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OTEX.TO - Q3 2023 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 Third Quarter Fiscal 2023 Financial Results Conference Call. (Operator Instructions) I would now like to turn the call over to Harry Blount, Senior Vice President, Investor Relations. Please go ahead.

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

Good afternoon, everyone, and welcome to OpenText's Third 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: Virtual Investor Meeting hosted by Bank of America on May 10th; Needham Technology and Media Conference on May 17th in New York; Barclays Leveraged Finance Conference on May 23rd in Austin; CIBC Technology and Innovation Conference on May 24th in Toronto; BofA's Global Technology Conference, June 7th in San Francisco; and Barclays Virtual Bus Tour on June 15th.

And now to our safe harbor. 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 the 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

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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 will hand the call over to Mark.

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

Thank you, Harry, and let me welcome everyone to today's call. This is our first quarter results since we acquired Micro Focus, and the results and our progress are superb. In constant currency, we delivered 45% total growth, positive organic growth. $1 billion plus in ARR, record adjusted EBITDA dollars and 25% free cash flow, as a percent of revenue. As I've always said, our results will speak for themselves.

Using sports analogy, we are playing to win by fielding both a strong offense and a strong defense. On our offense, we have significantly expanded our mission in TAM with the acquisition of Micro Focus to now include enterprise security, digital operations management, application automation, the developer and AI. All in, we are addressing a $200 billion information management market.

On our offense, Project Titanium is complete and affords new growth opportunities in SaaS and APIs. We announced Project Titanium X, and we are well positioned to help organizations complete their digital transformations and leverage the next generation of value through AI, and our go-to-market is focused on marquee customer segments that include the Global 10,000 key governments and tech savvy SMBs.

On our defense, we achieved ARR of 81% and growing organically. Upper quartile adjusted EBITDA dollars of $365 million in the quarter. Upper quartile free cash flow of 25% of revenue or $306 million in the quarter. Our capital strategy via our dividend, targeting 20% of trailing 12-month free cash flow, as free cash flow grows, so does our capital allocation and cost-efficient operations via automation.

The world is multi-cloud. In fact, it is an Internet of clouds, and information management is the interconnect for the Internet of clouds. OpenText is in a unique position, as the leader in information management. Our products, go-to-market and employees have us well positioned for continued growth and profitability and we have momentum. And I like our on-ramps for additional growth, continued transition from off cloud to cloud, new public cloud SaaS products, introduction of large language models in AI, which I'll speak to in a moment. Climate innovation remains a top priority.

Security and trust. Every company is a software company and have the requirements of developer and platform accelerators, and of course, the need to continue to consolidate around strategic providers and reduce costs. Our Q3 financial results are a reflection of customer and partner trust, a reflection on how information management is transforming business and a reflection on the dedication and expertise of our 25,000 employees. I am extremely proud of every OpenTexter. I can't emphasize this enough. We view our business annually because it allows us to make the right short-term trade-offs and investments to enhance long-term performance.

With that said, let me provide a few quarterly highlights. Total revenues of $1.28 billion, up 45% with positive organic growth in constant currency, over $1 billion in quarterly ARR and our ninth consecutive quarter of organic growth in constant currency. Cloud revenues were $444 million, up 10% with positive organic growth in constant currency. Trailing 12-month cloud bookings are up 9%. We remain on track for fiscal '23 cloud bookings growth of 15% plus. So I'll note that within Q3, our cloud bookings were constant at $108 million.

We generated $365 million of adjusted EBITDA dollars or 29.3% adjusted EBITDA margin. Free cash flow was $306 million or 25% of revenue, adjusted EPS of $0.73 and Micro Focus contributed strong revenues of $374 million since closing, reflecting customer excitement and confidence about being part of OpenText, that show support for our accelerated cloud roadmap. In summary, we delivered record Q3 revenue, record ARR, record cloud revenue and record adjusted EBITDA dollars.

We had fantastic customer wins at Carrefour, California EDD, Australia Post, Pacific Life, the MAN Energy Group, Air Liquide and Hydro One, ranging from our content cloud to our security cloud. Transformation themes include the need to innovate faster, secure the infrastructure, improve service

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experience and solve for resource constraints. We had notable Micro Focus wins in enterprise security, mainframe migrations and IT operations management. Government, transportation and high-tech firms were top of the demand curve. Trust is earned not given, and I'd like to thank our customers for their continued support.

Today, we have revised upwards our F '23 revenue and cash flow targets. In constant currency, we expect to complete fiscal '23 in the following ranges: total revenue of $4.54 billion to $4.61 billion or 30% to 32% total growth with 1% to 2% total company organic growth; cloud bookings growth of 15% plus; adjusted EBITDA margin of 32.5% to 33.5% and free cash flow of $580 million to $620 million. Our views on fiscal '24 and fiscal '26 remains strong and unchanged, and you can expect updates on our Q4 call when we kick off fiscal '24.

