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EDITED TRANSCRIPT

OTEX.TO - Q1 2027 Open Text Corporation Earnings Call

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PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the OpenText Corporation first quarter fiscal 2027 financial results conference call. As a reminder, all participants are in listen-only mode, and the conference is being recorded. (Operator Instructions)

I would now like to turn the conference over to Greg Secord, Head of Investor Relations. Please go ahead.

Greg Secord - *Open Text Corporation - Vice President, Global Head of Investor Relations*

Thank you, operator, and good morning, everyone. Welcome to OpenText first quarter fiscal 2027 earnings call. With me on the call today, our OpenText Chief Executive Officer, Ayman Antoun; as well as Steve Rai, our Executive Vice President and Chief Financial Officer.

Today's call is being webcast and recorded, with a replay available shortly thereafter on the OpenText Investor Relations website. That's investors.opentext.com. Earlier today, we posted our press release and investor presentation online. Those materials will supplement our prepared remarks and can be found and accessed on our OpenText Investor Relations website. Please see the website from the presentation on the website for further details of our core and non-core revenues by product category. Now, turning to upcoming investor events.

OpenText will be participating in the BMO, Bank of Montreal, Tech Conference in New York on November 12, the RBC TMT Conference in New York on November 17, the TD Cowen Tech Conference in Toronto on November 24, and the UBS Global Technology and AI Conference in Scottsdale on December 2, as well as the Nasdaq Morgan Stanley Investor Conference in London on December 8. We look forward to meeting with you there. And now on to the reading of our Safe Harbor statement.

During this call, we will be making forward-looking statements relating to the future performance of OpenText. These statements are based on current expectations, assumptions, and other material factors that are subject to risks and uncertainties, and actual results could differ materially from the forward-looking statements made today.

Additional information about the material factors that could cause actual results to differ materially from such forward-looking statements, as well as risk factors that may impact future performance results of OpenText, are contained in OpenText's recent forms 10-K and 10-Q, as

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well as in our press release that was distributed earlier today, which of course can be found on our website. We undertake no obligation to update these forward-looking statements unless required to do so by law.

In addition, our conference call may include discussions of certain non-GAAP financial measures. Reconciliations of any non-GAAP financial measures to their most directly comparable GAAP measures may be found within our public filings and other materials, which are available on our website.

And with that, I'll turn the call over to Ayman.

Ayman Antoun - *Open Text Corporation - Chief Executive Officer, Director*

Good morning, everyone, and thank you for being here today. For Q1 fiscal year 2027, we continue to deliver year-over-year core solutions portfolio growth in constant currency. Q1 was a strong start to our foundation year across our geographies and markets, in line with the outlook we shared in August. Our CFO, Steve Rai, will take you through the numbers in more detail shortly.

Here are some highlights. Our core business grew 2.7% year-over-year in constant currency, Core Cloud revenue grew 11.7% year-over-year in constant currency, and our adjusted EBITDA margin was 35.1% in constant currency. Our momentum starts with our clients. In 180 countries, they trust OpenText with the data that runs their businesses and organizations. Our solutions give them trusted context and connected data for credible AI outcomes. That differentiated value is what drives our results.

In August, I shared that we launched our enterprise assessment to review every part of our business. Our enterprise assessment work is now moving into its next phase. We are molding its findings into our multi-year growth plan, which will have three clear components.

First, a strategic framework that sets out what we will focus on. Second, a financial model that sets out the value we will create and results we will deliver. And third, an execution plan that sets out how we will deliver with clear owners, milestones, and KPIs to measure our progress.

Last quarter, I committed to sharing our plan in early calendar year 2027. Members of our executive leadership team and I will share our multi-year growth plan with you at our OpenText Investor Day on February 10 in Toronto.

Today, I will walk you through three areas that demonstrate our progress to date. First, the actions we continue to take to build a strong foundation for our growth plan. Second, the client feedback we continue to receive on the go-to-market model we launched in July and our differentiated role in the AI stack. And finally, our real-world examples of the value we continue to deliver for our clients with our Aviator AI agents. Let's start with our continued progress as we build our multi-year growth plan.

As I mentioned, we launched an enterprise assessment across every part of our company. Our leadership team led this important work. The assessment identified the following five strategic themes that are shaping our multi-year growth plan. Each theme is already driving actions.

First, an integrated One OpenText go-to-market model that serves our clients the way they want to be served. Second, a focused and differentiated solutions portfolio where every part strengthens the whole. Third, an operating model built for speed, simplicity, and consistency. Fourth theme, a brand promise that says clearly the value we bring to clients and our right to win. And fifth, underpinning it all, a world-class culture of disciplined execution and accountability.

