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OTEX.TO - Q3 2022 Open Text Corp Earnings Call

EVENT DATE/TIME: MAY 04, 2022 / 9:00PM GMT

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PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the OpenText Corporation's Third Quarter Fiscal 2022 Earnings Conference Call. As a reminder, all participants are in a listen-only mode and 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.

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

Thank you operator. Good afternoon everyone and welcome to OpenText's third 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. Please note that similarly to last quarter, our prepared remarks have been shortened to allow more time for the question-and-answer session.

Today's call is being webcast live and recorded with a replay available shortly thereafter on the OpenText Investor Relations website. Earlier today, we posted our quarterly shareholder letter, along with our press release and investor presentation. These materials will supplement our prepared remarks and can be accessed on the OpenText Investor Relations website, investors.opentext.com. I am pleased to inform you that OpenText management will be participating at several upcoming conference, including CIBC Technology and Innovation Conference on May 25th in Toronto, Jefferies Software Conference on June 1st in San Francisco, Bernstein's Annual Strategic Decisions Conference on June 3rd in New York, and Baird's Global Consumer Technology and Services Conference on June 6th, also in New York.

And now onto 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 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 am very pleased to hand the call over to Mark.

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

Thank you, Harry, and welcome everyone. Madhu and I are on the road spending time with employees and customers and we're pleased to be hosting today's call together here in New York City. We had a strong Q3 with total revenues of \$882 million or \$899 million in constant currency, adjusted EBITDA of \$284 million and free cash flow of \$306 million. We grew total revenues 5.9% year-over-year and 8% in constant currency, led by the strength in our cloud bookings and well above our results from a year ago, driven by demand in our content, business network, security and data protection clouds.

Our total cloud revenues grew 13% year-over-year and 14.3% in constant current and topped \$400 million of revenue in the quarter for the first time. These strong results come at a time of increasing challenges from the continuing impact of COVID-19 and supply chain constraints and the highest level of inflation that we've seen in decades, the currency decline such as the Euro, the Yen decreasing double-digit compared to the U.S. dollar and now Russia's war in Ukraine.

All these challenges reinforce our determination to remain vigilant to protect the health and wellbeing of our teammates, remaining agile to meet our customers' and partners' needs. At OpenText, we have dedicated ourselves to cloud-based innovations that power and protect information centered on information-led transformations. These digital capabilities help organizations of all sizes elevate themselves above these challenges and thrive in a world of hybrid work, digital transactions and the need for security information protection. Information management and the digitalization of business powers the economic inputs and outputs of the world's GDP. Information management is as essential as ERP and CRM in helping customers differentiate and scale, build digital fabrics, connecting all their stakeholders and doing more with less. OpenText is the market leader in information management and we are the Switzerland for our customers, where we can integrate their many important workloads in their diverse digital fabrics.

Our teammates continue to do amazing job, and we remain confident in our ability to continue to deliver amazing results for all our stakeholders across a wide variety of scenarios. Please read our press release, my quarterly shareholder letter and our investor deck. They are informative and we are eager to receive your feedback to better inform us as we strive to build the world's best information management company in the cloud at scale.

Investor Day '22 was only 60 days ago. Our core message is, was, remains, we are accelerating into the cloud. If you didn't attend, you'll find the materials and the recording on our website very informative. The leadership team did an amazing job detailing our approach to cloud acceleration.

Let me recap three things. First, our TAM is large, total addressable market is \$92 billion. So we have maximum strategic flexibility, and to grow and lead over the next decade. Our five strategic priorities highlighted up front in the presentation within that \$92 billion TAM, are clear. First, within our existing portfolio, we'll continue to transition our significant and valuable install base to the cloud. Once transitioned to the cloud and our cloud Editions, we can uplift customers to more cloud consumption.

Second, our future cloud platform. OpenText will continue to create compelling solutions for cloud Editions that remove friction in the growing digital world and the vast majority, the vast majority of our new customers start on the OpenText cloud.

Third, new markets. We'll continue to expand our coverage reach to new customers. The global 10,000 over the next two years will grow in the medium and small business segment by expanding our MSPs. We're expanding our trading partners in our business network, and we're growing our new API business. For example, we have a new healthcare data company processing 25 million pages a month via our Capture API natively written SaaS running in the OpenText public cloud.

