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OTEX.TO - Q4 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 Open Text Corporation Fourth Quarter Fiscal 2022 Earnings Conference Call. (Operator Instructions) 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, sir.

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

Thank you, operator. Good afternoon, everyone, and welcome to Open Text Fourth Quarter and Fiscal '22 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. 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 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'm pleased to inform you that OpenText management will be participating at the following upcoming conferences: Oppenheimer's Virtual Technology, Internet and Communications Conference on August 10; Deutsche Bank's Technology Conference on August 31 in Las Vegas; and Citibank's Citi Global Technology Conference on September 9 in New York.

And now on to 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 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'm pleased to hand the call over to Mark.

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

Thank you, Harry, and welcome, everyone. We appreciate you joining us today, and I'm very pleased to be doing the call from Waterloo, Ontario. My remarks are a little longer than usual given we just closed a great year, and we have a tremendously exciting forward agenda. So let media jump right in.

OpenText Q4 constant currency results once again beat expectations on the top and bottom line, with $935 million in total revenues and 17% cloud revenue growth. Our renewal rates are best-in-class at 94%, and our adjusted EBITDA margin was 35%, and our free cash flows were $214 million in the quarter and $889 million for the year, up 9%. You'll hear the details on the quarter from Madhu.

I have never felt better about the future of OpenText, the resiliency of our technology and expertise, the intrepidness of our people and road map, the transformative nature of our mission to elevate every person and organizations of all sizes to gain the information advantage and the value we are creating through the OpenText business system of total growth, cash flow expansion and capital efficiency.

Like other premier technology companies, we're managing through many macro issues. The pandemic continues, high inflation, the strength of the U.S. dollar, interest rates, Russia's war on Ukraine, the energy crisis in Europe and recessionary indicators. Understanding the macro today is more difficult than usual as there's not a one-size-fits-all plan, nor can you have a single point of planning. You need a multifaceted plan unique to your business and you need to act preemptively and boldly.

Let's unpack the macro for OpenText. And everything I speak about today is already factored into our F'23 outlook and our F'25 aspirations.

The pandemic continues. OpenText has performed superbly the last 2.5 years and will continue to do so. We are a culturally stronger company. Our road map with Project Titanium was forged over the last year and its customer prioritized. Our renewals business is ironclad, and our corporate and talent brands are stronger than ever. The pandemic tempered us and sharpened us.

On to high inflation. We have put in place a program that we call WIN, Project Win with Inflation Now, WIN. We are systematically attacking inflation on all fronts, revenue, expenses, efficiency and investing for growth. We raised prices by 5% starting July 1. We are not pulling back on hiring. We have a 2% headcount expansion planned for the year. We're also accelerating some key automation projects for efficiency and cost out. And in parallel, we're doing some good old-fashioned belt tightening. As well, we will help our customers Win with Inflation Now by accelerating their digitalization projects, removing variable costs and enabling them to do more with less. Let's be frank, digitalization is the only answer here.

The strength of the U.S. dollar. Where possible, we minimize our FX exposure through natural hedging where we match revenues and costs in our major theaters of operations, and we'll continue to optimize this balance. Our high ARR provides for consistency and predictability, and we will provide our F'23 outlook and our [F'25] (corrected by the company after the call) aspirations now in constant currency to reinforce that consistency and predictability.

Interest rates, we've already moved approximately 75% of our debt to fixed rates and interest rate increases have a minimal effect on our business.

Russia's war on Ukraine. On the human aspect, we are helping our employees in Europe with stipends. For those employees hosting refugees, we've announced a series of funding of schools in Poland for refugees, and we are a technology and funding partner with the United Nations Refugee Agency. On business aspects, we shut down our Russia offices and removed all employees 2 years ago, and exited Russia at minimal financial cost. More than offsetting this, we see an upward pipeline in Europe and the Middle East, given our strength in heavy industries, construction and the energy sectors.

Recessionary indicators. Companies are going to fall into a variety of categories here, those poised to thrive, those who'll be constrained, those who just provide, there will be those who get lost. Our clear and preemptive actions on the macro issues with our WIN program are placing OpenText squarely in the Thrive category. We plan to outcompete our rivals by investing in our people, our products and our customers' success. We see a real opportunity to help organizations of all sizes to use digital technology to overcome today's challenges, emerge stronger and outcompete their rivals. OpenText is fantastically positioned to help organizations deliver on their digital imperatives to innovate, to grow, to connect people and organizations and systems, to be well run and to do more with less.

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We are investing to win, and we are putting our investments behind that. In fiscal '23, approximately 40% of our total expense is direct investment in R&D and cloud operations. And our investments this year are going to increase $75 million. Six years ago, our annual investment was just half that, and 10 years ago, our cloud revenues were 0. And today, they're $1.54 billion.