Let me speak about our markets and products. Project Titanium is our second-generation private cloud and second-generation API Cloud. We announced at OpenText World EMEA, we have successfully delivered Titanium or Cloud Editions 23.2, and we are already seeing strong customer adoption from companies such as ENGIE, Close Brothers, Stericycle and Solaris bank. Delivering on Titanium is a major milestone for us. It now includes full public cloud SaaS for enterprise content management, including SaaS content, workflow, collaboration, e-signature, case management, capture, archive and records management. We have further expanded our public cloud SaaS capability that now includes not just the ECM core I just talked about, but ValueEdge, SMAX, Fortify and Debricked.

With Titanium delivered, we have fortified our support for customer choice: off-cloud, private cloud, public cloud and API Cloud. This is another strong step to continue our annual aspirations of 15% plus cloud bookings growth. Further, we announced Titanium X or Cloud Editions 25. Over the next 2 years, we will strategically invest approximately USD2.5 billion to deliver Titanium X. We are a growth company and it is the right time to invest and gain share.

Here are the top 5 aspects of Titanium X. We intend to be the most trusted and secure information management cloud with NetIQ and Voltage integrated and built in. It's a full cloudificaiton of Micro Focus. There will be tens of thousands of new features and assets delivered every 90 days. We'll introduce new clouds that include XDR as a service, IoT as a service and a massively expanded developer cloud, and AI, which means integrating IDOL across all of our major clouds and adoption of private large language models or LLMs. So I'm going to use the acronym LLM instead of always saying large language models.

Last week, at OpenText World EMEA, we previewed Titanium X integration into 2 LLMs, T5 and ChatGPT. At the heart of LLM has to be trusted information management. LLMs help enterprises upskill and reduce cost through text generation, information classification, knowledge answering and dialogue generation. LLMs also help companies find new paths for growth.

AI is an additional path of value for OpenText, including the other things we've talked about, cloud, climate, trust and security. We are committed to delivering large language models to OpenText customers in the OpenText Cloud, trusted, secured, based on their reliable information. OpenText is in a unique position to help customers unlock the value of their information via LLMs and gain the information advantage. We are already working with strategic customers on specific LLM deployments. We're working with a large legal organization to reduce contract risk. We're working with a financial services firm to assess audit risk, an auto company to assess mean time to failure and service strategies, and a biotech company assessing the acceleration of their clinical trial processes, quality and regulatory submissions.

You'll see us deliver dozens of LLM use cases in our private cloud over the coming quarters, as a standard product offering. There's operational data, there is experience data, and I believe there will be learning data. LLMs will be the third pillar of enterprise information management. Information is not the new oil. This is absolutely the wrong analogy. Information is the new water and our information management platform is the reservoir, feeding operational data, experience data and learning data. We are making this a strategic priority, and we will help our customers build their third pillar and their applications on top of it. We'll keep you updated along the way.

Let me provide an update on the integration of Micro Focus. We promised a rapid and results-oriented approach. The integration is ahead of schedule. Let me provide a few key highlights. First, on the time line, let me walk you through our major milestones and achievements. On people and organization, we are done. On a public product roadmap, we are done. On an F '24 integrated company plan, go-to-market and customer engagement approach we are done and ready to go. We will complete our systems integrations over the next 4 quarters to 6 quarters, and it's just fantastic to transition our time and energy to growing the business.

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So on growth, we're committed to returning Micro Focus to growth, and 93 days into owning and operating the business, and based on Q3 results, we remain confident with onboarding the business this fiscal year, $2.3 billion in revenues in fiscal '24 and returning to organic growth in fiscal '25.

On people. Our people are the greatest resource of the company. We're organized for growth, innovation, customer impact and speed. With empathy and great care, we have completed the vast majority of our 8% workforce reduction. And now it's our responsibility and privilege to carry the company forward on a new path to growth.

On innovation. At OpenText World EMEA 2 weeks ago, we announced the accelerated roadmap of Micro Focus products, including a full cloud roadmap for DevOps, public and private cloud options available today. For cybersecurity, Fortify and Debricked available today. Full security cloud available by 24.2. Just a few more I wanted to call off. ITOM, public cloud, SMAX, FinOps and UCMDB available today. All the other private cloud options available between 23.3, 23.4 and 24.2. AMC, private cloud available today, and for AI and advanced technology, the Vertica private cloud will be available by 24.1. So we've announced our full product roadmap for Micro Focus products.

On LOVE. Recall when we closed the acquisition, we created a new Customer Success Organization led by Paul Duggan, where we brought together into one organization support, professional services, renewals and cloud onboarding. We provided the organization an enhanced mission that we call OpenText LOVE, land, operate, value, expand. In Q3, the OpenText Enterprise delivered 95% renewal rates for both on and off-cloud. Our expertise and know-how will uplift Micro Focus customers and renewal rates into the 90s.