Fourth, customer success and ecosystems will continue to be the long-term navigator for our customers as they become fully digital companies.

And fifth, our voice. We're going to continue to drive growth through compelling propositions, and we're going to ensure every customer and every partner understands the value of working with OpenText.

The third thing I wanted to recap from Investor Day is that we outlined our top growth programs that will serve as the centerpiece to our organic growth in the coming year. We're going to keep driving cloud editions adoption and customer migration, supporting customer deployment choice. If they want to run off cloud, in the cloud, as a managed service in the private cloud, adopt our public SaaS offering or via the API, we are building to respect customer choice regardless of the cloud option they pick.

We look to achieve full Global 10K coverage by the end of fiscal year 2023. We look to disproportionately win share in our top customers and top ecosystems and we call this winning the Summit, is our Summit Program. We're going to continue to go after competitive replacements against IBM, Kofax, Hyland, Datto and SPS Commerce. We look to our international sales expansion, strengthen our world-class renewals business into an expansion business and continue to build scaled partnerships. This is a partner-friendly company, partners are a force multiplier, and we look to Microsoft in the mid-market, Google in the enterprise, AWS for large consumption and application-level partnerships with SAP, Salesforce, ServiceNow, and deep technical partnerships with Oracle.

As to the quarter, let me provide a few highlights and Madhu will go into the details. This is our best Q3 in our history. Another consecutive quarter of positive organic growth. The best cloud revenues in our history as we broke through \$400 million a quarter run rate. Another strong quarter of double-digit new cloud bookings growth, an ARR mix of 83% of total revenues, cloud and off cloud renewal rates of 93% and 94% respectfully. Our adjusted EBITDA of 32% plus and tracking to our plan as we integrate Zix, cash flows of \$306 million or 35% free cash flow as percent of total revenue.

We purchased and cancelled a million shares in the quarter. We ended the quarter with \$1.6 billion of cash and a net leverage ratio of 1.9 times. We are ready for the next acquisition to accelerate our cloud leadership. And the crescendo for every quarter are the amazing customer wins. And for Q3, they included the Bank of France. The Bank of France joins our information management network, of course, EU member banks within our content cloud. Booz Alan Hamilton to provide project management and collaboration across its 29,000 employees for its clients within our content cloud. Ecopetrol, the leading petroleum company in Colombia, and one of the four major petroleum companies in Latin America, migrated all their content from IBM to OpenText, using OpenText Extended ECM. Singapore Customs to build new cloud-based applications within our developer cloud. Societe Generale extended its centralized OpenText Archiving solution within our content cloud to support the merger of its retail banks. And the Philippine National Service of Investigations modeled after the U.S. FBI to leverage our security and protection cloud for forensics to manage and solve high profile cases in the interest of the nation. A huge thank you to our customers for trusting us, for partnering with us, as they build their future digital capabilities.

As I look into Q4 and full fiscal year 2022, let me provide some key points. Demand remains resilient. Two years ago when the pandemic began, we took preemptive actions to build a stronger business. It was the right call for us at that time. We're doing the same today. And our preemptive actions are to accelerate investments, lean into the resiliency of that demand, increase our R&D investments and increase our go-to-market investments so that we can accelerate our cloud growth. I hope you'll attend OpenText World Europe, our event where we will highlight the future of OpenText information management in the cloud. It will be a very future oriented conference on our product and solutions in the cloud. I'll be hosting the event live in-person from Munich. We're going to bring our European customers, employees together. Please reach out to our IR team or register online if you'd like to attend in-person or online with us.

Our full year outlook is 3% to 4% total revenue growth and we remain in that range. We do expect to be closer to 3% in reported currency and closer to 4% in constant currency, manifestly due to the significant changes in foreign exchange. As we look beyond fiscal 2022, there's no change to our targets and aspirations. For our usual cadence, we'll provide our next fiscal year targets and any updates for our longer term aspirations on our Q4 call, but I can share the themes already. New innovations and continued acceleration into the cloud. Total revenue growth both organic and acquired. Increased investments to accelerate our cloud business and cloud bookings, we expect our cloud revenue to grow fastest. Helping our amazing customers and partners win and thrive in this new world and continued operational excellence and expanding free cash flows.