To operationalize these themes and drive measurable outcomes, I'm building on the leadership already in place and added some new enterprise-wide roles. As I shared in August, our integrated go-to-market model brings the full strength of our solutions portfolio to every client through one relationship. Our go-to-market leaders continue to own their markets end-to-end, are accountable for client success, and are empowered to act locally with clear decision rights.

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For a focused and differentiated solutions portfolio, we now have one development organization to drive AI-infused innovation and an optimized solutions portfolio for our clients. We continuously assess our Core portfolio down to the subcategory level, so every part is optimized for growth. Steve will share more about our solutions portfolio work and progress next.

For speed and simplicity, we now have in place a cloud acceleration leader to help clients move to the cloud of their choice with ease and efficiency. For our brand promise, an integrated marketing organization that communicates our value with clarity and consistency, bringing together product messaging, field enablement, and digital presence to drive opportunity pipeline.

And for disciplined execution and accountability, an enterprise transformation leader to ensure our actions are operationalized with consistent KPIs, owners, and detailed execution plans for our multi-year growth plan, which we will share with you in February. Our first theme, go-to-market, is where our clients feel the positive change already. Now, let's turn to what we are hearing from our clients about their experience with our One OpenText go-to-market approach.

As I shared with you before, clients asked for a more integrated OpenText. We acted on that with a go-to-market model that puts the client at the center of everything we do, with one client executive as their main point of contact.

Delivering on the commitment I made last quarter, all 300 client executive roles are now filled across our geos and markets. Our model is fully in place, and every strategic account has one accountable point of contact, armed with new cross-sell bundles that they can bring our full solutions portfolio to every client, making us easier to do business with. Two examples of many stand out.

Take a leading energy client in Asia Pacific with a longstanding OpenText relationship. As their environment aged, their client executive brought together our Content Cloud and professional services teams, growing that relationship into an expanded multi-year cloud and managed services engagement. For the client, that meant stronger governance and compliance and the freedom to innovate in the cloud of their choice. For us, this is growth delivered by disciplined execution.

A European bank told me recently that their local OpenText team brought them the right combination of solutions across our portfolio to meet their needs. Our team listened, coordinated the right technical, commercial, and professional services expertise, and made every decision locally within clear guardrails. The bank had an answer it could act on right away. That is what an empowered team looks like.

The early success of our go-to-market model extends to our ecosystem partners, who bring more reach and value to every client. Our partnership with Cohere, announced in July, pairs their AI orchestration and enterprise-grade language models with our trusted context and connected data layer to power the agentic enterprise. Now, let's look at how OpenText Aviator AI agents bring that to life.

With a foundation of trusted context and connected data, our clients are moving from AI pilots to enterprise AI at scale. Aviator AI agents put that foundation to work, turning it into action and measurable outcomes. Our OpenText Aviator AI agents continue to drive growth in Content Cloud. We continue to see that deals that include Aviator AI agents, on average, are four times larger.

We have more than 150 Aviator AI agents infused across our solutions portfolio, and with Aviator Studio, clients and partners can build their own agents. The real value is in our client stories. Let me share a few.

A major American retailer runs its supply chain on OpenText Business Network with Aviator. Teams ask the Aviator agent logistics questions in plain language. Aviator flags trading partners that have gone quiet or are slipping. Teams act early, problems get fixed faster, partner relationships get stronger, and goods keep moving.

A leading health system recently moved to OpenText Service Management from a competitor system. With our professional services team, they are now deploying Aviator AI agents across their operational data. Aviator agents help prevent IT issues before they start. They answer staff questions inside Microsoft Teams and give IT leaders a live view of operations. Time saved here means clinicians spend less time on IT and more time with patients.

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Take an energy provider in Europe. Its contract managers oversee more than 50,000 long and complex agreements. With Content Aviator, they ask questions in plain language and get clear answers in seconds. No more reading page by page, dense contracts become decisions they can act on, and the entire contract estate becomes a searchable knowledge base.

Different clients, different industries, one common thread. Across our core portfolio, trusted context and connected data power credible AI outcomes. That is our role, and we deliver it with our client success at the heart of it.

Now to close, I have never been more confident in the path ahead. I look forward to sharing our multi-year growth plan at our Investor Day in Toronto on February 10. More details on the Investor Day will follow shortly.

I will now hand it over to our CFO, Steve Rai, who will take you through our Q1 FY 2027 results. Thank you.

