THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

OTEX.TO - Q4 2020 Open Text Corp Earnings Call

EVENT DATE/TIME: AUGUST 06, 2020 / 9:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Harry Edward Blount *Open Text Corporation - Senior VP & Global Head of IR*

Madhu Ranganathan *Open Text Corporation - Executive VP & CFO*

Mark J. Barrenechea *Open Text Corporation - Vice Chairman, CEO & CTO*

CONFERENCE CALL PARTICIPANTS

Frank Joseph Surace *Barclays Bank PLC, Research Division - Research Analyst*

Paul Steep *Scotiabank Global Banking and Markets, Research Division - Analyst*

Paul Michael Treiber *RBC Capital Markets, Research Division - Director of Canadian Technology & Analyst*

Richard Tse *National Bank Financial, Inc., Research Division - MD & Technology Analyst*

Stephanie Doris Price *CIBC Capital Markets, Research Division - Director of Institutional Equity Research and Software & Business Services Research Analyst*

Thanos Moschopoulos *BMO Capital Markets Equity Research - VP & Analyst*

PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the OpenText Corporation Fourth Quarter and Year-end fiscal 2020 Conference Call. (Operator Instructions)

And the conference is being recorded. (Operator Instructions)

I would now like to turn the conference over to Harry Blount, Senior Vice President, Investor Relations. Please go ahead.

Harry Edward Blount - *Open Text Corporation - Senior VP & Global Head of IR*

Thank you, operator, and good afternoon, everyone. On the call today is OpenText's Chief Executive Officer and Chief Technology Officer, Mark J. Barrenechea; and our Executive Vice President and Chief Financial Officer, Madhu Ranganathan. We have some prepared remarks, which will be followed by a question-and-answer session.

This call will last approximately 60 minutes with a replay available shortly thereafter. I'd like to take a moment and direct investors to the Investor Relations section of our website, investors.opentext.com where we have posted 2 presentations that will supplement our prepared remarks today.

First, our strategic overview titled OpenText Investor Presentation, August 2020; the second, titled Q4 and Fiscal 2020 Financial Results, includes information and financials specific to our quarterly results, notably our updated quarterly factors on Page 8.

During the months of August and September, OpenText management will be pleased to virtually meet with investors at the following conferences: Oppenheimer's Annual Technology, Internet and Communications Conference on August 11, BMO's Virtual Technology Summit on August 26, Citi's Global Technology, Virtual Conference on September 8; Deutsche Bank Technology Conference on September 14; and Jefferies Virtual Software conference on September 15.

In addition, I'm pleased to announce that we will be hosting an Investor Day on Thursday, November 12. This virtual event will consist of our annual investor update featuring strategic presentations from key members of our executive leadership team. Please save the date in your calendar and contact investors at opentext.com to register for the event. Please feel free to reach out to me or the IR team for additional information.

And now I will proceed with the reading of our safe harbor statement. Please note that during the course of this conference call, we may make statements relating to the future performance of OpenText that contain forward-looking information. While these forward-looking statements represent our current judgment, actual results could differ materially from a conclusion, forecast or projection in the forward-looking statements made today. Certain material factors and assumptions were applied in drawing any such statement. Additional information about the material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information as well as risk factors included, including in relation to the current global pandemic that may [project] future performance results of OpenText are contained in OpenText's recent forms 10-K and 10-Q as well as in our press release that was distributed earlier this afternoon, which may 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 will hand the call over to Mark.

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

Thank you, Harry. Good afternoon to everyone, and thank you for joining today's call. I wish everyone health, well-being and happiness.

The last 6 months has made it very clear that digital technologies are the key to business resilience and durability. Organizations that own their digital capacity will recover faster and emerge stronger from this ongoing crisis. Resilience is the ability to recover quickly; durability is permanent -- the ability to resist stress or force. It is also very clear that while the crisis persists, there will be economic volatility and uncertainty, and there will be challenges and opportunities alike.

Fiscal 2020 was a seminal year for OpenText. We rallied around the principles of resilience, durability, change and opportunity to guide us through this difficult time. The pandemic has validated our purpose to help companies digitize and transform. Now more than ever, customers trust and rely on OpenText products and expertise to help them digitize their business as they navigate through a changing global environment. The world runs on information, from the debate on truth, to a global pandemic response, to the modern civil rights movement, the fact is information is more important than ever.

For nearly 30 years, we have helped companies on a global basis, across all industries, build cultures of knowing with our Information Management software and expertise. Our leadership position in Information Management has never been stronger. And customers of all sizes continue to trust OpenText as they reset to a new equilibrium at work, at home and at play. The preemptive actions we took at the beginning of the pandemic are enabling us now to make significant investments in sales, products and more automation, positioning us to compete better and to gain market share regardless of the economic scenarios ahead.

Let me begin by discussing our F '20 results and accomplishments. For fiscal '20, OpenText delivered record revenue, record annual recurring revenue, record Cloud revenue, record gross margin dollars, record operating cash flow and record free cash flow, all during the most challenging economic period in our lifetime.