Let me also speak to capital and M&A. We continued our 33% capital allocation strategy via dividends and buybacks and our Board of Directors approved on May 3rd a dividend of \$0.2209 per share for shareholders of record on June 3rd, payable on June 24th. Acquisition valuations are coming more in line with our playbook of growth at a reasonable price, our M&A pipeline is stronger than has been in previous quarters.

We have \$2.4 billion in cash and committed liquidity. We have the management bandwidth and the financial strength to execute our M&A strategy. OpenText is a unique company. We make long-term decisions. We are purposeful in balancing profits and growth. We believe in creating value through a combination of total growth, capital efficiency and profits. When we see the opportunity, we invest. And we see the opportunity right now as we accelerate into the cloud with new investments, security investments, compliance investments, data zones, new features, our public cloud acceleration, APIs and more.

We are persistent and highly predictable with ARR percentages in the 80s. Let me end with where I started. We're accelerating into the cloud and you can clearly see it in our revenues, bookings, investments and customer wins. We had a strong quarter supported by amazing execution in challenging times. These challenging times also create new opportunity and establish industries for us, such as manufacturing, defense, energy, oil and gas, financial services.

I'm deeply optimistic about our future with the strength of our pipeline and the ability to help our customers thrive and become fully digital as we accelerate investments. It has become clear that information management is strategic and essential capability to help organizations transform into digital companies, help organizations combat inflation, counter labor shortages and costs, power hybrid work, new supply chains and security and information protection needs. Our teammates continue to do an amazing job, and we're confident in our ability to continue to deliver these amazing results. May the one that brings peace, bring peace for all.

With that, let me turn the call over to our amazing CFO, Madhu Ranganathan. Madhu?

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

Thank you, Mark. And thank you all for joining us today. All references I will be making are in millions of USD and compared to the same period in the prior fiscal year and are on a reported basis unless stated otherwise. Our strong results in the quarter and year-to-date March 2022 reflect our outstanding execution through these challenging times, while growing our position as a trusted partner in information management.

Q3 results reflect our resilience as we achieved strong results across all our financial metrics. So let me expand on Q3 fiscal 2022 results. Please also refer to the shareholder letter, our investor presentation, press release and Form 10-Q that we filed today. On revenues, we are very pleased with our record Q3 revenue, record annual recurring revenue and record cloud revenue. We grew total revenues 5.9% on a reported basis and 8% on a constant currency basis.

Cloud revenue saw its fifth consecutive quarter of organic growth, while total revenue in the cloud was 13% in reported currency and 14.3% on a constant currency basis. The currency volatility remains high, foreign exchange impact to Q3 revenues was \$17.2 million, impacting customer support and cloud revenues the highest. We posted another quarter of double-digit growth in enterprise cloud bookings and on a year-to-date basis. As a reminder, these bookings will be taken to revenue over the life of the contract. So we are growing a foundation of recurring cloud revenue to be recognized over multiple years.

The size of \$1 million plus deals was significantly larger on average in Q3 than the same time last year. This is a trend in both cloud and license that we believe reflects the growing strategic importance of information management within organizations as they digitized and automate processes. We also saw strong renewal rates in cloud and off cloud of 93% and 94% respectively and we see this continuing.

And moving to other financial metrics, GAAP-based net income was \$74.7 million during the quarter, down from Q3 of fiscal 2021 income of \$91.5 million. Adjusted EBITDA for Q3 was \$284.5 million or 32.2%, down from fiscal Q3 2021 of \$297.1 million or 35.7% and better performance than the quarterly factor shared with you on the last earnings call. As you see in our Q3 results, on a non-GAAP basis, year-over-year cost of sales and operating expenses were higher by \$62 million or 11.2%, primarily due to Zix integration and accelerated investments in R&D sales marketing and internal technology projects as reflected in our G&A spend.

Turning to cash flows, the operating and free cash flows, we generated \$323.6 million in operating cash flows in the quarter and \$1 billion in the trailing 12 months, up 19%. We generated \$306 million in free cash flows in the quarter and \$943.7 million in the trailing 12 months, up 17.1%. During the quarter, we delivered strong cash flows and free cash flows were at 34.7% of total revenues in the quarter, consolidated DSOs of 44

days consistent with the same quarter a year ago. Our billing seasonality is normal to Q3 as we generate high positive working capital in the quarter and greater than 100% conversion from adjusted EBITDA into operating cash flows. These are best-in-class metrics and well done to all the teams for these accomplishments.