We are fully committed to being the global leader in information management in the cloud at scale. In constant currency, just to recall, in fiscal '21, our cloud organic growth rate was 1.8%. In fiscal '22 last year, our cloud organic growth rate was 3.6%. This year, our cloud bookings rate, and we're going to -- Madhu is going to talk about, we're going to introduce bookings this year. Our cloud bookings rate is expected to grow 15% plus. And these proof points and increased investments give us the confidence that you'll see through our F'25 aspirations of up to 8% cloud organic growth.

We are accelerating all things cloud, and OpenText is an all-weather company, with foundation built on bedrock. In this dynamic environment, we saw strong demand, took share and fortified our cloud with increased customer commitment. It's a time to standardize on companies built for the long term like OpenText.

So for the full year fiscal '22, in constant currency, we delivered record total revenues of $3.53 billion and grew 4.3% year-over-year or 1.7% organically. The OpenText cloud delivered a record $1.54 billion in revenues and grew 9.8%. Make no mistake, the OpenText cloud is the flywheel of our business today. $1.35 billion in maintenance and update services growing in a gross margin of 91%.

I'm really proud to highlight, we've created an SMB&C business from 0 to approaching $700 million in just 2 years, growing, and with gross margins in the high 80s. We have a unique distribution strategy with RMMs, MSPs and our great partnership with Microsoft, and we're just getting started.

ARR was $2.89 billion, up 5.5% and 82% of our revenues. Customers fortify their long-term commitment to the OpenText cloud with $466 million of new value in enterprise bookings, and we expect this to grow 15% plus in fiscal '23. In Q4 alone, we had 34 new cloud wins, over $1 million in bookings value with an average commitment of over 4 years.

World-class brands joined the OpenText's cloud in Q4. Carl Zeiss, Citco, Close Brothers, Hydro Quebec, Evermark, MUFG Bank and the Salt River Project.

We had adjusted EBITDA dollars of $1.3 billion for upper quartile margin of 36.5%. Our free cash flow for the year was $889 million, up 9.4% year-over-year. And during fiscal '22, we returned $415 million to shareholders, $238 million via our dividend program. We also purchased 3.8 million shares for cancellation during the year, reducing our share count by 1.4% to 269.5 million shares. We did what we said we were going to do.

Total growth, $3.53 billion, up 4.3% or 1.7% organic growth. Cloud growth, $1.54 billion, up 9.8% or 3.6% organic growth. Free cash flow expansion, $889 million, up 9.4%. And for capital efficiency, we returned $415 million to shareholders.

As we begin our new fiscal year '23, we remain committed to balancing our operational discipline, which is a hallmark of OpenText, with continued investments and key strategic areas to drive future revenue growth, free cash flow expansion and continued capital efficiency. We're hiring smartly. We're investing in Project Titanium. We're going to help our customers of all sizes with their transition to the OpenText cloud and win.

Pressure is a privilege, and pressure creates diamonds. At the core of our fiscal '23 operating plan are the OpenText 4 Cs: Customers, cloud, cash flow and capital efficiency, and we intend to produce diamonds this year. On customers and cloud, again, let's be frank, digital technology is the only answer, and our demand drivers are very clear, converting our off-cloud install base to the OpenText cloud, the continued value realization of digitizing all manual transactions and repeatable work. The overall supply chain for regionalization insight and mitigating ongoing disruptions.

The explosive growth in security, data trust, data zone and compliance needs and regulations. The need for information and process insights to help customers manage staff turnover, to create cultures of knowing, to remove costs and do more with less. Their transition -- the transition to a green agenda and new ESG audits, new trading partners, new manufacturing, decarbonization and 2030 pledges to be climate innovators, OpenText has a key role to play here to help our customers be climate innovators. And even deeper relationships with top-tier tech partners like Microsoft

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to capture new RMMs and MSPs driven by the Microsoft ecosystem and disruptions at companies like Datto and with security and data protection needs.

We're also going to look for deeper relationships with GCP and AWS for new enterprise workloads. Altogether, helping our customers Win with Inflation Now and get more done with less.

On the cash flow and capital side, our outlook for the new fiscal year is continued growth and expansion. Let me start with the assumptions that we're using for the next 12 months. It is important to get an insight into the assumptions that we're using. One is continued high inflation. Continued strength of the U.S. dollar. Global GDP at 2% to 3% growth. High energy and wage costs. For some of the OpenText operating assumptions, we're expecting every business line to show revenue growth. Please recall we have a half year of Zix benefit. You'll see in our target models that we're anticipating gross margin to be constant. R&D and cloud operations investments up $75 million, a constant adjusted tax rate of 14%, and we're anticipating CapEx down 5% to 10% as we leverage greater benefit from our partners with our cloud partners at Microsoft, Google and Amazon.