Total revenue of $3.1 billion, up 8% year-over-year. Record annual recurring revenue of $2.4 billion, up 13% year-over-year and now 78% of total revenues, 300 bps higher than fiscal '19. Cloud revenues of $1.2 billion, up 28% year-over-year with a 347 bps margin increase to 61%. Record Customer Support revenues of $1.3 billion, up 2% year-over-year, with a 25 bps margin increase to 90.4%. We also completed the year with record enterprise Customer Support renewal rate of 93.8%. We generated $1.15 billion of adjusted EBITDA dollars, up 4%, or 37% of total revenues. Record operating cash flow of $955 million, up 9% year-over-year; record free cash flow of $882 million, up 9% or 28.4% of revenue.

Please note, we're going to be using free cash flow going forward versus operating cash flows. We ended the quarter with $1.69 billion in cash and a net leverage ratio of approximately 2x. Looking back from fiscal '11 through today, just looking back a little bit through today, ARR has expanded

from 54% to 78% of total revenues. Cloud revenues have grown from 0 to $1.2 billion or 37% of total revenues; license mix is only 13% of our business today compared to near 30% in fiscal '11.

And we've delivered strong gross margins over time regardless of the mix of business. That strong gross margin is in the low to mid-70s, and we expect continuous improvement in the future. And we've grown adjusted EBITDA from the high 20s to the high 30s from fiscal '11 through today. OpenText's business model is based on recurring revenue, which is significantly predictable, strong margins and strong cash flows, and we have derisked away from a volatile license-led model -- an exceptional accomplishment in the software industry.

Let me transition and provide a few highlights from the quarter. Within Q4, total revenues of $827 million, up 11% year-over-year; ARR of $658 million, up 18% year-over-year. ARR was 79.5% of total revenue; Cloud revenue was $333 million, up 38%; adjusted EBITDA of $317 million, up 12% and a 38.4% margin; OCF of [$280 million] (corrected by company after the call), up 22% was in the quarter; and free cash flow of $263 million, up 21% within the quarter. And in constant currency, this quarter also represents a 22nd consecutive quarter of year-over-year growth in total revenue and ARR.

We're now a cloud-first company with a rich install base of customers. For the second consecutive quarter, Cloud has become our largest revenue line. Cloud gross margins were 31.3% for the year and 65.1% for the quarter, and we have more room for margin improvement through scale, mix and more automation. As the cloud business continues to scale, it will get more efficient. Overall, it was a great quarter by all measures, and I'm so proud of my colleagues for their focus and commitment to our customers. We continue to generate cash, grow and have returns in the right places, leveraging the increased predictability that ARR brings to our business model, while we continue to take market share.

We had many notable customer wins in Q4 that included the National Institute of Allergy and Infectious Diseases, the NIAID or the NIH, which we announced today; Becton Dickinson; Rapid Radiology; the U.S. Defense Health Agency; Panasonic; Michelin, Merck, the Williams Companies and Amway.

Let me highlight 2 today. The National Institute of Allergy and Infectious Diseases. It's leading research to understand, treat and prevent infectious, immunologic and allergic diseases, including COVID-19. The NIAID is expanding its partnership with OpenText and selected OpenText Content Suite and AppWorks to support enterprise-wide business operations to advance the NIH mission of turning discovery into health. We're very proud of our partnership with the NIH.

Rapid Radiology, one of the largest teleradiology providers in the U.S. They selected OpenText Business Network, to streamline the delivery of radiology test results to electronic medical records. The OpenText Business Network solution delivers the industry's only cloud integration service to provide interoperability between all electronic medical record systems and the long-term care market, ensuring seamless delivery of clinical results between providers and improving patient care. This is particularly important with the move to increase remote work as physicians and nurses are able to review lab results online and support personnel can review orders remotely. These wins highlight how Information Management is relevant and imperative and that digital technologies are the key to business resilience and durability.

Customer purchasing decisions in the quarter continue to support the acceleration to digitize and the demand trends we outlined in our last call. Content Services is being driven by the urgent need to digitize and migrate to the cloud. Content Services saw a particular strength in health care and government, but we also saw notable wins in other industries. The momentum in Content Services is a direct result of the investments made in both R&D and vertical go-to-market since our acquisition of Documentum. In Business Network, we saw volumes begin to recover through the quarter as supply chain reconfiguration continues, offset by lower secure messaging volumes in some impacted industries. In Cyber Resilience, we saw a very strong quarter given work-from-anywhere is here to stay. In Digital Experience, the shift to supporting a customer through their entire life cycle, via an omnichannel delivery -- digital delivery, direct-to-consumer and contactless experiences. Our cloud-based Digital Experience will become even stronger with some of our upcoming quarterly product releases.

Turning to our F '20 acquisitions. Carbonite delivered another strong quarter of operations, validating our expansion into SMBC market and enhancing the strength of our Cyber Resilience offering. Carbonite delivered $116 million of revenues in Q4 or $235 million since the date of acquisition and continues to be accretive to adjusted earnings and cash flows and is on track to be on our operating model by the end of fiscal '21.

In fiscal '21, we will release new security enterprise offerings that leverage the capabilities of Carbonite, Webroot, Bright Cloud, integrated with our existing EnCase offering.

We had other notable accomplishments in fiscal '20. We strengthened and extended partnerships with Google and Amazon as part of our OpenText Anywhere strategy and enhanced our long-standing relationship with SAP for cloud-based content management. We launched our next-generation platform, the OpenText Cloud Editions in April, CE20.2 and recently extended our Content Services technology for Microsoft Teams. Four years ago, we were releasing product every 15 months. To date, we are releasing product every 90 days. Each release has more features and 20.3 is on schedule for this quarter. Our delivery speed and capability is a long-term competitive advantage. We used to get haircuts every 6 weeks, but now we release software every 12 weeks.

