



Temenos
Many challenges ahead

October 2022

Outline

- I. Executive summary
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- III. Challenge: Transition to subscription/SaaS
- IV. Challenge: Grow North America business
- V. Challenge: People
- VI. Challenge: Transparency of credible plan and target setting

I

Executive summary

- Temenos' opportunities to grow a strong market position in North America and to successfully manage the transition to a subscription-based model are very attractive
- Recent performance and what appears a highly ambitious mid-term plan have raised questions
- Temenos' total shareholder return (-56% over 3 years and -45% YTD) reflects a lack of buy-in by the capital market in the story and looming challenges:
 - **Subscription / SaaS Transition**: Should create value but has introduced a lack of transparency / noise to numbers
 - **North America Growth**: Progress penetrating the North American core banking market has been modest
 - **People**: Employee satisfaction and staff turnover have been concerningly poor
 - **Credible Plan and Target Setting**: The market has struggled to reconcile the ambitious 2022-25 mid-term targets. 2022 guidance achievement hinges on two sizeable contracts that have not been signed yet but which have been communicated to the market

Petrus Advisers expect that Management address the current conundrum immediately and present us with a convincing plan including a review of all options for the execution of Temenos' strategy



Current comfortable position vs. shareholder return

The industry has enjoyed high and growing profitability

EBIT margin (non-IFRS/GAAP)

3Y average EBIT margin (%)

35%

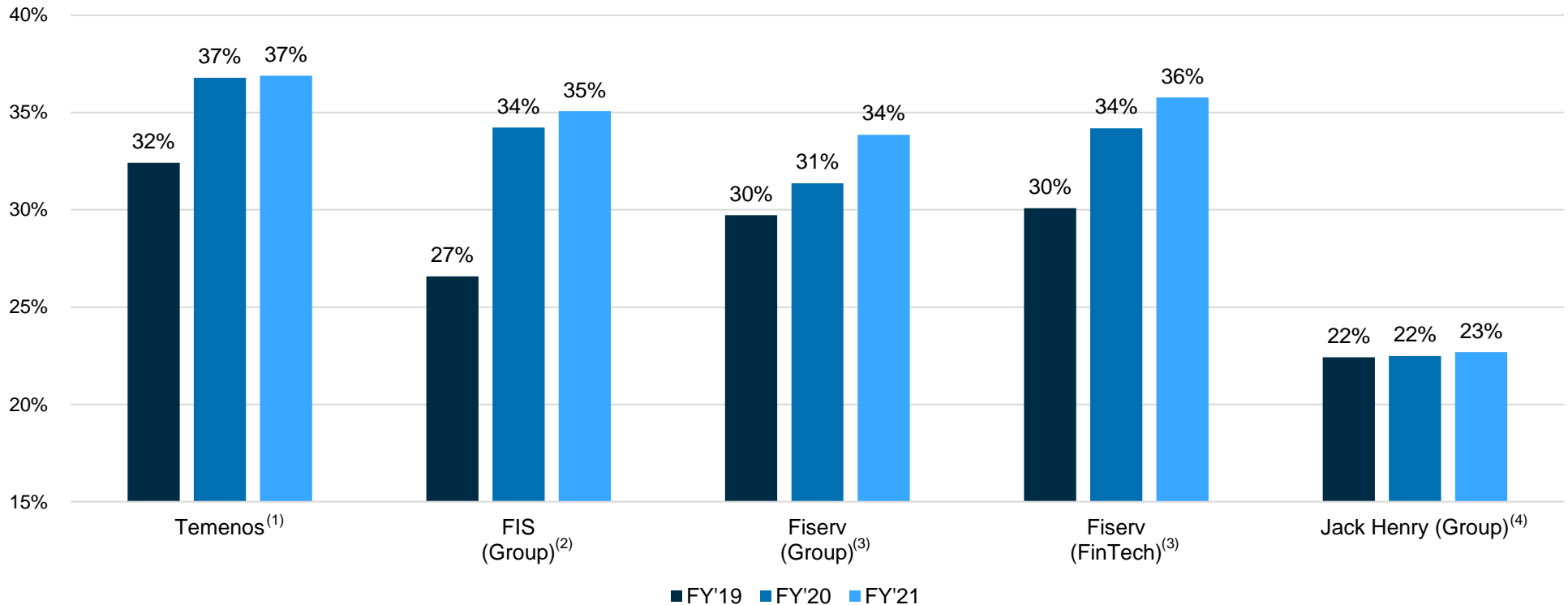
32%

32%

33%

23%

Annual Adj. EBIT margin (%)



Notes: (1) Adjustments include IFRS 2, deferred revenue write-down, amortisation of acquired intangibles, restructuring and acquisition-related costs. Margin marginally inflated due to IFRS 2 adjustment; (2) Adjustments include purchase accounting amortization, acquisition/integration costs and asset impairment; (3) Refers to adjusted operating income. Adjustments include merger and integration costs, severance costs, amortization of acquisition-related intangible assets, merchant services adjustment, gain on sale of businesses; (4) Jack Henry financial year ends on 30-Jun. Refers to non-GAAP operating profit margin.

Source: Company filings

Temenos' organic revenue growth has been low and lagging peers – all because of transition to subscription?

