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OTEX.TO - Q3 2021 Open Text Corp Earnings Call

EVENT DATE/TIME: MAY 06, 2021 / 9:00PM GMT

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PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the OpenText Corporation Third Quarter Fiscal 2021 Earnings Conference Call. (Operator Instructions) The conference is being recorded. (Operator Instructions)

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

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 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 would like to take a moment and direct investors to the Investor Relations section of our website, investors.opentext.com, where we have posted our consolidated investor presentation that will supplement our prepared remarks today. The presentation includes information and financials specific to our quarterly results, notably our updated quarterly factors on Page 7 as well as a strategic overview.

I'm pleased to announce that OpenText management will be participating at the following upcoming conferences: CIBC's Technology and Innovation Conference on May 12, Needham Technology and Media Conference on May 18, Barclays America Select Franchise Conference on May 19, Bernstein's Annual Strategic Decisions Conference on June 4, Bank of America Merrill Lynch Global Technology Conference on June 8, the Baird Global Consumer Technology & Services Conference on June 9 and NASDAQ's Virtual Investor Conference on June 15. We look forward to virtual meeting with investors in the coming days and weeks.

I will now 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, including in relation to the current global pandemic that may project future performance results of OpenText are contained in OpenText's recent 10-Q and 10-K 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.

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

And with that, it's my pleasure to 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. What a difference a year makes. Today, we are announcing the strongest 12-month period in the history of the company. The global economic outlook has significantly improved. U.S. GDP projections are strong, and we are in a new product cycle with OpenText Cloud Editions, and we just have passed 1 billion COVID vaccinations globally. We have endeavored, over the last year, to help our customers own and deploy digital capabilities. We have purposely leveraged the last year to accelerate innovation, increase our spending in innovation, transition to modern work, get more efficient and dramatically strengthen our go-to-market.

On our last earnings call in February, we spoke about green shoots. And at our Investor Day in March, we laid out our growth road map for fiscal '21, fiscal '22 and our fiscal '24 aspirations. And you can see our strong progress from within Q3 with ARR organic growth of 3.6% and cloud services organic growth of 4.5%. Volatility is still present, of course, but we are on the offense and investing in our growth trajectory. Our business is back to pre-COVID levels, except for some portions of automotive, and our confidence is high as we look to complete fiscal '21 with a return to organic growth and upward trajectory into fiscal '22.

What a difference a year makes, and let me unpack this a little more. I'm deeply optimistic. The number of vaccines is growing daily and vaccine rollouts provide reason for optimism in many regions. But the world does remain in a pandemic, and where you're located will impact how you are experiencing it right now. In our major markets, vaccines are generally becoming more available, improvements in reopenings are accelerating. The International Monetary Fund is calling for 6% growth globally in 2021 and another strong growth year in 2022, and the markets in which OpenText participates could grow even more strongly than this. And finally, we are watching the U.S. infrastructure bill proposals with great interest as OpenText should benefit from increased investments in many of these sectors: transportation, telecom, water utilities, supply chains and hospitals.

While the arrows are pointing upward, we recognize that economic recovery may be uneven and will vary by country due to the ongoing pandemic and other events like the global chip shortage. But let me leave you with no doubt that the positives now significantly outweigh the negatives. Our amazing foundation in future is based on a large and growing addressable market within information management, where we are the market leader, 80% plus recurring revenues. We have an enterprise install base of 75,000 customers; an expanding SMB and C channel through RMMs, MSPs and VARs; a comprehensive go-to-market that includes direct, partners, channel and digital, to service customers of all sizes, supported by our new Digital Zone. We have increased investments in sales. By the end of calendar 2023, we'll have full coverage of the Global 10000; increased investment in R&D over the next 5 years, we'll invest $2 billion plus in innovation; a 90-day product release cycle that continues to rapidly bring new capabilities to market; our new Grow with OpenText program that defines clear value path for our customers and growth paths for OpenText; reduced friction and presales, sales, post-sales and back-office operations via our Digital Zone; a disciplined M&A strategy. This foundation in future is based on, again, approximately $1.5 billion in cash and growing; and an economy that is projected to have strong GDP growth in the markets that matter to OpenText.

