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PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the OpenText Corporation Second Quarter Fiscal 2023 Financial Results Conference Call. (Operator Instructions) After the presentation, there will be an opportunity to ask questions. (Operator Instructions)

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

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

Thank you, operator. Good afternoon, everyone, and welcome to OpenText's second quarter fiscal 2023 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 press release and investor presentation online. These materials will supplement our prepared remarks and can be accessed on the OpenText Investor Relations website at investors.opentext.com. I'm pleased to inform you that OpenText management will be participating at the following upcoming conferences; Bernstein's Technology, Media, Telecom and Consumer One-on-One Forum on March 1 in New York and Scotiabank's TMT Conference on March 7 in Toronto.

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 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 current most directly comparable GAAP measures may be found within our public filings and other materials, which are available on our website.

And with that, I'll hand the call over to Mark.

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

Thank you, Harry, and welcome, everyone, to our fiscal '23 Q2 call. Madhu and I are delighted to be hosting today's call from Ottawa. Tomorrow, we ring the opening bell for the Nasdaq live from the nation's capital. It is Nasdaq's first opening from Canada and tomorrow is a recognition and celebration of Canada's and OpenText's leading role in global technology innovation. We're a differentiated young company and we're just getting started. Let me get right to the most important points today.

OpenText had a truly superb Q2, achieving overall constant currency revenue growth of 7.8%, which reflects very strong cloud revenue growth of 16%, excellent renewals performance and continued focus on efficiency with 37.7% adjusted EBITDA margin, even as many of our team members also worked very hard to prepare for the close and integration of Micro Focus. Many of the same secular factors that contributed to our growth have only increased our confidence in the potential that we see in the acquisition of Micro Focus. Specifically, in an increasingly connected and data-intensive world, our customers need actionable insights and information, strong security and continuing innovation and the tools that they need to accelerate the digital evolution of their complex business environments in order to securely deliver on their customers' expectations and do so efficiently.

We are on track to deliver on every commitment we made at the time of the Micro Focus acquisition announcement. I'll elaborate later, but we are more confident than ever about the value we can create for our shareholders, customers and our employees and the performance we can realize by applying the OpenText business system as very experienced integrators. We have a proven track record that has been refined through the course of integrating many large acquisitions over the last decade. In addition, you'll hear today that we're on a path to deliver $6 billion in annual revenues, a $2 billion cloud revenue business and over $2 billion in adjusted EBITDA dollars with upper quartile free cash flows based on the trust of our customers.

There's 5 specific topics I want to cover today. One, our vision, our differentiation and how we plan to win in our markets; two, delivering on our expanded information management mission and growth programs; third, multiyear financial milestones and aspirations, including our superb Q2 results, fiscal '23 growth targets, we're going to discuss today our preliminary F '24 growth targets and even stronger F '26 aspirations. We'll also talk about our strong capital allocation approach and plan and how we intend to create value with the OpenText Business System. Let's get into it.

First, our vision, our differentiation and how we plan to win in our markets. Markets are never static. Through time, we've expanded information management to include many types of content experiences and business networks. With the Micro Focus acquisition, OpenText corporate mission expands again this time to help enterprise professionals secure their operations, gain more set into their information -- more insight into their information and better manage increasingly hybrid and complex digital fabric with a new generation of tools that include cybersecurity, digital operations management, applications automation and AI and analytics.

Digital Life is life and this is generation digital. We call this Business 2030. Organizations can only achieve their strategic aspirations by becoming digital leaders and top economic performers are already investing disproportionately in digital capabilities. We're on the cusp of a new world era, driven by digital, new productivity and harnessing the world's assets, unlocking human potential, the reshaping of economies by the frictionless flow of goods, people, capital and ideas and the new uses of technologies that will drive the next big arena of value and competition.

Business 2030 will be achieved through 4 digital transformations; total enterprise reinvention, every industry totally transformed by digital; a new workforce led by Generation Y and Z and only a digital mindset; new digital paradigms and sustainability, climate, trust and social justice; and new digital requirements and extended reality, voice and facial interfaces, the Verse and AI. Organizations will continue to need the process advantage, of course, which they receive from ERP and CRM vendors, but the process advantage requires data and actionable insights. Customers need the information advantage, which they receive from OpenText forged by digital.

I speak with a lot of customers and their business operations are getting more complex as they operate across many countries, many regulatory authorities, platforms, endpoints and cloud, including the rocketing security and industry compliance requirements. Process and information sprawl is increasing for business information and automation that spans commerce, supply chain, service management, asset management, payment systems, financial systems, communications and service management. The more connected business becomes, the more complex the business operations. At OpenText, we have the end-to-end software and cloud capability to help customers make this transformation rapidly and cost effectively. This is why I like to say we are the platform of platforms for information management.

Customers need a single real-time view of information across these complex business infrastructures that is intelligent, connected, secure and responsible. That is what we do and it is unique. This is the OpenText information advantage. Specifically, we believe there are 6 key markets required to enable the information advantage and deliver the high impact digital transformations required for Business 2030 and winning in this new digital era. The 6 markets are these. Number one, content services, which include experiences. Number two, business networks; third, cybersecurity, fourth application automation, which includes ADM and AMC; fifth, digital operations management, formerly ITOM; and sixth, analytics and AI. We are organizing around this strategic and growing total addressable market of $200 billion-plus, and we'll keep you updated on our progress in these 6 market areas.

Second thing I want to talk about today is delivering on our expanded information management vision and growth programs. It's been a great first week speaking with Micro Focus employees and customers and we have already completed our leadership, structural and key people integration. There is an enormous amount of energy and excitement. Please recall the transactional financial highlights are as follows. We paid an enterprise value of $5.8 billion financed with cash and debt. This equates to a revenue multiple of approximately 2.3x and an adjusted EBITDA multiple of 6.7x, a very attractive multiple and the business is immediately accretive to adjusted EBITDA dollars.

Moreover, we love the amazing talent, marquee customers and great products, including IDOL in the content space; Vertica in AI; Fortify and Voltage and security; SMAX in digital operations; and LoadRunner and Value Edge in applications automation, including critical mainframe technologies that power the Global 10,000 today and tomorrow. We also intend to fix the things that need fixing, accelerate to the cloud, reinvention of the customer engagement with the OpenText L.O.V.E model, centralizing renewals and implementing OT best practices and rightsizing the organization for speed, impact and growth.