Like-for-like revenue growth⁽¹⁾

3Y average like-for-like annual revenue growth rate (%)

1%

5%

5%

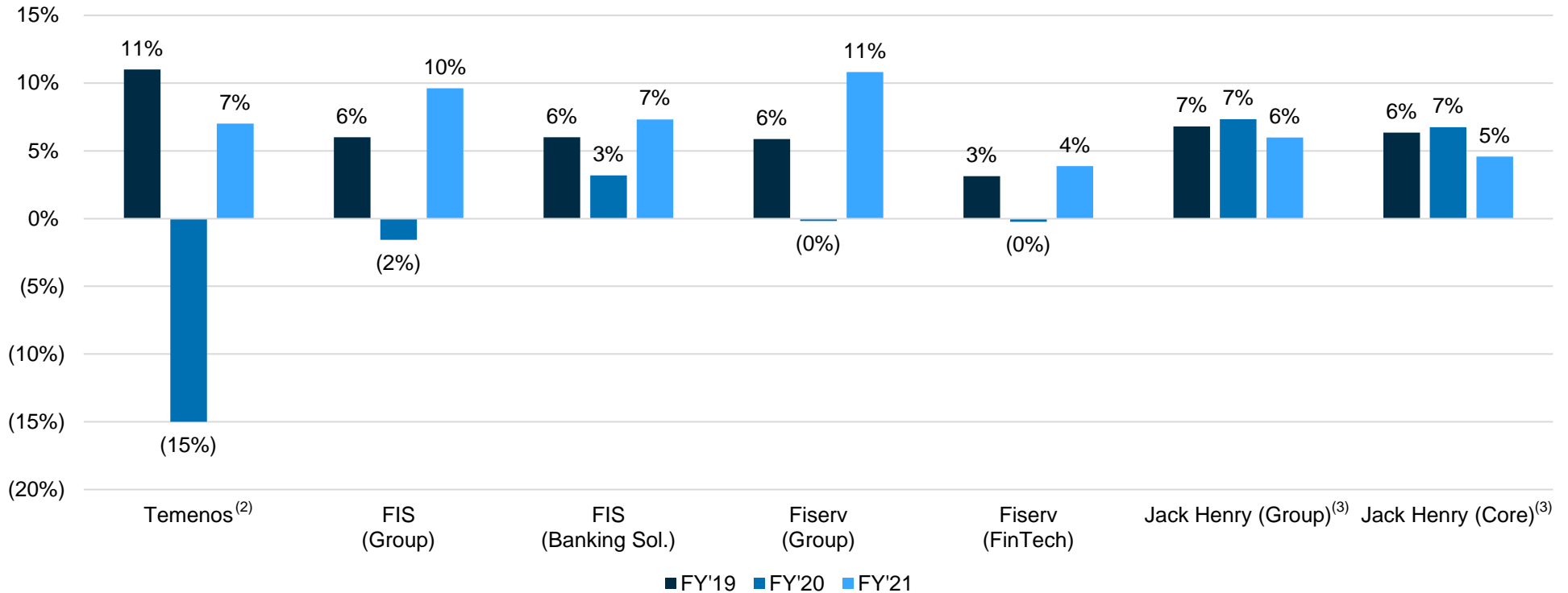
5%

2%

7%

6%

Like-for-like annual revenue growth (%)



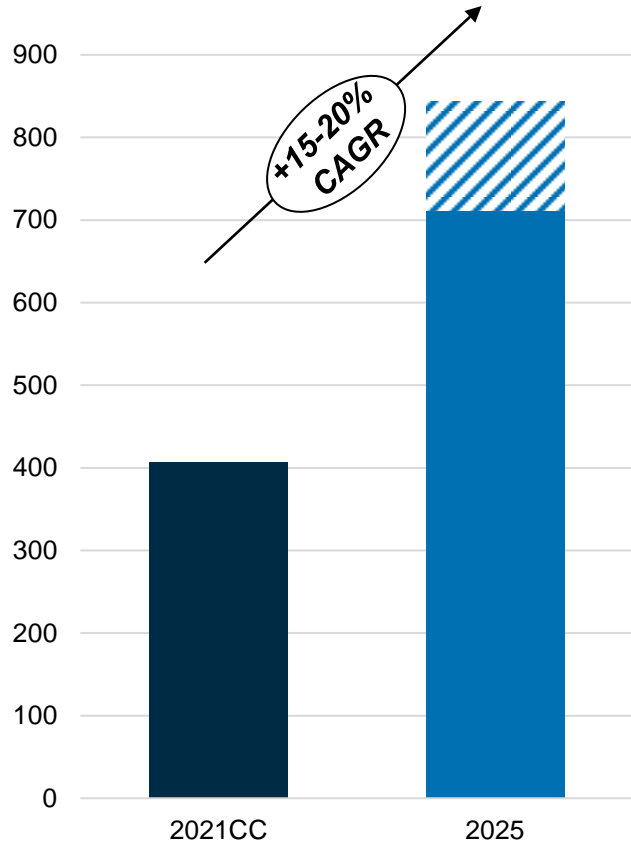
Notes: (1) Adjusted prior year for acquisitions/divestments and movements in currencies; (2) Refers to non-IFRS revenues; (3) Jack Henry financial year ends on 30-Jun.
Source: Company filings

The ambitious mid-term plan seems too good to be true

Management is targeting a combination of growth, further margin uplift and higher cash flow despite transitioning the business to subscription and taking market share in the US