Let me spend some time on Q3. We had another exceptional quarter highlighted by revenue growth, margin expansion and strong renewal rates. Many of our quarterly metrics are at historic highs, and let me walk through the results on a year-over-year basis as reported, unless otherwise stated. Total revenue of $833 million, up 2%, the highest Q3 in history, with ARR organic growth of 3.6% and cloud services organic growth of 4.5%. Total cloud revenue of $356 million, up 5%, the highest cloud revenue quarter in our history, as cloud remains our largest revenue contributor. The strength in cloud was led by our enterprise content services business and continued increase in business network volumes.

Customer support revenues of $336 million, up 4%, the highest customer support revenue of any quarter in our history; ARR of $692 million, up 4%, 83% of total revenue, the highest quarter in our history on a dollar basis; adjusted EBITDA of $297 million, up 15% year-over-year and 35.7% on a margin basis. Operating cash flows were $63.6 million and free cash flows were $50.3 million, which includes the IRS payment of $290 million within the quarter. We have over $2.2 billion in cash and committed liquidity at our immediate disposal.

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I also want to highlight Q3 wins. We have a new battle rhythm created during the pandemic. Our process and our speed enable us to bring new innovations and capabilities to customers every 90 days. This is clear differentiation first to our competitors and is a driver of many of our key customer wins. Let me highlight a few: The Royal Bank of Canada, the second-largest bank in Canada selected the OpenText business network for commercial lending in a public cloud environment; Maersk, the largest container shipping company in the world selected OpenText enterprise content management with integrations to SAP and Microsoft 360 for better global records and invoice management in a hyperscaler environment. Look no further than the Suez Canal for the importance of real-time information; United Nation's Refugee Agency, the UNHCR, is deploying our extended ECM product in an OpenText cloud-managed services environment, enabling connection as well for Microsoft applications; Archer Daniels Midland, one of the world's largest food processing and commodities tradings company selected our new cloud API services to connect its OpenText content system to its Salesforce.com deployment; Dell renewed and expanded their commitment to the OpenText business network to help manage their growing supply chain; Johnson & Johnson upgraded their content suite platform and are migrating into an OpenText cloud-managed services environment; Uniper, based in Germany, one of Europe's largest power producers, selected our core archive cloud API services that connect to their SAP applications; Perrigo, a major Ireland-based manufacturer of private label, over-the-counter pharmaceuticals, selected the OpenText cloud content in a win over Veeva; and Deutsche Pension selected OpenText enterprise cloud for personalized statement and communications to their stakeholders. Our 90-day innovation battle rhythm is clearly helping us win and win in key accounts.

Let me turn my remarks to our unique retain, grow and acquire total growth strategy. On retain, we delivered another exceptional quarter with customer support renewal rates at 94%, and our cloud renewal rates, excluding Carbonite, at 93%. I want to highlight the important enhancements we have been making to drive growth and increase customer value in this portion of our revenue. It is no longer just a maintenance business. It is turning into a customer value service. Our customer support customers can now receive warranty services, product updates, enhancements, upgrades, new versions, enhanced 24/7 support, full access to our digital knowledge base, security updates, compliance updates, privacy updates and other enhancements. This suite of offerings in the 90-day release cycle increases the overall value of our product and service offerings. We believe this offering will drive higher customer satisfaction and continued growth in our customer support business.

Onto grow. We announced Grow with OpenText at Investor Day. Grow with OpenText is a set of programs that brings together everything our customers need to transform their business, accelerate their growth, engage with their communities and stay ahead of the competition. Our Cloud Editions is built on a single technology platform that enables customer choice through 4 different deployment options: off-cloud, private cloud, public cloud and our cloud API services. Here are the strategic programs for Grow with OpenText. For off-cloud customers, we are offering enhanced long-term extended support programs and now on-premise managed services, 2 brand-new revenue opportunities for OpenText. For customers that want to deploy Cloud Edition in OpenText private secure cloud, our managed service offering is ideal. We added 75 new private cloud customers in the quarter.

We are already 100% available on the public cloud with our security and business network clouds. Content Cloud will be available in Cloud Editions 21.4 and our Experience Cloud in Cloud Edition 22.2. Some notable areas of strength in the quarter included Core Capture, Core Capture for SAP and Core Archive for extended ECM. We have added a new go-to-market, information management-as-a-service via our cloud API services. There are over 25 services available today at developer.opentext.com. This is an important part of our future growth.