Steve Rai - *Open Text Corporation - Chief Financial Officer, Executive Vice President*

Thank you, Ayman. Good morning, everyone, and thank you for joining us today. In the quarter, we delivered on our expectations and remain on track to achieve our full year fiscal 2027 outlook.

As planned, we expect to increase our growth investments over the course of the year, with a greater weighting in the second half. We expect these investments to support stronger revenue growth in our core product categories as we work to meet or exceed our target of 2% to 3% year-over-year growth in constant currency.

Our confidence is based on the strength of our core business, our cloud and AI offerings, and our operating model, supported by a large and loyal enterprise client base. This gives us the ability to invest deliberately while maintaining our focus on generating profitable and sustainable organic growth over the long term.

In early October, we successfully raised $1 billion in a volatile bond market to redeem and cancel our 2027 bond maturity. We also paid down another $300 million in debt through a tender offer and extended the maturity of our undrawn $750 million revolving credit facility.

As Ayman noted, the enterprise assessment is moving into its next phase. We are now molding the recommendations into a multi-year growth plan. We look forward to sharing that plan at our Investor Day on February 10, 2027. Now turning to our first-quarter results.

Our performance this quarter reflects the consistency and discipline of the business. We delivered total revenues of $1.237 billion and within our expected Q1 outlook range. Q1 adjusted EBITDA margin was 35.8%, exceeded our expectations.

Core revenue was $864 million, up 2.4% year over year and up 2.7% in constant currency. Our Core Cloud revenue was $339 million, up 11.2% year-over-year and up 11.7% in constant currency. This is a solid start to our fiscal year and on track with our fiscal 2027 growth targets.

Our Content Cloud continues to lead the way with 20.7% year-over-year growth in Q1, and this is the fifth consecutive quarter that Content Cloud achieved approximately 20% year-over-year growth. We also saw positive cloud growth for all four Core product categories, including cybersecurity enterprise. Q1 total cloud revenue was $505 million, up 4.3% on both a reported and constant currency basis.

This was our 23rd consecutive quarter of organic cloud growth. We closed 35 cloud deals greater than $1 million during the quarter, an increase of 6% year-over-year. Growth was led by our Core business, primarily in content, and many of these cloud deals included Aviator.

When Aviator is included, our deal size for Content Cloud is, on average, four times larger. We believe industry standard measures of cloud RPO and cloud CRPO are the most useful indicators of future revenue and demand. In the first quarter, total RPO was up 7% year-over-year, and total CRPO was up 3%. Cloud CRPO was up 12%, while client support and other CRPO was down 5% as expected. Total long-term RPO was up 13%.

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As part of the enterprise assessment and in keeping with sharpening focus on our Core solutions portfolio, we reclassified certain products representing Q1 revenue of $116 million from Core to non-Core. Importantly, Core revenue grew organically with or without the reclassifications, led by Content Cloud. Please see our IR presentation for further details. As mentioned on previous calls, we may determine additional reclassifications between Core and non-Core per Ayman's comments on the enterprise assessment.

Looking at the rest of the revenue mix, as expected, client support revenue was down 9% on a reported basis. This was primarily driven by non-Core product categories. License was down 8%, and professional services and other revenue was down 11%. However, looking at our Core business only, license revenue was up approximately 8% in the quarter.

As a reminder, the year-over-year comparisons include the revenue in fiscal 2026 from our divested eDOCS and Vertica businesses. Our 10-Q MD&A provides a full reconciliation of the year-over-year performance adjusted for divestitures.

Turning to renewal rates, our cloud net renewal rate was 95%, and our client support net renewal rate was 92%, both stable and consistent with historical annual levels.

On profitability, our GAAP gross margin was 73.2%, up 40 basis points year-over-year. Adjusted EBITDA margin was 35.8%, down 50 basis points year-over-year, and above our outlook range of 32% to 33%. This was mainly due to stronger gross margins, timing of expenses related to investment supporting growth, and prudent expense management as we assess opportunities associated with the enterprise assessment.

GAAP diluted earnings per share was $0.64, up 10.3%. Non-GAAP diluted earnings per share was $1.05, and consistent on a year-over-year basis.

Operating cash flow was $172 million, up 16.6% year-over-year. Free cash flow was $139 million, up 36.8%. Cash flow in the quarter benefited from a variety of factors, including cost containment, lower interest payments, and timing of capital expenditures, and we remain on track to achieve our fiscal 2027 free cash flow outlook. Turning to our outlook for the second quarter of fiscal '27.