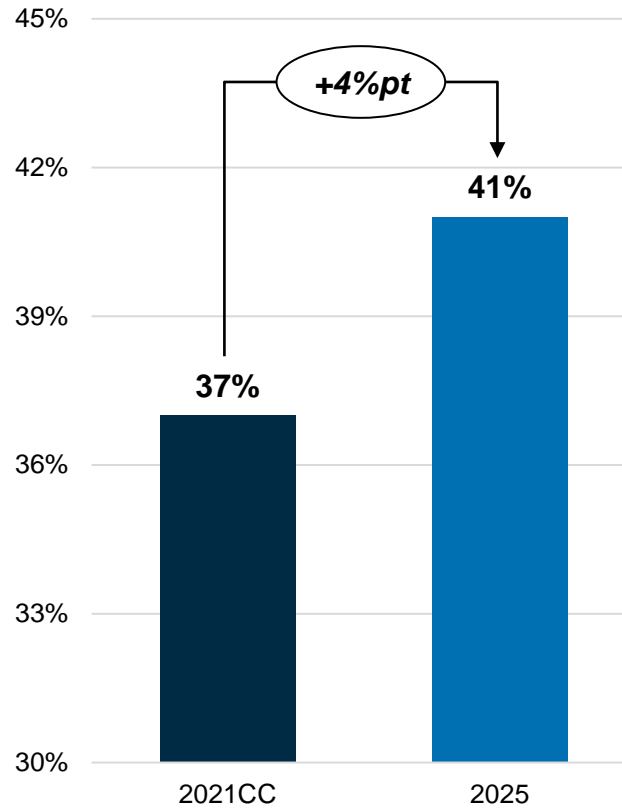
Software licensing growth

Total software licensing in USDm



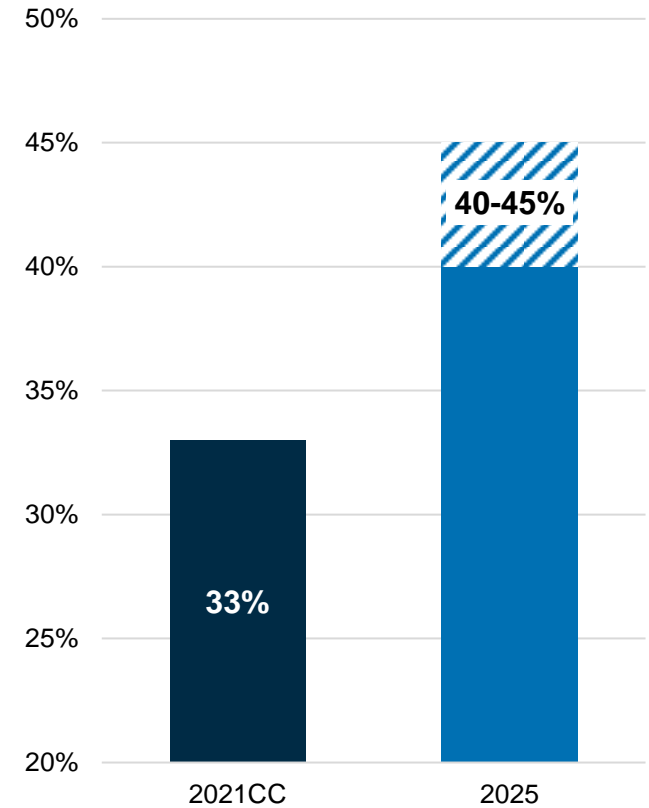
Margin expansion

EBIT Margin (%)



North America expansion

North America % of Group total software licensing

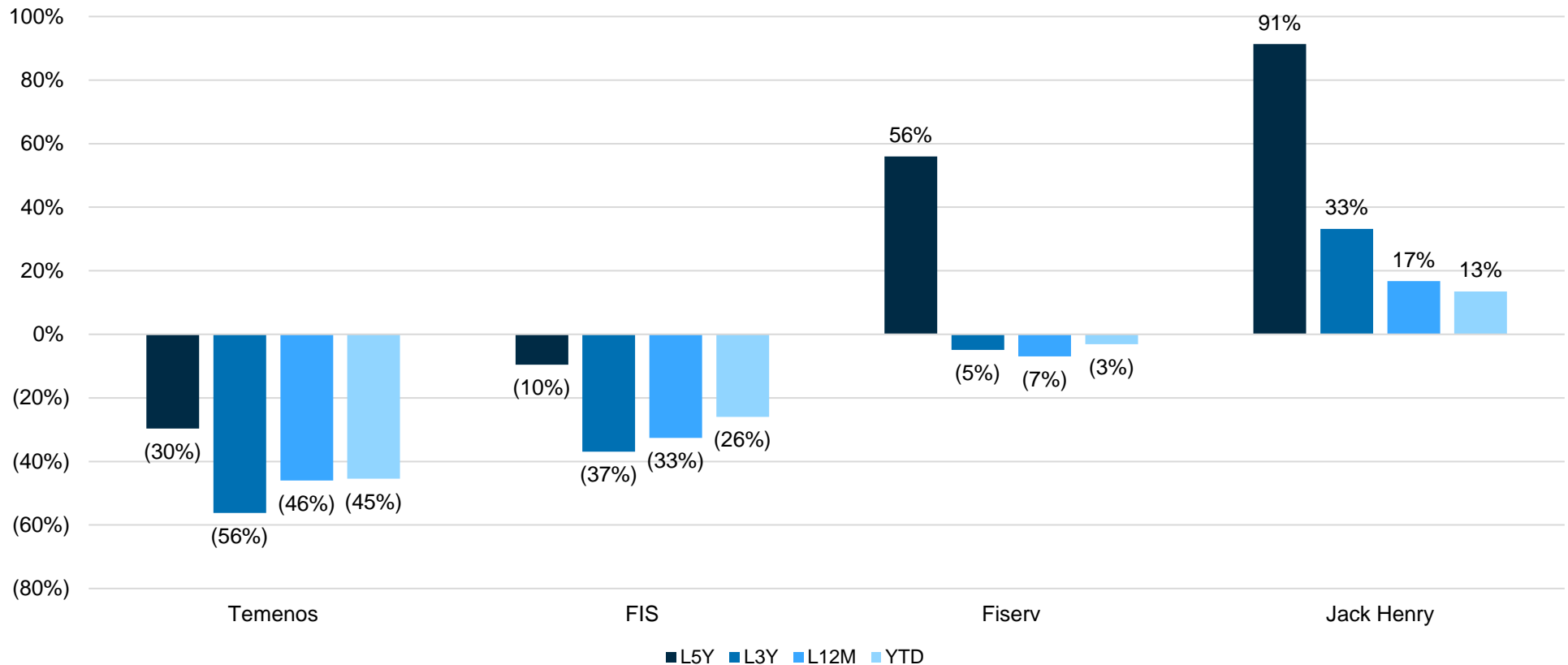


The capital market is not buying it though...

Temenos' share price has consistently underperformed all core US peers over the last 5 years

Total shareholder return over various time horizons

Total shareholder return⁽¹⁾



Notes: (1) Assumes dividend reinvestment.
Source: Factset as per 5-Oct-22

Analysts do not understand the story...

