right direction. I can say that as well for the product and technology and accountability as well. I am pleased with the progress, but not fully satisfied. We need to go a little bit further.

**Spiliopoulos Takis**

Let me take the rest of the questions. In terms of costs, as you have seen, we've increased restructuring costs by 7 million. That's due to the efficiency programme we have started. It's really about going through the entire company. As Jean-Pierre said, the complexity in terms of management layers, sometimes matrix organisation overlays. This is across the entire company, whether it's product, sales, G&A. This we have initiated. We have made some good progress. Clearly, there is more to be concluded by the end of the year when we want to be in the target state. For this, you know, these are the restructuring costs.

In terms of savings, so far this year it's a mid-single digit number. By the end of the year we'll probably be quite a bit higher. As the savings come first and the investment, we're not holding back on investments, this is something which clearly has been helping the bottom line, as we have seen on the EBIT.

Now, going forward, I think not wanting to preview what we're going to talk about in November, but as a principle, and we have started this already last year and even before, there is a lot more entrepreneurial mindset at Temenos, i.e. self-funding is the name of the game as a premiere approach. Then once we have exhausted all these efficiency savings and then there is a lot we can still do. Imagine, we just started and already found a quite sizeable number.

 

Clearly, self-funding is principal number one and the rest what is required is going to be incremental investment. But clearly, you know, we're still targeting a very profitable growth model also in the future. As we mentioned in July already, there are a lot of areas which so far have been untouched and we're looking at every single item in the company, no stone unturned. Clearly, there is a lot to do and a lot of potential here in terms of savings.

**Merkt Sven**

Great. Thank you for the details.

**Operator**

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

**Daure Laurent**

Thank you. Good evening, Jean-Pierre. Good evening, Takis. Also I have two questions on my side. The first one is on your cost in the third quarter down 1%. It's the second quarter in a row where even if you are now targeting lower sales for the year, you managed to keep your EBIT at the same level. Could you try to break down your cost evolution between the underlying cost growth efficiency programme and the variable components? So any granularity on this would be very helpful.

The second one is on the SaaS ACV. You briefly alluded to potential deals that were coming. It's true that in recent quarters your ACV in SaaS was below 10 million Dollars. Does it mean that your aspiration is to return to a few quarters with an ACV, let's say, back in the past, 15 or 20 million? Thank you so much.

**Spiliopoulos Takis**

Let me take the ACV question first. Let's get Q4 done. But clearly, from today's view, it should be a very strong quarter. Comparison based, relatively easy. So, yes, it's going to be a very healthy double-digit number. We don't want to look into the future, given the volatility we have seen in the past. But I think this is evidence that there are large deals happening on SaaS ACV as well. Given the lengthy sales cycle also for this one, it's difficult to time, but we have very good visibility on larger deals now.

On the cost evolution, the year-on-year cost evolution minus 1%, I think what you should still consider, and it's a good part of keeping costs flat and still be able to do investments, is our services costs which have come down quite a bit.

We delivered what we said, getting all those rev projects live over the last months and moving to a different implementation model, much less externals to be used. That clearly helped.

Now, on the costs, I think it's probably helpful to look at it on a LTM basis. We had the cost base growing 2% there and when you exclude services, which clearly was substantially down, sales and marketing costs were up 7%, overall product costs grew 4%. There is growth in those areas which we have been targeting. There is nothing holding back in terms of investment, as Jean-Pierre explained. But cost efficiencies kick in immediately.

Clearly, given also that there was not hitting our targets, there were a bit less variable accruals on commissions and bonuses. But overall, I mentioned the cost savings impact from the efficiency programme. You add services costs, you add the investment and you still arrive at this current cost base. And we haven't changed the cost base for the full year. From Q3 to Q4, we're going to see substantial investment, as we have seen a substantial cost growth. As we have seen in the past always, variable is going to be 20 million higher quarter-over-quarter. Investment, another 5 plus million. Clearly travel and so on. We're not holding back. It's definitely really the efficiencies providing room for manoeuvre.