We are making excellent progress of the integration of Zix into our SMB world alongside Carbonite and Webroot. While Zix is not yet integrated into our operating model, we expect to complete this by December 2022 to yield further positive benefits to cloud revenue, margins and cash flows. Balance sheet and liquidity, we ended the quarter with \$2.4 billion of cash and available liquidity and a strong net leverage of 1.9 times. As Mark outlined in his prepared comments, acquisition valuations are becoming more in line with our playbook of growth at reasonable price and we remain well-positioned to continue to acquire.

And let me turn to our outlook and updated targets and aspirations. For the fourth quarter of fiscal 2022, you will see our quarterly factors outlined in Page 6 of our investor presentation. Expect Q4 on a year-over-year basis with foreign exchange revenue headwind as we see today of \$25 million to \$30 million. Total revenue, constant to slightly up and ARR up low to mid-single digits. And expect adjusted EBITDA percentage for Q4 down approximately 100 basis points year-over-year due to continued integration of Zix acquisition and higher investments in talent and technology for support of our growth ambitions. Both are consistent with our communications to you in terms of investment during our last earnings call and again, on our Investor Day on March 1st.

For the full year fiscal 2022, you can find our full year outlook on Page 7 of our investor deck. Total revenue growth range remains unchanged at 3% to 4%. As mentioned earlier, the foreign exchange volatility remains high. We expect to be closer to 3% in reported currency and closer to 4% in constant currency. As our cloud bookings grow, we are adjusting license expectations from a previous constant year-over-year to license being down low mid-single digits for the year. This is purely a rebalance to reflect the growing number of enterprise customers choosing to deploy new workloads into the Open Text cloud.

Our fiscal 2022 target model remains unchanged as noted on Page 8. As a reminder, our fiscal 2022 target model for adjusted EBITDA remains at 35.5% to 36.5%, as we continue the integration of Zix into our operating model and investments as I mentioned earlier. Our fiscal 2024 aspirations as provided in Page 9 of our investor deck remain unchanged. Organic growth of 2% to 4%, ARR of 85%, adjusted EBITDA margin of 38% to 40% and free cash flows of \$1.2 billion plus. Our capital allocation of free cash flows remains at 33% for dividends and anti-dilutive buybacks.

So in summary, for all of us at Open Text, Q3 performance was a strong and important step forward to continue our execution to the plan shared with you during our March 1 Investor Day, which is continued acceleration into the cloud. On behalf of Open Text, I would like to thank our shareholders, our loyal customers, partners, and employees across the globe. A special mention to my Open Text teammates around the globe, thank you and you are the best in industry.

I will now open the call for your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first 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

I was hoping you could talk a bit about what percentage of the install base is now in the cloud. And any metrics you have around the cross-sell among this customer base.

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

Sure thing. Thanks for the question, Stephanie. Look, the vast majority of new customers are all coming into cloud editions and into the cloud. So it's clear that the new are vastly coming into the cloud. We have some customers who go off cloud for security reasons, but the vast majority of our new customers are in the cloud. In terms of the install base that have moved proactively, it's about 1/3 and we're going to continue, of course, in the coming quarters and year or 2 years to help our customers move in advance of the kind of end of life cycle of the technology. But I can tell you, we expect at the end of the day to move all of our customers from Release 16 to Cloud Editions and migrate them either into our private cloud managed services or into our public cloud capabilities as they approach the end of the life cycle for Release 16. And the best benchmark for that is just look at our renewals rate, right? We're operating near mid-90s. So the destination where that train -- that northbound train ends, it ends at close to that 92% over time. So about 1/3 migrated, vast majority new coming into the cloud. And we'll keep helping customers before the end of the life cycle.

Now once we get customers into the cloud, it just removes the friction to cross-sell for us. Things are more pre-integrated. We have the resources to get to module 2, 3 and 4. So it just removes the friction. I don't have a metric for you to say what percent is on how many modules or what percent is a suite adoption. I'll keep thinking -- let me think about that, Stephanie, for the future. But the health care data company I mentioned, they added a workload from their off-cloud. They moved their capture into the cloud. And -- but the volume is just phenomenal at 25 million pages a month. Is that helpful, Stephanie?