We have a strong constant currency outlook for fiscal '23. Enterprise cloud bookings growth of 15% plus. Cloud revenue growth between 6% to 8%, that's total cloud revenue growth between 6% and 8%. ARR growth between 3% to 4%. Total revenue growth between 3% to 4%, positive organic growth, constant adjusted EBITDA as we invest significantly, continued free cash flow growth and continued capital return. Our Board of Directors approved a 10% dividend increase to $0.243 per share for shareholders of record on September 2, payable on September 23.

On M&A, there's no change to our previous statements. Our pipeline remains active. We continue to seek those opportunities that meet our criteria on valuation, future growth contribution, cash returns and return on invested capital.

Our ability to execute is another key point of confidence. This is a proven team. I'm very excited about Project Titanium, our Cloud Editions 23.2. We chose to name Titanium because it reflects our cloud fundamentals, strong, lightweight, industrial strength, corrosion resistant. Titanium is both new product new routes to market. Let's get into a little bit.

The acceleration of our large off-cloud customer base to the OpenText's cloud. Look, our license customers benefit by consuming this [way] (added by the company after the call) -- by consuming license, and our off-cloud customers remain a massive cloud conversion opportunity. We believe this acceleration will happen because our customers can drop plans for large-scale customizations and increasingly move to a consumption and expansion model. So we think Titanium is going to help us accelerate our large off-cloud install base. Titanium is also going to further scale our private cloud business, with significantly expanded geographic capabilities, data zones and compliance capabilities. We see the opportunity to be the most trusted, secure and compliant private cloud around the world.

Our public cloud products will be at equal functionality to our off-cloud and private cloud products. And we're going to be adding all these -- and this will open up a whole new set of opportunities with our public cloud at equal capabilities to our private cloud. We're going to look to win the next-generation platform in future workloads from customers, partners and embedded IP partners to our developer cloud. We see where ecosystems can be built around our API-based developer cloud.

The OpenText Cloud platform, the fundamentals underneath all our business cloud and developer cloud will allow customers to leverage all of our cloud suites with less friction and less professional services and seamlessly go from 1 module to all modules because the technology, the data, the workflows, the setup, the user administration is all common across those business clouds.

We also see the new opportunity for a new digital engagement center that we call the OpenText Zone, where customers can try, purchase, renew and get all the support they need, all automated, all self-service without human intervention. With all of this together with Titanium, we have an opportunity to reimagine the enablement of customers at scale in the cloud. This is really important.

The old model that almost all of the large tech partners -- the tech ecosystem work under today that it's the old model of LAER. Land, adopt, expand, renew, there have been books written about it. Well, let me be clear. It's an artifact of the past, and it's not built for clouds at scale. We've created a new model with Titanium, a new customer success model centered on 4 principles, and we've actually already trademarked it. It's land, operate, value, expand. Win the customer - land, operate their business at scale, see the customer and deliver the value, and when we deliver the value

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together, then they expand. Land, operate, value, expand. We're going to organize it, we're going to evangelize it, we're creating programs behind it. Land, operate, value, expand, L-O-V-E. That's right, it spells love. The new OpenText LOVE model for customer success with Titanium. Land, operate, value, expand.

We are investing in accelerating all things cloud, and this puts us on a vigorous and guided growth trajectory that informs our medium-term fiscal 2025 aspirations. We are raising the bar on our medium-term aspirations. And in constant currency, our aspirations include: continued enterprise cloud bookings of 15% plus, total revenue organic growth between 2% and 4%, increased bookings to drive increased cloud organic revenue growth of 6% to 8%. This is really important, I want to repeat this.

Our 3-year aspirations, our fiscal '25, our medium-term aspirations includes cloud organic growth revenues of 6% to 8%. ARR up to 85% of total revenue. Adjusted EBITDA margin between 37% to 39% given our increased R&D investments to drive more cloud growth. And annual cash flows of approximately $1.1 billion, and the slight change is due to the U.S. dollar strength and our updated non-GAAP tax rate in the low 20s. Continued capital allocation of 33% of free cash flows to dividends and buybacks.

Let me wrap up my prepared remarks before I hand the call to Madhu and then your questions. We're prepared for this dynamic environment. And we prepared uniquely in the OpenText way for the opportunity that we see for OpenText. We are investing to outcompete our rivals, and our R&D and cloud investment for F'23 is up $75 million to a total of $1 billion in annual investment driving Titanium, the OpenText Zone, increased distribution and the OpenText LOVE model. We're also preparing for a better company and a better tomorrow. Today, we published our third corporate citizenship report. Please read it. It reflects our culture, our commitments to our employees, our commitments to our customers, to our partners and our commitment to you and to the world around us and the communities in which we live and work. We welcome and value your feedback.

I'm an optimist. I deeply believe the future is brighter than today because the future is made of the best parts of today. OpenText is committed to ensuring that growth, that our growth is based on inclusivity and sustainability. I recently came back from just a fantastic customer employee tour in Europe.

