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OTEX.TO - Q1 2022 Open Text Corp Earnings Call

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PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the OpenText Corporation First Quarter Fiscal 2022 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, Investor Relations. Please go ahead, sir.

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

Thank you, operator. Good afternoon, everyone, and welcome to OpenText's First Quarter 2022 Earnings Call. With me on the call today are 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 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 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 6 as well as a strategic overview.

Before I proceed with the reading of our safe harbor statement, I would like to inform you that we will be participating in several conferences in the coming weeks, including TD's Virtual Technology Conference on November 15, RBC's Global TIMT Virtual Conference on November 16, Needham's Virtual Tech Week on November 17, NASDAQ's Investor Conference on November 30, Credit Suisse Annual Technology Conference on December 1, BofA's Leverage Finance Conference on December 2, Barclays Global TMT Conference on December 7 and Raymond James Technology Investor Conference on December 8. Please reach out to any member of our Investor Relations team if you are interested in joining our schedule.

In addition, I'm also pleased to invite investors to OpenText's annual user conference, OpenText World, taking place on November 16 to the 18th. Investors are invited to explore our latest product innovations in information management during this 3-day virtual tech event. To register for OpenText World, please reach out to the IR team at investors@opentext.com. We look forward to our upcoming engagements with you.

And now for 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.

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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 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'll 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. Fiscal '22 is off to a great start as we delivered record Q1 revenues powered by organic growth, and we are on track for our fiscal '22 annual targets of organic growth and longer-term fiscal '24 aspirations. The OpenText approach to creating long-term shareholder value is a balance between total growth, profitability and capital returns. We are executing to our value creation approach.

In Q1, we delivered 3.5% organic revenue growth, 38.9% adjusted EBITDA, and we estimate free cash flow as a percent of revenues will be in the high 20s for fiscal '22, and we expect free cash flow dollars to increase significantly fiscal '22 over fiscal '21. Consistent with what you have -- consistent with what we have shared before, our bold ambitions remain: to be the leader in information management, to double our revenues over the next 5 to 7 years to $7 billion in annual revenues, to have at least 85% of our revenues recurring, to deliver an organic growth profile between 2% to 4% by fiscal '24, to maintain upper quartile adjusted EBITDA while investing any adjusted EBITDA above 40% back into growth, to generate $6 billion in cumulative free cash flows over the next 5 years and return 33% of our trailing 12 months free cash flows via dividends and buybacks.

As our free cash flow grows, so does our dividend and our buyback. This is a winning formula. Our solid execution reinforces our ambitions. And over the last few quarters, we have returned to organic growth. We established our fiscal '24 aspirations that illustrate an acceleration in organic growth. We have increased our R&D investment targets up to 14% of revenues. We are making additional fiscal '22 investments in people, go-to-market and digital initiatives to drive more future growth, and our trailing 12-month cloud bookings have now grown to double-digit rates.

We've accomplished a lot since we spoke to you. Specifically, we continue to successfully execute our cloud-led total growth strategy. We continue to see adoption of cloud Editions. Let me note, we added 89 new private cloud customers in Q1, such as CNA, Barnardos in the U.K. and Mitsui. We've expanded our relationship with Google and other hyperscalers. We renewed our normal course issuer bid for up to $350 million of common shares. We are renewing and updating our shelf offering for up to $2 billion of debt and equity securities. And I'll discuss in a few minutes, we will introduce the best and most comprehensive cloud products in the history at OpenText World in a few weeks.

Let me transition to our results for a first quarter. Such results were powered, as I said earlier, by organic growth. We delivered record Q1 revenue of $832.3 million, up 3.5% year-over-year or 2% in constant currency. Record Q1 annual recurring revenue, ARR, of $691.8 million, up 3.2% year-over-year or 1.7% in constant currency and 83% of our total revenue. Record Q1 [Cloud] (added by company after the call) revenue of $356.6 million, up 4.6% year-over-year or 3.6% in constant currency. Adjusted EBITDA dollars of $323.4 million at a 38.9% margin. Free cash flow of $163 million or 20% of revenue, reflecting our increased investments in talent, innovation and sales coverage to fuel future organic growth.

Let me speak to some amazing customer wins in the quarter. The OpenText Content Cloud, notable customer wins included BDO, one of the world's largest global accounting firms selected OpenText Extended ECM with integration to Microsoft M365 to improve information of governance by centralizing all the content management systems into a single platform, the OpenText platform.

