

26th September 2019

## TEMENOS

| Technology  
| Software & IT services

## BUY

**Fair Value** CHF198 vs. CHF194 (+21%)  
**Share price** CHF163.15  
**EPS 3Y Cagr** 19.1%

### Raising our forecasts after the closing of the Kony acquisition

#### Temenos closed the Kony acquisition slightly ahead of schedule

Yesterday Temenos announced - at least a week ahead of schedule - the closing of the acquisition of Kony, a US digital banking software platform vendor, for an enterprise value of USD559m (plus an earn-out of USD21m based on targets to reach over the next 6-9 months). The deal was announced on 28th August, and has been Temenos' largest acquisition to date. As mentioned before, Kony is expected to post c. USD115m in revenues - of which 60% in recurring mode, primarily in SaaS - while we estimate non-IFRS operating margin at the mid-single digit level. Based on these assumptions, we estimate Temenos has paid Kony for 4.9-5x 2020 EV/sales, 8-8.5x 2020 EV/recurring revenues, and around 100x 2020 EV/EBIT multiples.

#### Kony provides Temenos with a true digital banking platform

As a reminder, the acquisition of Kony strengthens the Temenos Infinity digital front office solution which stemmed from the acquisition of Avoka one year ago. Temenos is now provided with a rich and modern API-based front-to-back digital banking platform, with: 1) a PaaS managing data models, integration, orchestration, business rules, identity, and alerts; 2) a low code "multi-experience" development platform for the creation of custom banking applications which can be deployed across multiple devices from one set of tools; 3) packaged apps covering retail banking, account opening, consumer lending, business banking, customer 360°, and engagement; 4) a full omnichannel view (including conversational and chatbots); 5) a true international solution. Kony boosts Temenos' presence in the US, with now 700+ staff over 7 locations with est. USD200m pro forma revenues in 2019 (c. 2x). Finally, we estimate SaaS and subscriptions will account for 10-12% of revenues (vs. 6-7%) in 2020-2021.

#### We raise our adj. EPS estimate by 4% for 2021

Management stated in August it anticipated Kony to be non-IFRS EPS neutral in 2020, then accretive in 2021, and to reach group margins over three years (end 2022). Assuming cost synergies of USD6m in 2020 and USD12m in 2021, we estimate dilution to the non-IFRS operating margin at 2.1ppt to an est. 31% for 2020 and 1.3ppt to an est. 32.9% for 2021. Cost synergies are expected to be largely driven by G&A optimisation, while revenue synergies are deemed to derive from cross-selling. Temenos estimates integration and restructuring costs at USD10-12m over 2019-2020, of which USD2-3m in 2019. All in all, we shave our adj. EPS estimate for 2019 by 1% for 2019, and raise it by 4% for 2021. Finally, we deem the Net debt/EBITDA ratio will reach 2.1x end 2019 (net gearing: 197%) and 1.2x end 2020 (net gearing: 93%).

#### We raise our Fair Value to CHF198 from CHF194

We reiterate our Buy rating and raise our DCF-derived Fair Value to CHF198 from CHF194, thanks to our adj. EPS estimate changes (+CHF9/share). Our new multidimensional beta of 0.90 (vs. 0.88, as we have lowered our financial strength rating to 2 from 3) has a negative impact of CHF5/share.

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#### Market Data

Bloomberg / Reuters	TEMN SW/TEMN.SW
Market Cap.	CHF11,844m
E.V.	CHF12,371m
Free Float	77.2%
Avg. Daily volume (6m)	240.9
12m high / low	CHF183.4 / CHF108.8
Ytd Perf.	38.4%

US\$M	12/18	12/19e	12/20e	12/21e
Sales	840.9	999.6	1,202	1,361
% Change		18.9%	20.2%	13.3%
EBITDA	358.7	423.9	487.5	573.2
% Change		18.2%	15.0%	17.6%
EBIT	303.2	350.5	407.5	488.2
% Change		15.6%	16.3%	19.8%
Net Income	234.7	279.4	331.3	396.9
% Change		19.0%	18.6%	19.8%
ROE	0.56	0.45	0.38	0.33

	12/18	12/19e	12/20e	12/21e
EV/Sales	14.9x	12.9x	10.4x	8.9x
EV/EBITDA	34.8x	30.3x	25.7x	21.2x
EV/EBIT	41.2x	36.7x	30.8x	24.8x
EPS	3.31	3.94	4.67	5.60
% change		19.0%	18.6%	19.8%
P/E	49.8x	41.8x	35.3x	29.5x
Div Yield	0.5%	0.5%	0.6%	0.6%