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

It is. That's great color. I also wanted to touch on the investments that you're making in the cloud. Both you and Madhu did mention them. Help me to expand a bit on what you're doing and I assume it's already included in the financial model as well.

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

Yes. No, the -- all the investments we're speaking about are all in the models we're talking about financially. So they're not outside the model. They're all factored into the models that Madhu has presented. We have some of the functional features we're doing in each of the clouds, but there's also a large investment that we're making around data zones, compliance, security, these needs have really elevated over the last few months to really bring cloud technologies, my description is to bring it to a bank level sort of security and compliance could be Baffin in Europe, Protected B, FedRAMP, HSM inside of banking, of course, SOC 1, SOC 2, HIPAA, all these types of security engine compliance. We've decided that we're going to invest in those. And we're going to be -- and only a few companies can do this on global scale. It could be less than a dozen companies globally who could deliver at this level of compliance and security. That's one place we're making investments and going to differentiate. And the other is our go-to-market and investing in partners and our sales force to accelerate our cloud growth. That's where some of the investments are coming, and they're all factored into our projections.

Operator

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

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

Sorry, I apologize. I was on mute. Mark, can you expand on the macro backdrop. You said it was resilience. But just to clarify, at this stage, signs of a slowdown. I mean, in the European business are you seeing anything? Or is it still a strong demand environment from your perspective?

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

It's still resilient for us. And every company is different. We made the decision about 3 years ago to exit Russia. And so we evacuated Russia 3 years ago. We also evacuated Ukraine 3 years ago. And I mean, our hearts are with democracy and liberty in Ukraine, but we left from a business perspective, Russia-Ukraine 3 years ago. So we don't have the exposure there. The demand remains resilient. We're -- there's one thing out of our control, which is foreign exchange. A year ago, the euro was 120. I think today, it closed at 105. And the upside of that is it comes back, right, over time. So -- but the demand remains resilient. We don't have the exposure in Eastern Europe and in Russia. And we're going to help those companies and a handful of industries where we have a lot of strength that will actually add to our demand here in the medium term. For example, we're strong in Germany, Austria, Switzerland, our DACH region, very deep in manufacturing as well as the Bundesheer as a very large infrastructure for us. We deepened in manufacturing and industrial and aerospace in France. And we have a great team and install base in the Middle East in energy, oil and gas. So as energy infrastructures move, as investments go into manufacturing, auto, we're actually seeing an uptick in our demand. But we certainly have had the euro challenge like other companies have had. But it's not about the demand. It's just the currency for us in Europe.

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

Okay. Great. And as far as M&A, your stock is trading at a depressed multiple. So how does that influence your thinking on acquisitions and the multiples that you can pay? Are your hurdle rates sort of driven by an absolute basis? Or I think directly might be influenced by your share price? And how does that influence you thinking on buybacks versus M&A as well?

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

Yes. I'd go 2 things on buybacks. As I noted on the script, we purchased and retired 1 million shares in the quarter, and we'll continue to be opportunistic in the market. And second, on M&A, valuations are coming down. Our pipeline is up and we see more companies in our traditional playbook of growth at a reasonable price, and we see more cloud companies in that growth at a reasonable price. And when we look at an acquisition, we really look at it -- it's got to be the right company at the right price, but it's got to generate the cash returns. And it's got to be a platform for future organic growth. So the WACC obviously is part of a formula. And I wouldn't kind of compare it to what we're trading at, but it's got to be the right company, right price, deliver the cash returns that we expect and then be the right asset to drive future organic growth in the cloud.

Operator

Our next question comes from Raimo Lenschow of Barclays.

Unidentified Analyst

Great. This is Jeremy on for Raimo. I just wanted to touch on Zix. So given it's the first quarter where Zix is contributing, can you speak a bit to how the integration is coming together there? And maybe what you're seeing in terms of cross-selling and upselling the product, some of the existing security and protection cloud customers?