Brenntag, an Essen, Germany-based global distributor of chemicals and chemical ingredients selected OpenText Extended ECM for SAP and M365 to collaborate, approve and process documents via digital workflows. And CNA Financial, I'm very pleased with welcoming CNA to OpenText, one

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of those largest U.S. commercial property and casualty insurance companies, a former FileNet customer selected OpenText to [provide] (corrected by company after the call) leading edge content service capabilities.

In the OpenText Business Network Cloud, notable customer wins included JCB, a Tokyo-based global payment company who selected our business network managed services to streamline processing and payment. Mastercard, we expanded our relationship, a global technology payments company with operations in more than 210 countries and territories, selected the OpenText trading grid managed services to help connect with more partners and more banks. And PepsiCo, the global beverage and snack company, selected OpenText to be their platform for information underneath SAP's success factors.

In the OpenText Experience Cloud, a notable customer win included AIA, the largest independent publicly listed Pan-Asian life insurance group, selected OpenText Core Experience products to orchestrate their customer communication events for marketing campaigns across the entire customer life cycle.

And the OpenText Security and Protection Cloud, notable customer wins included the U.S. Army Criminal Investigation Division. The primary federal law enforcement agency of the United States Army is now using OpenText EnCase Forensics to find, decrypt, collect and preserve forensic data for digital investigation. And TD, one of Canada's largest banks, is now utilizing our eVault products to migrate data out of their internal data centers to a secure cloud environment, the OpenText Cloud. And PG&E, California's largest utility is now using our Availability products to enable fail-over of call centers between data centers in the times of utmost urgencies such as forest fires in California.

On to OpenText World, you'll hear more from our customers, partners and industry experts at our annual conference, and I'd like to personally invite you to attend the event, the week of November 15. As Harry noted, please contact and reach out to Harry or Greg, and we'll get you registered to attend the event. We have a great speaker lineup, including keynotes from Dr. Neil deGrasse Tyson, a host of Cosmos and actual physicist at the Hayden Planetarium. I spent a little time with Neil last week. And as noted, he is now my personal astrophysicist. He just has an amazing thought for us at OpenText world.

And Arianna Huffington is also going to join us the Founder and CEO of the Thrive Global and the Huffington Post. Arianna has a very unique view of what the future of growth and the world looks like post pandemic.

You'll hear from some of our most important customers, including Shell, Dell, L'Oreal and the Academy of Motion Pictures.

In my keynote, I'm going to describe the 5 forces affecting every business. First, work is distributed, and traditional models of authority and collaboration are rapidly and permanently changing. Second, every business transaction is going digital. Third, customers and consumers are looking for a tailored 7-star experience. Fourth, for any business to thrive, security and privacy must be job #1. And the fifth force, and as we all define what the future of growth will look like, we know it needs to be inclusive and sustainable and more on that in a moment.

The response to these forces needs to be simplicity, which leads me to the theme of OpenText World, Be Digital.

Let me touch on a few OpenText Cloud highlights. The OpenText Content Cloud empowers customers to master modern work. We were once again recognized as a leader in the content services by Gartner for the 17th consecutive year. At OpenText World, we'll be introducing the most comprehensive update of the OpenText Content Cloud in our history with cloud edition 21.4 designed to empower distributed workforce, organizations which need to provide their employees or content in context. And the OpenText Content Cloud integrates with leading business applications from Salesforce to SAP, to Oracle, to dozens more, making it easy to collaborate and access information from anywhere in the organization, including Zoom, Teams, Chime and Hookup.

Some of the key highlights in this release is going to include an expansion of core content, expansion global salesforce, expansion to SAP S/4HANA, expansion with Microsoft 365, all as a SaaS offering, strengthened e-signature archiving and enhanced eDiscovery and information extraction capabilities. And we'll be providing a return to workplace playbook to manage all operational restart plans and procedures for companies. We'll be announcing new capabilities to the OpenText Business Network Cloud to help our customers digitize and modernize their supply chains.

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We were recently named again by IDC as a leader in the multi-enterprise supply chain commerce grid. At OpenText World, we'll be announcing new capabilities to our market-leading business cloud, new self-service capabilities that will make many of the enterprise products and features already being used by 24 of 30 largest supply chains available to a broader class of small- and medium-sized customers and increasing the serviceability components -- serviceable components of our overall TAM. Effectively, we're going to be taking our enterprise capabilities, making them self-service thus consumable by smaller-sized businesses. And this is right in the SPS Commerce competitive area. We'll also be adding new capability to support ethical supply chains and sustainability.