On growth, let me summarize a few key programs. OpenText delivered a 95% renewal rate for off-cloud in Q2. We expect to make steady progress in transforming the customer experience with Micro Focus products and raising their low-80s renewal rate to ours by the end of fiscal '25 or sooner. Rapid innovation, the highest correlation to high renewal rates is product value and we are taking several actions to accelerate innovation to all our customers. Specifically, we are immediately engaging customers to migrate to the OpenText private cloud for all major Micro Focus offerings and transitioning Micro Focus to our 90-day release cycles to accelerate innovation. Within these 6 markets, customers will benefit from some fantastic new product value. Our growth strategy is to win the 6 markets and go deep in each space with select and strategic cross-market integrations that include cloud, AI and security.

Let me highlight some of those growth areas in our 6 markets. In the content space, we intend 4 programs to help customers expand the areas of digital potential. We're going to leverage our new IDOL capabilities to incorporate new business workloads that leverage voice, video, imaging and facial recognition. These are all new workloads we can bring content into. We're going to offer the OpenText private cloud capabilities to all Micro Focus customers to accelerate innovation. We're going to deliver the most secure content platform in the market with our new Voltage and with Titanium gain larger share in SaaS ECM market. We're on track with Titanium.

In the business network space, integrate our new Vertica advanced analytics and machine learning capabilities into the OpenText trading grid to provide massive data analytics to drive the next generation of supply chain transformations and leverage our new digital operations management capabilities to increase the speed of change, the rate of change within the supply chain. Security is job #1. In cybersecurity, with the acquisitions of Carbonite, Zix and Micro Focus security products, OpenText is now one of the largest cybersecurity businesses in the world.

We've created a single go-to-market motion covering enterprise, SMB and consumer, providing a complete cybersecurity stack in the marketplace from endpoint, forensics, identity, encryption and cloud-based application security. We intend to invest in cybersecurity, gain share and ensure this is a top driver of customer value from OpenText. Within our applications automation space, we've added significant new DevOps capabilities and performance quality and application testing. With our cloud scale and experience, we will turn up the volume in helping customers use these new tools to migrate and modernize into the cloud even faster.

In our new digital operations management space, we'll help customers increase service levels and customer experiences by integrating extended ECM and digital operations. We ran this play very successfully with SAP applications. We'll run it again with ECM and digital operations. And in analytics and AI. We believe Vertica is a gem. We have 2 clear value plays. Integrate Magellan in our new Vertica for stand-alone AI and analytics and the 2 products already have their initial integration and we demoed it live this week and embedded Vertica in all our major offerings from content, business network and security. Information management in the cloud, secured and intelligent and at scale. Customers will benefit from some fantastic new product value.

On our cost reduction programs, we confirm our approach to removing $400 million of combined company costs over the next 18 months by reducing overlapping work, removing inefficiencies, eliminating redundant facilities and automating work. Madhu will speak more about this in a few moments. Earlier this week, we announced our plan to right size our combined workforce from 25,000 employees to 23,000 employees or an approximate reduction of 8% within fiscal '23. This reduction is solely driven by the acquisition and we still plan for a strategic hiring of key roles in select geographies to help us drive growth and innovation. This is going to be a rapid value-accretive integration.

Third thing I want to talk about today is our growth plans, financial milestones and aspirations. As I said at the start, we had a superb Q2, and we're integrating Micro Focus from a position of strength. Let me walk through some of our Q2 highlights in year-over-year constant currency. It's our eighth consecutive quarter of cloud and ARR organic growth. We delivered $945 million in total revenues or 7.8% growth, $423 million of cloud revenues or 16% growth, and with Micro Focus, our cloud revenues are going to approach $2 billion a year. We reported Enterprise Cloud bookings growth of 12% and our adjusted EBITDA was 37.7%. On a reported basis, we delivered $163 million of free cash flow and adjusted EPS of $0.89 or $0.94 in constant currency.

I couldn't be more pleased about what we have accomplished with and for our customers this quarter. We had strong customer adoption of Cloud Editions within the quarter, RR Donnelley, Lear, Royal Bank of Canada, Los Alamos National Laboratory, AMD, the U.S. Defense Health Agency and Transport of London. We're excited to partner with these leaders as they accelerate their digital transformation and look to own their digital capabilities. In an uncertain environment, we continue -- we see continuing high customer engagement and strong demand for our solutions. Last quarter, I talked about the concurrent and compounding challenges in the world, inclusive of currency, wage and goods inflation, fuel prices, Russia's war in Ukraine, supply chain constraints, skill shortages and more. Many of these trends continue.

The only answer is digitalization to deliver insights, improve efficiency and lower costs and our strong Q2 results reflect the corresponding increasing need of businesses to partner with OpenText. It is clear that technology is playing a significant role in boosting productivity in the face of these challenges and technology is a greater portion of GDP today. IDC's research makes it clear that technology budgets are growing. They forecast IT spend will grow 5% in 2023 this year, software spend at 8% and Software-as-a-Service spend at 15%.

Transitioning to our financial outlook, we promised more visibility and we are providing it today. In our investor presentation, we have provided our updated F '23 targets, F '24 preliminary targets and our F '26 aspirations, each include Micro Focus. Let me summarize in year-over-year terms and in constant currency. Our F '23 targets include total revenues up 28% to 30% or $4.47 billion to $4.55 billion with Micro Focus contributing between $870 million to $920 million, continued enterprise cloud bookings growth of 15%-plus. The total company is expected to grow organically. Adjusted EBITDA dollars between $1.46 billion and $1.52 billion or adjusted EBITDA margin of 32.5% to 33.5%. Reported cash flow of $500 million to $600 million impacted from integration spend. It will be a year of cloud acceleration and onboarding Micro Focus.

Let me provide our preliminary F '24 targets. Total revenues up 33% to 35% or [$5.75 billion] (corrected by company after the call) to $5.9 billion of total revenues, enterprise cloud bookings growth of 15%-plus, the total company is expected to grow organically, adjusted EBITDA dollars between $2.1 billion to $2.24 billion or between 36% to 38%, approximately $800 million to $900 million of reported free cash flow. And let me spend a moment on Micro Focus and fiscal '24. We are baselining Micro Focus revenues to our financial quarters and to our standards and expectations. We want to make this simple and clear for you. They ended their last fiscal year at approximately $2.5 billion in revenues and declining mid-single digit. Our revenue baseline for fiscal '24 is approximately $2.3 billion in annual revenues and that is what we've modeled into our F '24 preliminary targets.