Let me quote a customer. "Time and people are the greatest assets of our company, and it's time for radical prioritization. At our strategic technology table is Microsoft, Oracle, SAP, Salesforce, Google and OpenText. OpenText has demonstrated amazing flexibility, time to value and unwavering commitment to us during the pandemic, and you earned your seat." It's time to standardize on companies built for the long term like OpenText.

I'd like to thank our employees, our customers, our partners and our shareholders for your continued trust and confidence in OpenText. It was just a fantastic fiscal year. We're off to a great start in fiscal '23. We're humbled and proud to help advance your mission and goals and work and to make OpenText in the world better for everyone. 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, over to you.

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

Thank you, Mark, and thank you all for joining us today. All references are in millions of USD and compared to the same period in the prior fiscal years and are on a quarter basis unless stated otherwise.

As I shared our strong results in the quarter, and full year ending June 2022, and let me start with entire OpenText team's execution during the quarter and the fiscal year, which was remarkable. And now let me expand in Q4 fiscal 2022 results. Q4 revenue. We are very pleased with our record Q4 revenue, our record annual recurring revenue and record cloud revenue. On revenues and adjusted EBITDA, we are well within the expectations shared with you as part of our quarterly factors in May 2022. First on foreign exchange. The U.S. dollar strengthened throughout the quarter, creating an additional headwind beyond what we shared back on May 4. Foreign exchange in Q4 was a revenue headwind of $33 million, impacting customer support and cloud revenues the highest.

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We grew total revenues 4.7% on a constant currency basis and 1% on a reported basis. Cloud revenues grew 16.6% in constant currency and 14.3% in reported currency, and our sixth consecutive quarter of organic growth. Strong renewal rates of 94% in cloud and 94% in off-cloud, and we see this continuing given strong performance of our renewals organization and customer validation.

And now moving to other financial metrics. GAAP-based net income was $102.2 million during the quarter, down from Q4 of fiscal 2021 income of $181.3 million due to Zix integration, higher special charges including our facility optimization and lower year-over-year equity gains on limited partnership investments.

Adjusted EBITDA for Q4 was $313.6 million or 34.8% of revenue versus $314.8 million or 36.2%. As you see in our Q4 results, on a non-GAAP basis, cost of sales and operating expenses were higher by $12 million year-over-year as we proactively balanced the integration of Zix, our foreign exchange expense, plus the continued investment in growth focused R&D, marketing and automation-related internal technology projects.

Operating and free cash flows. We generated $251.9 million in operating cash flows. Free cash flows in the quarter were $213.8 million or 23.7% of revenue. During the quarter, consolidated DSO, day sales outstanding, were 43 days, consistent with the same quarter a year ago. Our team continues to deliver strong working capital efficiency and conversion from adjusted EBITDA to free cash flow. Our conversion rate from adjusted EBITDA to operating cash flow was 80%, and a high conversion of 85% from operating to free cash flow.

Now let us move to our full fiscal year 2022. We generated record revenue, ARR and cloud revenue for the full fiscal year. As we accelerate our business into the cloud, we believe the better way to measure our business tempo is enterprise cloud bookings plus reported revenue. For fiscal 2022, our enterprise cloud bookings were $466 million, representing strong double-digit growth over the prior year. The growth is broad-based across our enterprise -- our enterprise product offerings, and we're seeing a growing number of large multiyear cloud deals with an average commitment of over 4 years, reflecting the strategic importance of OpenText to our customers.

A few trends relating to our enterprise cloud bookings. The trend of larger deals defined as $1 million contract value continued during the fourth quarter. Content Cloud was strong in telecommunications, utilities and retail. Our Experience Cloud growth was strong insurance, health care and chemical manufacturing, while Business Networks saw strong cloud-driven sectors that rely on supply chains such as food and beverage, manufacturing, automotive and retail. We will begin to disclose enterprise cloud bookings every quarter on a trailing 12-month basis.

On revenues for the year, we grew total revenues 4.3% on a constant currency basis, 3.2% on a reported basis and 1.7% on an organic constant currency basis. Cloud revenues grew 9.8% in constant currency and 9.1% in reported currency and 3.6% on an organic constant currency basis. ARR revenue grew 5.5% in constant currency, 4.5% on a reported basis and 2.3% in organic constant currency. The impact of foreign exchange to revenue for the full year was $39 million, most affecting customer support and cloud revenue.

And now moving to other financial metrics. GAAP based net income was $397.1 million, up 27.8% from $310 million in fiscal 2021 due to lower tax provisions relating to the prior year IRS settlement, offset by higher costs from Zix acquisition, our facility optimization charges and debt extinguishment related to our successful refinancing during the year.