The OpenText Experience Cloud helps our customers power modern work experiences for their customers. At Google Cloud Next 21, we announced a new offering that deeply integrates the OpenText Experience Cloud with Google's marketing platform in data. We've -- we're off to just a great response to what we're offering. And this new offering combines our experienced customer data platform and OpenText Extreme and OpenText team site with Google's marketing platform. We hope to open up the entire click stream of Google to OpenText Experience Cloud customers.

In our June quarter, we'll be announcing this fully integrated as a SaaS offering in 22.2 for deployment in public cloud environments. The OpenText Security Protection Cloud helps our customers strengthen cyber resilience, and we are significantly enhancing our capabilities in detection and response offerings for the SMB market.

Specifically, we have recently introduced an OpenText managed detection and response service, also known as MDR, that pairs our best-in-class security with experienced security personnel. We are now providing MDR as a private cloud service. And we introduced this last quarter, and we're off to a great start with new wins at Webcor, SurveyMonkey and Ginkgo Bioworks. We've also introduced this service that combines the key capabilities of Webroot. And we're integrating leading capabilities from security providers such as Blackpoint and N-central. I'm very excited about our new MDR service in the Security and Protection Cloud.

Let me highlight the OpenText Developer Cloud, which is going to be front and center at OpenText World. It's the first information management as a service offering ready made for enterprise workloads via APIs. Our developer cloud enables developers to build the API economy faster and smarter. And with our recent release, 21.4, we are now offering more services, more consumption-based pricing packages and more privacy and security features. We have 20 available APIs from content workflow, redaction, archive, content analysis communications, threat analysis and more.

We'll be unveiling at OpenText World more capabilities in the cloud than off-cloud. It's an important milestone for us, more capabilities in the OpenText Cloud than off-cloud. Given this amazing milestone, I expect even more adoption of the OpenText Cloud in the future.

Over the next few quarters, we'll be deeply integrating Webroot and BrightCloud security services into our public and private clouds as well.

I want to spend a moment on our API cloud, which I'm really excited about because we're starting to gain critical mass. With our 20 fully featured services available, in October alone, we processed 98 billion requests. And we just introduced even a new service called Magellan Risk Guard as a new API service. Magellan Risk Guard works just like BrightCloud, send us a content stream or file, and we'll return a real-time risk score on that content. Does your content contain GDPR data, does your content contain credit card information, does your content contain critical and confidential information, just stream it to our API, and we'll return you back a risk score: 1, low risk; 10, high risk; 5, medium risk. But I want to emphasize, in October alone, we processed 98 billion requests to our 20 APIs. We will be an API company in the future.

Customers who run their business in the OpenText API Cloud now include companies such as CVS, Geico, Trinity Health, Novartis, the government of Ontario, Impossible Burger, F5 and Aruba. As I look at our future road map of Cloud Editions 22.1 through 22.4 or basically next calendar year, we'll be doubling down on security, migrations to the OpenText Cloud at low friction, scaling up our new MDR services, scaling up our API cloud services, more competitive replacements and continuing to help our customers consume the way they want to, off cloud, private cloud, public cloud and API cloud.

We also believe with deep purpose, as I mentioned earlier, that the future of growth needs to be both inclusive and sustainable. And I'll be putting forth at OpenText World the OpenText Zero Initiative, an initiative focused on zero waste, zero barriers, zero net greenhouse gases, zero friction and yes, zero IT because all companies really need is a router hanging on their wall connected to cloud-based services, such as the OpenText Cloud.

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We'll run our business this way. We expect those who partner with us to do the same and we'll help others through the OpenText Cloud create and deliver to their bold ESG outcomes.

Next, let me speak to outlook and M&A. We're on target to grow organically in fiscal '22, and Madhu will provide an update on our financial targets and aspirations in her commentary but let me spend a moment on some macro-observations. Customers are managing more complexity today than a year ago. The continued COVID-19 crisis and the unevenness of it, global supply chain constraint, shipping and transportation costs, sustained chip shortages, labor shortages and costs, and inflation, a lot of complexity. The OpenText answer to our customers is be digital. Automate, automate, automate in the OpenText Cloud.

All challenges are opportunities, right? So they must be viewed through the lens of automation. Labor pressures, automate; supply chain challenges, automate and gain visibility; inflation costs, remove costs and automate; manufacturing and transportation tightening visibility, automate. The OpenText answer to the increasing complexity in the world is Be Digital, which means automate, automate, automate in the OpenText Cloud.