In the first 93 days, the dialog with customers has radically changed to innovation, cloud and value, and we expect to end fiscal '24 having uplifted Micro Focus renewal rates from the low 80s to the mid-[80s] (corrected by company after the call) and making continuous improvement into the 90s in the coming quarters. Madhu will provide more detail, but let me add, we're on track to our $400 million cost reductions and our capital structure plan of allocating 20% of trailing 12-month free cash flows via dividends and returning to a net leverage ratio under 3x. We promised a rapid and results-oriented approach.

Let me provide my final comments. There's a lot of news this earnings season on the demand environment. I reviewed our key internal metrics from pipeline growth, close and cancel rates and deal sizes. Our Q4 dashboard reads just as strong, as our Q3 dashboard. So we are steady as it goes.

Q3 highlights our potential and we raised our annual F '23 targets in revenue and free cash flow. We are ahead of schedule on the integration, and we're moving with speed and purpose. F '24 is extremely promising. As a unified company pursuing a $200 billion TAM with a cloud-first approach with our preliminary target near $6 billion in revenues, 36% to 38% adjusted EBITDA, free cash flows up to $900 million, while returning Micro Focus to constant at $2.3 billion in revenues.

We're in a unique position. The world is multi-cloud. In fact, it is an Internet of clouds, and information management is the interconnect for the Internet of clouds. Our products and go-to-market approach have us well positioned for continued growth and profitability, and we now have an additional growth driver with AI, IDOL and large language models.

My deepest gratitude to our 25,000 OpenText colleagues, who did an outstanding job in Q3, delivering amazing results, while managing many strategic priorities, as we remain focused on creating the next generation of value for all our stakeholders. May the one that brings piece -- bring peace for all.

And let me turn the call over to Madhu Ranganathan, OpenText's CFO. Over to Madhu?

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

Thank you, Mark, and thank you all for joining us today. As Mark highlighted, we delivered outstanding Q3 results above expectations across the board. This was driven by disciplined execution at OpenText, agile integration and earlier-than-expected contribution from Micro Focus. In fact, we are just 93 days from a January 31st closing of Micro Focus, we are well advanced and ahead of schedule on our planned operational integration. We are expecting a strong Q4 finish to the fiscal year, and today, we are reaffirming our long-term targets and aspirations.

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I would like to remind all of you that we continue to view our business on an annual basis. This is reflected in the strength and growth of our annual recurring revenues and cloud bookings, which are generally longer tenured than 1 year, as our customers make long-term decisions with OpenText. We will continue to drive strong quarterly performance each quarter on all fronts, and yet they all lead into the annual nature of our business and our long-term aspirations.

Speaking to Q3 results, please refer to Page 12 of the investor presentation. All references I'm making here 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.

On a year-over-year basis, total revenue was $1.24 billion, up 41% and 45% in constant currency, with Micro Focus contributing $374 million in the quarter. ARR revenue of $1.01 billion, up 38% and 41% in constant currency, 81% of total revenue. Cloud revenue of $435 million, up 8% and 10% in constant currency.

Strong renewals, 95% enterprise cloud and off-cloud also 95%. Enterprise cloud bookings of $108 million constant year-over-year. Foreign exchange in Q3 was a revenue headwind of $34 million. Approximately half of this impacted customer support and the remainder having a significant impact on cloud revenue. This was our ninth consecutive quarter of organic growth in constant currency for both cloud and ARR.

And moving to other financial metrics. GAAP net income was $58 million, down from $785 million, primarily due to higher operating and interest expenses related to the acquisition of Micro Focus offset by tax benefits.

GAAP gross margin of 70% versus 69% was led by license and an improved mix of revenue.

Adjusted EBITDA of $365 million or 29.3% of revenue versus $284 million or 32.2%, up 28.3% and up 29.1% in constant currency. And breaking this down further, OpenText adjusted EBITDA margin was 32% with Micro Focus, which had an adjusted EBITDA margin of 23.1%.

Our cost of sales and operating expenses were up $430 million on a GAAP basis, related to higher revenue and expense from the acquisition of Micro Focus and growth-related investments in R&D, sales and marketing. We generated $337 million in operating cash flows in the quarter. Free cash flow in the quarter of $306 million constant year-over-year and 25% of revenue. Working capital performance remained strong. Year-over-year, our cash position was impacted by $5.7 billion purchase of Micro Focus net of cash, $3.9 billion proceeds from debt and revolver.

Our DSOs were 45 days compared to 44 days in the prior year. Our Q3 DSO reflects the continued excellent execution of OpenText paired with an agile integration of Micro Focus. We expected to make progress on Micro Focus working capital performance and, in fact, made significant strides 2 months from close, as reflected in our FCF performance. And needless to say, Micro Focus contributed well.

Turning to enterprise cloud bookings. Our in-quarter cloud bookings were $108 million, constant year-over-year, and our trailing 12-month cloud bookings were $511 million, up 9% year-over-year. We remain on plan to deliver 15% plus enterprise cloud bookings for fiscal '23.