Adjusted EBITDA for fiscal '22 was $1.26 billion or 36.2% of revenue versus $1.32 billion or 38.8% of revenue in fiscal '21, once again, reflecting our continued investments in cloud, edge, security and Zix integration. We remain on track to have Zix on our operating model by December 2022.

Operating and free cash flow. For fiscal 2022, we generated $981.8 million in operating cash flows and $888.7 million in free cash flows or 25% of revenue. The conversion rate from adjusted EBITDA to operating cash flow on an annual basis of 78% and a high conversion to free cash flow of 91% given our continued CapEx efficiency.

Now moving to balance sheet and liquidity. We ended the quarter with $1.7 billion of cash, another $750 million available on our undrawn revolver and a very strong net leverage ratio of 2x and approximately 75% of our debt on fixed rates.

Let's turn to outlook, our updated targets and aspirations. The U.S. dollar remains strong. We plan our business in constant currency, and we will present our business this year on constant currency basis, for our quarterly factors, total growth strategy and medium-term aspirations. For the

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first quarter of fiscal '23, you will see our quarterly factors outlined on Page 7 of the investor presentation. For Q1, on a year-over-year basis in constant currency, we expect cloud revenues up 13% to 15%. ARR up 6% to 8%. Total revenue is up 4% to 6% and FX revenue headwind of $40 million to $45 million.

Adjusted EBITDA dollars flat year-over-year in constant currency, while continuing to make investments in cloud, in security and edge and continued integration of the Zix acquisition. We expect FX to be an adjusted EBITDA headwind of approximately $20 million.

Our fiscal '23 total growth strategy in constant currency we have provided on Page 8 of our investor deck. Enterprise cloud bookings of 15%-plus, total cloud revenues up 6% to 8%. ARR, up 3% to 4%. Total revenue growth, up 3% to 4%. At current exchange rates, FX would be a headwind of approximately $100 million for the full year.

As noted on Page 9, our fiscal 2023 target model remained largely unchanged from fiscal '22 level, except for an increase in net interest expense of $12 million to $22 million and a decrease in CapEx of $3 million to $13 million. Our fiscal '25 aspirations are provided on Page 10 of our investor deck and specifically, enterprise cloud bookings of 15%-plus growth. Organic revenue growth of 2% to 4%, led by cloud organic growth of 6% to 8%. ARR at 85% of total revenues.

As you can see from our results, outlook and medium-term aspirations with respect to cloud revenue, we have grown cloud revenues from 0 in fiscal '12 to $1.5 billion in fiscal '22. We delivered 9.8% constant currency total growth in the cloud in fiscal '22. We are communicating today fiscal '23 outlook to deliver 6% to 8% constant currency total growth in [cloud revenue] (corrected by the company after the call). Most important, constant currency organic growth in the cloud improved from 1.8% in fiscal '21, to 3.6% in fiscal '22. And today, we are communicating our medium-term aspirations outlook of 6% to 8% organic growth in fiscal '25. This truly reflects OpenText's acceleration to the cloud with emphasis on cloud organic growth leading, acquisitions remain a strong optionality and consistent with our total growth strategy of grow, retain and acquire. This is a fantastic accomplishment.

So moving to adjusted EBITDA margin for our medium-term aspiration, 37% to 39%. Free cash flows of $1.1 billion plus, with an opportunity to do better through stronger revenue, improving currency exchange and higher benefits from tax structure optimization. We expect our effective tax rate to stay at approximately 14% in fiscal '23 before moving to the low 20s in fiscal '25.

And finally, let me echo Mark's comments. The relevancy of our technology and expertise for customers has never been higher. OpenText is not just prepared for the future. We are well poised to thrive. With our strong financial model, we expect continued investments for growth and innovation, remaining focused on both preemptive and ongoing actions, operational excellence and disciplined execution.

In summary, for all of us at OpenText, it was a remarkable finish to our fiscal year. On behalf of OpenText, I would like to thank our shareholders, our loyal customers and partners. A special thank you goes out to my OpenText colleagues around the globe. Thank you. You are the best in industry. I will now open the call to your questions.

QUESTIONS AND ANSWERS

Operator

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

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

On the 15% cloud bookings expected in fiscal '23, I was hoping you could walk through the cloud offerings that you see driving the growth there.

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

Yes, sounds great, very happy to. So, first, Stephanie, we're going to introduce new bookings and -- for the year and going forward. And we're going to keep you up to date quarterly. We do that on a trailing 12-month basis as Madhu said, so we can keep a lot of visibility right on here. And this is enterprise bookings for us. It does not include SMB, it's enterprise bookings. There are a variety of -- the 2 top of the list are continued strength in customers migrating from off-cloud to our cloud for the content cloud. This is the continued digitalization, finding, being a bit short on resources, skills, security, compliance, they need to go global on workflows. So just that continued drumbeat of digitalization for the content cloud.