Let me spend a moment on M&A. We continue to be very busy, proactive and ready to act for a target that meets our criteria. We have the management bandwidth and financial capacity to bring on new deals. We remain focused and disciplined and patient. In parallel, we continue to strengthen our balance sheet and continue to invest in products and systems to drive our organic growth and accelerate the integration and profitability of future acquisitions.

Let me conclude my prepared remarks. We are building on the foundation to deliver to our long-term aspirations on doubling the company. It took us 30 years to achieve approximately $3.5 billion in revenues, and we hope to double again over the next 5 to 7 years. That growth will deliver value, and we remain focused on our value creation approach that is a balance between total growth, profitability and capital returns. It is imperative that the future of growth is both inclusive and sustainable, and we intend to lead here with the OpenText Zero initiative.

We had our best Q1 revenues in our history, and we expect to deliver a fantastic fiscal '22 with total growth, organic growth, upper quartile margins and stated capital return goals.

On behalf of OpenText, I'd like to thank our shareholders, loyal customers, partners, employees around the globe for their contribution to this success, and I'm so proud of our culture and resilience. And please join us at OpenText World the week of November 15. 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. We had a strong Q1. We delivered another quarter of organic growth, kicked off our fiscal 2022 plan and intentional investments in the business, including talent, innovation, sales coverage and capacity expansion. Also in Q1, we internally mobilized a robust digital road map to support with technology, many of our organic growth initiatives. Our Q1 results and strong road map, including rapid quarterly releases of innovative Cloud Editions products to support the momentum in our cloud growth has given us a strong start to the fiscal year. All consistent with what we shared with you last quarter, we now have had a strong Q1 execution behind us to drive our fiscal '22 targets and fiscal '24 aspirations.

Starting this quarter, my commentary will focus on selected financial highlights as well as certain operational initiatives underway that will enable us to grow faster and scale our business. Please refer to our press release, our investor presentation and 10-Q posted on our IR website for more detailed financial data. All references will be in millions of USD and compared to the same period in the prior fiscal year.

So let me start with revenues. As a note, the growth rate I will share here are all organic growth. Total revenues for the quarter were $832.3 million, up 3.5% or up 2% on a constant currency basis. There was a favorable FX impact to revenue of $12.6 million. Annual recurring revenues for the quarter was $691.8 million, up 3.2% or up 1.7% on a constant currency basis.

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As a percent of total revenues, ARR was 83% for the quarter, the same as Q1 '21. Cloud revenues were $356.6 million, up 4.6% or up 3.6% on a constant currency basis. Our cloud renewal rate, excluding Carbonite, was approximately 93%. Customer support revenues were $335.2 million, up 1.8% or down 0.3% on a constant currency basis. Our customer support renewal rate was 94%.

Our license revenues were $73.5 million, up 7.3% or up 5.8% on a constant currency basis. The professional services revenues were $67 million, up 2.8% or up 0.8% on a constant currency basis.

As I note here, we achieved positive organic growth in both cloud and ARR during the quarter on a reported and constant currency basis.

I would also highlight that we saw double-digit growth in cloud bookings in the quarter on a year-over-year basis, and our expectation is that this momentum continues, supported by our investments in product innovation and go-to-market. We anticipate providing you more detailed cloud metrics beginning in fiscal '23. Clearly, the investments we have been making during the last several quarters in our organic growth initiatives are bearing fruit. We intend to continue to expand investment as part of our commitment to achieve our fiscal '24 expiration.

GAAP net income was $131.9 million, up compared to net income of $103.4 million in the prior year and reflecting lower amortization cost and COVID-related restructuring charges. Non-GAAP net income was $227.8 million, down 5.8% or down 6.6% on a constant currency basis, again reflecting our planned and intentional investments I spoke about earlier to support organic growth.

GAAP earnings per share diluted was $0.48, up $0.10 from earnings per share diluted of $0.38. Non-GAAP earnings per share diluted was $0.83, down $0.06 from $0.89 and down $0.06 on a constant currency basis.

Let's turn to margins. GAAP gross margin for the quarter was 69%, constant. Non-GAAP gross margin for the quarter was 75.7%, down 80 basis points due to specific royalty payments in the quarter as well as slightly higher investments in our cloud.

Adjusted EBITDA was $323.4 million this quarter, down 5.5% or down 6.2% on a constant currency basis. This represents 38.9% margin, down from 42.6% in the same quarter last year. Recall that Q1 fiscal '21 had COVID-related specific savings, while Q1 fiscal '22, our current quarter, includes higher investments. Specifically, in Q1, on an adjusted basis year-over-year, R&D expenses were higher by 6% and sales and marketing up by 10%. We are investing.