Finally, we were recognized by SAP as their Pinnacle award winner at the SAP Solution Extensions Provider of the Year with our 13th consecutive year and by IDC and Aspire for our leadership in Customer Communications Management.

Let me transition and begin to look forward to the quarters and years ahead. We continue to execute on our total growth strategy of retain, grow and acquire that we outlined at our last Investor Day from New York City.

Let me touch base briefly on each of these 3 pillars: first, retain. We have a rich install base of customers, Customer Support and cloud renewals are a highly predictable business that continues to expand in parallel with our growth in the cloud. We remain committed to giving customers choice in how they buy our products, where they deploy our products and giving them world-class support, maintenance and update rights. Customer Support is an important contributor to our ARR and we achieved the highest enterprise customer retention in our history this year at 93.8% and enterprise cloud renewal in the mid-90s. As good as this is, we continue to see opportunities to improve. How? Compelling new features and expanded product offerings, faster cloud-native product releases, products designed with automation for upsell and increased consumption built-in and apply our best-in-class Customer Support capabilities to our SMBC channel.

Second pillar: growth. We intend on growing and taking share regardless of the economic environment through continued investments in sales coverage, partnerships, cross-selling opportunities and product innovation. Let me double click on each one of those. First, continue to broaden sales coverage and expand our sales force in fiscal '21; second, continue to deepen sales coverage for the expansion of specialized sales groups especially in the public sector, security, life sciences and legal tech; third, deepen relationships with enterprise partners, such as SAP, Google, Amazon and Microsoft, to grow the number of partners in our SMB channel.

In addition, each of our specialty sales units has built a partnership growth strategy; fourth, cross-selling our products.

We will introduce an enterprise ready security platform in the second half of fiscal '21 and that leverages the combined capabilities of Carbonite, Webroot, BrightCloud and EnCase. We're also now selling select OpenText products such as OpenText Core and Hightail through our enhanced SMB channel. And finally, we are delivering more products to market at a faster pace than ever before. OpenText future product releases will include more SaaS offerings, self-service onboarding, seamless app to app and cloud-to-cloud integration, and new industry-specific capabilities.

And the third pillar is acquisitions. We continue to be a strategic, disciplined, value-based buyer of companies. This is an important aspect of our total growth strategy. With these strategic acquisitions, we are better positioned to expand our product portfolio and improve our ability to innovate. We have the proven track record of integration, and we will continue to acquire businesses that deepen and strengthen our platform.

We believe return on invested capital, ROIC, is the best measure of success of our strategy. And in fiscal '20, we achieved a ROIC of 17.6%, which remains consistent with our target range in the upper teens. We have a robust pipeline of acquisition opportunities that span the entire portfolio, and of companies of all sizes. We do expect to close deals in fiscal '21. These are our 3 pillars: retain, grow and acquire.

Let me turn to business outlook. First and foremost, we view our business as an annual business. It is annual performance and annual trends over the long-term that creates value. 90-day cycles are just too short a measure. The economic volatility remains high and will persist during the global pandemic. We have some customer areas negatively impacted like auto, airlines, retail, construction and services. We have some areas positively

affected, like government, customer experience management, security and work-from-anywhere technologies. However, as of today, the positives do not outweigh the negatives given the global crisis. With that introduction, let me detail our annual business outlook for fiscal '21.

We expect on a year-over-year basis as it relates to revenue, Cloud revenue to grow low double digit. Customer Support revenue to be constant. ARR to grow mid-single digits. License and professional services businesses to decline, which is consistent with the trends in the broader software industry impacted by the pandemic and consistent with our multiyear transition to Cloud and ARR. And for total revenue to be constant. And perhaps we get a few points of growth should the economy recover sooner. But constant total revenue is our base case in this volatile economy. On innovation, let me call out, engineering investments to expand to 12% to 14% of revenues.

Continuing on our business outlook. On non GAAP margin, cloud margin targets expanding 500 basis points to 63% to 65%. Total gross margin targets improving 100 bps to 74% to 76%, and adjusted EBITDA targets expanding 200 basis points to 37% to 38%. Lastly, and as noted earlier, we expect to deploy capital via acquisitions in fiscal '21. Our balance sheet and pipeline are strong. The strength of our business model and operating excellence is demonstrated in our annual historical results and strong F '21 business outlook.

For fiscal '21, Q1, we expect total revenue to increase high single-digit year-over-year and adjusted EBITDA dollars to increase low double digits. FX is expected to be neutral in the quarter. As for our fiscal '23 aspirations, our 3-year aspirations, in light of the global crisis, we are simply shifting our F '22 aspirations for adjusted EBITDA and cash flows out 12 months to fiscal '23. If the economy recovers sooner, we'll adjust the aspirations as appropriate.

But specifically, our F '23 adjusted EBITDA margin aspiration is in the range of 38% to 40%. And our fiscal '23 free cash flow aspirations is $0.9 billion to $1 billion. Remember, we're moving to free cash flow versus operating cash flow. The outlook continues to represent upper quartile performance in adjusted EBITDA and free cash flow. Also note that our long-term growth planning remains unchanged, and we expect to continue to reinvest incremental adjusted EBITDA margin above 40% back into the business, supporting our long-term objective of driving further organic growth in a normalized demand environment.