**Brulard Jean-Pierre**

If I may add something, Laurent, that the second part of the efficiency is about to be fit. We need to keep our muscle intact and to eliminate fatness. Maybe to give you a concrete example. If I take the sales cost, we have only 20% of our cost, which is individual quota carriers. The 80% is overall in manager, I mean, helper, etc. It's not the question for us to reduce the overall cost, but to rebalance as well between quota carriers and helpers. If I take a parallel with a product organisation, to have in a way more developers, more architects and less helpers. At either perimeter, more or less.

It's basically the second part of the programme I think we touch base, the easier one, which is the stacking of layers. The second part is to have a fit organisation, in a way, to reinvest in the key contributors of the growth of the company, which is not rocket science in the software industry, which are developers and architects in one side, and sellers in the other side.

**Daure Laurent**

Jean Pierre, the point I was getting to, to be clear, is when you look at 2024 as a whole and the variable remuneration, I was just checking if there was no specific headwind for next year, if you were not holding back a bit bonuses and things like these to protect your earnings and that you have the negative impact next year.

**Brulard Jean-Pierre**

Well, we're not holding back anything in that respect in our cost projection, which is part of the guidance underlying. We have the normal bonus accruals for staff in there. No, from that perspective, we won't have any specific headwind from next year.

**Daure Laurent**

Thank you so much.

**Operator**

The next question is from Adam Wood with Morgan Stanley. Please go ahead.

**Wood Adam**

Hi, good evening. Thanks for taking the question. I've got two, please. Just coming back onto the ACV number. That's obviously been running weak. For, I think, five quarters it's been down. Is the suggestion here that this is just very significant lumpiness and these are bigger deals and they come in when they come in? Or is there something that's changed either in your go-to-market approach or in the market? I think in the past you've talked a little bit about the fintech exposure in that space that's maybe hurt you. Is that recovering? If you just give us a little bit more insight into what's been going on there and what's changed to drive that expectation of a much better fourth quarter, that would be helpful.

Then maybe just coming out bigger picture. The IBS league table obviously suggests that there's not a competition issue here, but the growth I imagine has not been where you would have liked it to have been over the last few years. Where would you say the biggest change is that you can make? Is it getting the message out to the target banks that core banking is the right way to transform the business? Is it expanding the available market, whether it's North America or Tier 1s or whatever? Is there one particular area that you think you can address that kind of issue of the disconnect between a product that seems to be leading in its field, but growth I imagine not where you would want it to be? Thank you.

**Brulard Jean-Pierre**

You take ACV.

**Spiliopoulos Takis**

Let me take the ACV question and then hand over to Jean-Pierre. Yes, fifth quarter in a row which we're not getting where we wanted to be. However, there were various impacts over the last, let's say, 12 or 18 months. One, as you correctly pointed out, the funding environment for fintechs, neo-banks, clearly it was quite difficult second half of last year. It continued this year. It's looking to stabilise. That's clearly helpful.

If I look at the deals signed and also the deal pipeline, it's improving from the fintech perspective. But I would call those business models more established and I think this is where we still get funding, if you have a sustainable business plan. Some of those deals now we're seeing coming in Q4 are all from fintechs.

I would still not say something fundamentally has changed. Clearly we understand a lot better the requirements from a client's perspective. DORA, especially in Europe, is better understood going live in January 2025. I think we have reached the trough level in terms of SaaS ACV. Larger deals, yes, there are larger deals in there. One of them, as I said, expected to sign shortly. But I would not take this one as a harbinger of something fundamentally changed. But clearly, I would say neutral to positive in terms of the fintech world.