Operating and free cash flows. Operating cash flows were $189.7 million for the quarter. Free cash flows were $163 million for the quarter. During the quarter, free cash flows were impacted by 4 important items. First, cash outlays in Q1 for performance bonuses, commissions, incentives relating to our very successful fiscal '21. Second, our restoration of prior year's COVID-related compensation. Third, Q1 kicks off a planned and intentional investments for fiscal '22, as I outlined earlier. Fourth, increased CapEx and investments of stronger operations through digital initiatives, which I will expand upon a bit later.

We estimate free cash flows as a percentage of revenue to be in the high 20s for fiscal '22 and expect FCF dollars will increase significantly over fiscal '21. Our working capital is an essential element of our cash flows. Our working capital efficiency remains high with continuous improvements. DSOs were 40 days for Q1 '22 compared to 44 days in Q1 fiscal '21, and every other metric such as customer payment terms, collection efficiency index and cash conversion cycle, all higher on a year-over-year and sequential basis. Such a strong working capital engine gives us the confidence in our FCF aspirations and the ability to integrate a potential acquisition into our cash flow framework.

We're also introducing this quarter, see Slide 34 of our investor presentation, specific free cash flow metrics, including our FCF return on average invested capital which consistently exceeds the cost of capital, reflecting a consistent track record of strong cash flow returns and value creation. For our fiscal 2021, FCF to revenue was 24%, FCF to average total assets was 8.2% and FCF to average invested capital was 10.8%.

From a balance sheet perspective, we ended the quarter with approximately $1.7 billion in cash. We have a $750 million revolver undrawn and fully available, bringing our total cash and committed liquidity to approximately $2.5 billion. Our consolidated net leverage ratio is 1.36x, an improvement from 1.45x last quarter.

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Shelf capacity. Today, we're also announcing the renewal of our shelf offering for an aggregate of up to $2 billion in equity and debt securities. We are well positioned to move should the right M&A opportunity present itself.

Now let me turn to our share buyback plans and NCIB renewal. Today, we also announced the renewal of our share repurchase program, and we intend on purchasing from time to time up to $350 million of our stock over the next 12 months. As mentioned during our last quarter, we intend on purchasing sufficient stock to at least keep our share count flat in fiscal '22, while we remain flexible in our capital allocation for acquisitions.

Turning to quarterly factors. As a reminder, we view our business as annual and quarters will vary. I will add that while inflation is top of mind for all of us, at OpenText, we're watching the trends very closely as well as putting continuous measures in place. We have increased our investments in talent, hiring and compensation via merit increases and baked into our fiscal '22 target model. We'll continue to roll out annual pricing adjustments in our customer contracts. And we have a focused operational lens on all our spend which gives us the financial envelope to invest for organic growth, as I outlined earlier. Our cash flows, cash position, our leverage ratio, debt rate and maturity, leave a strong balance sheet.

For Q2, we expect year-over-year total revenue and ARR, annual recurring revenue, to be slightly up. FX to be slightly favorable. On a quarter-over-quarter basis, we expect in Q2 adjusted EBITDA dollars up and margin percentage constant. For fiscal '22 total growth strategy, target model and long-term aspirations, we remain confident in our target model and aspirations. Our fiscal '22 growth strategy, our fiscal '22 target model and our aspirations also as included in our investor deck, they all remain unchanged.

Our planned investments during fiscal '22, they remain critical during this journey to our aspirations. Our approach to profitability remains firm. Any profitability above 40% adjusted EBITDA margin will be invested towards future organic growth. On the dividend program, as part of our quarterly dividend program, the Board declared on November 3, 2021, a cash dividend of $0.2209 per common share. The record date for this dividend is December 3, 2021, and the payment date is December 22, 2021.

I'm going to close my remarks with some comments on operational excellence. At our Investor Day in March, we indicated that we were planning to make significant investments to reduce friction and increase scale and efficiency. These initiatives fall into 2 broad categories. The OpenText Digital Zone, which drives top line growth and includes higher self-service, higher online interactive education and support program; and DnA 2.0, digital and automation 2.0, has a set of approximately 20 major projects internally focused on organic growth-related programs from customer support to renewals, standardization to many levels of our professional service deployments while strengthening finance and support organization.

In summary, our planned and intentional investments during fiscal '22 in innovation, sales coverage, digital engagement and back-office systems leave us well positioned to drive organic growth, support the cloud momentum while our balance sheet and cash flow strength enable us to execute our dividend, buyback and M&A strategy.