Capital markets communication has been confusing market participants with the majority of analysts not buying into guidance and questioning management's grip on the business

	Morgan Stanley	UBS	Barclays	Autonomous	Kepler
Date	21-Jul-22	3-Aug-22	22-Jul-22	5-Aug-22	22-Jul-22
Notes	<ul style="list-style-type: none"> ○ "FY guide maintained but we expect investors to see some risk to downside here given 2Q shortfall" ○ "We believe investors remain focused on sales / EBIT rather than ARR and so we would expect the weakness on these metrics to weigh on the shares. While the FY guidance was reiterated, we also think investors may be somewhat sceptical here and see risks to the downside rather than the upside" ○ "We expect investors may question Temenos' ability to execute on this ambition" 	<ul style="list-style-type: none"> ○ "Our concerns also extend to the group's 2025 ambition to deliver 10-15%pa total software growth and margin expansion while shifting a substantial part of the business to cloud. Sell." ○ "Temenos' mid-term targets are demanding and at times inconsistent" ○ "Temenos made some somewhat contradictory comments on cost progression in our view (Q2 call)" 	<ul style="list-style-type: none"> ○ "This would suggest adj. EBIT down in Q3 for the quarter and the first nine months, requiring >30% Q4 growth to hit the FY 9-11% guidance. This appears overly optimistic, in our view, even in a more positive macro environment" ○ "The near-term remains challenging, with the FY guidance looking increasingly out of reach" 	<ul style="list-style-type: none"> ○ "Also, Temenos' changing message on the topic – no cannibalization, yes cannibalization, no cannibalization – may signal that management lacks visibility" 	<ul style="list-style-type: none"> ○ "The stock is rather cheap, but management needs to understand that it should stop guiding and talking too aggressively every single quarter, as this has made them lose a lot of credibility" ○ "The issue is still the same, the stock is suffering from a lack of trust in management like in recent years, as after talking optimistically during the quarter and setting aggressive guidance, the group has failed to reach those quarterly expectations several times"
TP % Upside vs. Spot	<ul style="list-style-type: none"> ○ Underweight ○ TP: CHF 86 ○ Implied upside: +26% 	<ul style="list-style-type: none"> ○ Sell ○ TP: CHF 66.3 ○ Implied upside: (3%) 	<ul style="list-style-type: none"> ○ Equal weight ○ TP: CHF 63⁽¹⁾ ○ Implied upside: (7%) 	<ul style="list-style-type: none"> ○ Neutral ○ TP: CHF 86 ○ Implied upside: +26% 	<ul style="list-style-type: none"> ○ Buy ○ TP: CHF 101 ○ Implied upside: +48%

Notes: (1) Target price lowered from CHF 79 to CHF 63 on 6-Oct-22. Source: Broker research, Factset as per 5-Oct-22



Challenge: Transition to subscription/SaaS

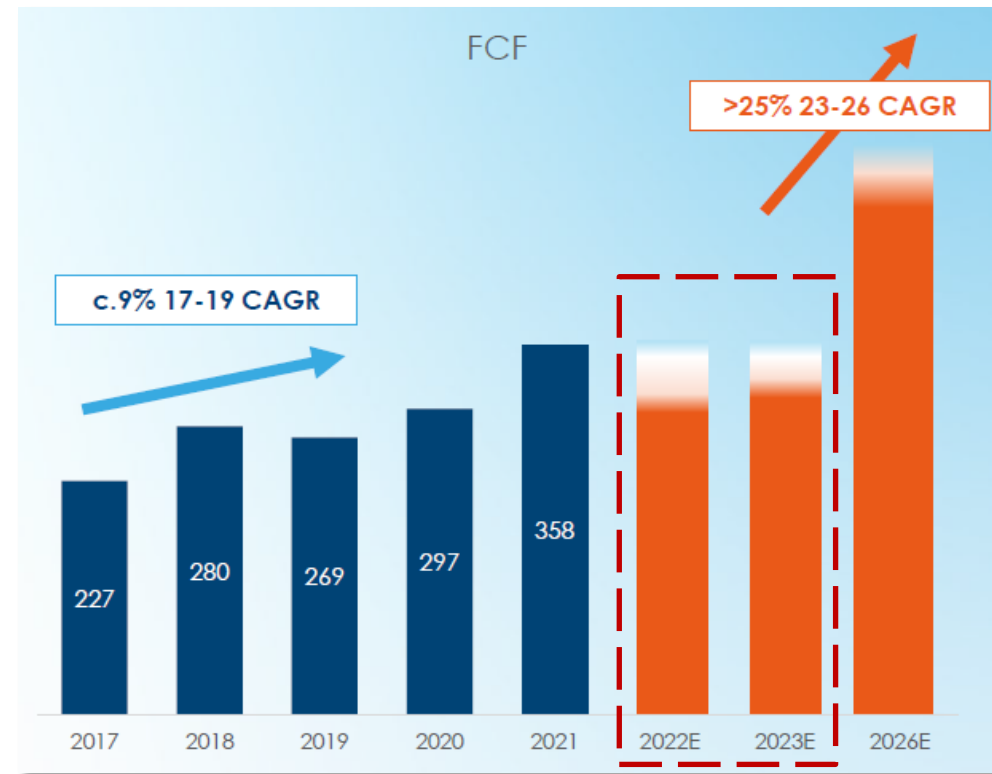
Transitioning from license to subscription creates significant intranparency and noise

Changes vs. previous revenue model

- **Noise in revenue recognition** driven by transition to subscription model
- **Changing guidance metrics:** new introduction of annual recurring revenue metrics and total bookings
- **Limited disclosure on value uplift** from transition to subscription model
- **Changing compensation metrics** that are partially not linked to guidance metrics

Limited transparency on free cash flow

Screenshot from 2022 Temenos Capital Markets Day



Communicating the SaaS growth to the market has been difficult

Management has been going back and forth on SaaS cannibalisation assessment leaving market participants guessing