Turning to the balance sheet. Please see Page 14 of the investor presentation. We finished March quarter with approximately $1.4 billion in cash and $9.3 billion in debt. The increase in debt was related to the closing of the Micro Focus acquisition. Our net leverage ratio was 3.3x for Q3 and reflects higher EBITDA, stronger cash flows and lower net debt driven by higher cash balances.

As for our debt and delever plan, after we closed the quarter in March, during April, we further reduced the debt by $175 million, as part of our minimum debt repayment commitment. And looking ahead, you may see net leverage ratio slightly fluctuate quarter-to-quarter based on investments and the impact of special charges on cash flows. We expect to exit fiscal '24 at 3.3x or lower and are on track to be less than 3x net leverage within 8 full quarters.

With respect to the banking situation today, I would like to share the following. At OpenText, we were unaffected by Credit Suisse, First Republic, Signature or Silicon Valley Bank. Our banking footprint is centered on the GSIB. It's a Globally Systemically Important Bank with strong capital ratios and solid balance sheet. Our investments are in money market funds that hold short-term government debt and AAA rated. We have minimal exposure to U.S. regional banks.

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So now let me speak about the continuance of our dividend program. We intend to grow our dividend, as our FCF grows. The OpenText Board approved a cash dividend of $0.24299 per share with a record date of June 2nd and a payment date of June 23rd.

Turning to outlook, targets and aspirations, we plan our business in constant currency and present our business in constant currency for our quarterly factors, total growth strategy and medium-term aspirations.

Starting with Q4 fiscal '23 quarterly factors in constant currency on Page 17 of our investor presentation, we expect revenue of $1.46 billion to $1.51 billion, with OpenText being constant or better. ARR of $1.12 billion to $1.16 billion with OpenText constant or better. And exchange rates being forecasted currently, foreign exchange will be a headwind of $10 million to $20 million. Adjusted EBITDA on a year-over-year basis, the margin percentage down 350 basis points to 450 basis points, again, continuing to reflect the Micro Focus integration costs, and we expect FX to be an adjusted EBITDA headwind of less than $10 million.

As mentioned earlier, we view our business on an annual basis. Our solid Q3 and year-to-date performance, along with our visibility and confidence into Q4 we're looking for a strong finish to the fiscal year setting an excellent platform for fiscal '24 and our long-term aspirations.

Our fiscal '23 total growth strategy in constant currency is provided on Page 18 of the Investor presentation. You will see we're increasing all revenue targets. Enterprise cloud bookings target unchanged at 15% plus. Total revenue growth up 30% to 32%; ARR up 27% to 29%; cloud revenues up 12% to 14%, customer support revenue, up 46% to 48%. At current exchange rates, FX would be a headwind of approximately $130 million to $140 million for the full year.

Our fiscal '23 target model, as noted on Page 19 of the Investor presentation, it remains largely unchanged except for a $20 million decrease in interest expense to a range of $330 million to $350 million. Our preliminary F '24 financial targets and F '26 medium-term aspirations also remain unchanged. These are included in our investor materials, notably on Pages 4, 16, 20 and 21.

And today, we're providing additional details on our financial integration framework. I would point you to a new slide on Page 21 of our Investor presentation. This slide illustrates the timing and financial impact of cost savings, special charges and integration expense on our adjusted EBITDA and free cash flow targets. So let me update you on our $400 million in annual cost savings. Approximately $240 million of the savings comes from a workforce reduction that Mark previously commented on. The savings should begin to be realized in fiscal '24.

$140 million in annualized savings from vendor consolidation and strategic improvements will span across fiscal '24 and into '25. The balance of the savings will come from elimination of redundant facilities, which will be substantially complete by the middle of fiscal '24. We have previously highlighted $80 million of anticipated integration spend to support systems alignment, as well as other integration expenses. We expect integration expense to span into the early portion of fiscal '25.

We have highlighted $380 million to $420 million in special charges that will continue to impact our near-term FCF. Of this amount, approximately $200 million will be related to severance, restructuring, advisory and other charges spanning through the end of fiscal '24, and approximately $200 million will be for global entity simplification, tax structure initiatives and technology footprint optimization, primarily spanning most of fiscal '24 and '25. All of these charges, investments, expenses and savings estimates are fully reflected in our targets and aspirations.

Turning to fiscal '23 free cash flow, we are raising our fiscal '23 FCF range to $580 million to $620 million from our prior range of $500 million to $600 million. This upward revision reflects continued strong performance and agile integration of Micro Focus.

In summary, we are very pleased with our outstanding Q3 performance. Having completed our initial integration of Micro Focus operations ahead of schedule, we remain on track to meeting our near-term and long-term operating goals. We fully expect the momentum of OpenText to continue into Q4 for a strong finish to our fiscal year. On behalf of OpenText, I would like to thank our shareholders, loyal customers, partners and team members, as we embark on the exciting journey ahead.