Second, or code #1, I would rather, is we're seeing a lot of activity in the supply chain as companies are in full throttle for regionalization and de-risking from around the world, getting more control of just-in-case inventory, more control towers and a new set of requirements around their 2030 pledges. Even whole of the macro, we see just a sustained commitment to 2030 pledges. We were Toyota's partner in the supply chain as they drive towards their 2030 electrification goals, for example.

So, Stephanie, I'd put a continued drumbeat of digitalization in the content cloud and supply chain, code #1s driving towards what we think is going to be strong double-digit growth in our cloud bookings. And just to recall, that's on the base of $466 million of new bookings in '22 and a 15% plus in fiscal '23.

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

That's helpful. And then maybe the other side of the equation, can you talk a bit about the incremental $75 million in cloud investments in fiscal '23. What are the major investments in the road map? And maybe related, it looks like these investments will continue into the future given the fiscal '25 aspirational margins about 100 basis point below the fiscal '24 one. So maybe talk a bit about what you're seeing going forward there?

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

Yes, very good. Put that $75 million additional and total $1 billion in R&D and cloud operations. Number one, Titanium objective; public cloud parity to our amazing private and off-cloud capabilities, top of the list. Second is security and compliance. We just see a -- just a huge opportunity to be the trusted cloud operator in information management. They don't meet the requirements of a data zone in France, a data zone in Germany. We're seeing customers post Russia's war on Ukraine, we're seeing commercial customers ask for banking level-type security in the private cloud. We think literally only a handful 4 or 5 companies around the globe can deliver these type of requirements, whether they be [HIPAA, SOCs, BaFin], data zones, sovereignty type data zones and sovereignty type requirements. So Steph, that would be the second area.

And then third is what we call the OpenText zone. We're going to compete -- we're just getting started in SMB. I mean, it was an amazing 2-year journey from 0 to approaching $700 million of revenues. And there's a lot of automation we're going to put behind growing our MSPs and RMMs all through automation, self-service, trying, buying, downloading install base management. So those are the 3 big areas that we're going to see the lion's share of the $75 million.

Operator

The next question comes from Raimo Lenschow from Barclays.

Unidentified Analyst

Great. This is Jeremy on for Raimo today. I wanted to ask also on cloud. Just on the performance in the quarter, can you speak to how much of that is net new versus customers migrating over from licenses? And then, in terms of product, anything kind of stand out across content or business network or security? Or would you say it was pretty consistent from past quarters across the board?

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

Yes. So Jeremy, thanks for the question. Yes, we're not breaking out that, which is brand new versus -- that which is a migration or just like a pure migration or migration in a new workload or a new customer. But I can tell you, it's really a mixture of all of that. And, look, I think the second half of last year was stronger than the first half for our cloud bookings. So we look at the $466 million of -- this is new value. This isn't the total value of what we booked. This is only the incremental value to those cloud bookings. So the second half of the year was certainly stronger than the first.

We're going to keep everyone updated quarterly here on a trailing 12-month basis, so you can track our progress to this double-digit new booking value for enterprise cloud growth. But, Jeremy, actually it was a mixture of those -- the install base migrating, which is still the #1 opportunity we have to migrate our install base. Two, migrate and add new workloads. Like we've had some customers add eSignature that were either migrating or just moved. And then completely new customers like Close Brothers in the cloud. So a mixture of all 3.

Operator

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

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

So kudos on the continued execution there. With respect to the macro environment, understand you said that it's in your outlook, but what are your customers saying today about their budgets for tech spending as we look for the remainder of this year? Are they feeling kind of continually optimistic? Or are they kind of perhaps putting some pause or slowing the cadence of some of the projects?

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

Richard, yes, thanks for the question. Good to hear from you. I would say, on the demand side, in aggregate, our demand is steady. We have strong visibility and it supports our outlook for the year. And this is a strong outlook, a double-digit 15%-plus cloud bookings growth. We're looking to grow our cloud revenue, which takes bigger bookings, right, between 6% to 8% and then total growth between 3% to 4%. And so I'd say, in aggregate, demand is steady. We got very strong visibility and it supports the outlook we have for the year.

Let me drill down just into a little bit and maybe into 3 places around the world. In Germany, there's a lot of attention on Germany, of course, a lot of activity, fuel costs, a lot of headline news. But we're very strong in government, heavy manufacturing, heavy industries manufacturing. And should there be a downturn in Germany, we're in a great position because we're going to be where customers are spending. Government, defense, aerospace, heavy industries manufacturing, there's always been a -- look, in our history there over a decade is well chronicled that we're this all-weather business in Germany because of our sector exposure.