Thank you to the entire OpenText team for another outstanding quarter. I would now like to open the call for your questions. Back to you, operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Raimo Lenschow from Barclays.

Unidentified Analyst

This is Jeremy on for Raimo. I was wondering if you could talk a bit about what kind of cross-selling opportunities you're seeing across the 5 cloud products? And maybe specifically with regard to the Security and Protection Cloud, if you've noticed like any sort of expansion with some of the SMB customers who came along as part of the Carbonite acquisition.

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

Yes. Thank you for the question. Let me just start a bit structurally on cross-selling. We've essentially recreated the business in our Cloud Editions, Content Cloud, Security and Protection Cloud, Business Network Cloud, Developer Cloud. And our cloud offerings are inherently integrated, where in the past, they were not -- a bit more -- more PS to get the integrated value. Through engineering and our new destination of Cloud Editions, it's easier to turn on module 2, 3, 4 and 5 than it is in the off-cloud world.

So I'm very excited about that kind of structural advantage we'll have going forward. We're focused right now in bringing customers up from a module to the full suite in their respective cloud. If you're using archive, get to the full content cloud. If you're using e-signature, which is a great add-on cross-selling opportunity, we want to get you to the full Content Cloud. If you're using our trading partners, go to the full Business Network Cloud that also allows you to use active community, active invoicing or sustainability module, et cetera.

So we're very focused on now that we have this destination of Cloud Editions, bringing customers from a feature or module up to the full respective suite. And then look, I think the destination ultimately across the entire portfolio, not any different than ERP, can we get 10% of our installed base using the entire cloud, if you will. But we'll focus on going from like module 1 or 2 into the full cloud suite.

In terms of SMB, the teams just made really great progress. We majorly have sold through RMMs historically through the Carbonite business, but we've been building up our direct MSP program. And roughly, we ended the quarter with about 16,000 active MSPs. And with our new MDR service, we're able to bring those now directly to MSPs and to RMMs but also -- but more so directly to SMBs. So the new thing that we're doing is we're focused on MSPs, and we've built up more capacity, and we have a new MDR service that we're bringing to MSPs.

Operator

The next question comes from Stephanie Price of CIBC.

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

Just following up on that question around the cloud, Madhu mentioned double-digit growth in cloud bookings. Just curious if you could talk a bit about what was driving that growth in bookings, whether it was specific services and also if there were any major wins that kind of drove that growth to?

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

Yes. Thanks, Stephanie. I'd point to a few things here. The first is our strategy is differentiated that for us, cloud is both off-cloud but with integrated services back into the cloud. It's private cloud, it's public cloud and it's our API cloud.

And as I noted in the script, we had a very strong quarter on our private cloud, about 89 new wins who are moving from off-cloud into the private cloud and they want to maintain the uniqueness of their sort of tailored environments and their deep integrations. We're seeing a nice competitive uptake against IBM. And with the carve-out of Kyndryl, every FileNet customer and Sterling Commerce customer has to now negotiate a new contract with Kyndryl. So if you were having a managed service with IBM for FileNet or Sterling Commerce, you no longer have that with IBM. You have to do that with Kyndryl. So we're seeing this as an opportunity to win business at some accelerated rates against IBM.

So Stephanie, we're going to have a lot of activity here. CNA, great example, big FileNet customer, didn't want to continue with Kyndryl, has come over to the OpenText Cloud. We're in the upper right for Gartner. IBM is in the lower left. We have a public cloud offering, they don't. We provide one SLA. You have to go to 2 companies now for IBM.

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So private cloud was a driver of growth. CNA is a great example of that. Our API cloud is picking up a little faster than I expected. And we almost did 100 billion service requests in October alone. So we had some nice wins, as I highlighted on the API side and also some more return to work also drove opportunity. So those are some places we saw some outsized growth, Stephanie, and led to those advanced bookings.

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

That's helpful color. And then I just want to switch gears on M&A. So the deck talks a bit about focus areas with high adjacencies to information management. Just curious if you could expand on this a bit and how you kind of think about breaking out that market when you look at M&A? And maybe one additional one is just if we should read anything into the increase in the shelf from kind of $1.5 billion previously to $2 billion.

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

Yes, very good. Look, we like the market we're in. Content services, business network, experience -- maybe a digital experience platform, security and protection and SMB. So both in the enterprise and in SMB. So I wouldn't -- I never like to highlight a particular kind of functional area or enterprise versus SMB, just except to say we like the market we're in. We like those adjacencies. We look for open spaces. We look for ability to expand customers or partners across that landscape.