Today, we declared a regular dividend -- quarterly dividend of $0.1746 per share, the same as the prior quarter. OpenText strongly believes in returning value to its shareholders. And we intend on holding our dividend constant during the pandemic, subject to Board approval.

Today, I'm also pleased to announce that our inaugural corporate citizen report will be released on our website next week on August 14, and I encourage everyone to read it. In the age of information disruption, we see opportunity to use technology for the greater good, and we aspire to unlock its potential to advance societal goals, and accelerate positive change. This inaugural report establishes our ESG baseline, and we intend to hold ourselves accountable to, and we will report to you annually. We welcome your feedback in continuing -- in contributing to a better world.

Let me summarize my prepared remarks. The world runs on information. And we are the leader in Information Management. Against the backdrop of the most challenging economic environment in our lifetime, we delivered record results because we have the products that matter, customer relationships that matter, a balance sheet that gives customers confidence that we will deliver on our commitments and an experienced leadership team that is ready for all scenarios.

We're in a new equilibrium in a new world, and we intend to gain market share regardless of the economic environment because we are delivering more product innovation to the market faster than in our history. We continue to make investments in initiatives that would generate further and future organic growth. We're a cloud-first company that is committed to providing our rich install base of customers a choice of cloud, off cloud, integration and a combination of both. We remain committed to our proven Total Growth strategy, and we'll deploy capital when the right opportunity presents itself. We also remain highly disciplined and are dedicated to driving shareholder returns through growth and free cash flows, transparent communications and return of capital through dividends. On behalf of OpenText, we commend the brave women and men serving on the front lines of this pandemic, keeping us healthy, safe and productive.

I'd like to thank our shareholders, all our customers, partners and 14,000 plus employees for all contributing to our success in fiscal 2020. I am so proud of the resilience and durability that OpenText employees continue to demonstrate. OpenText truly represents the culture of humble and

hungry, and our resolve is only strengthened by the energy and transformative impact of our customers, such as the NIAID, the U.S. Defense Health Agency, Panasonic, Merck and the Williams Companies -- the most trusted companies truly trust OpenText.

It's my pleasure to turn the call over to Madhu Ranganathan, OpenText's Chief Financial Officer. Madhu?

Madhu Ranganathan - *Open Text Corporation - Executive VP & CFO*

Thank you, Mark, and thank you all for joining us today.

Our fiscal '20 was a groundbreaking year in many respects, one where the OpenText operational excellence came through with solid financial results. I'm humbled and proud to share them with you today. I will speak to Q4, to fiscal '20, fiscal '21 target model and our long-term aspiration. Q4 investor presentations that are posted on our IR website will also be referred to in my comments. All references will be in millions of USD and compared to the prior fiscal year.

And let me start with revenues and earnings. Total revenue for the quarter were $826.6 million, up 10.6%, or up 12.2% on a constant currency basis. For fiscal '20, our total revenues were $3.1 billion, up 8.4% or up 9.7% on a constant currency basis. There was an unfavorable FX impact to revenue of $12 million in Q4 and $37 million in fiscal '20. The geographical split of total revenues in the year was Americas 61%, EMEA 30% and APJ 9%. Annual recurring revenues for the quarter were $657.5 million, up 18% or up 19.5% on a constant currency basis. For fiscal '20, ARR was $2.4 billion, up 12.9% or up 14.1% on a constant currency basis. As a percent of total revenues, ARR was 80% for the quarter and 78% for fiscal '20, up from 75% in fiscal '19.

Our Cloud revenues were particularly strong at $332.6 million for Q4, up 37.5% or up 38.8% on a constant currency basis. For fiscal '20, Cloud revenues of $1.2 billion, up 27.5% or up 28.4% on a constant currency basis. The growth was primarily driven by continued successes in Business Network, and the integration of Carbonite. Our Cloud renewal rate in the quarter remains in the mid-90s.

Our Customer Support revenues were $324.9 million in Q4, up 3.1% or up 4.7% on a constant currency basis. For fiscal '20, Customer Support revenues were $1.3 billion, up 2.2% or up 3.7% on a constant currency basis. Our Customer Support renewal rate for fiscal '20 was 94%, reflecting the strength of our rich install base even during COVID times.

Off cloud revenues, which represent our License and Professional Services revenues of $169.1 million in Q4, down 11% and $676.5 million in fiscal '20, down 5.1%. Our License revenues of $105.8 million in Q4, down 11.6% or down 10.3% on a constant currency basis. For fiscal '20, License revenues are $402.9 million, down 5.9% or down 4.5% on a constant currency basis, primarily COVID related. Our Professional Services revenues of $63.3 million in Q4, down 10.1% and or down 7.7% on a constant currency basis. For fiscal '20, PS revenues were $273.6 million, down 4% and down 2.2% on a constant currency basis, in line with decline in License.

Turning to GAAP net income and GAAP earnings per share. They were both impacted by Carbonite acquisition-related -- by Carbonite acquisition-related items and special charges due to our recent restructure. GAAP net income was $26.4 million in Q4, down 63.3% and primarily due to $47 million of intangible amortization from Carbonite and $74 million of special charges relating to our recent restructuring. For fiscal '20, GAAP net income was $234.2 million, down 18%.

Adjusted net income was $217.8 million in Q4, up 12% or up 12.5% on a constant currency basis. For fiscal '20, adjusted net income was $784.5 million, up 5.2% or up 7.3% on a constant currency basis.

