

Andreas Andreades (Executive Chairman), Max Chuard (CEO)
Temenos AG
2 Rue de l'école de chimie
1205 Genève

London, 6 October 2022

Dear Mr Andreades, cher Max,

Petrus Advisers have entered the shareholder register of Temenos with a stake of below 3%. We are convinced of the opportunity for Temenos to extend its strong market positions beyond Europe and the Middle East to also become a leading player in the United States. Furthermore, you have the opportunity to transition a substantial part of your business to a subscription-based model with materially improved economics for Temenos.

You have reflected this potential in your ambitious mid-term plan targeting a 2021-2025 total revenue CAGR of 10-15% and an increase of your EBIT margin from 37% to c. 41% while growing ARR¹ by 20-25% per year. This performance represents a significant upgrade from your 2019-2021 performance of 1% average like-for-like² annual revenue growth rate at an average EBIT margin³ of 35%.

The capital market – however – does not believe this story. Temenos' total shareholder return was -56% over the past three years⁴. This year alone, shareholder return has been -45% – significantly worse than US peers (FIS, Fiserv and Jack Henry). Despite your stock entering a dangerous free-fall, research analysts are still not convinced that bottom has been reached. Reputed analysts have your vision on Hold or Sell⁵. Your communication with capital markets seems out of touch. Numerous challenges are looming:

- **Subscription and SaaS Transition:** After embarking later than peers on this transition, you have signalled good progress. The impact on your revenues, EBIT and cash flow is, however, not very transparent. The capital market does not like the lower temporary revenue growth – despite the value creation over time.
- **US Growth:** Taking market share from FIS and Fiserv is a big prize. Success in the US will depend on winning over larger bank clients convincing them of Temenos' capabilities and commitment to North America. Progress in core banking systems is still modest – much more is needed.
- **People:** Employee retention and satisfaction are an industry-wide challenge. Churn rates of more than 30% at Temenos (e.g., avg. in the US in 2020/21) will make it harder to develop a successful Temenos culture. Employee dissatisfaction points to broader issues to be addressed.
- **Transparency of Credible Plan and Target Setting**
 - **Mid-term Plan:** Investors and analysts have been struggling to reconcile the plan communicated by you in February 2022. You must focus on explaining how the company will achieve your ambitious goals combining growth, higher margins, and higher cash flow; or you risk losing the capital market community further.
 - **2022 Guidance:** You have been relying on two significant contracts 'to be won' to achieve your 2022 guidance. This highly unusual approach to communicating success prior to contract signing has cost a lot of credibility.

We believe the share price performance reflects these challenges and your current unsatisfying responses to them. Since your Capital Markets Day in February, you have chosen not to pro-actively address the business' obvious challenges but have merely pointed to your plan and the two contracts to be won. According to numerous press rumours, you have – despite these challenges and a steadily declining share price – chosen to ignore interest by private equity investors in Temenos at prices substantially above the current share price.

¹ Annual Recurring Revenues.

² Adjusted prior year for acquisitions and movements in currencies.

³ Refers to non-IFRS EBIT.

⁴ Factset as of 5-Oct-2022.

⁵ Source: Factset as of 5-Oct-2022. Of 19 analysts covering Temenos, 7 have the stock on Hold and 5 on Sell.

Temenos has the market opportunity, but do you have the execution capabilities to master these challenges? We expect that you address the current conundrum immediately and that you present us with a convincing plan. We then demand credible communication to capital markets and a review of all options you have to execute on your strategy.

Sincerely,



Klaus Umek
Managing Partner



Till Hufnagel
Partner