At the forefront of our Grow with OpenText program is our cloud-based engagement platform, the OpenText Digital Zone. Available today, the Digital Zone allows us to connect with customers and prospects for events, seminars, presales, design, proof-of-concept, support and renewals. We do this digitally today. The OpenText Digital Zone will ultimately automate the vast majority of our customer engagement and allow us to help scale revenues nonlinear to expense.

And lastly, in our Grow with OpenText set of programs is our Voyager Learning Services program that brings more professionals into the OpenText ecosystem with skills, training and certifications. With the release of OpenText Cloud Edition 21.2, we have never been better positioned to capitalize on some of the most powerful post-pandemic trends.

I'm going to spend a moment and just highlight our 5 clouds. Content Cloud. The modern workforce wants control of their time and space. The workforce is forever changed. Employees want to have simple access to accurate and timely information to do their jobs wherever they are, whenever they want it, for whatever device they are using, in whatever language they communicate in. With the majority of business planning as a permanent shift to remote or hybrid work, organizations must support the modern worker while simultaneously organizing their data to extract

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business insights and comply with record retention and customer privacy regulations while enabling product management, collaboration, sharing, capture and e-signature.

Business Network Cloud. Supply chains are constantly changing based on demand and supply and externalities. From the current global chip shortage, which is hurting auto manufacturing, to U.S.-China trade tensions, the recent blockage of the Suez Canal, pharma supply shortages and logistics today, supply chains have been under pressure to not just change but to transform and, in many cases, regionalize. With 21 of the 25 largest global supply chains as customers, OpenText is the clear market leader. OpenText is in the early days of helping customers evolve and transform their supply chains to become more real-time, more local and more sustainable while simultaneously remaining compliant with global tax and tariff regulations.

Onto our third cloud, Experience Cloud. As engagement becomes digital, customers are demanding a more customer-centric, seamless, personalized and exceptional service. And they are less forgiving of sub-par interactions. I have always called this the Internet of Me. Digital Technologies enable businesses to engage with their customers every touch point to wow their customers. The OpenText Experience Cloud is an exciting part of our future growth and fully complements our thinking on information management.

Security and Protection Cloud. During the pandemic, the number of off-cloud end points and remote workers skyrocketed and cyberattacks increased by 5x. The OpenText Security and Protection Cloud provides the foundation for best-in-class cybersecurity, data protection, digital forensics and end point security solutions for businesses of all size. We are committed to expanding our security business over the long term and providing the necessary protections for the edge, for the Core and for the cloud for secure information management.

And our last cloud, the OpenText Developer Cloud. The modern developer needs to deliver fast, reliably and at scale, making it critical to select the right partners early in their innovation cycle. OpenText Developer Cloud provides information management-as-a-service, making it faster and easier to build, extending customized IM applications, using the collection of cloud services, APIs and SDKs. The OpenText Cloud API Services, or iMaaS, is already showing big wins and is opening a new route to market for OpenText.

Overall, cloud growth remains our largest opportunity, and we are still in the early days of Cloud Edition adoption with approximately 20% of our customer base on the new platform. Cloud Editions accelerates our ability to cross-sell, upsell and enable self-service access to more of our portfolio.

On acquire. We are committed to our M&A playbook, patient, disciplined, value-based buyers with return-based metrics and cash flows as key criteria. We always take the long view, and I encourage you to look at our annual rate of revenues we have onboarded via M&A over the last decade. Our liquidity, cash flow and balance sheet remains strong, our M&A pipeline is healthy and we'll deploy capital when the right opportunity arises. Our continued cash flow and cash flow generation only enhances our financial position. We are very confident in our unique total growth strategy of retain, grow and acquire.

Let me turn to our financial outlook. At Investor Day, we laid out our growth strategy for fiscal '21, fiscal '22 and our aspirations for fiscal '24 based on, as I said, above our Grow with OpenText program, the strength of our new Cloud Editions, continuous improvements in our own execution and optimism in the global economy. Today, based on our organic growth within Q3 and other factors, we're updating our financial outlook with an increase to our cloud revenue outlook.

Let me summarize. For fiscal '21, total revenue growth of mid-single digit. Today, we are increasing our full fiscal '21 cloud revenue growth outlook to a range of 18% to 20% from the previous high teens, and we remain confident that we will deliver ARR organic growth here in fiscal '21. For fiscal '22, total organic revenue growth of 1% to 2%, organic cloud revenue growth of 3% to 4%, and we will comment on our fiscal '22 outlook on our next earnings call. But today, we can see even more green shoots happening in fiscal '22.