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

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QUESTIONS AND ANSWERS

Operator

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

Raimo Lenschow - *Barclays Bank PLC, Research Division - MD & Analyst*

And congrats for a first kind of quarter of the combined entity. It seems like you delivered really well here. That was also my first question, Mark, like so obviously, Micro Focus had long journey of restructuring, integrating businesses, et cetera. Like how has been the -- what has been the experience so far in terms of what you're seeing there in terms of what your due diligence showed you and what you're seeing in real life now that you kind of own the asset and are working with the asset. Any first comments -- any comments there? And then, I have one follow-up.

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

Sure. Thanks. Raimo, thanks for the question, and thanks for joining us today. As I noted previously, we've always been very impressed with the products, the people and the customers. And you can do all the research and due diligence and observations you want, but then once you own and operate, you then get the next level of insights. And it's just as we had planned in due diligence. We are extremely impressed with the people, the products and the customers. And we're leading with innovation across the board. So enterprise security never more relevant.

IDOL, just a fantastic product, highly relevant today with AI especially combined with large language models. The movement of digital IT -- ITOM into digital IT into the cloud. So Raimo, I would just start with its as we had theorized and great to see in practice, just the strength of the people, the products and the customers and how receptive they are to a broader platform of innovation and speed of innovation.

Raimo Lenschow - *Barclays Bank PLC, Research Division - MD & Analyst*

And then the follow-up is -- and actually -- and you started mentioning it already with IDOL and large language models. If you think about -- now that you own IDOL and here you have the perfect combination because you have the content management side, and then you have the search side with IDOL. Can you speak a little bit towards the cross-sell opportunity back into the OpenText space? And then like also as part of that like -- a little bit like how does that kind of change with the large language models coming in. It looks like it's broadening it even further?

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

Yes. Absolutely. And you hit on a lot of very important topics there. We're the market leader in content management, and we've helped 10,000 organizations over a decade -- 2 decades to be able to organize their enterprise information management. And we kept adding -- we've added lots of capabilities through time. We've helped customers take their information, expose it on the web. We've helped customers add search. We've helped customers do archive and records management. We've helped customers do legal tech on top of that.

Now we're going to help them go from not just their operational data and their experience data, but a third pillar, which is learning data. We are in such a great position to help customers with large language models. And I know ChatGPT has a lot of attention, right, and GPT standing for generative pre-trained transformers. But there are many other LLMs out there like T5. So our strategy is going to be to set up next door transactional operational platform, an LLM platform for each of our private cloud customers and then have a connector between the two.

And what IDOL does is help take some data and just in video, voice, imaging and turn it into metadata. So it's another way to get data to be useful. And then the private cloud LLM will sit next to every single private cloud customer. And as I noted, we're already working deeply with a handful of customers, one in legal tech, who has millions of contracts looking for risk, financial services firm is going to augment their internal audit plans,

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an auto company looking to create the next generation of service agreement and a very interesting one a biotech company, who actually thinks they're going to transform their clinical trials through a large language model. So this is an additive and it could be top of stack growth driver for us, not just off-cloud to cloud, not just moving to SaaS or climate or trust. I'm spending a lot of time on it and because it could be our top growth driver in the coming quarters.

Operator

Our next question comes from Daniel Chan of TD Cowen.

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

Congrats on the first quarter, Mark. Just noticing that there's a big uptick in your customer support and license revenue growth expectations, just wondering if you could shed some color on that, whether it's from some of the early changes you've made to Micro Focus' renewals business?

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

Yes. Madhu, do you want to take the question?

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

Yes. Sure. I can take it and pass it on to you, Mark. Dan, yes, it certainly reflects the growth coming from Micro Focus. And when you say some of the measures we've taken, yes, 2 months into it, as Mark mentioned, Paul Duggan's organization has done an amazing job bringing their customer support, as we talked about in the last few months. And certainly, continued measures for OpenText side on the customer support, whether it's APA, annual price adjustment, and you saw our renewal rate is 95% on both sides, enterprise cloud and off-cloud. So yes, you're definitely seeing all those measures come into play.

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

Yes. Thank you, Madhu. The -- so it's partly given the integration with Micro Focus, OpenText -- core OpenText, performing extremely well off and on cloud at 95% renewal rate. And Dan, we're going to make steady progress, right, on Microsoft -- Micro Focus renewals from -- we started in the low 80s. We'll finish this fiscal year or this quarter, mid-80s. And we'll just look to make continuous improvement until we get into the low-90s.

We can already see the confidence building with a stronger roadmap, new innovation, private cloud options, the confidence is raising. We had a fantastic week in Europe and just very deep engagement. And the stories over and over again, in-person meetings with customers saying, you've earned the right for us to stay with you and give you a really strong chance. So that's what you're seeing.

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

You also talked earlier about you getting some Micro Focus wins in the quarter. Just wondering whether these deals were in the pipeline when you acquired Micro Focus or whether these are new deals that entered the pipeline over the last 90 days? And any update on the cross-sell pipeline would be great as well?