The F'24 baseline includes transitioning from IFRS to U.S. GAAP, transitioning to our reporting periods, our seasonality, the complete exiting of Russia, their previous sale of Digital Safe and stopping some non-strategic items. To be clear, that is all history now. The baseline for fiscal '24 is a stable $2.3 billion, from which we intend to grow organically in fiscal '25. Now if you want to do the forward metric on the purchase price, that is 2.5x forward revenues and at the midpoint of adjusted EBITDA, 6.8x. This is an outstanding value purchase.

We are replacing our F '25 3-year aspirations with our F '26 aspirations. Total company organic growth up 2% to 4%, enterprise cloud bookings continue at 15%-plus, adjusted EBITDA margin expansion to 38% to 40% and reported free cash flows of $1.5 billion-plus.

Fourth thing I want to talk about today is our capital allocation approach and plan. We have a strong 3-year plan and we have the leadership, talent and tools to deliver. We're on a clear path to a $2 billion cloud revenue business and $2 billion-plus in adjusted EBITDA dollars. Based on this, our capital allocation approach can be summarized as follows. A rapid de-levering program. Starting in fiscal Q4, we expect to pay down our debt by a minimum of [$175 million] (corrected by company after the call) a quarter and over 8 quarters until we are under 3x leverage, continuance of our dividend program. We intend to grow our dividend as our free cash flows grow. The OpenText Board approved a cash dividend of $0.24299 per share with a record date of March 3 and a payment date of March 23. Share count, our long-term plan is to hold our share count constant. Our business model is being designed to have a 20%-plus conversion rate from revenue to free cash flow. This is upper quartile performance and we're on that path.

Before I wrap up, let me just speak to how we create value with the OpenText Business System. The company is focused on growth, profits and creating value. We see 3 key stakeholder groups in the OpenText Business System; customers, employees and shareholders. For 125,000 enterprise customers, 1 million SMB businesses and 8 million home users, it starts with world-class delivery, trust in our products in cloud and the OpenText L.O.V.E model; land, operate, value, expand and creating a customer for life.

For our employees, we invest in 3 areas; performance, achievement and learning. And for our shareholders, total revenue growth that includes organic and acquired revenues like our superb Q2, a reinvestment strategy for growth with customer-informed R&D and sales and marketing, building a digital business that removes cost, improves productivity via high automation, upper quartile adjusted EBITDA margins, strong free cash flow with a yield of 20%-plus, our capital allocation plan, as I previously noted and continued acquisitions.

We intend to acquire strategic assets that create value, leveraging the OpenText Business System as we just did with Micro Focus. This is our virtuous cycle, how we create value using the OpenText Business System. Let me express something beyond our numbers in our Business System. I have strong confidence in our business, team and plan. And I'll keep you updated in the coming quarters as to our progress. I've always liked the model from the great state of Missouri, the Show-Me state. Our results will speak for themselves. In summary, OpenText is a unique company because we understand the complexity of our customers and we help them reliably manage that complexity. As a result, we have earned their trust every day and we delivered demonstrable value with the information advantage.

I'll end my prepared remarks by reviewing the comments we made at the time of the Micro Focus acquisition announcement. One, we are reaffirming returning Micro Focus products to organic growth. The 5 months of fiscal ['23] (corrected by company after the call) will be onboarding, F '24, a year returning to constant and F '25, organic growth. Accelerated cloud growth on a combined basis, expect enterprise cloud bookings growth of 15%-plus. We expect to transform the Micro Focus customer engagement and renewal model, as previously noted. The acquisition is dollar accretive from day 1 and contribute significantly more as we integrate, take cost out, improve renewal rates and return to organic growth. Upper quartile adjusted EBITDA margin of 36% to 38% in fiscal '24 and 38% to 40% in fiscal '26. Upper quartile free cash flows of $800 million to $900 million in fiscal '24, $1.5 billion-plus in fiscal '26. Rapid de-levering, continuation of our dividend program and enhanced visibility as we're doing today, and we'll continue to do so. We're on track to deliver on every commitment we made.

Let me express my deepest gratitude to our customers that place their trust in OpenText every day, my deepest gratitude to our OpenText colleagues who did outstanding work over the last 6 months completing the acquisition, delivering an amazing Q2 and strong momentum into the second half of this fiscal year and doing the hard work to prepare for applying our proven integration playbook, and finally, a huge and warm welcome to our 11,000 new colleagues from Micro Focus, customers and value-added partners. We will grow and innovate as the united OpenText. May the one that brings peace bring peace for all.

Let me turn the call over to Madhu Ranganathan, OpenText CFO and my business partner. Madhu?

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 year and are on a reported basis unless I state otherwise. During Q2, at OpenText, we redefined one more time what consistent and solid execution means. We delivered a superb quarter of results, better than the expectations of our target growth strategy shared with you on the last earnings call and proceeded towards closing Micro Focus acquisition on the 31st in line with our planned timing. OpenText is entering an exciting new phase acquiring Micro Focus from a solid position of strength with momentum and confidence in our total growth and integration plan.

On Q2 results, we are very pleased with our Q2 revenue performance. On a year-over-year basis, enterprise cloud bookings of $145 million, up 12% year-over-year and foreign exchange in Q2 was a revenue headwind of $48 million, approximately 45% in customer support and 31% in cloud. Cloud revenue of $409 million, up 12% as reported and 16% in constant currency. Strong renewals was 94% enterprise cloud and 95% in off-cloud. ARR, annual recurring revenue of $725 million, up 3.6% as reported and 8.7% in constant currency and representing 81% of total revenue. Total revenue of $897 million, up 2.4% as reported and 7.8% in constant currency. Q2 was the eighth consecutive quarter of organic growth in constant currency for both cloud and ARR.

And moving to other financial metrics, GAAP net income of $259 million, up from $88 million due to a noncash mark-to-market benefit on Micro Focus-related derivatives and lower debt extinguishment costs. Note that the mark-to-market benefit in Q2 is a reversal of Q1 loss, partially reflective of the significant currency movements of euro and GBP to the U.S. dollar. GAAP gross margin of 71% versus 70% led by improved cloud margins. Adjusted EBITDA of $341 million or 38% of revenue versus $344 million or 39.2%, down 0.8% as reported, up 3.7% in constant currency.