Our fiscal '24 long-term aspirations: sustained total organic revenue growth of 2% to 4%, ARR of 85%, adjusted EBITDA between 38% to 40% and free cash flow of $1.1 billion to $1.2 billion. And of course, any new M&A revenues or new margin dollars and new cash flows from M&A would be additive to the above outlook. The above F '22 outlook and F '24 aspirations are organic, and they do not include any benefits from future M&A at this point in time. Madhu will comment as well here in a few moments.

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On our value-creation strategy, it is predicated on growth, profitability and capital efficiency. Growth, profitability and capital efficiency. We have built a company that continues to deliver growth, upper quartile profitability and cash flow regardless of the economic environment. This strategy enables us to drive shareholder returns through stock price appreciation, dividends and periodic share buybacks. With this financial outlook, we could generate $5 billion plus in free cash flows over the next 5 years. That capital will enable great flexibility within our total growth and value-creation strategies. Today, I'm pleased to announce that the Board of Directors has approved our quarterly dividend of $0.2008 per share for holders of record on June 4, 2021, with a payment date of June 25, 2021.

Before I turn to my summary comments, let me touch on the back to workplace and corporate citizen initiatives here at OpenText. The past 12 months have been truly extraordinary, a shared journey. When our employees began to work from home last March, we didn't know how long this would last or exactly how we would adapt. We have shown that our productivity is up, our innovation has accelerated, and we are growing. We have heard from our employees that they value and appreciate the flexibility that working from home is providing. The pandemic has forever changed the nature of work. Employees want more control of their time, more control of their space and more personal advancement. OpenText remains in a voluntary work from anywhere through the end of this calendar year, and this approach is clearly working for our customers and for our employees.

We have also began a phased return to the workplace, safely, of course, as per governmental rules and guidelines. We have also dedicated and decided that our return to the workplace will include a new flex work approach, that means providing our employees the option of weekly flex days in the office.

On corporate citizenship. Last August, we published our foundational report, which reflects our corporate beliefs and culture of doing well by doing good and utilizing technology for the good. We continue to learn and improve. In the next corporate citizenship report, which we expect to publish this August, you will see the OpenText employee relief fund expanded to USD 3 million to continue to support our employees an event of hardship incurred because of the pandemic; the expansion of our equity, diversity and inclusion programs; and we are adopting the GRI reporting framework so we can more clearly articulate and measure our amazing investments and progress.

In the past 12 months, we have experienced great disparities and fissures, not just at home, but also around the world. This has deeply impacted me and the OpenText leadership team, and we are redoubling our efforts to do good to create sustained positive change while doing well as an organization. The corporate citizenship report and our initiatives are so important to us. The last 12 months have been the best financial performance in the history of OpenText, and our forward momentum is even stronger.

In closing, let me summarize. We delivered another exceptional quarter led by organic growth in cloud and ARR. Our cash, cash flow and liquidity keeps getting stronger. We have increased visibility into the impact of the global economic recovery of our business, and this is creating upward momentum in our future outlook. We will benefit from any secular trends, including modern work, modern experiences and a transformation of global supply chain. We are a cloud-first company with the best product portfolio in our history. We continue to invest in the drivers of future growth, and we have a great workforce that is increasing innovation cycles during the pandemic and leading the way to modern work.

On behalf of OpenText, I'd like to thank our shareholders, loyal customers, partners and 14,000-plus dedicated employees across the globe for their contribution to this success. I am so proud of our culture and resilience in our employees that we can see them demonstrating every single day. What a difference a year makes.

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. OpenText delivered another strong quarter of results driven by our investments in organic growth on a strengthening base of operational excellence. We expect this momentum to continue in fiscal '22. I will speak to Q3, Q4, our quarterly factors, our fiscal '21 total growth strategy, our fiscal '21 annual target model ranges, our '22 outlook and our long-term aspirations, all as outlined in our Q3 investor presentation that is posted on our IR website today. All references will be in millions of USD and compared to the same period of the prior fiscal year, unless otherwise stated.