We expect total revenues between $1.26 billion and $1.29 billion. We expect adjusted EBITDA margin between 33% and 34%. As mentioned earlier, our investment plans are weighted to the second half of the fiscal year, as is our organic growth trajectory. Accordingly, we expect adjusted EBITDA margin in the second half of fiscal '27 to be lower than the first half as we wrap up our growth investments.

In addition, we will see typical seasonality starting in January, our fiscal Q3, including employee benefit and salary resets and vacation accruals. We are managing growth investments within our financial framework and remain focused on delivering the full-year adjusted EBITDA outlook we provided.

We maintain our full-year fiscal '27 outlook ranges on all metrics. The category changes between core and non-core revenues did not have a significant impact on these annual ranges. As we build our multi-year growth plan following the enterprise assessment, additional changes to help the growth trajectory for our core business may be determined. Let me now turn to the balance sheet.

Capital allocation discipline remains a clear priority. We reduced debt by $649 million in fiscal '26. Then, shortly after close of Q1, we successfully closed a series of transactions in early October. We issued $1 billion in new secured bonds and used the proceeds to retire our existing 2027 bonds, and retired $300 million of our 2028 bonds via tender offer.

We also extended the maturity of our undrawn $750 million revolving credit facility as part of our strategy to maintain a strong liquidity position and improve financial flexibility. All three transactions were well received despite ongoing volatility in the financial markets. As a result, our gross debt is lower by $949 million from a year ago.

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Leverage, measured as net debt to adjusted EBITDA, was 2.55 at quarter end, well within our internal target range. Note that we will now report leverage using net debt and adjusted EBITDA from our reported financials for easier comparison and more in line with industry practice.

Our balance sheet has strengthened, and our capital allocation priorities remain consistent. We continue to prioritize debt reduction and organic growth investments while maintaining our strong track record for capital returns. We continue to balance these priorities carefully, which the Board reviews every quarter.

We will direct investment to areas where we see the strongest opportunities, with Aviator AI agents infused across our core solutions portfolio. Our objective is to support growth, maintain a strong financial position, and create long-term value for shareholders.

Turning to divestitures, the process remains active, and we continue to receive interest in our non-core businesses. We review opportunities against our return requirements and strategic objectives and remain disciplined. In the meantime, our non-core businesses contribute meaningfully to overall margin and cash flow as we apply the same operating and financial discipline across the company.

To close, Q1 came in as expected and was a solid start to our fiscal year, with Core Content Cloud revenue growth leading the way. With less debt and improved financial flexibility, we are in a solid financial and operating position and remain focused on consistent execution through the rest of the fiscal year.

Our role in the AI stack is clear. We give clients trusted context and connected data for credible AI outcomes. Our solutions provide clients the foundation they need to move from early AI pilots to broader enterprise AI deployment. That, together with our substantial and highly recurring revenue installed base, cloud and AI capabilities, integrated go-to-market strategy, and operating discipline provides a strong foundation for the future.

I have confidence in the path ahead. In early February, we will be sharing the output of our enterprise assessment with our multi-year growth plan consisting of three components: the strategic framework, financial model, and execution plan. We look forward to updating you in February. That concludes our prepared remarks.

Operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Thanos Moschopoulos, BMO Capital Markets.

Thanos Moschopoulos - *BMO Capital Markets - Equity Analyst*

Good morning. With respect to the reclassification from core to non-core, could you provide just a bit more color in terms of the nature of those products and why they were deemed non-core? Thank you.

Ayman Antoun - *Open Text Corporation - Chief Executive Officer, Director*

Hey, Thanos. Thank you. Important question. I would put it in a couple of categories. Think of it as products that are legacy products, primarily on-prem, and in the life cycle of those products, it is in what we would call maintenance and support mode. So areas where we would be limiting the investment but continue to support our clients.

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And there are also products that you would think of through the acquisition path that we've had for the last number of years, are duplicate products. So as we move them because we don't feel that they're warranting the investment, because we do have alternatives where we're investing, I would give you two examples, if you will.

One example is a product portfolio called Security Analytics. Think of it as putting a dashboard with all the security messaging that a client environment would get relative to their security posture. It's a commodity at best. We have alternatives already in our core portfolio.

Another example would be a product that does asset configuration and automation. Think of it as something that a client would use to inventory their system estates before they do an upgrade to make sure that they have all the right capacities.

Again, duplicated in other capabilities that we have, long in the tooth, so to speak, from a life cycle point of view, and would not warrant the investment to give us the return that we'd expect. Hopefully, that answers your question.