**Next Catalyst: Q3 2019 results on 16th October after markets close.**

**Last rating Change:**  
[2019-5-21, New ambitious sustainable long-term targets](#)

**Last FV Change:**  
[2019-5-21, New ambitious sustainable long-term targets](#)

**Last Reports:**  
[2019-7-18, Solid Q2 2019 results and no slowdown in sight](#)

## TEMENOS

### BUY

<b>Fair Value</b>	CHF194
<b>Share price</b>	CHF163.15
<b>Market Cap.</b>	CHF11,844m
<b>EPS 3Y CAGR</b>	19.1%

<b>Income Statement (USDm)</b>	2017	2018	2019e	2020e	2021e
Revenues	735	841	1 000	1,202	1,361
Change (%)	16.0%	14.3%	18.9%	20.2%	13.3%
lfl change (%)	12.0%	12.0%	12.0%	12.7%	12.6%
Adjusted EBITDA	305	359	424	487	573
Depreciation & amortisation	-50	-56	-73	-80	-85
Adjusted EBIT	255	303	351	407	488
EBIT	178	219	251	302	392
Change (%)	19.5%	22.7%	14.7%	20.4%	29.7%
Financial results	-17	-23	-17	-18	-15
Pre-Tax profits	161	195	234	284	377
Exceptionals	0	0	0	0	0
Tax	-23	-27	-36	-48	-68
Profits from associates	0	0	0	0	0
Minority interests	0	0	0	0	0
Net profit	138	168	198	236	309
Restated net profit	199	235	279	331	397
Change (%)	20.2%	17.8%	19.0%	18.6%	19.8%
<b>Cash Flow Statement (USDm)</b>					
Operating cash flows	288	323	353	411	482
Change in working capital	0	21	23	74	50
Capex, net	-61	-65	-72	-75	-77
Financial investments, net	-1	-17	-2	0	0
Acquisitions, net	-50	-242	-576	-21	0
Dividends	-40	-46	-52	-61	0
Other	26	354	-23	-29	-32
Net debt	272	527	875	576	152
Free Cash flow	227	280	304	411	455
<b>Balance Sheet (US\$m)</b>					
Tangible fixed assets	16	18	12	6	-1
Intangibles assets & goodwill	796	1,009	1,538	1,503	1,446
Investments	0	0	2	2	2
Deferred tax assets	22	18	18	18	18
Current assets	273	316	383	420	458
Cash & equivalents	168	287	287	587	1,010
Total assets	1,275	1,648	2,239	2,536	2,933
Shareholders' equity	380	299	444	619	928
Provisions	8	10	18	27	27
Deferred tax liabilities	15	38	38	38	38
L & ST Debt	440	814	1,163	1,163	1,163
Current liabilities	432	488	577	689	777
Total Liabilities	1,275	1,648	2,240	2,536	2,933
Capital employed	652	825	1,319	1,195	1,081
<b>Financial Ratios</b>					
Operating margin	34.7%	36.1%	35.1%	33.9%	35.9%
Tax rate	14.0%	13.9%	15.5%	17.0%	18.0%
Net margin	18.8%	20.0%	19.8%	19.6%	22.7%
ROE (after tax)	36.5%	56.3%	44.6%	38.1%	33.3%
ROCE (after tax)	35.4%	33.2%	23.7%	29.9%	38.7%
Gearing	72%	176%	197%	93%	16%
Pay out ratio	33.3%	31.6%	30.4%	28.5%	21.8%
Number of shares, diluted	70.9	70.9	70.9	70.9	70.9
<b>Data per Share (USD)</b>					
EPS	1.95	2.37	2.79	3.33	4.36
Restated EPS	2.81	3.31	3.94	4.67	5.60
% change	13.0%	17.8%	19.0%	18.6%	19.8%
EPS bef. GDW	2.81	3.31	3.94	4.67	5.60
BVPS	5.36	4.22	6.26	8.74	13.10
Operating cash flows	4.06	4.55	4.98	5.80	6.80
FCF	3.20	3.95	4.30	5.80	6.42
Net dividend	0.65	0.75	0.85	0.95	0.95

Source: Company Data; Bryan, Garnier & Co ests.

## Bryan Garnier stock rating system

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### Stock rating

<b>BUY</b>	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
<b>NEUTRAL</b>	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
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### Distribution of stock ratings

BUY ratings 49.4%

NEUTRAL ratings 42.9%

SELL ratings 7.6%

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