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And let me start with revenues. Total revenues for the quarter were $832.9 million, up 2.2% or down 0.8% on a constant currency basis. There was a favorable FX impact to revenue of $25 million. The geographical split of revenues in the quarter was Americas, 61%; EMEA, 31%; and Asia Pacific, 8%. Year-to-date, total revenues were $2.4926 billion, up 9.2% or 7.1% on a constant currency basis. Q3 annual recurring revenues were $691.8 million, up 4.4% or up 1.7% on a constant currency basis.

As a percent of total revenues, ARR, annual recurring revenue, was 83% for the quarter, up from 81% in the third quarter of fiscal '20. Year-to-date, annual recurring revenues were $2.047 billion, up 15.3% or up 13.5% on a constant currency basis. As a percent of total revenues, year-to-date, ARR was 82%, up from 78% in the first 9 months of fiscal '20. Q3 cloud revenues were $355.8 million, up 4.8% or up 3.1% on a constant currency basis. Our cloud renewal rate, excluding Carbonite, was approximately 93%. Year-to-date, cloud revenues were $1.047 billion, up 26.9% or up 25.7% on a constant currency basis. Q3 customer support revenues of $335.9 million, up 4% or up 0.3% on a constant currency basis.

Our customer support renewal rate for Q3 was 94%. Across the business, our renewals performance remained strong. Year-to-date, customer support revenues were $999.8 million, up 5.2% or up 2.9% on a constant currency basis. Q3 license revenues were $76.3 million, down 5.9% or down 10.9% on a constant currency basis. Year-to-date, license revenues were $252.2 million, down 15.1% or down 18% on a constant currency basis. Q3 professional services revenues were $64.9 million, down 9% or down 13.3% on a constant currency basis. Year-to-date, professional services revenues were $193.3 million, down 8.1% or down 11.1% on a constant currency basis.

Q3 GAAP net income was $91.5 million, up compared to net income of $26 million in the prior year and primarily driven by higher revenues, lower operating expenses as well as debt extinguishment costs incurred in Q3 of fiscal '20. Year-to-date, GAAP net income was $129.4 million compared to net income of $207.8 million in the prior year, primarily driven by the tax expense relating to the IRS settlement, partly offset by higher revenue. Q3 non-GAAP net income was $204.5 million, up 23% or up 16.9% on a constant currency basis. Year-to-date, non-GAAP net income was $706.9 million up 24.7% or up 20.5% on a constant currency basis.

Q3 GAAP earnings per share diluted was $0.33, up from earnings per share diluted of $0.10. Year-to-date, GAAP earnings per share diluted was $0.47, down from $0.77, also driven by the tax expense related to the IRS settlement. Q3 non-GAAP earnings per share diluted was $0.75, up $0.14 from $0.61 and up $0.10 on a constant currency basis. Year-to-date, non-GAAP earnings per share diluted was $2.59, up $0.50 from $2.09 and up $0.41 on a constant currency basis.

Turning to margins. GAAP gross margin for the quarter was 68.6%, up 320 basis points. Year-to-date, GAAP gross margin was 69.4%, up 190 basis points. Non-GAAP gross margin for the quarter was 75.2%, up 190 basis points. Year-to-date non-GAAP gross margin was 76.3%, up 230 basis points. For GAAP gross margins by revenue stream, please refer to our Q3 fiscal '21 10-Q report. Also, on an adjusted basis for the quarter, cloud margin was 65.4%, up from 62.5%, driven by continued improvement in our cloud service delivery and strong contributions from Carbonite. Year-to-date, cloud margin was 66.4%, up from 59.7%.

For the quarter, customer support margin was 90.9%, up from 90.1% and reflecting continued strong renewal performance. Year-to-date, customer support margin was 91.2%, up from 90.5%. For the quarter, license margin was 96.3%, down from 96.9%, primarily due to higher third-party technology costs. Similar trends on a year-to-date basis as well. For the quarter, professional services margin was 23.5%, up from 21.2% and reflecting the ongoing benefits from remote and cloud-based deployments. Year-to-date professional services margin was 26.7%, up from 22.2%.

Adjusted EBITDA was $297.1 million this quarter, up 14.5% or up 9.9% on a constant currency basis. This represents 35.7% margin up from 31.8% in the same quarter last year. Year-to-date adjusted EBITDA was $1 billion, up 20.4% or up 17% on a constant currency basis. This represents 40.1% margin, up from 36.4% during the first 9 months of fiscal '20.