Thanos Moschopoulos - *BMO Capital Markets - Equity Analyst*

It does. Thank you. Just one more. With respect to go-to-market, I mean, you've talked about taking a more partner-friendly approach. Can you update us in terms of any initiatives in that regard, and what you've implemented to date? Thank you.

Ayman Antoun - *Open Text Corporation - Chief Executive Officer, Director*

Yes. And I would start you with, a couple weeks back, we finished our annual client conference, where we had over 750 of our clients across the globe and 400-plus of our partners that were reactivating join us across the four categories of hyperscalers, global system integrators, ISVs, and regional system integrators. And I would say that the energy and the feedback that we've received relative to the enablement we put in place for our partners, the financial models, and the well-articulated, at a market level, go-to-market joint selling, if you will, building account plans together.

And the way I would wrap that up is, you remember me saying in other calls earlier that we have three geographies with 15 markets. That's kind of the footprint, how we go to serve our clients. We now have a partner map for every single one of the markets across those four pillars of those partners that we're partnering with, and the sales motion in detail of who does what to whom by when, so that it is an increase to our sales capacity. The partners become an extension of our own sales force.

Great energy. It's a journey. I use the word reactivating the ecosystem. We now have to be consistent and disciplined in continuing to provide them the value proposition, the financial model that would be attractive for them, and the enablement to make them a true extension of our sales force.

Thanos Moschopoulos - *BMO Capital Markets - Equity Analyst*

That is great. Thank you. I will pass the lines.

Ayman Antoun - *Open Text Corporation - Chief Executive Officer, Director*

Thank you.

Operator

Raimo Lenschow, Barclays.

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Raimo Lenschow - *Barclays Services Corp - Analyst*

Thank you. Congrats from me as well. Ayman, I really like the progress on the Content Cloud. If you think about there seems to be a very big market opportunity to reinvigorate the base, because there is so much that needs to be done and can be done around AI. If you think about the progress you have done so far and how many clients you have dealt with, what you kind of achieved there on kind of making them aware around your AI offering, et cetera, where are we on that journey in terms of early success versus kind of actually making that a motion that goes for the whole organization?

Ayman Antoun - *Open Text Corporation - Chief Executive Officer, Director*

Yeah, another really important question. And I would just step you back for a minute. One of the things that you would have heard me say before, and I want to reiterate, we are going to be and continue to be very disciplined in the way we allocate our R&D investments, our sales investments, our partner investments, and our marketing investments relative to the core set of product capabilities.

And inside of core, I will just use content as an example, but it applies to OpenText Business Network, ITOM, and cyber. We are prioritizing the investments around AI infusion in the portfolio, innovation around new capabilities that we will add, and the cloud version of those products, if you will.

So to use Aviator as the example to answer you directly, we now have over 150 Aviator agents that have been developed and infused across our core portfolio with a good chunk of them in content. And in addition to this, our clients now have the access to what we call Aviator Studio, where they can build their own OpenText Aviators, in addition to the 150 that get embedded in our products.

And then I take it a step further to the question you heard earlier around partners. I use SAP, one of our great partners, where we now have integrated our Aviator platform with their own AI Joule platform. So now clients can orchestrate between us and them, and the same applies to the rest of our partner ecosystem, if you will. So I cannot say enough about the dedication of R&D investment to continue to enhance the AI capabilities, not just in content, but the rest of Core.

Raimo Lenschow - *Barclays Services Corp - Analyst*

Okay, perfect. Thank you. One more question on the balance sheet. You have made really good progress so far there. If you think about it, what is the end game for you there? At the moment, it looks like creating more financial flexibility for you. Is that just kind of adjusting the balance sheet for timing and maturity, or how do you think about that broader picture there? Thank you.

Steve Rai - *Open Text Corporation - Chief Financial Officer, Executive Vice President*

Yeah. I think you hit the nail on the head with really just improving our posture overall. I mean, we've consistently been working on debt reduction, and we've made some really good strides in that regard, just under $1 billion of reduction in our gross debt in the last 12 months. So that flexibility, especially given the transformation work that we're doing, remains very important.

And it was a normal cycle of just extending our maturities on the more near-term towers that were coming up. So we're very pleased with the result that we've achieved.

Raimo Lenschow - *Barclays Services Corp - Analyst*

Okay, perfect. Thank you. Well done.

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Operator

Kevin Krishnaratne, Scotiabank.