Extracts from earnings calls and company presentations

- **FY'2019 earnings call:** *“So we said today, we don't see, I would say, we have maybe a **nonmaterial cannibalisation**. So it's really still... **we still believe it is incremental**.”*
- **Feb-2020 CMD:** *“This is really a step change [in demand for SaaS] and this is really something we believe will be more important going forward. And **the good thing about it it's incremental**, so far we're not seeing or a **very minimal impact in terms of cannibalisation**. So it's still on top of a strong [on-premise] license business model.”*
- **Q3'2020 earnings call:** *“And we do expect that this SaaS cannibalization on the license will continue in the following quarters.”*
- **Feb-2021 CMD:** *“**very limited cannibalisation**” and management has “**very good visibility into cannibalisation**”*

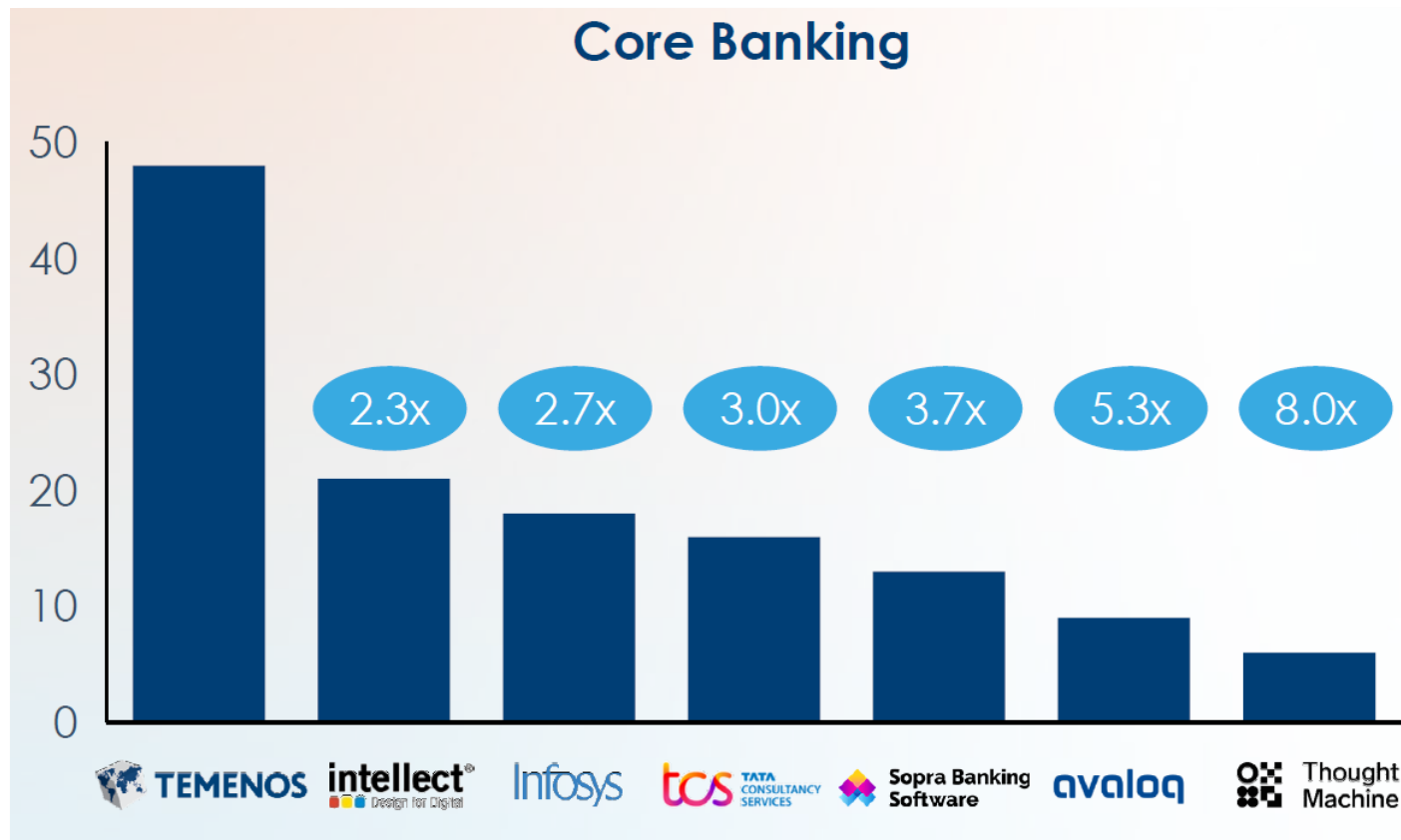
IV

Challenge: Grow North America business

Temenos boasts a very strong core banking position in EMEA... PETRUSADVISERS