Turning to operating and free cash flows. Operating cash flows were $63.6 million and free cash flows were $50.3 million, which include an IRS settlement payment of $290 million. Operating cash flows were very strong in Q3. Our DSO was 44 days for Q3 fiscal '21 compared to 51 days in Q3 fiscal '20. The year-over-year reduction of 7 days is significant and it reflects our consistent efforts to improve collection efficiencies and other aspects of working capital via the cash conversion cycle. Our next milestone in fiscal '22 will be automation within the working capital framework to maintain these well optimized levels of performance. With higher efficiencies of capital spend, free cash flow generation also remained strong in the quarter.

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From a balance sheet perspective, we ended the quarter with approximately $1.5 billion in cash and supported by a strong cash flow performance. We have the $750 million revolver undrawn and fully available, bringing our total liquidity to $2.2 billion. Our consolidated net leverage ratio is 1.57x, a slight improvement from 1.6x last quarter. This is a strong place to be. A balance sheet that positions us well to execute on our total growth strategy.

Now turning to quarterly factors, total growth strategy and annual target model, all available in the Q3 fiscal '21 investor presentation on our website. As a reminder, we view our business as annual and quarters will vary. Our long-term value is created from sustained annual performance. 90-day cycles are too short to measure. For quarterly factors, for the fourth quarter fiscal '21 and compared to the same period in the prior year, we expect the following: expect Q4 FX cadence similar to Q3; total revenue growth up to 2%; annual recurring revenue, ARR, up low single digits; adjusted EBITDA margin percentage down 300 to 400 basis points. For our full year fiscal '21 total growth strategy, our fiscal year-to-date performance has been strong, and our leading indicators are pointing upwards. We are pleased to increase the cloud revenue outlook for the current fiscal year to grow 18% to 20% year-over-year versus our previous range of high teens. All other ranges remain unchanged.

For our full year fiscal '21 target model, we're reducing our capital expenditure spend target range to $55 million to $65 million from our prior range of $85 million to $95 million. A lower CapEx range is driven by broader partnerships with the hyperscalers for many parts of our business, while we continue to invest in our cloud infrastructure. All other aspects of fiscal '21 target models remain unchanged. We do expect to increase our investment in a variety of internal initiatives, such as the Digital Zone, nonlinear scaling of our processes and higher self-service, all towards a frictionless environment with tools and automation. I am truly excited that many of these initiatives are under my direct responsibility, including our CIO organization.

Our fiscal '22 outlook and fiscal '24 aspirations remain unchanged from our Investor Day presentation in March of this year as we continue to strongly execute against the growth road map. Our fiscal '22 outlook provides for 1% to 2% total organic growth and 3% to 4% cloud organic growth. For fiscal '24, we're targeting 2% to 4% total organic revenue growth, 85% ARR, adjusted EBITDA margin of 38% to 40% with a plan to reinvest any margin gains above 40% into additional growth initiatives, and free cash flow of $1.1 billion to $1.2 billion. All M&A remains additive to our outlook and aspirations.

Tax update. We note the recent development related to the Made in America tax plan proposed by President Biden and the ongoing considerations by the OECD. We do not anticipate any changes to our fiscal '21 tax rate nor any significant changes to our fiscal '22 tax rates, and we will continue to monitor these developments. During April, the Canada Revenue Agency, or CRA, issued a proposal letter to OpenText in connection with its audit of our 2017 tax year. The CRA is asserting certain aggressive technical valuation arguments would seek to reduce the fair market value of certain tax assets. I want to be clear that this is not similar to the prior IRS matter we have previously discussed. This CRA proposal has no initial cash impact, but rather could affect our tax rate in future years. That said, with the support of leading tax advisers, we strongly disagree with the CRA, and we intend to vigorously defend our position. All details are included in our Form 10-Q filed today.

So in summary, very well done to the OpenText team for delivering a solid Q3 and leading the way. We're excited about our future and the momentum that continues to build into fiscal '22. I wish you all continued safety and wellness.

I would now like to open the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Stephanie Price from CIBC.

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

Just wondering if you could give us more color on the uptake of CE. Where are you seeing the most demand? And how is the pipeline building there?