Kevin Krishnaratne - *Scotiabank GBM - Analyst*

Hey there. Good morning. Thanks for taking the question. Just one from me. It's nice to see the momentum in the Core, 2.7%, but can you talk about some of the divergence in trends you're seeing? You saw obviously very strong growth in Content, but the ITOM and Cyber were down double digits. I guess, what are you seeing there? Is there anything to note on either competitive headwinds, or are we just lapping tough comps in the prior year, and just how do we think about these businesses in the Q2 remainder of the year?

Ayman Antoun - *Open Text Corporation - Chief Executive Officer, Director*

Hey, Kevin. Good to have you with us. Another really important question, and again, in the spirit of what I said at the very beginning when I joined in May, you will get complete transparency from me. This I would put in the category of we need to improve our execution. Let me explain to you what I mean by that.

I will just use Cyber as an example, but the same would apply for ITOM, just in the spirit of time. If you think of Cyber, we have a broad set of offerings. We are one of very few firms that have data security, application security, identity and access management, and these are deep skill domains.

And what we have had in the past, and that is what we are changing as we speak, we would have a Cyber seller accountable for the entire Cyber portfolio, and it is very difficult in a domain that technical, that important to clients, to have the same person knowing at depth all the pieces of the Cyber portfolio. So what we are transitioning now to having Cyber specialists by vertical, because candidly, most of our competitors only have one or two of these verticals versus us having all of them, and they go to market with that deep skill.

So first is deepening the skills of the seller by being more specialized at a pillar level. Second, back to my partner ecosystem activation, we had not in the past spent enough money, time, energy, and enablement to have our partners be an extension of that Cybersecurity sales capacity. And third, putting more investment around our marketing capabilities from events that are Cybersecurity-specific to demand generations for the sellers to be able to create additional pipelines. So I lump all this on sales execution and enhancements that are in flight as we speak, and the same set of logic and elements would apply to ITOM. Hopefully that answers your question.

Kevin Krishnaratne - *Scotiabank GBM - Analyst*

Yeah, thanks for that, and I appreciate the color. So I can appreciate that you say you are putting these investments in today, but when do we think you start to see the returns materialize and that execution to improve? Do we see this in Q2? Is it more back of the year? Is it into the next year? Just maybe help us understand when you expect to see improvement on that execution.

Ayman Antoun - *Open Text Corporation - Chief Executive Officer, Director*

Yeah, and by the way, I am more impatient than you are, but I appreciate the question. Two things I would share. First, we had committed that FY27 being our foundation year, that our Core, every category in Core is going to grow for the full year. That includes ITOM and Cyber.

And my expectation is as we get into the second quarter, third, and fourth, that we will see the material improvement. This is not about bet on the hope that the hockey stick happens in 4Q. I expect us to improve every single quarter between now to the end so that the full year ITOM and Cyber are showing growth.

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Operator

Paul Treiber, RBC Capital Markets.

Paul Treiber - *RBC Capital Markets - Analyst*

Good morning, and thanks for taking the question. The first question on the nature of the investments that are expected in the second half of the year. I mean, you have already added 300 quota-carrying reps. What are the additional investments? And related to that, R&D has been trending down. Should we expect that to stabilize, or what reflects the trend in R&D there?

Ayman Antoun - *Open Text Corporation - Chief Executive Officer, Director*

Hey, Paul. Thank you for the question. Another really important item. So I am going to address this in two buckets, if I may. So first, the investment in addition to the sales capacity, which is not just adding our own, but the discussion you have heard me talk about regarding ecosystem and activation.

Another important and material part of our investment is in the product innovation component. So you heard me talk about Aviator, the same for the next set of developments around Business Network and our what we call Trading Grid, the next generation of Business Network, and the investments there.

Just as importantly, the investment we are putting into the tooling to make the migration for our clients, to make the migration from on-prem to cloud simple and fast so that they can receive an investment of their return on their investment to move to cloud much faster, plus adding new capabilities across each one of the four Core product categories.

As far as the R&D investment stabilizing, yes. However, what you heard me say upfront is we are going to be much more differentiated, where the majority of our R&D investment is going to go in Core, and inside of Core, it will be prioritized on continuing the acceleration of AI infusion across the entire portfolio, and my comment about the cloud version of all the Core product offerings along with the migration tools. So that is kind of how you should look at it going forward.

Paul Treiber - *RBC Capital Markets - Analyst*

Okay, that is helpful. Secondly, just on the trend in RPO, like specifically CRPO, obviously strong growth in cloud, whereas client support is down, I imagine, on the divestitures. The cloud versus client support, is that primarily, taking into account the divestitures, does that reflect Core versus non-Core? Is there also an element of cloud migration there?