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

Yes. So the deals we closed are more primarily in the pipeline, of course. We've only owned the company for roughly 60 days. But the combined entity gave them a lot of confidence, as you can see in the results. We've built new pipeline for sure. And the places that added strength inside of

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Q3, certainly our content services business, our business network volumes were up. But the enterprise security business is going to be a rising star for us and also moving workloads off the mainframe to our cloud services. We're in a better position to do that than Micro Focus on their own and the growing need for developers and the continued transition to multi-cloud. So we'll spend more time on this in the coming quarters. But those are the areas we're certainly expecting to see very strong demand, and drive the business back to constant, and then to grow.

Operator

Our next question comes from Steve Enders of Citi.

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

This is George on for Steve. Just going to echo my congratulations on a really strong start to this new journey. First question on Titanium X. I think you threw out a $2.5 billion investment number, obviously, a big number, but a big opportunity as well. Just could you help us understand how much, if any of that is kind of incremental spend? Is there any kind of repurposing of existing resources towards this? And just how we should think about that?

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

Yes, for sure. So if we look at fiscal '24 and '25, we're looking at approximately USD2.5 billion across engineering and cloud operations, right? We own and operate our own private cloud, our own business network. So those -- that's an all-in investment. And looking at the combined company, as I said earlier, it wasn't so much a spend issue, but a prioritization. So we have significantly reprioritized what we're doing in our first 93 days, as you can see from enterprise world and our -- the roadmaps that we've published.

So it's mainly a reprioritization, but it's also an increase in people. So as part of our workforce restructuring, we're also increasing our people, our headcount in Canada, India, Philippines. So the reprior -- the combined spend, we're keeping high. We've reprioritized. We're also adding more people because we're being more leveraged in how we spend those dollars.

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

And then just one follow-up. Most metrics came in, I think, well ahead of where we were at. But just wanted to dig in on was the cloud bookings in the quarter, obviously, a metric that had quite a bit of fluctuate from quarter-to-quarter, but just if you could help us understand what you're seeing there and how we should think about that going forward?

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

Absolutely. So again, as noted, we're up 9% on a trailing 12-month basis, and we're holding to our forecast of 15% plus growth for the year, but we were constant in Q3. And that's why Madhu and I emphasize we're an annual business. And look, I can't say it any clearer than the following. We're going to make the best long-term decisions for the business, and it's better for OpenText not to work under the pressure of a last week or 2 of a quarter. So and is part of the -- is part of the reasons why we view our business annually. So we're going to get the best terms, work with the customers the way they need to and use an annual boundary, not a quarterly boundary. So we're on target for our 15% plus cloud bookings growth, even though we were constant within the quarter, and we got great confidence in Q4 to deliver to that 15% plus.

Operator

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

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

Mark, Micro Focus obviously performed a fair bit better than you had guided for last quarter. Just to clarify, was that primarily conservatism on your part with prior guidance? Or is there anything more specific that you would point to?

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

I'd point to a handful of things, Thanos. One is our confidence. As I said in my notes, it's a new day. Customers renew and make purchasing decisions, not just for the features you have today, but where you are bringing them in the coming years, and it's why we accelerate it. We did all the pre-planning and accelerate it getting our roadmap and intentionally designed to get on to the road in Europe and elsewhere to present in-person of that roadmap. So I'd say number one, confidence and excitement from our 25,000 employees. Look, we're also modeling, right? It's only -- it's just 2 months, right? And we move them from two 6-month cycles to our four 90-day] cycles. So it's not conservatism. I would start with confidence. And we're also getting aligned to our 90-day periods, which we've now done.

And I guess, Thanos, I'd add maybe one -- a third, which is to execute it really well. Yes. I'm sorry, go ahead, Thanos.

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

And then on Titanium, now that you've launched it and you have public cloud for the broader suite. Can you talk about how public cloud adoption is trending as you look at the pipeline? And remind us, is there any cannibalization dynamic, where if a customer is going for public instead of private, you get less revenue because you're losing the infrastructure hosting piece? Or should we think of it more as being additive revenue that you may not captured otherwise given (inaudible) in public cloud?

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

Yes, for sure. So yes, Titanium delivered or Cloud Editions 23.2 is a really important milestone for the company. ECM now has a full public SaaS option. So we can deliver content management, off-cloud, public SaaS cloud, private cloud, API cloud. And it's very clear that our features will outpace in public SaaS than anywhere else. But we also have now a very strong portfolio of public SaaS. I mean, SMB, completely public cloud, business network completely public cloud, ECM now completely public cloud.

We did a big update to service management in the public cloud called SMAX from Micro Focus. We did a big update at the end of April for ValueEdge or for the developer technologies in April. Fortify on demand available as a public SaaS option. And it's a small company, but I think a larger contributor over time called Debricked. That's part of the portfolio. So public SaaS is going to become more and more part of our narrative. It is a growth driver for sure. It's going to contribute to our 15% plus cloud bookings growth.