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

Stephanie, thank you for the question. As I said in the prepared materials, we have about 20% of our install base now on Cloud Editions, and that's very positive. I think, ultimately, the ideal sort of landing zone for us is about 50% of the install base that will migrate to cloud. All new customers come on the Cloud Editions. I think the ultimate landing zone is about half of our install base, we're at 20% today, so still significant opportunity in front of us. And we're also announcing our Grow with OpenText program that for those who decide to stay on Release 16 that we introduced a new extended support program at additional fees, and we're going to take our private cloud to on-premise. So we'll be able to do managed services on-premise for customers who want to maintain themselves on Release 16 longer, which is another revenue opportunity.

So we'll progress to about 20%. I think the ultimate landing zone is about half the install base, and we introduced new programs to support those who are either going to take a little longer to get there or will just run the life of their investment on Release 16.

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

That's good color. And then on the supply chain transformation, you mentioned that as a growth driver several times. Just wondering if you could talk a bit about the demand you're seeing in the business network and maybe some of the supply chain offerings.

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

Sure thing. I'll start at the headline, which is all our services are back to pre-COVID levels, except some portions of auto, and that's driven mainly by chip shortages and thus, wherever there is a temporary pause of some production. But I'm really excited to see our levels back to pre-COVID levels. Things driving demand, the return, right, to GDP growth, new activity for us in CPG, retail, health care, more micro payments volume over our network. And as we've stated, we think the longest -- one of the strongest drivers include sustainability. And we have new eco-friendly sustainability features of being able to look up suppliers and get scores and look at many layers, and we're also seeing regionalization. Canada has moved a certain pharmaceutical supply chains back to Canada. We're participating in the regionalization of auto supply chains in Germany. We're seeing certain manufacturing supply chains come back to the U.S., which we're going to be participating in some of those as well.

So I think it's a return to volume, certain industries that have just gained more TAM. It is regionalization and our long-term sustainability features that is driving the growth.

Operator

The next question comes from Raimo Lenschow from Barclays.

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

This is Frank, on for Raimo. I wanted to take a bit deeper into the raised guidance for cloud. So specifically, where are you seeing the most strength and confidence in the cloud business, both from a product and a customer vertical perspective?

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

Yes. Thank you, Frank. So it's sort of broad-based confidence right now. On our private cloud, as I said, we added approximately 75 new customers into our private cloud. And these are Global 10000 customers. So there's a continued need to provide these specialized environments, these private clouds that have very unique value propositions for them. And that includes content services, experience and some other things. Second, our new cloud API services. I highlight some of the wins previously. And then both network volumes coming back, were back to pre-COVID levels. And certain industries, as I noted, CPG, retail, health care, pharmaceutical sort of leading the way for us. So putting that all together has led us to our confidence in raising our total growth strategy for fiscal '21 where we now expect to see the cloud at 18% to 20% year-over-year percent growth.

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

Great. That's really good color. And then just on the Grow with OpenText program. I was wondering if you could provide some more detail into the customer conversations and feedback there so far.

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

Yes. It's been -- early engagement is quite positive. We announced it. We kind of gave an early preview in March at Investor Day. We intended to launch it with OpenText World Europe and then OpenText World Asia and then continue that sort of rolling thunder approach into July with our sales kickoff and start the new fiscal year. But we kind of accelerated it and previewed it at Investor Day. So early conversations are really positive. The first is that engagement with off-cloud customers and ensuring that they can get the full value for their investment in Release 16. So the 2 new services: extended support programs, which is a 20% fee that we're going to charge; and then we have bringing on-prem managed services to off-cloud customers. So those are the 2 new -- 2 brand-new revenue opportunities for off-cloud.

For private cloud, we're going to keep -- we believe in private cloud, some companies were in and out, then back in again. This is just a great opportunity. Customers gain unique value in their unique processes and don't want to move to kind of a more generic public cloud. We added 75 new private cloud customers. And from that point, you can integrate into our public cloud or go to the public cloud directly. Our security and business network products are 100% public cloud today. Cloud Editions 21.4, our content cloud, will be 100% public cloud. You'll never have to upgrade again in that 21.4, which will be available by the end of this year. Then Experience Cloud will be 100% public cloud in Cloud Editions 22.2, so we got great momentum there.

And then we got this brand-new market, which is we've turned our information management into APIs. And whether it be Twilio or other companies, Stripe and alike, who are just pure API companies, will be our product and platform company plus an API service company as well. And this is our Developer Cloud. And that's part of the Grow with OpenText program. So Frank, I'm -- you probably hear in my voice the excitement around these strategic programs. But the initial take from April and May, which is 2 months in, have been pretty positive.