GAAP earnings per share diluted was $0.10 in Q4, down from $0.47 and $0.86 in fiscal '20, down $0.20 from $1.06. .

Non-GAAP earnings per share diluted was $0.80 in Q4, up $0.08 from $0.72 and also up $0.08 on a constant currency basis. For fiscal '20, it was $2.89, up $0.13 from $2.76 or up $0.18 per share on a constant currency basis.

Turning to margins. GAAP gross margin for the quarter was 68.5%, up 20 basis points. And for fiscal '20 was 67.7%, up 10 basis points.

Adjusted gross margin for the quarter was 75.8%, up 160 basis points. And for fiscal '20, was 74.5%, up 40 basis points, both solid improvement on a year-over-year basis. Also on an adjusted basis, cloud margin was 65.1% for Q4 and 61.3% for fiscal '20, up from 57.8%, driven by continued improvement and higher - in the low 80s gross margin from Carbonite revenues, which are predominantly cloud. Our Customer Support gross margin was 90.1% for Q4 and 90.4% for fiscal '20, up from 90.1% and reflecting continued strong renewal performance.

Our License margin was 96.8% for Q4 and was 97.2% for fiscal '20, up from 96.6%. Our Professional Services margin was 24.1% for Q4 and was 22.7% for fiscal '20, up from 21.8%.

Adjusted EBITDA was $317.4 million this quarter, up 11.8% or up 12.1% on a constant currency basis. For fiscal '20, adjusted EBITDA was $1.1 billion, up 4.3% or up 5.7% on a constant currency basis. This represents a 36.9% margin, down from 38.4% as we integrate 2 full quarters of Carbonite and higher than our fiscal '20 target model range of 35% to 36%. For our fiscal '20 target model, we ended fiscal '20 at or at the high end of our target model ranges, notably in annual recurring revenue, cloud gross margin, overall gross margin and adjusted EBITDA margin.

Turning to operating cash flows. It was excellent performance. $280.3 million for the quarter and a record $954.5 million for fiscal '20, up 8.9%. Our free cash flow for fiscal '20 was strong at $882 million, and an increase of 8.5%. Q4 DSO was 51 days compared to 56 days in Q4 '19. Our continued investment in operational improvements and the integration of Carbonite led to higher collection efficiencies, lower DSOs and strong cash conversion cycles.

Additionally, during Q4, we deferred approximately $41 million in tax payments, primarily as a result of the CARES Act that was enacted in the United States in the third quarter of fiscal '20 and other COVID-19 related tax relief programs in EMEA. These deferrals will be paid during fiscal '21 and '22. We have built a tight and near real-time framework internally to closely monitor customer trends and remain watchful of the economic backdrop as it relates to both our enterprise and SMB customer base. And looking ahead, we are introducing free cash flow metrics in our long term aspirations.

Turning to the balance sheet. We ended the year with approximately $1.7 billion in cash, given our strong cash flow performance. Our $600 million revolver remains strong as a preemptive measure in the current environment. Our consolidated net leverage ratio is 2.04x, an improvement from 2.25x last quarter.

An update on Carbonite. Q4 is a second full quarter with Carbonite results. Our proven track record of integration experience is being illustrated through Carbonite. Since the close of the acquisition on December 24, 2019, the integration activities have remained steadfast in every aspect of the business: go to market, product and engineering, G&A and systems. You see proof in our results. Carbonite delivered another strong quarter of results adding to critical elements of our financial model, annual recurring revenues, cloud margin, adjusted EBITDA and working capital. We remain on target to get Carbonite to our operating model end of fiscal 2021.

And now to our restructuring plan. During the quarter, we implemented COVID-driven restructuring activities to streamline operations and reduce real estate around the world, as previously announced during our fiscal Q3 earnings call. We incurred approximately $54 million of special charges relating to these activities during the quarter. As a reminder, we anticipate annualized expense savings of approximately $65 million to $75 million once completed, the substantial realization of the savings to start in fiscal '21 and incorporated in our target model for fiscal '21.

Quarterly factors, so let me summarize the quarterly factors we anticipate for upcoming Q1 also provided in our quarterly deck on the IR website. On a year-over-year basis, we expect Q1 fiscal '21 FX impact to be constant. Our revenues to increase high single digits and adjusted EBITDA dollars to increase in the low double digits.

Now turning to fiscal '21 target model. We published our model today, which, as a reminder, is included in our quarterly deck on the IR website. First, and for the first time, ARR is expected in the range of 80% to 82% of total revenues, up from our full fiscal '20 results of 78.2% of revenues. Also for the first time, Cloud Services and Subscription revenue to increase to a range of 41% to 43%, up from 37.2%. Our Customer Support will remain in the range of 38% to 42%. Off cloud revenues, License, to decrease to a range of 10% to 13% and Professional Services to decrease to a range of 6% to 9%. We're expanding our gross margin by 100 basis points to a range of 74% to 76%, and adjusted EBITDA margin rate also expanded to 37% to 38%. So let me provide more context of expansion of margins. Throughout our history, as the mix of License and Cloud has shifted, we

have continually expanded the gross margins, from 72.2% in fiscal '15 to 74.5% in fiscal '20. We expect this trend to continue as a cloud-first company, a rich install base of customers with high renewal rates, and high and expanding annual recurring revenue. Our cloud revenue should grow in the low double digits during fiscal '21 with gross margin target model ranges between 63% and 65%, aided by Carbonite in the low 80s gross margin, along with continued improvements to scale, mix and automation.