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

Jeremy it is Madhu here. I'll take the first part and hand over to Mark on the cross-sell. The integration is going well. As a reminder, we closed since with the week left in 2021, and we've given ourselves about a year. And in that regard, integration is going well, very systematic. It's a great set of people and of course, products market, great leadership, and I would say the leadership is very well integrated into broader OpenText. As I mentioned in the call, as integration comes to closure, we definitely expect to see a sort of accretion in gross margin, accretion and working capital. Those are the areas we're working on right now to bring them over to our operating model. Could we do it earlier than 12 months? No, perhaps we can, but we're being very systematic about it.

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

Yes. Thank you, Madhu. On the -- maybe product integration and leverage, let me describe it this way. First of all, we're delighted. Just -- this is May, time flies, right? We're in our second quarter of owning Zix. The people are amazing. Technology is amazing. And the MSP network is everything we expected to be in our diligence. So we're just delighted. The first is we're going strong on the Microsoft NCE cycle or new commerce experience NCE cycle that Microsoft is driving. So there's an event in the industry, Microsoft NCE, we're a top 5 player worldwide for Microsoft in the NCE program. So there's just that opportunity within Zix. Now we've been able to take that opportunity and move it to Webroot MSPs and take that opportunity to move it to Carbonite MSPs as well. So that's an opportunity lane for us as well.

Second is taking our Zix Secure Cloud, which means secure e-mail, IP protection, Bit defender, and move that into the Webroot MSPs and the Carbonite MSPs, but more interestingly, the Webroot MSPs. So we've completed that first level integration of Webroot and Carbonite MSPs can come to our portal and see the product. And then we have another opportunity to bring that secure -- Zix Secure Cloud into basically our experience cloud where we've integrated EasyLink and other on-demand messaging platforms and bring them into healthcare, financial services for on-demand messaging. So we have really about 4 plays, very, very clear plays, win in the Microsoft NCE play, bring the NCE play back to Carbonite and Webroot secondly, bring Secure Cloud into Carbonite Webroot 3 and bring Zix Secure Cloud into our Experience Cloud, think EasyLink inside of healthcare and financial services. So Jeremy, those are the basic 4 plays, very well defined. And in our first 4 or 5 months, we've been able to get them in place and now start to execute to them.

Operator

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

James Burns

It's James Burns sitting in for Richard tonight. You had mentioned that you'll be -- you'll continue to go after competitive replacements against major competitors such as IBM, for example. Did you gain any share this quarter? And if so, has the IBM or any of the other competitors responded in any way?

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

Yes. No, this is a strong playbook for us right now. And with our cloud strength in private cloud, our ability, our new APIs and our growing capabilities as public SaaS, we can do this and FileNet, Hyland, Kofax struggle. So it's just a clear opportunity for us. And Kofax I think it's recently been announced they've been resold, which will create a bit more electrons in the install base. So look, you leverage what's in front of you, and that's what's in front of us. So we're going to leverage. We keep announcing wins and we're going to go after the top customers who are looking to make investments for the next 5 to 10 years in the cloud. And those competitors can't fulfill that.

A little different on Datto and SPS Commerce. On the SPS Commerce side, we've recently introduced new mid-market capabilities for our trading partners, more self-service, ease of registration, ability to connect trading partners without the need for professional services. So we see an opportunity to bring our fantastic enterprise business network into the mid-market. And we've learned a lot about the mid-market over the last couple of years from Carbonite through Zix. And our next couple of releases are very targeted on the data protection as well as the resale markets and RMM and MSPs against Datto. So I like the playbook for us. We know what features we need to build. We know what customers we need to call. And we got global scale and can differentiate. So we're going to continue to run this play, James.

Operator

(Operator Instructions) Our next question comes from Paul Treiber of RBC Capital Markets.

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

I was just hoping, could you elaborate on your outlook for license revenue. You mentioned it's due to a mix shift that you're taking down the outlook slightly there. Is that because you're seeing customers instead of purchasing license are now purchasing cloud products? Or are the 2 trends somewhat unrelated?

Madhu Ranganathan - Open Text Corporation - Executive VP & CFO

Paul, I'll take a piece of this and then turn it over to Mark. One of the main reasons, as I shared, the metrics of demand for license, it does remain strong. But Q4 historically has been our strongest license quarter. And consistent with everything we've been talking about in terms of cloud acceleration and such, we just wanted to do a rebalance on how the year is going to look in terms of license and hence, the change in the yearly outlook. We're definitely seeing, as Mark said, more purchases, new workloads, the acceleration into the cloud. But I would say the first part is clearly the rebalance. And as we're coming up on Q4 and wrapping up the year, we just wanted to put it within the parameters of where we believe license would be for this year. And again, consistent with the trends we've been talking to in the last couple of years.