**Brulard Jean-Pierre**

Let me add one thing then on that as well, that the level of confidence, both externally and internally, about our SaaS Foundation is increasing. As you may remember, we have announced SaaS Foundation in the last TCF as well. For instance, we have signed our first SaaS Foundation client in North America and this project took only six months from signature to go-live. In a way, we went to go-live early October, and within five days, they opened over 17'000 accounts and captured over 15 million in deposits in less than five days.

In a way, that makes me optimistic as well about the fact that we can really invest on SaaS Foundation. The market demand is there, as you know, mostly in the US and Western Europe, markets like the UK. The progress we have made in the architecture and the enterprise services on top of that made me confident. Once again, this example of the US customer which has go-live in six months is encouraging me. But not only me, the internal team as well and our partners to invest on SaaS Foundation and Enterprise Services.

We are optimistic for Q4, as Takis mentioned, but even more importantly, for the next year as well to continue to be bold on SaaS and to capture the market demand.

On the second part of your question about what we can do differently, in a way, it's really basic. It's the reason why we hired a new VP of sales operations that have done that for more than 20 years in the software industry, is to put in place the right basics about pipeline forecast, larger deal review, to engage our value engineers as well to deliver value to our customers, to engage partners to make sure that we have the right implementation services projects as well in place, and structurally speaking, to have better sales coverage, territory segmentation.

In a way, as I mentioned earlier, we have to 20-80 between quota carrier and the rest of the sales team. We need to increase significantly our quota carriers. When I say that, in the range of 30, 50% of sales capacity and, in a way, to reduce the rest of the helpers. If we are doing that right, we attract a couple of talent. We have launched a search in Middle East-Africa to replace our leaders. We have just appointed a new leader early July in America as well.

If we are doing only basic things, I'm not worried about the market demand, and our win rate is pretty spectacular. I will, in a way, highlight a couple of win rates in Capital Market Day for the publicly won deals of the last 18 months as well. We continue to have a very good competitive position as well, mostly on the best-of-street for corporate banking software. It's just a matter of sales execution for the short term. For the mid term, again, we are working on product and technology to have the right pool of investment to sustain our growth for the next few years.

**Wood Adam**

That's very helpful, thank you.

**Operator**

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

**Woller Knut**

Thank you. Two questions. First, on Europe, which seems to have been down quite noticeably in terms of total software licensing in the third quarter. Can you provide some colour here? What's happening and when you expect Europe to recover?

Then lastly, on press reports regarding a large project I think you announced with Julius Baer in 2015. Can you just provide an update here?

Is Julius Baer, the project here, harmonising all software components on the back of Temenos software in all regions? Has the press reports been wrong with that regards? Thank you.

**Spiliopoulos Takis**

Hi, Knut. Let me take those. First on Europe. Actually, the Europe performance was broadly in line as budgeted. I would not read too much into the quarterly volatility. Clearly, we have seen a good evolution from the past, expect a good performance also in Q4. Yes, true, Q3 and Q4 last year were good comparatives for Europe. It looks like maybe that we're losing anything there, but the performance in Europe is as expected. As you know, we have a new leader there since the start of the year who is executing on these things, which Jean-Pierre mentioned. Nothing new or special or abnormal in Europe.

On your second question, what was rumoured or was stated in a blog. What we can say, and this is always limited, but clearly Julius Baer remains a very important client of Temenos and using software, various software across various geographies. I think the negative part is definitely not true. On the positive angle, I cannot comment.

**Woller Knut**

Thank you very much.

**Brulard Jean-Pierre**

I was visiting Julius Baer three weeks ago, so I can fully confirm what Takis was telling you.

**Woller Knut**

Thank you, Jean-Pierre and Takis, for clarifying that.

**Operator**

The next question is from Justin Forsythe with UBS. Please go ahead.

**Forsythe Justin**

Thank you very much, Jean-Pierre and Takis. Appreciate the question here. I've got a couple, if you don't mind. I guess the first one relates to more near term, which is, I think we've heard for the last several quarters that there were missed deals in the last few weeks of the quarter that were then signed in the first few weeks of the next quarter.