Cost of sales and operating expenses were up $24 million on a non-GAAP basis, all related to revenue growth, integration of Zix and growth-related investments in R&D and sales and marketing. Our organic growth rate trends are a testament to the benefits accruing from continued investments in products and go-to-market. On operating cash flow, we generated $195 million in operating cash flows in Q2. Free cash flow in the quarter of $163 million or 18% of revenue. DSOs were 47 days versus 44 days in the prior year. Q2 DSO is reflective of December quarter seasonality with high annual billings relating to our renewal business. Our working capital performance remains strong. Year-over-year FCF was also impacted by front-end loaded CapEx investments.

On enterprise cloud bookings, our trailing 12-month cloud bookings were a strong $511 million, up 25%, the highest in our history. We continue to see steady demand in large cloud deals and average minimum cloud contract value increases. In content, we saw strength in insurance, engineering, construction and telecommunication. In business network, we saw strength in wholesale, retail and banking sectors. Experience saw strength in telecommunications.

Regionally, our international markets such as those in APAC saw key cloud wins. Our 4-quarter cloud pipeline growth is trending strongly upwards with solid growth in key industries such as government, health care and banking. And moving to balance sheet and liquidity, please do refer to Page 15 of our investor presentation. We ended the December quarter with $2.8 billion of cash, which includes $990 million in net proceeds from the senior note offering completed on December 1, 2022. Our net leverage ratio was 2x for Q2.

Turning to outlook, targets and aspirations. We plan our business in constant currency and present our business on a constant currency basis for our quarterly factors, total growth strategy and medium-term aspirations. The financial visibility that Mark provided earlier, it reflects our integration and business planning. First of all, the Micro Focus financial consolidation starts on February 1 and will be included for 5 months during our current fiscal year ending June 30, 2023. That means Micro Focus revenues are included for 2 months in our March quarter and 3 months of full quarter for the June quarter.

In our outlook, we have fully aligned IFRS to GAAP and reporting periods. I will share more details. Given the partial year inclusion, we are providing insights for 5 months relating to Micro Focus, which we have provided on the Slide 17 to 21 of our investor presentation. And looking at fiscal '24 and beyond, we view OpenText in aggregate and will speak to entire company as well as our products in the 6 markets that Mark outlined in his commentary.

So regarding Micro Focus' adjusted EBITDA profile, we acquired a high EBITDA margin business. Converting from IFRS to U.S. GAAP will burden Micro Focus adjusted EBITDA due to the following items; the revenue timing relating to license renewals, R&D capitalization and lease accounting. Our baseline for Micro Focus commencing February 1 of financial consolidation, it fully includes the IFRS to U.S. GAAP conversion. During our integration period and beyond, we expect to gain operational efficiencies in the combined company. As you can see, the margin target for the combined company are at 36% to 38% for fiscal 2024 and a solid $2 billion-plus in adjusted EBITDA dollars.

Next, let me provide details with respect to significant items in our outlook that relate to the overall expense structure - cost reduction, interest expense, integration expense and special charges. First of all, on cost reductions. We remain confident to execute towards our $400 million cost reduction plan. Earlier this week, on January 31, we announced a restructuring plan that will impact our global workforce following the Micro Focus acquisition in an effort to further streamline our operations.

The total size of the plan is expected to result in a reduction of the combined workforce of approximately 8% or 2,000 employees with an estimated cost of $70 million to $80 million. We expect to complete the plan by the end of our current fiscal 2023. We also expect to eliminate redundant global facilities with the acquisition of Micro Focus and we will provide further details when they become available. Lastly, we have several programs to optimize the usual duplicative efforts, including automation and procurement vendor consolidation, all as part of our operational integration. These savings span several quarters and are fully reflected in our outlook.

Turning to interest expense, is based on our debt service arrangement and are included in our free cash flow outlook. Our capital structure and initial mix between fixed and floating debt was very intentional to have the ability to make repayments, de-lever and reduce interest expense over time. On integration expenses, approximately $80 million are included in the outlook for our non-GAAP or adjusted results for fiscal '23 and '24. Special charges and alignment of global entities for our organization and our scale, they require significant investments and ranging from $380 million to $420 million are also included in our outlook for fiscal '23 and '24. These estimates will continue to be refined as we start the integration efforts.

So, let me draw your attention to the free cash flow, Slide #10 in our investor presentation. You will notice our targets of $500 million to $600 million for fiscal '23 and $800 million to $900 million for fiscal '24 and a rapid growth trajectory to $1.5 billion in fiscal '26. The expenses and investments I just outlined play a significant role during fiscal '23 and '24, while our cost reduction programs and continued working capital improvement will drive a highly efficient organization at scale with upper quartile adjusted EBITDA and free cash flows.

So, let me transition to our debt levels and de-lever plan. With the closing of the Micro Focus acquisition on January 31, we will finish March quarter with approximately $9.3 billion in debt, excluding cash. This pro forma debt structure reflects the senior secured note financing, the acquisition term loan amendment completed December 1, 2022, and the subsequent drawdown from our revolver of $450 million during January.

Our pro forma debt structure has a 5.9-year weighted average maturity and a 6.3% weighted average interest rate and a net leverage ratio of 3.8x. Approximately half our debt is fixed. We are planning a debt repayment of a minimum of $175 million per quarter, it's $175 million per quarter, commencing Q4 fiscal '23 ending June 30, 2023, over 8 quarters to bring the leverage to lower than 3x. As shared since the initial announcement of the Micro Focus acquisition, we remain committed to within 8 full quarters to bring the net leverage ratio to less than 3x. We have a solid de-lever plan. I would also refer you to Slide 15 and 23 in our investor presentation for details on our debt towers and our deleveraging program.

So, with respect to outlook targets and aspirations, let me amplify Mark's commentary on the same topics and I will highlight on Q3 quarterly factors and Q3 fiscal '23 target model. On Q3 quarterly factors in constant currency, Page 18 of the investor presentation, we expect revenue of $1.18 billion to $1.22 billion, inclusive of $310 million to $325 million of Micro Focus revenues, ARR of $0.96 billion to $1 billion, inclusive of $245 million to $260 million of Micro Focus revenues. At exchange rates being forecasted, FX would be a headwind of $30 million to $35 million. Adjusted EBITDA on a year-over-year basis, margin percentage down 600 to 700 basis points, reflecting Micro Focus integration cost. Excluding Micro Focus, adjusted EBITDA dollars and margin would be constant. As shared in our communications, Micro Focus remains immediately accretive from an EBITDA dollar perspective. Expect FX to be an adjusted EBITDA headwind of less than $5 million.