I do not see it cannibalizing revenue. I see us going after new workloads. I see customers when transitioning to that new workload paying the same and/or expanding capacity and increasing their consumption with us. We've never been interested in revenue substitution, right? We've always been interested in adding revenues, whether it be API or private. And I think the same dynamic is going to hold for public SaaS as well.

Operator

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

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

Just a follow-up question on the strength that you saw in Micro Focus. There's a 5 month period between the announcement of the acquisition and the close, was there to a degree, a catch-up of deals, the license deals that may have been sitting in the pipeline after the acquisition was announced and just waiting to close and they needed that confidence of the acquisition close to complete those deals? And if so, do you see that catch-up continuing into future quarters? Or is it more just a 1-quarter phenomenon?

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

Yes. Paul, thanks for the question. No, I wouldn't use the terminology catch-up. There's no doubt it was confidence. It was execution. It's a little bit of modeling. We only had the business for 60 days and we're aligning to our quarters. They -- April used to be a boundary for Micro Focus, no longer is. It was end of March. July used to be a boundary now it's end of June. And even those memories -- those boundaries are becoming distant memories for the combined workforce. So I'm sure there was a little bit of hesitation in there, but nothing significant that I would call out. Confidence, it's execution, stronger roadmap and a very energized workforce.

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

And then from a forward-looking point of view, in terms of your pipeline and what you're seeing upstream, how would you say -- you mentioned your dashboard for Q4 is very strong. I mean, overall, when you look maybe more broadly in terms of your pipeline, how do you see it building here, particularly in light of the macro environment, the uncertainty in the macro? Is that having an impact? If so, how is it impacting that?

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

Yes. I mean we're -- every company is -- my phraseology here is observing the macro. Every company is doing that. When we look at our dashboard, and we run well operationally. We have a single global instance of sales force that we use. So -- and lots of history, which, by the way, we now pump into Vertica and other tools that we have for correlation analysis. But when we look at our dashboard of new pipe we generate, kind of our deal metrics and customer dynamics, it reads the same here in early Q4, as it did in early Q3. So it's steady as it goes.

Now one of the dynamics for us is going to be adding more SaaS. Our SaaS portfolio just stood up significantly with Cloud Editions 23.2 and some acceleration within ITOM, acceleration within application automation and developer automation. So I think the dynamic for us is becoming experts at building a SaaS pipeline, and that's a nice new motion for us and our customers.

And large language models are real, if I can maybe get that in here and talk a little more about it. This is a very real thing. Generative pre-trained transformer engines have been out there for a while, and T5 is a great open source version. There's a few other versions. Of course, ChatGPT has captured everybody's imagination. I truly feel that this is -- that a very large item that we -- we're going to lean all in and stand up a private platform next to every private cloud customer or even if you're using our public SaaS, we'll set up a private instance for you, for large language models, and this too, will be a driver for growth for us. And I think that will be a dynamic for us, as well in our pipeline.

Operator

Our next question comes from Stephanie Price of CIBC.

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

Congrats on the quarter. Just want to zoom in on the fiscal '24 target model here, it's unchanged despite the strong Q3. Just curious if you could just talk a little bit about where you might have baked in some conservatism in fiscal '24? And what kind of the puts and takes as you look at the fiscal '24 targets?

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

Yes. Stephanie, it's Madhu here. I'll take it on and hand it over to Mark. Thanks for the question. And look, we are leaving it unchanged for all the factors and even the prior question that were asked and our focus remains very strong on Q4. And we've -- Mark and I have shared with you the sentiment relating to Q4 and we'll be observing the macro. We look forward to delivering a strong Q4. And so -- and certainly, if things merit at that point of time, we'll make adds to fiscal '24 and '26, et cetera. But good news is we are keeping the fiscal '24 and '26 where -- like where it is today, and that would be my response.

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

Yes. I mean, the only thing I'd add -- thank you, Madhu, is we have our usual cadence that when we complete the year and announce Q4 and kick off the next few year, we'll give an update on fiscal '24. So we're -- as Madhu noted, we're holding to and reconfirming our preliminary targets of near $6 billion in revenues, 36% to 38% adjusted EBITDA and free cash flows up to $900 million, and Steph, we will give an update on next quarter's call.

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

Yes. And just a couple of things to add, and thank you, Mark, is to just say to the earlier questions as well. Look, our premise was to apply the strong OpenText operational methodology to Micro Focus. But the returns on that premise have certainly been strong, as you can see, and that gives us a step-up confidence in how we approach -- approach Micro Focus. But a big portion of that is sort of one and done with this quarter's performance, and you're only going to see -- I mean, and you're only going to see continued momentum. And we are sharing from a free cash flow perspective, I will say, we have uped the target for fiscal '23 and at this point we're sharing more color on the Slide 21 I mentioned, as to how the components of free cash flow plays, and as we close the year, we'll simply come out with update as needed.

Operator

Our next question comes from Adhir Kadve of Eight Capital.