 

But we continue to seem to guide down on TSL guidance and miss on TSL guidance related to it seems like more deals being pushed than are being signed in those first few weeks. Just trying to square those two comments and the moving pieces there and what's causing that dynamic to exist.

I wanted to also ask, secondarily, about how do we think about modelling the subscriptions and licenses line going forward? Because it seems like this is, and it has been driving the majority of the P&L volatility that we've seen over the last several years. Inherently, it's difficult to predict and we don't have really a KPI such as sales pipeline or conversion rates to go on. How would you suggest investors and sell side analysts think about modelling this going forward? Thanks.

**Spiliopoulos Takis**

Hi, Justin. I think on total software licensing, and appreciate your comments. You know, we have Jean-Pierre coming in, we specifically also did not mention any Hindenburg impact or anything, or lengthening of sales cycle. I think you need to differentiate between what happened in Q1, Q2 and clearly today what we announced. As Jean-Pierre mentioned, this is nothing about the market, nothing about competition. Really basically getting our act together and implementing best practices, which Jean-Pierre is doing, so that we don't get into this situation going forward.

We're being transparent. As you know, Middle East and Africa is an important region for us. It's a large region. It's to a large extent on-prem business, so very little in terms of SaaS revenues. Any deviation there, and this is why we acted very quickly, has an impact on total software licensing. We're trying everything to not have this come up again under the leadership of Jean-Pierre.

The modelling of subscription I think is a bit unfair because ultimately the accounting of subscription is the same as term licenses. As far as I can remember, there was always volatility even before subscription was introduced in 2022. I think we'll provide some guidance on the next few years and how we see subscription evolving.

But clearly, by the end of this year, you will have very little term license left contributing in our P&L. We don't sign. Whatever is left in the pipeline, there's still a bit of term, but new deals coming in, this is subscription. Clearly, subscription, and we'll provide market data on subscription, which is going to be a very important driver in the future, whether it's mid, high, whatever digit, we'll share. But I think the as long as the accounting is unchanged, this will remain like this.

Now, on the volatility, clearly there is still a business which is depending on the last few weeks of every quarter. Nothing has changed there.

If you have larger deals in there, which can move around on a 12 or longer sales cycle, I think this is unfortunately part of something which we try to mitigate as good as possible by building in enough cushion in our guidance. I think we can do and will do better.

**Brulard Jean-Pierre**

Maybe just to complete the answer, Justin. As you know, we have more or less today 75% of our business which is predictable through professional services, maintenance, and SaaS. We have still the remaining 25 and, in a way, in some geographies as well, there is more than 25 because they are mostly stuck on premise as well.

Specifically in Middle East-Africa, we are highly dependent on new logo, and as well, which is a process, is more difficult to control. As in many times, it's the first time that the sales team is facing the procurement process as well and the level of approval for different people.

I do think, structurally, the reason why I mentioned as well the new sales operation, we need to bring more pipeline. Because when you have a pipeline which is limited, you have a tendency to overpredict on a lower pipeline as well. This pipeline sometimes is lacking of sales cycle as well coming to the last moment.

In a way, the root causes are more about pipeline and dependency on larger deals on new logo. How we can avoid that is to have a better predictability for better pipeline, more sales on the streets and better control as well. And structurally, over the next few years, reduce our dependency to software licensing versus the rest. It's the reason why we are bold on SaaS. We don't have this issue in the US, to be honest, because in the US they are mostly SaaS today.

**Forsythe Justin**

Got it. Thank you, both. That's very helpful. Appreciate it.

**Operator**

Ladies and Gentlemen, that was the last question.

**Brulard Jean-Pierre**

Thank you all for joining us. Of course, we will, as I did last quarter as well, we'll make some one-to-few or one-to-one meetings in the next day. We will be happy to welcome you in Capital Market Day in London on November 12th for a more long term view about our business.

**- END -**