As for the Canadian shelf prospectus, it was time to -- it was expiring in time to renew and commensurate with our market cap. We felt that upsizing it commensurate to our market cap, it's just been our practice through time. So with our market cap where it is, to commensurate to raising the shelf to $2 billion.

Operator

The next question comes from Thanos Moschopoulos from BMO Capital Markets.

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

Gross margins for license were a bit lower this quarter. I think I heard Madhu referred to royalty payments, maybe just if you could expand on that and just confirm that, that was a nonrecurring item.

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

Yes, Thanos, this is Madhu here. As I spoke about from a gross margin perspective, we did have slightly higher royalty payments on a couple of the license transactions we did, most specific to product related. As you can see, overall, the gross margin was still at 75.7%, I just want to call that out.

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

Okay. And just to clarify, when you talk about double-digit cloud bookings, is the metric there TCD, is that what you're referring to?

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

Thanos, this is Mark. Yes. We call it MCV, but it means the new booking value. So if we had a customer, we've got $1 million and we signed a contract for $1.5 million, it would be $500,000 of new bookings.

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So it is the new booking value, not the total contract value, but the new booking value. And that new booking value grew double digit. It was very, very healthy. First time we've hit double digit on sort of a sustained way, and this will turn into future revenues, right, as we get customers live and operational.

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

Okay. Great. And then just if you could speak to the hiring environment. I mean obviously, you're looking to make some more investments this year. Any potential constraints as far as being able to make those investments ramp up sales accordingly? Or is that not an issue for now?

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

Thanos, I'm sorry, I had a little difficulty hearing that question. I apologize.

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

I'm sorry, yes. I was referring to the hiring environment, just given the constrained labor environment as you're looking to make more investments this year, whether that could be a potential constraint or whether you're able to bring on the resources needed relative to the growth you're looking for?

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

Yes. Got it. Look, we're doing extremely well in hiring. And our return -- prospects employees are -- and appropriately so, and I love it -- are mission and purpose led. And that's why I've -- we've gotten a lot of feedback, and I'm very excited to kind of announce our OpenText Zero initiatives at OpenText World of zero waste, zero barriers, zero IT, zero net greenhouse gases is both how we're going to live, run our company, and our products can support all of this.

So we're beating the market right now on attrition. We are -- our return-to-workplace strategy is flexible first. So engineering and cloud operations are coming back into the physical workspace, but it's flexible first 2 to 3 days in the office, but we believe we're better together but in a flexible way.

We're also introducing something called proximity employees, where as long as you're 100 to 150 clicks from an office, we'll come back together for the moments that matter for 2 to 3 days a week. So we think you need to be there, be together, be together flexibly, lead with purpose. And I'm proud to say we're beating the market right now on hiring, attracting and retaining.

Operator

The next question comes from Richard Tse from National Bank Financial.

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

So congratulations on that organic growth. It's certainly kind of nice to see. Just wondering if you can maybe elaborate a little bit in terms of the split of the organic growth. Could you maybe sort of share or give us some context in terms of the proportion that's coming from upselling into the existing base versus net new customer wins?

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

Richard, it's Mark. Thanks for the question and the comments. Really appreciate it. It's a combination. I'd tell you what is front and center in my mind share, is competitive wins against IBM, SPS Commerce, FileNet, Sterling Commerce, SPS Commerce, and that's probably driving a bit more of the growth than selling module 2 or module 3. There's certainly some of that.

Ontario standardizing on our e-signature. That's an add-on capability to a foundation we have in the province of Ontario.

CNA wholesale win, just a wholesale win. I look at Magellan Risk Guard, It's going to be a nice add-on feature module 2 or 3 to some customers. So it's a balance. But I'd say it's probably leaning a little more to new wins, but certainly, add-on modules for sure.

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

Okay. And then just sort of a question, I think the first gentleman that asked the question was related to Carbonite. But if I can sort of ask the question in a different way. With respect to the pushing to the cloud, do you see that sort of creating an incremental opportunity broadly for the entire suite into mid-market enterprise, where you traditionally probably haven't been as strong?

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

Richard, is the question, do we see the mid-market as an opportunity?

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

Yes. Yes, with the cloud and the integrations and probably your selling process.

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

Absolutely. And it's -- Oracle purchased NetSuite. We purchased Carbonite. And you don't reach your full potential without being able to bring your products and services into a new channel, let's call it mid-market. And the cloud, I think the cloud redefines what mid-market is because it's easier to connect. It's easier to onboard. So you can take your enterprise capabilities and you don't need the enterprise or big tool chest, right, to bring a customer onboard.