2020 new named deals⁽¹⁾ EXCLUDING US, UK, India and Russia

Screenshot from 2022 Temenos Capital Markets Day



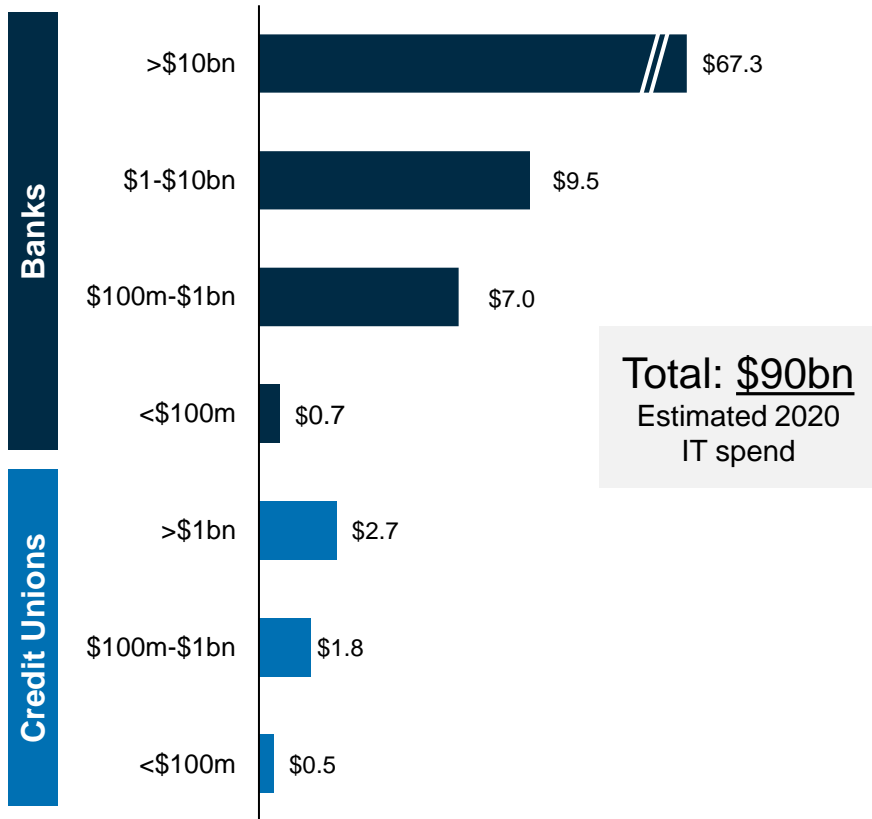
Notes: (1) IBS Sales League Table 2021: Global new named deals 2020.
Source: Capital markets day presentation

x Temenos deals multiple vs. competitor

...but the position in the large and attractive US market is nascent

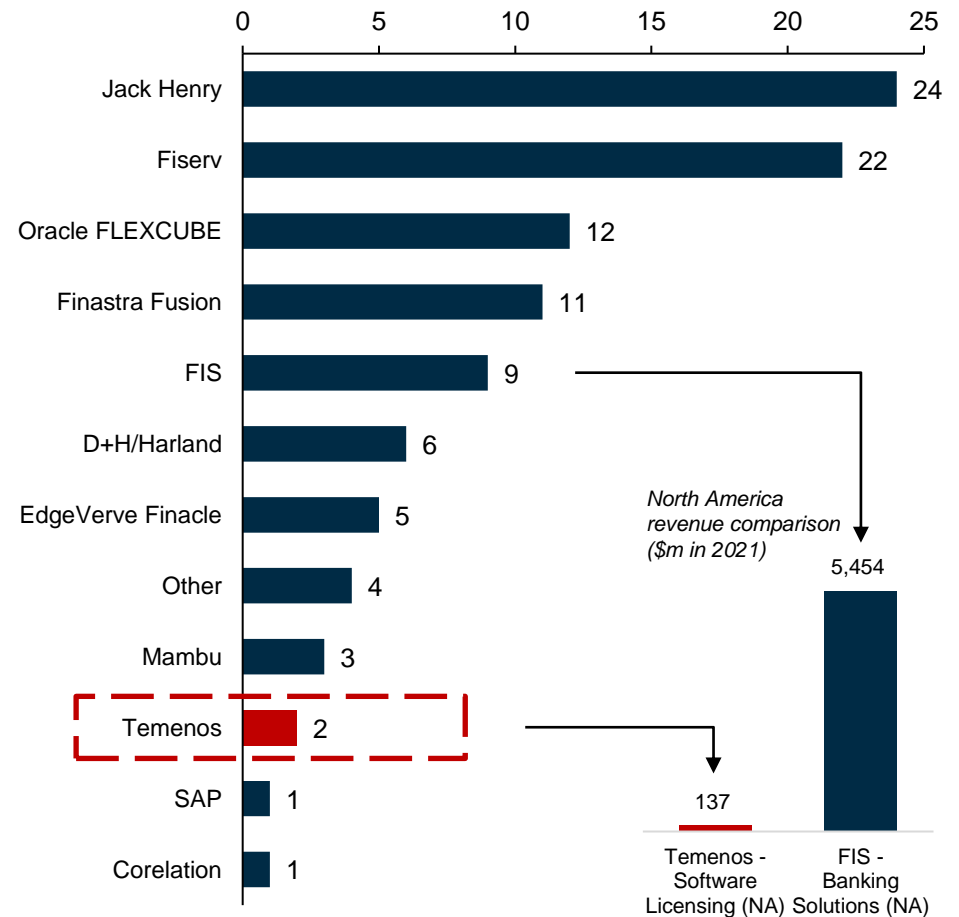
Size of the US market

Financial institution IT spend by asset tier (\$bn)



US core banking market share⁽¹⁾

US financial institutions surveyed on core banking provider used (%)



Notes: (1) Data from UBS evidence lab. 100 US financial institutions surveyed. Most of the respondents reported <\$100bn assets. Results published in FIS research report on 17-Nov-21.
Source: Capital markets day presentation, Fiserv investor presentation, UBS evidence lab

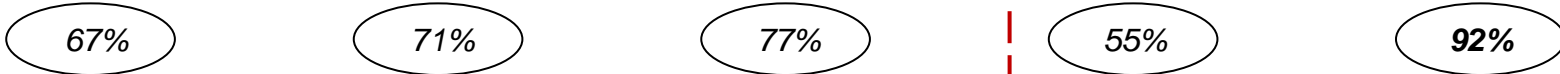
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Challenge: People