We're paying a lot of attention to the U.K. as well. And that's a little more on the inflation side versus the spend side, and we talked about our WIN program With Inflation Now. We got a lot of campaigns around that. And I'll tell you, in the U.S., demand is very strong. And the U.S. economy is not predetermined to go red, not predetermined. So, look, our demand is steady. We got very strong visibility. We're paying attention to Germany and U.K. very uniquely and more up arrow in the U.S. right now.

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

All right. Okay. And then you made some comments on the cloud bookings, and thanks for providing more disclosure going forward on that. But I just want to clarify, is that kind of all organic here? Or does that include some acquisitions?

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

100% organic.

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

Okay. And the last question for me is, obviously, the labor market has been fairly tight. Given your stability, are you finding it easier to retain talent and bring on new talent?

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

Another great question. And look, I'm going to -- short answer is yes. Our talent and company brand has never been stronger. I'm just back from a great trip in Europe. I was with customers and our team in France, in Germany, the Netherlands, U.K. I've been traveling throughout the U.S. I'm here in Waterloo right now, preparing for a trip to India next month. And let me zone in on India because it's probably our largest hiring market. We are 100% back to work in India, 100%. And it's invigorating, right, to see the teams back with such intrepidness and robustness. So our talent and corporate brand has never been stronger. We are competitive in the market, and this is going to support our 2% headcount expansion.

Like a lot of companies, we're going to put a lot of weight behind performance reviews this year, right, and raise the bar internally on our expectations of all of us. But we're in great shape, Richard, for hiring and meeting our talent needs for the year, specifically in places like India and the Philippines.

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

That's great.

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

Yes. And if I could just -- I'm sorry, if I could just add, this is Madhu here, to your question on the bookings for the benefit of you and maybe others on the call as well when Mark explained organic. So these are new, these are incremental. These are quotas to our sales team, and this is what the sales team brings new business, new contract value each year. Again, I just wanted to expand on your question and Mark's answer. Is this new, is this, I mean, is this organic? 100%.

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

Just like a milk carton, 100% organic. So we do -- we do if I just can -- if you don't mind me calling on you, you're just back from India. Maybe share your voice on your trip to India and Team OpenText India.

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

Yes, fantastic. Well, thank you, Mark. So as Mark said, I was in India in June, and we've had a long-standing presence in India. And first of all, it's just great to be there. They have amazing talent in the fields of engineering, cloud operations, in customer solutions group and everyone just valued the time, the time in person. The appetite there for learnings, for growth, and just the pride there sitting in India and delivering to a marquee customer base around the globe, product and innovation is very high. And as Mark said, we look forward to even growing further in India.

Operator

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

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

Mark, Microsoft had called out some SMB softness in the quarter. Can you comment on what you're seeing there, I guess, both within Zix and more broadly, given that it seems to be a bit more macro-sensitive area.

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

I'm sorry, Thanos, there was a little breakup in the line. I couldn't hear the second part of it.

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

Yes. Sorry, Mark. I was saying Microsoft called out some softness in SMB during the quarter. So if you could comment on what you're seeing with Zix and more broadly in your SMB business. And also in terms of the resiliency you expect in a downturn within SMB.

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

Yes, sure. Fair enough. So yes, maybe starting at putting it all in context for us. We've -- we created our SMB&C business from 0 to approaching near $700 million. And this is just our second fiscal year. The business is growing. It's growing organically. We got gross margins in the high 80s, and we're taking a very unique distribution model, right? We don't sell direct to SMB&C. We do -- there's always a little bit around the edges. But the 90% plus of what we do is trying to build this unique distribution model to MSPs and RMMs and doing that through a unique platform. We've written the software. We were in salesforce.com, right, for MSPs and RMMs, and we're expanding that massively to go out and attract RMMs and MSPs to come to our OpenText Zone, register, download, try, purchase, distribute the software, collect install base information from their customers to manage, monitor what they're doing.

So it's a very unique distribution strategy, and we got over 100 people writing software for SMB to automate the selling. We're looking -- our biggest partner, of course, is Microsoft. It is all about a Microsoft ecosystem. They are just getting started on their new commerce experience platform. So I want to speak about what were the expectations externally about when NCE would start to ramp. But NCE is now in the market. And we're a top 5 partner for their conversion to NCE. So we're in a great position right there with Microsoft.

Second is, we see the opportunity to resell Zix into the Carbonite install base. We see a lot of disruption with Datto. We're investing in the Zone. We got SMB&C M&A opportunities in our pipeline. So we had a great second year. We've only been at it for 2 years, and we're going to -- we expect to grow and grow organically here in fiscal '23.

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

Great. Just to clarify, so the Zix point, not really seeing slowdown in the macro and SMB?