Operator

The next question comes from Paul Treiber from RBC Capital Markets.

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

On the transition or migration to CE, could you speak about the unit economics? Typically, when you see a customer migrate, are you seeing expanded deployments and effectively higher AR run rate per account as a result?

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

Paul, good to hear your voice and thanks for the question. We certainly expect, over the long term, a multiplier effect, as you just noted. And the reason for that is you'll be on more standard product, you'll have less friction and you'll be able to turn on more services, whether it be capture, e-signature, project management, supply chain and -- or maybe you go to some API connectivity services as well. So we haven't talked about certain percentages of what that multiplier effect is. But we certainly expect a greater share of wallet and higher ARR from each customer that come onto Cloud Editions because of that less friction and multiplier effect, as you noted.

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

That's helpful. Shifting to M&A, you haven't made an acquisition in over a year or so. Looking back, and that's probably the biggest gap since probably Hummingbird back in 2006. Now I imagine that the market valuations have obviously run up over the last year. How are you -- you mentioned you're still looking to do acquisitions. How are you thinking about the environment right now in terms of valuations, in terms of your pipeline? What are the opportunities that you're seeing out there?

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

Yes, fair enough. It's a good question. Obviously, we're quite excited about our organic growth. And let me just state, at a high level, we're going to continue to acquire. So nothing has changed in that. M&A allows us to bring companies into filled green spaces for us that also add to future growth and revenue growth and future cash flows. We take a long-term view. Nothing's changed in our philosophy of disciplined and value based. Valuations are clearly higher today. And we're not going to participate in valuations where we can't get the return on invested capital or cash flow returns. So we'll continue to build our capital position, our cash position. As I said in the script, over the next 5 years, I'd expect to have a pretty good capital build of [$5 billion] (corrected by company after the call) in free cash flows on our current run rate.

I also noted that when you look at us historically, per fiscal year, we tend to onboard, on average, $200 million plus of revenues per fiscal year. That will happen this fiscal year, in fiscal '21, and has happened on average for the last 10 years, and our pipeline is healthy. We're at varying degrees of due diligence. And I'd expect, again, we're going to go over $200 million of M&A revenues in fiscal '21. And I'd expect to have meaningful acquired revenues in fiscal '22 as well, which are not part of any of our projections right now in our F '22 targets.

Operator

(Operator Instructions) The next question comes from Thanos Moschopoulos from BMO Capital Markets.

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

Mark, given what your share price is and your valuation relative to the peers, have you thought about being more aggressive on the share buyback? Or is the priority really to keep the power dry for M&A?

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

We -- as you can see in our Q from today, we did not purchase any shares last quarter. We have a share repurchase program available to us. And Thanos, we'll keep monitoring it. We'll see how the share price does tomorrow, of course, and in the coming week. But I like the capital build that we're going under right now. This is probably my third time I'm going to say it, but you look at our free cash flows. And of course, within the quarter, we had our onetime IRS payment. We're going to have a period of very strong cash flows based on all the efficiencies we gained over the last year as well as our incredible improvements in cloud margin and overall margin improvements for the company. I like the cash -- the capital build, and it's going to provide us a lot of flexibility in our thinking around how we return value. So keep watching this space, especially as we increase our cash flow.

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

All right. And then in terms of the CRA tax dispute, just any color in terms of the timing for how this may unfold. Would it be similar to the IRS in terms of the dispute process and the close process and probably a year or 2 or more before it gets resolved? Or how should we think about that?

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

Madhu will take the CRA question.

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

Yes. Thank you, Mark, and thanks, Thanos. As mentioned, we just received a proposal, right, and the CRA does set a standard process and timing. I will say, to us, time is less of a factor. We will take the required time to defend ourselves because we strongly believe in our position. And we do plan to defend ourselves vigorously for a successful outcome to OpenText.

Operator

I will now hand the call back over to Mr. Barrenechea for closing remarks.

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

Very good. Well, look, thank you for joining us today. We're excited about our Grow with OpenText program. And in that spirit, we have increased our outreach for the quarter and here in the short term, and we look forward to seeing you at CIBC, Needham, Barclays, Bernstein's, BofA and NASDAQ virtual. Thanks for attending today, and look forward to our ongoing discussions. Have a nice day.

Operator

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

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