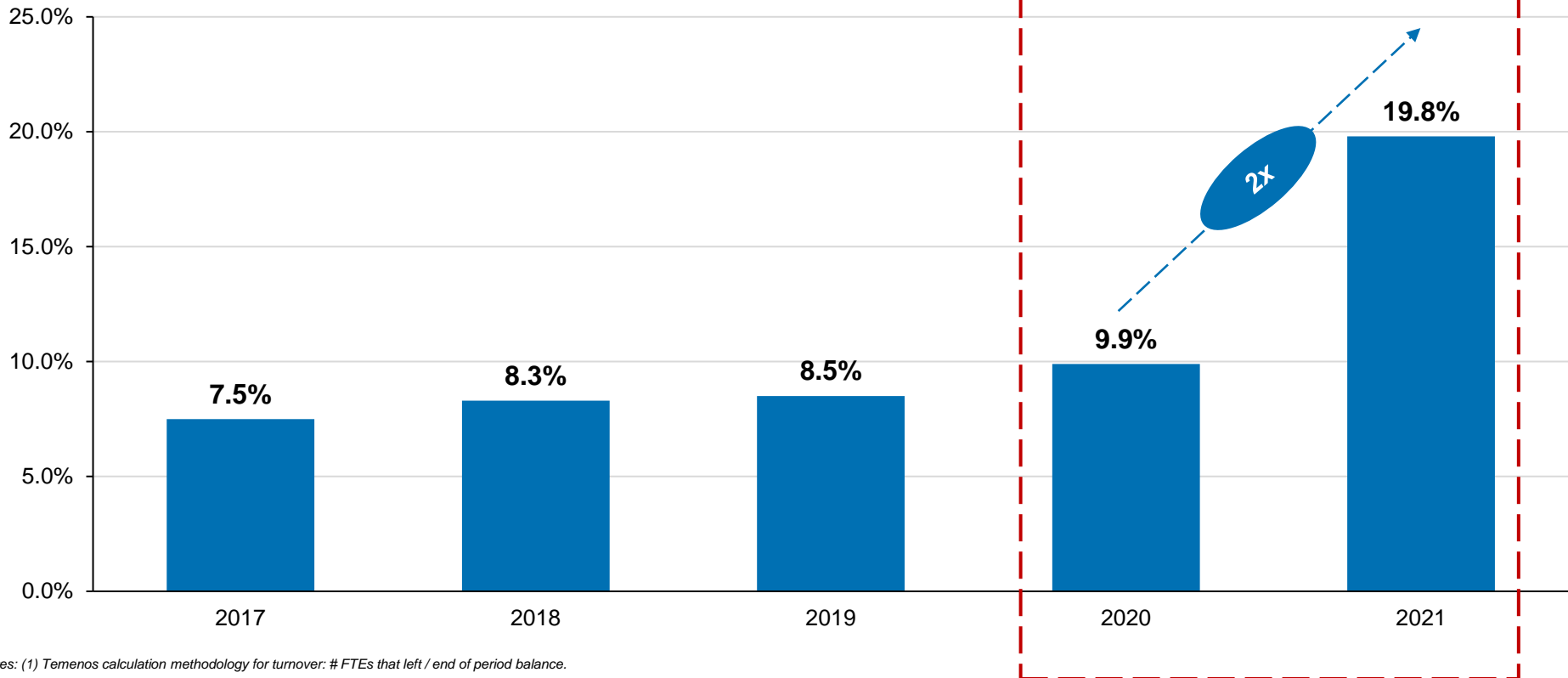
Temenos' staff churn has been high and recently picking up significantly...

Temenos staff turnover evolution

Voluntary turnover rate (as % of total turnover rate)



Voluntary turnover rate (as % of total workforce)⁽¹⁾

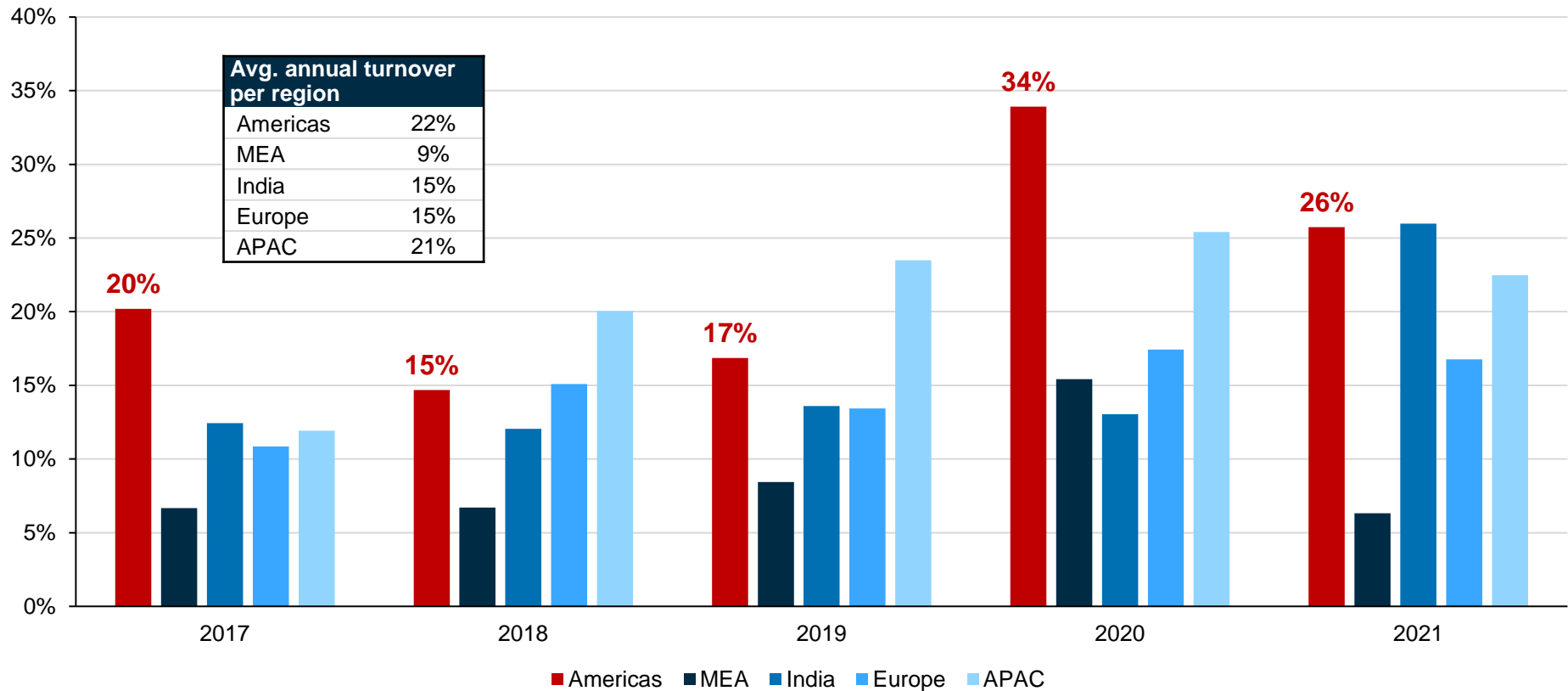


Notes: (1) Temenos calculation methodology for turnover: # FTEs that left / end of period balance.
Source: Company filings

...particularly in North America and increasingly India...