Steve Rai - *Open Text Corporation - Chief Financial Officer, Executive Vice President*

So in the RPO, yeah, I mean, obviously the clear leading item there is Content Cloud. There is contribution from the other areas in the cloud. And even though from a current period revenue standpoint, there is some of the items at play that Ayman discussed, but the cloud growth has been pretty good across the board, including in some of the non-Core.

Operator

David Kwan, TD Cowen.

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David Kwan - *TD Cowen - Analyst*

Morning. Ayman, I just want to clarify as it relates to the sales structure. You talked about kind of clients having one single point of contact, but in the response on Cybersecurity, you talked about having kind of more specialized Cybersecurity salespeople given how technical the sale is. So would it be just the responsibility of that primary sales rep to bring in these kind of specialized salespeople, or are you taking a different approach?

Ayman Antoun - *Open Text Corporation - Chief Executive Officer, Director*

Let me very precisely clarify that, David, because that is an important component of our go-to-market. I want you to imagine, and I'm going to use a market, because remember, a market is either a country like Canada, or a market is two or three countries aggregated together if they're not large enough in Europe, for instance, and we have a market leader that owns the execution.

That market leader, he or she has a number of client executives that are assigned to our strategic clients as their focal point of contact, with the role and responsibility of owning the relationship, integrating OpenText in front of the clients, generating the demand, if you will. And then based on understanding the client pain points and their priorities, and knowing what OpenText has the capability for, he or she, the client executive, will bring in front of that client the deep-skilled sellers and deep-skilled technical sellers for whatever the domain happens to be, whether it's the Cyber domain, and now Cyber, we're going to be more specific by pillar, as I said earlier, or the BN sellers, or the Content sellers.

So think of the client executive as the coordinator, the quarterback, where the deep skills come from the brand individual sellers. And the client executive needs to make sure that we're not going to the client in force, whether they need Cyber at the moment or Content, but in a coordinated fashion. And part of the coordination is this cross-selling motion, where, in my humble opinion, everybody is buying Cyber capabilities, and Cyber is a very natural attach to a Content opportunity or a BN opportunity or an ITOM opportunity. So they also bring that cross-selling motion in front of the client as well.

David Kwan - *TD Cowen - Analyst*

No, appreciate that. That's helpful. And just in terms of the growth investments that you talked about, the $100 million to $200 million for this year, could you I guess, you've talked about as it relates to the breakdown being mostly in sales and marketing, not so much R&D, where it's more of a reallocation there. Within the sales and marketing, though, how much of that is going to be allocated to your partner channel versus your direct sales and marketing teams?

Ayman Antoun - *Open Text Corporation - Chief Executive Officer, Director*

We don't really break down that externally, but if you think of our investment in those two domains, our own sales force and the partner sales force, I equate the value of increasing the capacity and enabling the partners as equal in value and return. So you can translate that into -- if there's a buck we're investing, I think of those as two important, critically equal value, and we allocate it accordingly.

Operator

Stephanie Price, CIBC.

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Stephanie Price - *CIBC World Markets - Analyst*

Good morning. I wanted to circle back on Customer Support for a minute. So it was down 9% in constant currency, and you mentioned it's primarily driven by the Non-Core businesses. Wonder if you could dig into that a little bit more. Was the Customer Support in the Core business down year-over-year, and how should we kind of think about the Core Customer Support growth in fiscal '27?

Steve Rai - *Open Text Corporation - Chief Financial Officer, Executive Vice President*

So yeah, I mean, the underlying trend has been pretty consistent and predictable. I mean, there is an element thereof, with the migration work that we're doing and preparation for migrations that the clients are working on. It's a consistent theme, but it is overall, I think, if I look at the trend line from the past couple years, the rate of decline is slowing on that. And we obviously got initiatives in play to keep that balanced as we work through the cloud migration, and we should be providing more color around this at the investor day.

Stephanie Price - *CIBC World Markets - Analyst*

Okay. Thank you. And then just on the divestiture process, appreciate the comment in the prepared remarks. Just curious if you've seen any change to the valuation environment, just as the AI disruption trade seems to start to revert here, or any further update on the divestiture process would be great. Thank you.

Steve Rai - *Open Text Corporation - Chief Financial Officer, Executive Vice President*

Yes. I mean, we're obviously -- it remains an active process, as we've said before. No significant change from the previous time last quarter when we discussed. So things remain in play, and I'm confident things will happen. But as we've said, we're not going to rush it on a fire sale basis. So we got to remain disciplined.

Operator

(Operator Instructions) George Kurosawa, Citi.