With respect to Customer Support, while revenues remained constant during fiscal '21, our expanded product offering, compelling features, including those designed with automation or upsell, will enable us to maintain and even slightly grow the gross margins for Customer Support. The expanded gross margin range of 74% to 76% will enable us to fully integrate Carbonite, expand our R&D investment to a range of 12% to 14% of revenue and deliver an adjusted EBITDA range of 37% to 38%.

And now for long term aspirations. As outlined in March in my earlier comments, growing annual recurring revenue and expanding margins has been a highly successful multiyear journey at OpenText.

We expect that trend to continue as reflected in our long term aspirations. So looking into fiscal '23, we're targeting adjusted EBITDA aspirations of 38% to 40% and reminding you of our plan to reinvest any margin gains above 40% into additional growth initiatives. Our long-term aspirations would include FCF. For fiscal '23, our FCF target is $900 million to $1 billion, and our OCF target is $1 billion to $1.1 billion.

For a tax update. The IRS matter is still in the appeals phase, and our resolve remains strong as we continue to vigorously defend our position.

Finally, turning to our dividend program. Today, we announced a quarterly dividend of $0.1746 per share, payable on September 25, 2020.

Organic growth on an annual and year-over-year basis. Annual recurring revenue, ARR, it remains and continues to be a key indicator of our organic growth. In constant currency, our ARR grew organically by 0.5% during fiscal '20. Total organic revenue was down 1.3% in constant currency during fiscal '20, impacted primarily by License volatility due to the pandemic and global macro environment, noting that we were tracking towards positive organic growth in fiscal '20 prior to the pandemic.

Now turning to ROIC, our return on invested capital, it was 17.6% compared to 18.7% last year, which remains within our target range to be in the upper teens.

So in summary, we humbly and proudly take our solid fiscal '20 results as a platform to strongly navigate the macro environment challenges into fiscal '21 and the long term. We believe we are well positioned to take market share regardless of economic environment. And finally, a special thank you to the entire OpenText community for their incredible efforts and to our shareholders whose trust and confidence we greatly value, and wishing each of you all safety and good health.

I would now like to turn the call over for your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Raimo Lenschow of Barclays.

Frank Joseph Surace - *Barclays Bank PLC, Research Division - Research Analyst*

This is Frank on for Raimo. Congrats on another really strong quarter. Just one for me on the customer conversation. So last quarter, you mentioned that the pandemic made things very binary, where if you had a need, you bought something and bought it very quickly. Could you give us a little bit more color on to how those customer conversations kind of progressed throughout the quarter?

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

Yes. I think, Mark here. Thanks for the question. Yes, just like I kicked off my introductory remarks on the script, the last 6 months have just made it very clear that digital technologies are the key to business resilience and durability. So we've seen very solid conversations around kind of core digitalization, the ability to support a work-from-anywhere environment -- so data management, collaboration, workflows, electronic signatures. So that's an area that we think that will continue to accelerate for us. Second is in the world of contactless and direct-to-consumer we've seen a real strong interest in our Digital Experience platform, which was another place of strength for us.

So the conversations on digital continue to accelerate. They are right in the core of our wheelhouse of Content Services, plus our technologies of work from anywhere and customer experiences and our customer experience platform, supporting direct-to-consumer and contactless activities.

Operator

Our next question comes from Stephanie Price of CIBC World Markets.

Stephanie Doris Price - *CIBC Capital Markets, Research Division - Director of Institutional Equity Research and Software & Business Services Research Analyst*

Good evening. Wonder if you could dig into the fiscal '21 revenue expectations a little bit more and I guess I'm talking about the puts and takes that led to an expectation of constant revenue growth, maybe specifically on the off cloud business and the cloud ex Carbonite?

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

Sure thing, Stephanie. Thanks for the plan -- thanks for the question. As we look into fiscal '21, we're -- we expect Cloud revenue to grow low double digit, Customer Support revenue to remain constant in the year and that sort of models out Annual Recurring Revenue to grow in the mid-single digits. And we're communicating today that we expect License and professional services to decline, sort of consistent with the broader trends in the software industry, impacted by the pandemic and the deferral by some companies of transactions here in the short term, airlines, auto, hospitality, retail, those industries are down for us.

But we're also seeing industries up like government, health care, manufacturing, work-from-home but the up areas don't offset all the down areas at this point. So we think it's prudent to kind of look at License and Professional Services to decline. And that brings us to total revenue, which we're expecting to be constant year-over-year. But if we get some help from the economy, we're hoping to get a few points of growth.

But that's more dependent on the economy than us. I'll also note, we are not losing to competitors, right? In fact, we see competitive strength. This is more driven by the demand environment than by a competitive environment. Within Cloud, we see Carbonite on plan. Our managed services remain strong. But the transactional volumes, as we talked about last call, did decline.

We're off our lows, and we're increasing again. But the new volumes don't completely offset the affected volumes, if you will. We haven't lost customers, and we're not losing to competitors. But again, we did see -- as we talked about last time, volumes were down -- we're off those lows now.

Stephanie Doris Price - *CIBC Capital Markets, Research Division - Director of Institutional Equity Research and Software & Business Services Research Analyst*

Okay. Great. That's good color. And then in terms of Carbonite, it sounds like it's still doing well. Can you talk a little bit about the demand you're seeing, especially in the SMB market there?