Temenos staff turnover evolution by geography

Staff turnover rate⁽¹⁾



Notes: (1) Temenos calculation methodology for turnover differs from ours as they calculate it as # FTEs that left / end of period balance. We calculate it as # FTEs that left / beginning of period balance.
Source: Company filings

...and Temenos' people seem not that happy

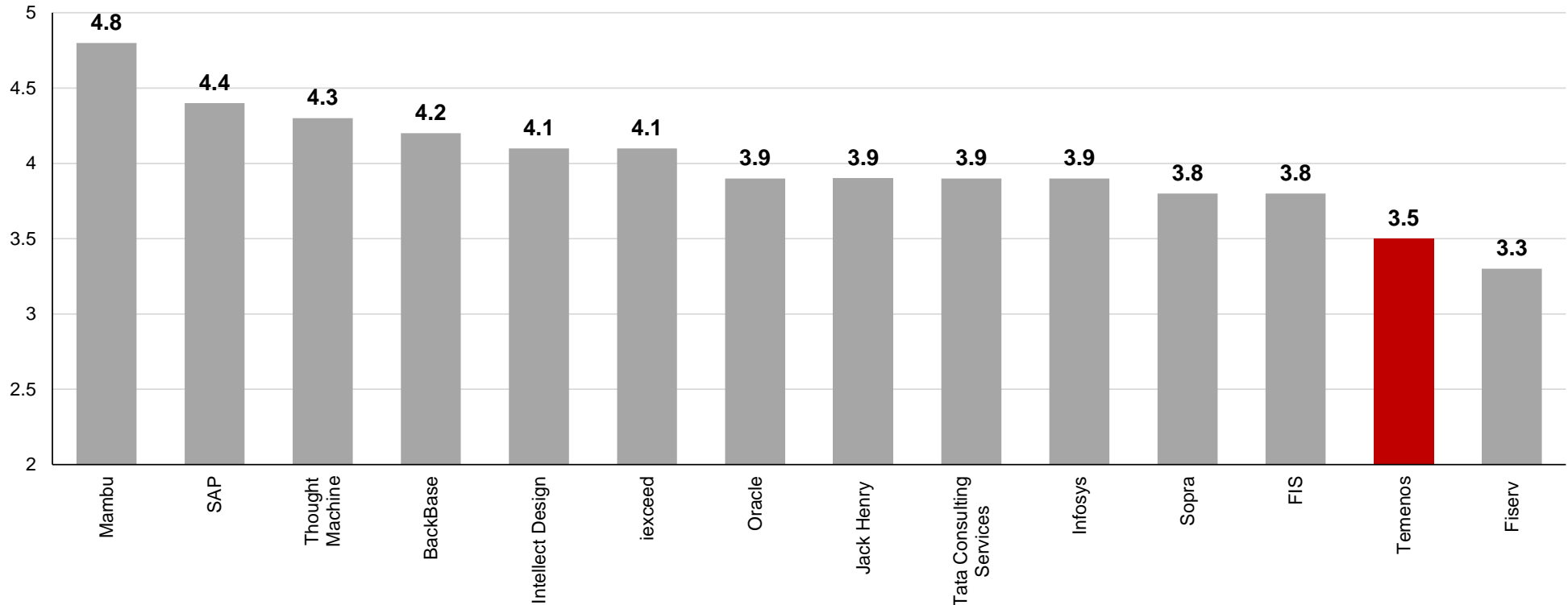
Temenos has the second lowest rating (employee reviews) versus its top competitors, falling short of Indian tech giants as well as US and European peers

Glassdoor overall rating

Number of reviews



Glassdoor overall rating



Notes: (1) Based on LinkedIn moves between Temenos and Mambu; (2) Based on LinkedIn moves between Temenos and Thought Machine.
Source: Glassdoor as per 6-Oct-22

VI

Challenge: Transparency of credible plan and target setting

Mid-term guidance is very ambitious compared to historical performance

	2019-2021 historicals ⁽¹⁾	2021-2025 guidance
Revenue growth	1% <i>(Avg. lfl growth rate)</i>	10-15% CAGR
EBIT margin ⁽²⁾	35% <i>(Avg. EBIT margin)</i>	41% <i>(by 2025)</i>
ARR	NA	20-25% CAGR
Total software licensing	NA	15-20% CAGR
FCF	NA	10-15% CAGR (by 2026)

Notes: (1) Many metrics are not available on like-for-like basis or have been introduced only recently; (2) Refers to non-IFRS EBIT.
Source: Capital markets day presentation, company filings

The metrics of Temenos' plans have changed and alignment with compensation is questionable – seems complicated

Annual guidance, 2025 targets and compensation KPIs all differ with many changes in recent years

Overview of guidance/targets metrics

	Reporting	Annual guidance	2025 Targets	Compensation ⁽¹⁾
SaaS ACV	✓			
Total Bookings	✓			✓ (60%)
ARR	✓	✓	✓	
Total Software Licensing	✓	✓	✓	
Total Revenue	✓	✓	✓	
EBIT	✓	✓	✓	
Operating Cash Conversion	✓	✓		
Free Cash Flow	✓		✓	✓ (20%)
Recurring Revenue	✓			
DSO	✓			
Tax Rate	✓			
EPS	✓			✓ (20%)

■ Added in the last two years

Notes: (1) Targets for the SAR schemes outstanding on 31 December 2021. Percentage represents Weighting of SARs KPI.
Source: Capital markets day presentation, company filings

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