George Kurosawa - *Citi Research - Analyst*

Okay, great. Thanks for taking the questions. I wanted to ask about the sales investments you've made so far. I know it's early, but what you've seen from a productivity standpoint, how those new reps are coming up the curve, and if that informs some of that confidence you had in starting to see some broadening improvement in Q2, Q3, Q4.

Ayman Antoun - *Open Text Corporation - Chief Executive Officer, Director*

Thank you. Let me start from the outside and work back in, because candidly, the only feedback in my book that matters is the client feedback. I spend a significant amount of my time face-to-face with clients, not just those that I had the privilege of meeting with at OpenText World a couple weeks ago, but every single week.

I am overwhelmed with the positive feedback where the clients go out of their way in every single meeting to say, thank you for the client executive role. Many of them, what they have said to me is, we're here at OpenText World because you have a client executive. Because before, you were coming at me by brand, and I was a bit overwhelmed.

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The client executive gets in the seat in July, Ayman. They come, they get to understand my business, they're educating me on your capabilities, and they're saying to me, I want to host you at OpenText World. We will have a crafted agenda for who you're going to meet and which solution breakout session you're going to go through, and it will match your priorities. So that's example of feedback that I'm receiving.

The other feedback, and I kind of highlighted a couple examples in my prepared remarks, are clients that reached out to me unsolicited. I'll use the example in Europe where they said, the client executive brought all the pieces of OpenText, coordinated things for me, and a very significant deal got closed, Ayman, with the decision right in the geography, in the market. They didn't have to phone home.

And I just wanted to let you know, I'm seeing a different rhythm of speed from OpenText. Our job now, is to scale that. Scale that consistently across all 15 markets, across the 300 client executives. But early signs based on client feedback are very encouraging.

George Kurosawa - *Citi Research - Analyst*

Okay, that's great color. And I did want to dig in on the performance in the quarter. Revenue came in pretty squarely in the middle of the guidance range. I am sure you went into the quarter with aspirations of hitting the high end or maybe exceeding the high end. If you just think about the variables that led to that outcome, what would you put as kind of the top factors?

Ayman Antoun - *Open Text Corporation - Chief Executive Officer, Director*

Yeah, I would say, candidly, we landed in the quarter where I would expect us to land. We knew that we had some ramping up to do with the client executive. Remember, the hiring started because we did not want to disrupt our 4Q execution. So we made the announcements internally and externally and started the hiring in July.

We had to do the enablement. So there is nothing that happened in the quarter in terms of client delays or client acceleration one way or another. The rhythm was what I expected.

If I were to step back, I would say, with all the geopolitical environment that we are in, the only place across our 15 markets where I felt clients were just a little bit taking a pause, and you will appreciate why, is our market in the Middle East. There is enough on their plates that they are dealing with, but those transactions were not significant in size. But that is where I felt there was a bit of a pause on the client side, but that is one out of 15 markets. Everything else is what we expected as part of the natural ramp-up.

Operator

I will now hand the call back to Mr. Antoun for closing remarks. Please go ahead.

Ayman Antoun - *Open Text Corporation - Chief Executive Officer, Director*

Thank you, everybody. Let me just wrap up, stitching a few points together as we wrap up this morning's call. I want you to take away five key components that you would have heard from me and Steve in our recorded remarks, but also in the Q&A session.

Number one is our One OpenText is fully staffed and deployed. Every strategic client of ours has a dedicated client executive today. They are in market, in the seat, understand their jobs, continue to get enablement and support and coaching to do what is right for our clients.

Number two, our ecosystem partners are accelerating our sales motion in the field. We are building shared pipeline together. We have go-to-market account planning together, and think of those partners across the four categories of global SIs, regional SIs, the hyperscalers, and the ISVs.

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Third, we are investing our R&D dollars where growth is. That is the core product categories, Aviator AI, infusing it across the entire core portfolio, the cloud capabilities of every one of those product categories, and the set of tools to simplify and speed the client migration.

Fourth, the enterprise assessment that you have heard me talk about now came back with outcomes that are informing our multi-year growth plan, which we are looking forward to sharing with you the details on February 10 in 2027.

And finally, my fifth point is, along the way, throughout this FY27, our foundation year, we continue to execute with discipline across the firm, and that is around the components that you would have heard me talk about before, an integrated marketing team that has all the pieces of marketing, AI infusion and development. And now, we are also standing up our transformation office to help us operationalize the enterprise assessment components into that cohesive plan with KPIs and milestones that will guide our progress.

With that, I look forward to speaking to you throughout the next few weeks and seeing you back on our earnings call in February. Thank you.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.

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