On Q3 fiscal '23 target model, our target model ranges are usually provided for annual and fiscal years. For this quarter only, we are providing a Q3 fiscal '23 target model to reflect and assist the Micro Focus onboarding. Please refer to Page 19 of the investor presentation. All figures in constant currency and as a percent of total revenue. We expect cloud revenue to be 35% to 37% of total revenue, ARR to be 82% to 84% on license revenue, 9% to 11%, non-GAAP gross margin of 74% to 76%, R&D of 17% to 19%, sales and marketing of 21% to 23% and G&A of 9% to 11%, total operating expenses, 52% to 54%, interest expense of $115 million to $125 million. With respect to preliminary fiscal '24 financial targets, please refer to Page 17 of the investor presentation and the commentary shared earlier by Mark. With respect to our fiscal '26 medium-term aspirations, please refer to Page 22 of our investor deck and the comments shared earlier by Mark.

As you can surmise, our targets and aspirations are strong and at scale. The horsepower of the combined company to generate upper quartile cash flows is strong. Our fiscal '26 aspirations of 38% to 40% adjusted EBITDA and free cash flow of $1.5 billion-plus, they fully reflect continued OpenText growth, particularly cloud growth and return to organic growth by Micro Focus, completion of the cost reduction program and the integration program with its related investments.

In summary, consistent and solid execution are core to the OpenText Business System and our operating DNA that came to life as people and operations delivered a superb Q2 and achieved an unprecedented readiness to close the transformative acquisition of Micro Focus. During the last 48 hours since we announced the close, our teams have kicked off a highly successful onboarding of a global organization of 11,000 professionals to OpenText, another testament of the OpenText execution engine that is well poised to continue the momentum.

On behalf of OpenText, I would like to thank our shareholders, our loyal customers, partners and team members as we embark on the exciting journey ahead.

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

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-answer session. (Operator Instructions) The first question comes from Paul Treiber of RBC.

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

Just a couple of open-ended questions. Just first, on the product road map, you sound very excited about the combined product road map. Among all the acquisitions that you -- that OpenText has done, how would you rate the product fit and the potential revenue synergy opportunity just coming from products alone between these 2 companies?

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

Yes. Paul, thanks for the question. Great to hear your voice. The -- well, this is the largest expansion of information management that we've done. Documentum, effectively brought market share and some capabilities in a couple of industries. GXS certainly put us in business networks, and we've added to that over time, like Liaison. And our acquisition of Carbonite and Zix put us -- gave us a footprint, a solid footprint in cybersecurity. So, this is the largest expansion of our mission, largest expansion of information management.

As I noted in my remarks, this has created a cybersecurity business of scale that will rival our content business in terms of scale and resources. We're entering a whole new application automation space, which we think is essential for the needs of digitalization, digital operations management.

And we're bringing on Global 10,000 critical technologies. We're the market leader in EDI. We're going to be the market leader in mainframe technologies and bringing those workloads distributed. So, Paul -- and then, of course, Vertica and some other tools. So, it's the largest expansion, brings our TAM up to over $200 billion. And at this scale, I'll bridge back to what I said on our fiscal '24 plan. We'll -- on this growth rate, we're looking to generate $2.1 billion to $2.24 billion in adjusted EBITDA. So, it's also the largest expansion of being able to generate profit and EBITDA. So, it's the largest step forward we've made.

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

There's a lot of work, obviously, with the integration that you need to chew through over the next couple of quarters or maybe years. What are the most important factors that need to happen in your view for this acquisition to work out very well for shareholders here?

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

Yes. Again, thank you, Paul. We're off to a great start. I mean the energy and excitement internally has -- in week 1 has just been electric. And look, we wanted to put out there our F '24 preliminary plan. And I -- and look, it's the -- I have confidence in what we're doing and the results are going to speak for themselves. And in our F '24 plan, we're looking to deliver $5.75 billion to [$5.9 billion] (corrected by company after the call) in total revenues, $2.1 billion to $2.24 billion in adjusted EBITDA and up to $900 million of free cash flow. Supporting that are beginning of the transformation of how they engage customers and getting their renewal rate to ours. And underneath that, is an accelerated product road map every 90 days. Underneath that is long-term value, accelerating customers to the private cloud then more public cloud.

So, it's just as we outlined, Paul, of the gameplay -- the gameplay we outlined, pre-close is the same post-close, and it's relatively straightforward. Get the renewal rate up, how do you do that? The correlation is product innovation. The piece where we feel that OpenText can add the most value is our private cloud, accelerate innovation and then more public cloud services. We know how to run this play. It's the same pre-announcement as it is today, and we have the confidence to present to you today our F '24 plan of [$2.1 billion] (corrected by company after the call) to $2.24 billion in adjusted EBITDA, 15% enterprise cloud bookings growth and revenues up to [$5.9 billion] (corrected by company after the call).

Operator

The next question comes from Steve Enders of Citi.

George Michael Kurosawa - *Citigroup Inc., Research Division - Research Analyst*

This is George on for Steve. Congrats on closing the deal. It's very exciting. I wanted to talk about the FY '23 guide. If I'm understanding correctly, the organic revenue growth guide came down a couple points despite a really strong quarter. So, I guess I'm wondering how much macro is potentially baked in there? How much conservatism, if you could just talk through that change?

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

Yes. Thank you again for your comments. It's Madhu here. So, when you look at fiscal -- when you look at fiscal '23, the OpenText growth trajectory, there's no change in it, right? As we bring Micro Focus on for the 5 months and when you look at it in aggregate, we are bringing Micro Focus on at a baseline in fiscal '24 of $2.3 billion we shared, and we've also given you the 5-month numbers. I would also urge that we -- it's not going to be reasonable to annualize the 5-month number just given their own seasonality and how their license and other aspects operate, which we understand quite well and hence, able to provide the baseline for fiscal '24. So, I would say OpenText organic growth rate is strong. Our cloud revenue growth rate remains strong and it's really the Micro Focus piece that we're incorporating to the 5 months.