Adhir Kadve - *Eight Capital, Research Division - Principal*

Let me add my congratulations to the strong quarter here. Mark, last quarter, you mentioned the 6 markets that you're going to go after trying to get the full stack in each of those markets. I know it's only 60 days kind of into the Micro Focus acquisition here, but where are you really seeing most of the -- most promising go-to-market motions out of those? I know you kind of talked about some of them, but just maybe digging deeper into where you're seeing and what's really exciting you after that?

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

Yes. It's like having 6 beautiful children and loving every single one of them, Adhir. So let me highlight a few. No doubt that content services is cool again. And it's all about what we can now offer it any way a customer wants, including public SaaS and the value proposition of investing in this platform. Now there are seminal moments along the way. And the large language models is a seminal moment, as to why you want to consolidate, why you want to standardize on a modern cloud content platform. So content service is absolutely top of the stack for us.

Next to it continues to be enterprise excuse me, cybersecurity. And for all the obvious reasons and all -- I talk a lot about in tech -- in sort of our tech forums about vectors of attack, whether it be the network, e-mail, endpoints, applications, identity. And we just have a lot of optionality on cybersecurity, given we cover each of those vectors of attack and have just lots of optionality in the business.

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Developer, every company is a software company, and the application automation platform is very robust. And it's really going to thrive inside of our 9,000 developers and a developer mindset in bringing that to market. So I'll just highlight those 3. Of course, with supply chain changes in our business network, moving workloads off the mainframe, which is just one of the worst climate platforms you could be on, we're going to benefit from moving those workloads as well. But I put content, cybersecurity and the developer, aka application automation top of the stack for us right now.

Adhir Kadve - *Eight Capital, Research Division - Principal*

Just one more and then I'll pass the line. Just maybe you've talked a lot about the large language models. Can you just give us a sense of what sort of investments it will take for OpenText to really kind of get there and allow you to stand up this private platform for all your customers?

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

We've already stood it up. And the fact that we have -- I'm kind of maybe off by 100 people or so 800, 900 people in our private cloud operations -- our cloud operations has allowed us to take T5, open source T5 and stand it up. And through our professional services organization, our cloud operations, we are open for business today to stand up that T5 with any open source LLM for customers and connect it to their private cloud, and this is the benefit of scale. It's why the private cloud was so strategic for us. You see that's another reason why we own our own professional services organization and 2,000 people inside that organization. And so within our R&D budget, we will build our connectors and our feeders, et cetera. But we already have our first platforms up and operational, Adhir.

Operator

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

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

I just have one question. Mark, you talked a lot on this call about confidence here. And I'm just trying to understand, maybe get more specific, like where is that confidence is sort of like confidence in your balance sheet, in the tech, in the support, like what were Micro Focus' customers not confident on before?

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

Well, they weren't sure of where the company was going to go, into hands of private equity and reduce 20% expense or division is going to be sold off or -- so customers make a decade-long decision in the enterprise. And if it's uncertain where that platform is going to be just in 90 days or even a year, people hesitate. So we purchased the entire company. We're operating the entire company. We published a roadmap for each of the groups. And we have a fantastic reputation, as being a steady innovator for our customers, and we share a lot of customers. So that's where the -- look, we still have a lot to do. We got to -- we are going to earn trust every day, but that gives us, Richard, the confidence, giving customers the confidence.

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

And I know that was the last question, but I guess related to it. So the fact that you're kind of just, let's call it, not even a quarter in and it would be reasonable to think that, that sort of confidence would actually scale? Is it kind of reasonable to think that the numbers that you're putting out there, even though you're taking that number is up conservative still?

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

Madhu has taught me never to use the word conservative, so I won't. No, look, we call it like we see it as we always have. And our Q4 dashboard is just as strong, as our -- and consistent with our Q3 dashboard. So we're calling it like we see it right now. And that's why we've raised our F '23 numbers, as you've seen. And it's just -- it's not the right time to talk about F '24 or 3-year aspirations. We'll do that when we get into our Q4 call. So I'm delighted with bringing our revenue guidance targets up to $4.54 billion to $4.61 billion, total growth up to 32% or 1% to 2% organic growth, cloud bookings growth of 15% plus, adjusted EBITDA margin is up to 33.5% and free cash flow up to $620 million. And we'll let those results speak for themselves when we deliver them.

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

Yes. And Richard, I would just add, and thank you, Mark, to all the comments you heard about the aspects of integration, Mark called out as done and what I called out as well. We are delighted to be where we are as a company with Micro Focus and the performance that we were able to generate, which was our premise that we could apply our operational excellence methodology. But as we've done better than we anticipated, gives us the momentum to keep continuing it.

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

Operator, I think that's the last question. And...

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

Okay. Well, Harry, and Madhu, thank you very, very much, and thank you, everyone for joining today's call, and we look forward to seeing you at Needham, BofA, Barclays, CIBC. And our remarks were written by 2 human beings and not ChatGPT. So have a great day.

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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