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

Yes. Let me -- thank you, Madhu, right on. And Paul, let me just add to that. There's no doubt that we're seeing the vast majority of our new customers come in on the cloud. And that's exactly the high-value segment we want to be in, in winning business there. I do think as I look out, and I'll just say at the annual basis for a moment, as I look out on the coming years, we believe we're going to hold licenses relatively constant. And our slight change from, I think, our total growth strategy, Slide 7 in the investor deck, where we turned down just the notch of the outlook for license. We're just doing the Q4 math. That's all it is. And because it's Q4, and we wanted to kind of align to the industry models. We're executing to where we believe it is relatively constant, but it's just really Q4 math and aligning to the expectations on an annual basis. But going forward, it should be relatively constant.

Madhu Ranganathan - Open Text Corporation - Executive VP & CFO

And the last thing I'd just add that, Paul, is as you can see, we're consistently sharing more color on our growing cloud bookings, which will absolutely come back to you all more in the next couple of years. But when you actually look at acceleration to the cloud, we wanted to make sure there was a balance between the two.

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

And let me just lastly and not to spend too much time on it. We'll spend as much time as you like, Paul. I don't need to spend too much time on it. But by constant, cloud is going to keep growing much faster, license will be on an absolute -- relatively absolute quantum. And just think about it, compliance, more seats halfway through projects. And that's the type of business that we see that gives us the confidence to say and then coming years, we look at license being relatively constant.

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

Yes. I mean cloud bookings would be a great disclosure when you're ready to give it for investors that complete that puzzle. Just shifting gears on the margin side. When you look at margins for the quarter, they are stronger than quarterly factors. And then the outlook calls for margins still to be down on a year-over-year basis for Q4. Is that similar math as you sort of back into the full year outlook there? The bigger picture, how should we think about margins going forward, just in light of all the moving parts, you have Zix, synergies and integration, but then also the wage environment and cost inflation.

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

Yes. Paul, I'll take that. So I'm going to work backwards from -- as we shared, our medium-term aspiration, they remain unchanged. That is 38% to 40%. And this year, we've talked about 35.5% to 36.5%. And when you look at the 9 months, of course, we are closer to the 36%. We're doing well on margins. They are reasonably predictable. But again, if you can do better in quarter, that's what you see in Q3, we came out better than expected. I would also point out that gross margin has gone up 110 basis points year-over-year in the quarter. In the past, I have talked about enterprise cloud gross margin that we have work to do in terms of efficiency. You see some of that come into play. And as you rightly pointed out, as Zix gets integrated, more volume on sort of the SaaS cloud of Carbonite, Webroot, et cetera, it will certainly provide more accretion to the cloud gross margin. And it will sort of line up with the 38% to 40% we talked about.

You also mentioned wages. Look, I think everyone is seeing it. We've done well in terms of our attrition, and we have taken care of our employees in terms of, I would say, total rewards, cash, equity, et cetera, you will see that in our disclosures. We're not saying it's an item that we're not worried about, but we stand in good stead with respect to incorporating that into our models. And I think Mark had a comment.

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

Yes. Paul, you made a comment to complete the puzzle. And I just want to tell you, yes, we agree. And so one of the things you'll see for us on our next quarter call when we kick off fiscal '23, we'll officially add a bookings metric. And so you will be able to complete that puzzle going forward. So Madhu and I are committed to adding a formal viewing to bookings starting next quarter.

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

That will be fantastic. Looking forward to it.

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

And I have to tell you, so are we. So are we.

Operator

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

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

All right. Well, thank you, everyone. Thanks for joining today. And we have a big quarter of engagement and outreach as Harry outlined. So we look forward to being with you this quarter. We hope you'll join us for OpenText World, virtually or live. We'll be taking over the Allianz Stadium in Munich, Germany for OpenText World. And thank you for your continued support. And I'll end as I ended my prepared remarks, may the one that brings peace, bring peach to all. Thank you for joining today's call.

Operator

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

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