George Michael Kurosawa - *Citigroup Inc., Research Division - Research Analyst*

And then one quick follow-up. You announced this headcount reduction cost savings plan. I'm just wondering, is that fully just according to your acquisition pre-planned cost out? Or is there any element of kind of responding to some of the same pressures that some of your peers are facing that are going through similar programs?

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

Yes. Mark, do you want to take that and I can add as needed.

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

Yes, sure. George, thanks for the question. We announced -- conjunctive with our announcement of our intent to acquire Micro Focus, we said we'd take out $400 million. And after closing here, we're confirming we're going to take out $400 million of expense. And our 8% reduction, rebalancing of the workforce is completely due to the acquisition. Our cloud bookings growth is growing 15%-plus, as you can see. We had a superb Q2. And it's interesting when you look at the economy and the factors out there, my best way to describe it is it's uneven.

There are very specific issues to companies and they need to all talk about their own companies. In relation to OpenText, our demand is strong. Digitalization is the only answer. And you're seeing that in our 16% cloud revenue growth, near 8% total revenue growth and our increased confidence in growing enterprise cloud bookings at 15%-plus. The factors exist out there, for sure. But it's uneven and disproportional. And digitalization is the only answer and we're doing well in this volatile time.

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

Yes. And thank you, Mark. I was just going to add that before COVID or during COVID, the OpenText operating model has always been very thoughtful and measured adding of resources that is very conjunctive with growth and innovation. So, the factors you hear outside are absolutely not applicable to us. Even now the rebalancing the workforce, as Mark shared in his comments, we'll continue to hire in the sales and the product innovation areas.

Operator

The next question comes from Kevin Krishnaratne from Scotiabank.

Kevin Krishnaratne - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Congrats on the deal. Very exciting times. Just a question for you on the -- your outlook, '24, '26, it's got an improving organic growth profile there. I'm just wondering, a lot of differing pieces there, but how do we think about sort of the contributions of, say, call it, straight up cross-sell versus helping Micro Focus be maybe better cloud-enabled when it gets on to your cloud, private cloud platform versus renewal rate sort of improvements? Just walk through the different pieces and what might be the bigger contributors to the improving organic growth rates over the next few years?

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

Yes. Thank you, Kevin. The first is, as I outlined in my remarks, we want to win each of the markets. And so, I don't think of that as cross-selling per se, but winning that stack. We want to win the cybersecurity full stack, its suite selling. Win the cybersecurity suite, win the content suite, win the business network suite. And that is a straightforward growth on-ramp for us to win the stack in each of those 6 markets.

Second is select strategic integrations across the 6 markets like Vertica and Magellan across the 6, security across the 6, private cloud, our cloud APIs across the 6. So, it's a very straightforward play for us and we've actually organized the company around that. Ted in enterprise sales; Prentiss, where we're giving cybersecurity a lot of focus, Prentiss leading cybersecurity; we have James McGourlay leading [international] sales (corrected by company after the call); Paul Duggan, running all worldwide renewals through customer success; and Kristina leading our corporate sales. So, we've -- structure follows strategy and we put that structure underneath that growth play of winning each.

Now there's some very select things that we think are going to stand out, IDOL and content services. Our ability to compete against FileNet, Box, Hyland and others by incorporating facial recognition, voice, imagery. We're going to take a big step up with this capability. It's a gem. And they would like to integrate security, Voltage into content and having the most secure content platform. So, play #1 is win the stack. Number two, select integrations. And then three, fixing the things that need fixing at Micro Focus, acceleration private cloud, get the renewal rate up as we outlined. And Kevin, it's a pretty straightforward run of play, easy to articulate and we're putting it all in motion.

Kevin Krishnaratne - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Maybe just a follow-up there then. You saw these integrations sound really unique and interesting. I'm wondering how do we think about once they're integrated and up and running and being offered to customers, is the opportunity more that they're opening up new TAMs or new use cases? Or are these -- are you being -- are these better competitive products and you're displacing? Just how do you think about where and how the wins are coming when you're looking at the other end?

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

Yes. I mean the -- these markets are bringing us to a galactic TAM of $200 billion, right? So, we don't need TAM expansion. This says we got a big playing field in front of us at $200 billion-plus. It's 2 things. We have new use cases we can go after. Smart cities, smart transportation. As we move -- X and Y move from using their fingers and using more voice, we're in a great position to capture them. So, there's just new use cases. And I'm just giving one in content, new market, cybersecurity for us. We'll be larger than some brand names out there like RSA with this comprehensive stack that we have.

And our competitive position is going to increase. It's the same competitors out there. Our positioning against FileNet just got stronger. Our position against Box just got stronger. Our position against Sterling Commerce just got stronger. Our position against some of the security providers just got stronger. So, it's new use cases. We love the TAM, don't need to expand it, win the full stack stronger against our competitors. And we'll spend more time on that at an Investor Day and another presentation to lay out that competitive landscape. But it's a really interesting question, and thanks for it.

Kevin Krishnaratne - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Look forward to the progress and congrats again.

Operator

The next question comes from Stephanie Price of CIBC.

Stephanie Doris Price - *CIBC Capital Markets, Research Division - Executive Director of Equity Markets Research*

I wanted to just focus in on that fiscal '23 and fiscal '24 target markets -- or sorry, target model. And maybe talk a little bit about where you potentially baked in some conservatism and what you think kind of gets you to exceed potentially the targets that you've set out, especially on the margin side?

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

Yes. If there's any model question on target, I'd hand that to Madhu first, and then I can take maybe the second part. Any questions on the model you want to go through, Steph?

Stephanie Doris Price - *CIBC Capital Markets, Research Division - Executive Director of Equity Markets Research*

Just more generally on where you might have baked in some conservatism in that fiscal '23 and fiscal '24 target model. Just thinking about upside from here?

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

Yes, for sure. I'll take that Stephanie. So a couple things, whether it's conservatism or not, we have a very educated baseline for Micro Focus, right? That's actually number one. And we've shared very explicitly the 5 months. There's plenty of seasonality to just support us and to support you, we've shared where we see -- since you're asking about fiscal '23, the Micro Focus numbers come in. Vis-a-vis the historical adjusted EBITDA, it is getting burdened by the 3 items I outlined, including some of the license renewals and second of lease accounting and also the R&D capitalization.