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

Yes. We've -- the business has been incredibly resilient in our first 6, 7 months of owning it. We -- winding back to December when we closed the transaction, our thesis was that it's not just the cloud alone, it's cloud plus the edge. And no edge, no cloud; no cloud, no edge. And here we are, we're all on the edge, so to speak, working from everywhere.

So the two go hand-in-hand, and we really like the technologies of data protection, threat intelligence, threat protection, and having those technologies available from work from anywhere. So we're pleased with our progress. We're on target to complete the integration here in fiscal '21. The business has been on our internal plan. The SMB channel has been very resilient and we've actually -- in one of the areas of where demand is up, it's actually our work-from-home technologies, work-from-anywhere technologies. So we're very pleased with our progress.

Operator

Our next question comes from Thanos Moschopoulos of BMO Capital Markets.

Thanos Moschopoulos - *BMO Capital Markets Equity Research - VP & Analyst*

Mark, just expanding on Carbonite, clearly much stronger than you'd expected. So was that more about churn holding in better than you expected or new customer activity being stronger-than-expected or a combination of both?

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

Yes. It's a basket of activities. The -- overall, the business has been amazingly resilient here during the pandemic. The -- let's take it in its pieces. The OEM part of the business, BrightCloud, been very resilient. In fact, we've added here in the first 6 months, a few dozen new embedded partners. The SMB channel, our channel is probably a little more resistant than others since we have larger RMMs that help consolidate SMBs for us. Renewal rates for end consumers have been very strong, given work from anywhere. And our new kind of direct marketing activities has shown some early signs of promise. And actually, Thanos, as we come into fiscal '21, one of our big efforts is cross-selling and having our enterprise teams now bring Carbonite to the enterprise. We're also on plan on all our integrations, systems, people, et cetera. So it's a combination of renewals, combination of some new demand of work from anywhere and some early signs of cross-selling into the enterprise.

Thanos Moschopoulos - *BMO Capital Markets Equity Research - VP & Analyst*

And you mentioned launching Core and Hightail through the channel. What about the timing of that? And how may the pandemic affect the uptake you might see in that regard?

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

Yes. It's like the start of any new fiscal year, gives you an opportunity to do new things and align your organization. So we launched in July, just a few weeks ago. Having our SMBC teams bring Core Share, Core Signature and Hightail through the SMB channel. So we've only been at it for a few weeks. But it's very relevant and applicable in a very leverageable sales play from how they bring Carbonite and Webroot to market. So we've only been at it for a few weeks, and we'll keep you updated as we go along here in fiscal '21.

Operator

Our next question comes from Paul Steep of Scotia Capital.

Paul Steep - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Mark, could you talk a little bit about what changes, if any, you've made to sales comp or key metrics that might be looking to drive greater cloud revenues into fiscal 2021 and maybe further deemphasize the license side of the business?

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

Yes, Paul, thanks for the question. We've had great stability in our sales organization, both the leadership or sort of field structure. We call them selling hubs, U.S. West, U.S. East, Canada, Southern Europe, we call them selling hubs, if you will. And we've had great stability in kind of our named account model, on the -- specifically in the enterprise. So as we come into fiscal '21, leadership, very stable, structure, very stable. We haven't changed our comp plans coming into fiscal '21. An AE is incented to hit an annual number that can be either retired through MCV, a guaranteed cloud contract or license.

And it's really driven by how the customer wants to consume. I've never believed that "back at Corporate" we can tell an AE in Toulouse, France and their customer in Toulouse, right, how they should consume. So we haven't made any changes. We certainly go in and advocate cloud-first in what we're doing. We have, though, made some changes around account prioritization. We're emphasizing a little less the affected industries like airlines and auto and spending more time on health care, government and manufacturing. But Paul, no changes to the comp plans coming into fiscal '21.

Paul Steep - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Great. One quick follow-up to that clarification. Embedded in the numbers next year with the further acceleration of cloud, is there an implicit assumption that 20.3 or the security offering actually force broader migration of the base?

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

We are a cloud-first company. We are -- it's very clear in our history of how we have transitioned to annual recurring revenue, which we expect for fiscal '21 to be between 80% to 82% of our business -- we're releasing every 90 days new product releases and we release first into the cloud. So customers -- we're still going to support customer choice of how they consume. We have one code line for cloud and off cloud. We release first into the cloud. There's great benefit to being in the cloud. It's our largest opportunity. We will, of course, continue to sell licenses and support hybrid, but it is a cloud-first world. And 20.3 certainly supports those principles.

Operator

Our next question comes from Richard Tse of National Bank Financial.

Richard Tse - *National Bank Financial, Inc., Research Division - MD & Technology Analyst*

Mark, I think you said you guys are still going to be active on acquisitions here. My question is, can you maintain the same level of cadence in terms of the number of deals, in terms of order of magnitude and can you also still pursue these larger opportunities, assuming this backdrop continues for another 4 quarters or so?

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

I believe we can. We have a very experienced team, very experienced processes, got a great leader, Doug Parker of the organization. We have our approach and methodology. We also know our markets intimately. And I mean, there are ample targets within our core markets of Content Services, Business Network, Digital Experience platform, Cyber Resilience and Advanced Technology. I wouldn't want to enter a new market segment at this point in time, while the pandemic persists. But Richard, we know our core markets extremely well. We know those competitors. We know their business models, and it is ample pipeline and opportunity for us.