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

No. No. We have a lot of great levers here because -- we can bring Zix into the Carbonite install base. We can bring Carbonite into the Zix install base. So those are things unique to us that are levers that others don't have. Also, there is some real disruption with Datto, and we're going to be there to be helpful to those MSPs. And Microsoft just getting started in their conversion to NCE, and we're on the top 5 CSPs to help them. So you put all that together, and I'm sure there's some demand aspects out there, but that all together, it sort of mutes any demand noise out there for us.

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

Okay. That's helpful. And then just a quick one for Madhu. I think I heard you say in your prepared remarks that it is 2.3% organic total revenue growth and 3.6% organic cloud growth for the fiscal year. Is that correct? (inaudible)?

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

Yes, 3.6% constant currency cloud growth.

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

Okay. I'm sorry, have you disclosed organic total revenue growth or no?

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

So we do have an appendix as we do on an annual basis in our investor deck that spells out the organic growth details for the year.

Operator

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

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

Just trying to dovetail a couple of things with your medium-term outlook. First, obviously, the enterprise cloud bookings is quite strong, particularly relative to your TAM. Is it a fair statement that, within enterprise cloud, you believe that you're gaining share relative to the TAM?

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

Yes.

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

Okay. That's a starting point. And then the second question is with -- in medium term, the growth, this 6% to 8% organic cloud growth, at what point does that start driving up overall organic revenue growth because it's still in the 2% to 4% range. At what point does the recent tipping points start driving that and you start seeing faster growth?

And also related to that, should we expect other segments like license, customer support, professional services to decline over the medium term as you do that transition?

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

Yes. So let me take a part of it and then hand apart to Madhu. And I just wanted to be brief in my answer to you on the first part of taking share. So the short answer is yes. Maybe just adding a sentence to that, look, there's a real opportunity. It's a time to standardize on companies like OpenText. And it's a Darwin moment in technology where it's time to outcompete your rivals. It's a Darwinian moment. And so when I look at kind of the Tier 2 and Tier 3 competitors, and I don't mind calling them out, Kofax, Hyland, SPS Commerce, FileNet, Sterling Commerce, Datto, I think it is a Darwinian moment to be more aggressive to outcompete rivals.

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So, yes, I think I'm very confident with this bookings growth, this new value enterprise bookings growth. We are taking share. And it will flow into revenue as you're seeing it work through our model. And we hit -- if I look at our license business in the quarter, then I'll hand the microphone over to Madhu. Constant currency license was about 10% of our business. Remarkable, right? I mean down from almost 1/3 of our business 10 years ago to 10%. And cloud was up 9.8% or $137 million. So even though license was down about $15 million in absolute dollars, cloud was up $137 million. And I think trading $17 million for $137 million, that's -- maybe called (inaudible) that's a good trade. So we're going to continue to sell a license. Customers who purchase license today are in 3 camps. They look for long-term economic value, they look for some capacity expansion and they look for a very trusted deployment.

The license is also our largest cloud opportunity to convert that install base over time. So I love where we are, methodically moving through that install base. So there are a couple of real events to watch. License falling below 10%, that is the moment in time and we're getting real close. Titanium, public cloud at parity to everything else. Those 2 events should be accelerators for us -- accelerants to more cloud growth. Let me hand the microphone over to Madhu.

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

Thank you, Mark. And you shared a great bit of perspectives here. I would just add saying, if the question is, how do we get beyond the current levels of organic growth in fiscal '25 about what we stated? I would just point out to what is getting bigger, right? The annual recurring revenues are 82% going to 85%. So our focus is really within that the leading growth being cloud. That's what we sort of focused on, right? And certainly, you should look beyond that above the current ranges. But I would also point out 1.8% cloud constant currency fiscal '21, 3.6% in fiscal '22, and we're making a big leap to 6% to 8% organic growth in fiscal '25. So I would just say, as the 85% gets bigger, right, what's really going to drive the total is going to be that 85%. And within that, it's going to be the cloud growth.

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

Okay. That's helpful. One last one for me. Just with the outlook for this current year, you're calling for license revenue growth, but it did contract this year. Why do you see the turnaround in the short term for license revenue?

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

It's all the nature of the visibility in pipeline, Paul, where we see -- these are sales cycles that are times multi-quarter. And we can see we have the visibility and pipeline of customers looking to build very fortified and secured environments. And so that's just -- we're calling it like we see it through the visibility and pipeline. So it doesn't change the view that we think license is going to be relatively constant over time, as we just said, we disproportionately grow cloud. But we're going to see -- we expect to see a positive green carat next to license this year.

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, everyone, for joining us today, and it was real delight to walk through our Q4 results, our annual results, our outlook for F'23, and our aspirations for F'25. Please read our corp citizenship report. We're very proud of it. And we're -- we look forward to and we value your feedback. We look forward to being on the road at our investor conferences this year. Madhu, myself, Harry and Greg, I will personally be at the Citibank Conference in New York, and we'll be there in person and hope to see many of you there. Have a great afternoon, and thanks for joining the call today.

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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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