So, the entry point for Micro Focus coming in is definitely from IFRS to U.S. GAAP, and we've made sure we've aligned that as well. In fiscal '23, as you look at our annual model ranges, we continue to have enterprise cloud bookings at 15%-plus. And our cloud revenue, including Micro Focus, is actually 11% to 13%. And previously, it was 8% to 10% from an OpenText only. So, I mean, so again, as we see the demand strong about the cloud bookings and cloud revenue, the target model, I would say, fully represents what we see in the market. And integration begins, and I've shared color on some of the integration costs that we are going to incur and we factored and we factored all of those in.

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

And Stephanie, I would amplify -- or rather not amplify, I'd add 2 things, right, to the great comments from Madhu. Things I think about to deliver these great targets, right, or I say, they're conservative or exceed them. But to deliver these great targets we put out there, I'm very confident in the pace and speed given our track record over the last decade of many large acquisitions. But to the extent we can go faster, the results would thus be accelerated. I'd be very pleased with landing between 2.1 and $2.24 billion in adjusted EBITDA for '24, but if it was a little faster. The results should improve.

Second thing, I actually like our euro exposure of our business and with OpenText and now the Micro Focus customers, part of OpenText, a rising euro rises OpenText. And so I also like the mix of business that we have geographically. And so to the extent that the euro goes up, we're in a good place.

Stephanie Doris Price - *CIBC Capital Markets, Research Division - Executive Director of Equity Markets Research*

Just one final one for me. Just curious about the R&D and how you think about the combined R&D in the business. What areas are you looking to prioritize post the Micro Focus acquisition?

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

Yes. Well, on -- as we bring the 2, as we've brought the 2 organizations together already, you'll note in fiscal '23 on our target model range, our engineering investment is between 14% to 16%.

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

On a partial year.

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

On the partial year. And you can expect it on a combined basis to tick up from the previous OpenText model, right? So, it's not just up on a combined basis, it's up because we're going to be investing to accelerate cloud, continue to accelerate cloud. 15%-plus, 15%-plus bookings growth. And you can see our F '26 aspirations of -- or see the organic..

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

Yes, 7% to 9%.

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

7% to 9% organic cloud revenue growth in F '26. That's a big number, a very important number, a strategic set of initiatives for us. So, you can see that R&D percent up, 15%-plus cloud bookings growth and 7% to 9% organic cloud revenue growth as we approach at F26. So, where is that investment going to go? It's going to go right to where I highlight it in my script today. I won't repeat it, but if you will go back to the transcript, I outlined quite precisely where the priority is going to be.

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

And Mark, I was just going to add and amplify, definitely the global footprint of R&D, new professionals we are acquiring to add to the OpenText team is quite incredible. And then it's going to be somewhere to 8,000 people. We have now a huge concentration in India now and including Canada, Germany, et cetera. So, I mean I was just going to add the quality and caliber and the skill sets of the R&D professionals, it's really going to be very strong.

Operator

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

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

Madhu, can you clarify the difference between IFRS to U.S. GAAP that you referenced on the licenses? Is it that they were booking upfront license on multiyear terms and you're going to recognize it ratably? Or what's the dynamic there as you go from IFRS to GAAP?

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

Yes, of course, happy to. I specifically mentioned the license renewals, which means the IFRS allows you to take it upon signing of a renewal contract, whether it's in the U.S. GAAP, you start to take revenue obviously on a ratable basis upon the official date of the renewal when you start delivering the services. So, that's the big difference. And the other 2 pieces, as I mentioned, IFRS allows a higher rate of R&D capitalization than U.S. GAAP does. And lease accounting in U.S. GAAP is treated as rent, so it goes into the operating expense model as opposed to depreciation.

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

And then just to clarify, since it's hard for us to do an apples-to-apples comparison. If we look at your FY '23 revenue contribution from Micro Focus, apples-to-apples, does that sort of imply a single-digit type of organic decline or might it be larger than that initially because of some of the near-term integration?

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

Yes. Is that question, Thanos for Micro Focus? Because if you look at our target model, OpenText, the organic growth we're still maintaining at 1% to 2%. Was your question specific to Micro Focus?

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

Specific to the Micro Focus contribution implied in the fiscal '23 guidance, is that assume sort of apples-to-apples, yes.

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

Yes, I would say the best reference for the Micro Focus contribution is what we've shared in $870 million to $920 million and then calling their baseline at $2.3 billion for fiscal '24, sort of taking the narrative out of like how much is it over or under and this is our completely educated estimate of $870 million to $920 million for the year -- for the partial year and then $2.3 billion baseline for revenue in fiscal '24.

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

Yes, and Thanos, just to add to that, yes, to add to that, look, I'm expecting solid performance from Micro Focus for these 5 months. It's really tough. And I don't actually think it's meaningful to look at those 5 months a year ago because they didn't run the business that way. And they don't have an end of March, right? They didn't have an end of March, they had an end of April, we have an end of March. They didn't have an end of June, right? They had an end of October. So, we're going to get them onboard to our periods and we're going to drive performance hard.

The team is quite motivated, right? So, I'm expecting solid performance, as Madhu highlighted, $870 million to $920 million, do not annualize that number because they didn't run as an IFRS reporter every 6 months to our period. So, we're going to get all that period of stuff out of the way immediately, we are going to get all that noise out of the system, we've aligned to our calendar. And we wanted to make it easy for you and say it's, I'm sorry, $870 million to $920 million and next year, the baseline is $2.3 billion. But we expect strong performance, strong customer wins. And I can't wait to shout some out when we close the quarter.

Operator

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

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

Yes. Thanks for providing all that color. That's super helpful in terms of kind of helping us forecast the outlook. I just have one question. It looks like a great transaction like from a valuation standpoint, everything. If there were any potential blind spots, where would they be sort of based on your kind of past experience with previous acquisitions?

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

Yes, fair enough. Look, I always talk to the house is our talent, which we're off to a great start on. Understanding customer needs and that's going to be a big outreach for us. On the system side, in this case, we're integrating to our systems. And I appreciate all the work that they've done historically, but we're taking their product line and we're going to integrate into SAP. We'll ingrate into our sales force. We'll integrate into our M365 Teams environment. We'll integrate into our information system. So typically, there could be surprises on the system side, but we'll be integrating into our world-class tech stack that run and and scales OpenText. So, I think it's the usual markers that we're going to continue to pay, obviously, very close attention to people, customers and systems.