So it's steady as we go on M&A. Our balance sheet is ready. Our team is ready. The pipeline is a little stronger, and we expect to deploy capital in fiscal '21. The pandemic isn't going to slow us down. Of course, our due diligence is going to include how COVID-19 has affected a potential target and their customers. So that's an important filter. But it doesn't slow down our -- hasn't affected kind of the target set for us.

Richard Tse - *National Bank Financial, Inc., Research Division - MD & Technology Analyst*

Okay. That's fair. I don't know if this is a fair question, but sort of looking at your investor deck that you had when you had the Investor Day down in New York. And sort of 2 of the growth drivers was, one, expanding into the G10K customer base and then, 2, expanding adoption within the install base of 74,000 customers. I don't know if it's fair given the backdrop, but can you give us maybe a sense of whether you're going to sort of push that -- those objectives out to your next Investor Day and looking into 2021? Or did you make quite a good progress on that in 2020?

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

Yes, I don't recall -- let me just get it. Had a little drink of water there. I don't recall the specific metrics -- Madhu, maybe you have them -- that we had in the New York Investor deck. But I can say, of course, 2 of our greatest enterprise sales opportunities is expanding the G10K, and we did expand coverage. One of the things we did in fiscal '20 is we put a new global account management team in place. And I'm really pleased and excited about that dedicated team looking at global accounts, and we expanded the coverage. I'll let Madhu kind of see if there was a specific number there. And Richard, cross-selling into the install base, the greatest opportunity is cloud. And continue to drive managed services, which is private cloud, cross-selling opportunities, like customer experience management, work-from-home technologies, Carbonite and other offerings and upgrading into 20.2 and 20.3. So G10K install base remains front and center for us for growth.

Madhu Ranganathan - *Open Text Corporation - Executive VP & CFO*

Thank you, Mark. And Richard, I was just going to add, if you look at our investor deck on Page 25, we continue to reiterate that as a goal in terms of doubling the coverage of Global 10K in the next few years. So like Mark said, absolutely front and center for us.

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

And Richard, it's also an important point, if I can just add to it. In a time of -- like this, it's important to leverage existing relationships. And that's why the install base is so important. We're a trusted provider. We have got a proven track record and being able to go into our install base and leverage that history, a track record of delivering benefits and balance sheet strength to sell the next module, the next platform is a long-term strength for us. And one that will help us gain share over smaller, less stable competitors.

Operator

Our next question comes from Paul Treiber of RBC Capital Markets.

Paul Michael Treiber - *RBC Capital Markets, Research Division - Director of Canadian Technology & Analyst*

In regards to the outlook for fiscal '21, in regards to the pandemic, do you see the headwinds of the delays from the pandemic weighing both equally on license and cloud for new bookings? Or are you seeing cloud demand is more resilient or even increasing, whereas the majority of the headwinds are on licenses?

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

Paul, thanks for the question. I'd say the following: renewals have been amazingly resilient for us, as you can see in the numbers. Renewals are not just support or -- it's the ability to get value from the software, it's ability to speak to experts, it's product updates, it's security, patches and update services. And as you can see in the numbers, that's been amazingly strong for us. Year-over-year growth, great margins, high renewal rates.

There is certainly, in a time of crisis, it has accelerated customer interest and time to value. So I would put the emphasis on time to value. So if we can show time to value in a managed service that could include a license, or time to value in our cloud, there's really a premium on time to value. And as you know, through time, we've been on an ARR and cloud transition, where back in fiscal '11, cloud was -- excuse me, license was near 30% of our business, and today, it's 13% of our mix. So I think the pandemic is revealing the need for time to value. And we still can provide that regardless of the way a customer consumes. But it also does put a bit of an emphasis on cloud because typically, you can get time to value in our managed service or in one of our SaaS offerings.

Paul Michael Treiber - *RBC Capital Markets, Research Division - Director of Canadian Technology & Analyst*

And then following up on that, Cloud Editions just launched. How is the pipeline building versus your expectations? And how -- in terms of bookings or MCV for cloud products this past quarter, maybe without providing a specific number, but just how was the new deal close environment for cloud this past quarter?

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

As you -- so with 20.2 and now 20.3 almost here, the reaction 20.2 has been really very favorable. We were on these EP releases and getting features out. And you see it in the renewal rates, just how strong they are. You also see it, in I think, a strong cloud number from fiscal '20. So customers have really liked our ability to release quickly -- we're getting better at having customers be able to consume it very quickly.

And we've solved for releasing every 90 days. We've solved for having it run anywhere with 2 containers. We're now solving for the ease of consumption and the automatic way to turn on new modules. So first take is very, very positive. And as I highlighted in script, I think this is a long-term differentiator for us. But if you think about the series of things, it's getting the time down, it's getting the features up, it's getting it to run anywhere. It's now turning into the ability to consume it much more quickly and automatically turn on new capabilities.

Operator

This concludes the question-and-answer session. I will hand the call back over to Mr. Barrenechea for closing remarks.

Mark J. Barrenechea - *Open Text Corporation - Vice Chairman, CEO & CTO*

All right. Well, look, I'd like to thank everyone for joining today's call. And again, I wish everyone all health, well-being, and happiness and look forward to continuing to engage here in the coming days and weeks and seeing you digitally at our upcoming conferences. Thank you for joining today's call.

Operator

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