So MSP or mid-market, for us, is a wider definition than others. Let's take some examples. MDR, the MDR service is going to be both enterprise and mid-market for us. We'll see more customers come onboard with Carbonite in the enterprise because it's all in the cloud. So I like very much -- we made the right strategic decision to expand into mid-market. We did it with the right company, and it's going to allow us to bring our enterprise product there, and some of their products up into the enterprise.

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

Okay. That's great. And just one last one. I saw that obviously, you increased the shelf. In terms of the leverage ratio that you're still comfortable with -- that's probably a question for Madhu. Is it still kind of in the mid-3s here?

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

Madhu, we can't -- you might be on mute.

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

Yes, sorry. I was saying that that's right in terms of available liquidity as of now, we are up to $2.5 billion between cash and the revolver. And from a ratio perspective, in and around 3, slightly above 3 is where we've headed, and we obviously have a plan to bring it back to the lower levels as you've seen in the past.

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*

So Mark, you're quite enthusiastic on OpenText's current product portfolio and sort of vision and the road map. When you look at your customers, from a bottoms-up perspective, what fundamentally do you see as the gating factor in terms of their ability to adopt all of your products or the suite of products to move to more modules? What do you see sort of holding them back at this point?

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

Yes. Thank you, Paul. I am enthusiastic, and that is actually coming through in my tone. The Cloud Editions 21.4, as I said in the past, is going to be a major release for us. And we're like 1.5 weeks away from OpenText World. So I try to -- this is a different audience than that. But I'm speaking about unveiling here a little bit of 21.4. But it's more capabilities now than our off-cloud offering. That's a major milestone. And it's pre-integrated, right? Because it's not like -- there's not like 7 module clouds. It's one integrated platform.

So the integration has always been a challenge off cloud. But in the cloud, it nearly goes away. It now turns to configuration, not integration. So Paul, we've eliminated that friction.

Second is the opportunity remains to migrate thousands of customers, thousands of customers to our Cloud Editions and open up new ways to consume. We always had difficulty in the past attracting developers. But we've now provided these incredible service -- incredible features as a service. And we're learning from tradecraft. We're learning from Twilio. We're learning from other companies to how to deliver these very rich services via APIs. And it's a phenomenal number of almost 100 billion service calls in the month of October just via those APIs.

So integration removes a barrier. The APIs remove a barrier. I believe we have the sales force to make the connections. Kristina's new organization of customer success is well set up to enable that migration and success as well.

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

That's very helpful. Delving into customers further, like the digital transformation initiatives seem to be going on everywhere. Do you anticipate that you'll be seeing like big migrations of existing workflows to newer -- to your newer products? Or do you think it's new workflows, new deployments that you'll be predominantly seeing?

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

I think it's both. We're going to continue to support fully kind of our off-cloud deployments. But Release 16 has begun to go end-of-life. I mean I remember when we built and delivered Release 16, but it's over 5 years now. It's coming towards end -- release 16 EP1 has now come to end-of-life. EP2 would soon be end-of-life. Those customers need to move forward. And we are very skilled at moving our customers from off-cloud to private cloud or off cloud to public cloud. Now that public cloud has greater capabilities -- it's not a capability discussion to -- a product capability discussion to move. So I think that's where I wanted to go with that.

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

And then just I want to switch gears to M&A. It's been almost 2 years since Carbonite. it's been quite a while. How do we think about the targets in your pipeline or what you're looking at in terms of like the assets versus the valuations of those assets for sale? I mean, are you -- how do you think about flexing on one or the other here?

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

As I said in my prepared remarks that we remain very busy, active getting to know companies. And we're not -- when we look in the past, we've stood up to higher valuations at a time like Liaison or slightly higher on Carbonite to meet a growth profile.

At other times, we see a value-based asset -- more of a value-based asset that creates a stronger return and would put a certain valuation target on it. We're getting more confident around our organic growth prospects. And we look at what we've delivered, our confidence in the year. And I think there's an asset class of some higher growth that would lead to a certain multiple or an asset on certain cash flows that would lead to a certain multiple.

So I don't see us giving on a metric, but rather having conviction of can we get the cash flow or conviction we can get the growth. And valuations remain irrational, then which we're going to remain patient.

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*

All right. Well, thank you very much for joining us today, and we hope you'll join us at one of our upcoming conferences as you heard from Harry. It's a time to be very visible to our employees and have high touch with our employees, customers and partners and our key stakeholders such as you. And we hope you'll join us at OpenText World as well. So thanks 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.

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