Operator

The next question comes from Daniel Chan of TD Securities.

Daniel Chan - *TD Securities Equity Research - Research Analyst*

Mark, now that the deal is closed, I'm hoping you can give us more color on how some of those early conversations are going with Micro Focus' customers on being able to cross-sell cloud services into their installations?

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

Yes, early days. Feedback from customers, I've -- obviously a busy week. I've spent -- I've spoken to almost a dozen customers this week. And the overarching theme is we love where the products have landed. Incredible talent, incredible products. We love where Micro Focus products landed. Two, lots of joint opportunity on integration. So, a lot of interesting use cases and potential coming out. And a real reaffirmation where we feel the value drivers are. Faster integration. Now mind you, they haven't had this innovation culture per se, right? We have a CEO and CTO. We have a great Head of Engineering.

We organized one of our -- if our heart has 4 valves, one of those valves is innovation. And getting to every 90 days, accelerated innovation. They have an amazingly talented engineering organization and now they have more pools to leverage as do all parts of engineering. So, a real affirmation of great people, great products, move faster, which is our 90-day cycles and provide more cloud options. Private cloud for many is the destination, more API work as well. So Dan, I'd say this is a -- it was a very strong affirmation of our strategic rationale.

Daniel Chan - *TD Securities Equity Research - Research Analyst*

And then maybe switching gears to the renewals business. Based on our prior conversations, it sounds like you had some pretty big structural shifts in changing Micro Focus' renewals business. So, what's the time line on completely revamping that business? And how long do you think it will take before we start seeing those renewal rates start to improve?

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

So, the renewal rates are in the low-80s. You saw ours in the mid-90s for our Q2. Our business practice has taken our renewals rate over time to an expansion business. And I do hope over time to talk expansion rates versus renewal rates. And that's the big prize on the hill, right, is advancing as we get more and more -- as we approach this $2 billion cloud business and beyond, our narrative will change from renewal rates to an expansion rate. But that said, for a moment, we have strong performance in the mid-90s. They're operating in the low-80s. We're in full motion on deploying the OpenText L.O.V.E model, land, operate, value, expand, centralization of renewals, new procedures, new authorities, APA, doing this direct, not through partners. And we expect to uplift them to our renewal rates by the end of FY '25 and make steady progress along the way, right?

Renewals happen in 1-year cycles. We'll start to integrate. And it's really the things below that, the renewal rate is a lagging indicator. It's not a leading indicator. So, as we get on our 90-day release cycles, as we get private cloud, as we accelerate public cloud, as we build more confidence, we put all the procedural place things in place. We will see steady progress, but that landing zone of getting to kind of our rate, we believe we'll land there by the end of F '25 with steady progress along the way, and we'll keep you updated along the way.

Operator

The next question comes from Steven Li of Raymond James.

Steven Li - *Raymond James Ltd., Research Division - Director & Equity Research Analyst*

So, I understand IFRS GAAP has an impact on it, but the free cash flow also looks a bit off. So, what I'm looking at is OpenText on its own TTM generated $800 million, the free cash flow with Micro Focus for 2023 is below that. And for 2024, is $800 million to $900 million. And I already had OpenText in that range. So, my question is, why is Micro Focus not additive to free cash flow for the first 6 quarters?

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

Yes. It's a great question. Thank you, Steve. So, if I could just refer back to the category of expenses I talked about, right? So certainly, the $400 million cost reduction is at play. Again, when we think of fiscal '23 and fiscal '24 and add on to that is the special charges, the integration charges. I wanted to clear what is non-GAAP or otherwise, all of these costs impact free cash flow. And we are having about $80 million in integration expense somewhere in the $380 million to $420 million on special charges, cash outflow as well as how we rationalize global entities. The combined company is going to be pretty large and complex in terms of its global operations and sort of rationalizing that is usually -- it requires investments and expenses, right? So, the -- like whether you think the OpenText ledger or the Micro Focus ledger and of course, you have like significant interest expense as well.

So, during fiscal '23 and '24, if you put aside interest expense, that is the period of time when all of these charges are coming into the cash flows. And then we recover pretty quickly from there to get to the $1.5 billion-plus, you'll start to see the recovery coming in the early part of fiscal '25. From a working capital perspective, it's important to note that throughout this process, the model assumes that we're actually improving Micro Focus working capital very steadily from day 1 and we're maintaining the OpenText working capital performance as well.

Steven Li - *Raymond James Ltd., Research Division - Director & Equity Research Analyst*

And Madhu, just to clarify, Micro Focus when they acquired HP, the HP asset, they had this reverse morris trust. Is that in your numbers, but which year does it go away? Is it already expired?

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

It's gone, does not exist. It's their history, does not exist at OpenText.

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

I was just going to add, Steve that our efforts on this is going to be grounds up, brand new, taking what they have today and looking at the opportunities for optimization ahead. But I agree with Mark on the reverse morris trust question.

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

Yes. Absolutely gone. Doesn't exist. Steven, if I can, I just want to note something, right? So, we're being crystal clear on what our free cash flow targets are, right? $500 million to $600 million in F '23, $800 million to $900 million in F '24 and $1.5 billion-plus in fiscal '26. So, I know you can see that, but I just want to be crystal clear, right, that we're providing that visibility today. As Madhu noted it, I do want to make kind of 3 pieces of emphasis that in fiscal '24, we're not reaching our free cash flow potential yet because we're reaching our EBITDA potential of $2.1 billion in EBITDA to $2.24 billion in adjusted EBITDA, but we have 3 things going on that are really important.

One is the integration expenses, as Madhu spoke about. We're going for a rapid integration and we're going for simplification, right? We are going to simplify this business and we're going to do it upfront. Our legal entity structures, all the things Madhu talked about, the word is simplification. And three, we're investing in our cloud. 15%-plus cloud bookings growth, 7% to 9% organic cloud revenue growth in F '26, and that takes investment. Those are the 3 things that we've decided on to make, as you say, over the next 6 months -- 6 quarters.

Operator

Thank you. 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. Thank you, everyone. I know today's call ran a little longer than usual and our script is a bit more fulsome than most. But Madhu and I felt it was very important to provide this level of visibility and simplification to how we're looking at the Micro Focus business and their products combined into OpenText. And I hope you'll join us live tomorrow as we open the Nasdaq from the National Arts Center here in Ottawa. Have a good evening.

Operator

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