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OTEX.TO - Q4 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 OpenText Corporation Fourth Quarter Fiscal 2023 Financial Results Conference Call. (Operator Instructions)

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

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

Good afternoon, everyone, and welcome to OpenText's fourth 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 earnings press release and investor presentation online. These materials will supplement our prepared remarks and can be accessed on the OpenText Investor Relations website, investors.opentext.com. I'm pleased to inform you that OpenText management will be participating at the following upcoming conferences: the Virtual Oppenheimer Technology Internet and Communications Conference on August 9, Deutsche Bank's Technology Conference on August 30, in Dana Point, California and Citi's Global Technology Conference on September 7 in New York.

And now on to our Safe Harbor statement. Please note that during the course of this conference call, we may make statements relating to the future performance of OpenText that contain forward-looking information. While these forward-looking statements represent our current judgment, actual results could differ materially from a conclusion, forecast or projection in the forward-looking statements made today.

Certain material factors and assumptions were applied in drawing any such statement. Additional information about 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

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may project future performance results of OpenText are contained in OpenText's recent Forms 10-K and 10-Q, as well as in our press release that was distributed earlier this afternoon, which may be found on our website.

We undertake no obligation to update these forward-looking statements unless required to do so by law. In addition, our conference call may include discussions of certain non-GAAP financial measures. Reconciliations of any non-GAAP financial measures to their most directly comparable GAAP measures may be found within our public filings and other materials, which are available on our website.

And with that, I am pleased to hand the call over to Mark.

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

Thank you, Harry, and good afternoon, everyone, from Richmond Hill. As you can see, Q4 was another fantastic quarter and great end of the year, highlighted by record financial results, the successful integration of the Micro Focus acquisition, delivery of Cloud Editions 23.2 Project Titanium, announcement of Cloud Editions 25, Project Titanium X. And today's announcement of opentext.ai, we are a global leader in information management. Information management is essential for the next gen of AI and the next gen of business transformation. And just as the Internet changed everything with AI, everything must change.

Before I get to the numbers, I'd like to go over the journey that got us here. Three years ago, we were delivering around $3 billion in revenues, and I said we would transform information management by significantly expanding our mission, become a cloud-centric company, grow organically, double the business over the next five years and that we would return capital in a value accretive manner via dividends at a rate of approximately 20% trailing 12 months free cash flow per year.

Well, as you can see, this has played out. I'm so proud of the team on delivering to our aspirations. In constant currency, Q4 revenues were $1.5 billion, and F2023 revenues were $4.6 billion or 32% total growth led by cloud organic growth of 3.9%, ARR organic growth of 2.3% and total organic revenues of 1.2%. Looking ahead and in constant currency, fiscal 2024 target revenue ranges are between $5.85 billion to $5.95 billion, or 30% plus total revenue growth. For F2024, we are targeting positive organic growth, including a positive organic contribution from Micro Focus, a year earlier than expected. Today, we announced a $1 per share annualized dividend program or $0.25 a quarter, subject to approvals, up from $0.31 annualized when we started our dividend program.

We remain committed to our F2026 aspirations, which include total organic growth of 2% to 4%, cloud organic growth of 7% to 9%; adjusted EBITDA margin expansion, up to 40% and the doubling of our free cash flows to $1.5 billion plus. The confidence in our targets, reflect the agility and operational rigor of the OpenText business system. Within five months of closing Micro Focus, we have completed the business, the product, customer, and organization integration.

As we kick off fiscal 2024, we are one company focused on customer success and innovation that creates intelligent growth. Our momentum is driven by three fundamental advantages over our competitors. Our ability to deliver comprehensive and differentiated information management technology; second, giving customers complete choice in how they deploy and consume our software; and third, delivering best-in-class customer experience through our unique L.O.V.E. model.

This has been our journey. And let me speak to our competitive advantages and the relative sizes of our businesses. On content and business network are popular among customers as we are the information management standard to integrate business systems from SAP, Salesforce, Oracle, NetSuite, ServiceNow, Epic, Microsoft and hundreds more while also integrating the business transactions between them.

Content in BN represents approximately 60% of our business. Our cybersecurity solutions are attractively protecting -- actively protecting governments, defense organizations and enterprises of all sizes, from identity through physical and soft assets. It's a fantastic platform, has significant opportunity for growth and is approximately 20% of our business.

Our ITOM solutions are all about architecting and changing the flow of information across customer-critical hybrid assets and service experience, is approximately 5% of our business. Our application automation is centered on helping highly trained professionals to use their precious time

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more efficiently by enhancing the developer experience and seamlessly modernizing off-cloud workloads by moving, running and operating them in the cloud. This is approximately 10% of our business today.

This differentiation has placed us in a fantastic position to further innovate with AI and help our customers transform yet again by combining a set of very important factors such as leveraging large data sets from our content platform, transactions from our business network, test scripts runner, applications, automation and IT and service information from ITOM, from helping customers consolidate competitive platforms into our business cloud and moment in key AI technologies from OpenText and others and now implementing new models.

To be successful in AI, you need automation, large data sets and new models, the better the automation, the better the data; the better the data, the better the AI; no data, no AI. We have implemented AI machine learning and vector databases for many years prior to the current AI breakthroughs. And our AI platform technology, such as Magellan, capture machine learning and new capabilities we added with Micro Focus acquisition, including Vertica and IDOL.

We have deep and proven experience with many customers running these technologies. Presently, AI and analytics are approximately 5% of our business. Today, we announced OpenText.ai, OpenText Aviator, and OpenText Aviator private cloud and an elevation of our AI platform technologies. OpenText.ai is our expanded AI strategy and road map. Please visit OpenText.ai to learn more as we continue this journey with our customers. OpenText Aviators are Gen AI capabilities built into each of our business clouds that will allow customers to use large language models and to train their private data from OpenText information management and to do so with trust and security.

OpenText Aviator private cloud offers customers the ability to leverage Aviator with highly specialized learning models in a secure private cloud environment. OpenText Aviator will initially support Google's Vertex and PaLM 2 and open source language models such as Open Assist. We intend to support many specialized learning models applying the right model for the right job.

Here are the six initial aviators, OpenText Content Aviator, supporting conversational search and large-scale document analysis. OpenText Experience Aviator, transforming customer communications. OpenText Business Network Aviator generating business-to-business integrations. OpenText Cybersecurity Aviator, enhancing threat management through behavioral analysis, OpenText's DevOps Aviator, generating test platforms and generating trusted software and OpenText ITOM Aviator redefining level 1 support experiences.

Our AI platform technologies, which I mentioned earlier, are available today. Aviator, and Aviator private cloud capabilities will begin to be available with Cloud Editions 23.4 and be part of our 90-day release cycles. At OpenText, AI will be built in, and we will progress with each release. Our initial AI R&D and capital investments are factored into our F 2024 R&D investment range of 14% to 16%. At present, we have not factored any Aviator revenues into our F 2024 plan. And once we see clear revenue signals, we'll update you.

We believe the AI opportunity over the long-term is significant. OpenText has a large role to play in AI, and we intend to play it. Now I'll turn to Q4 and fiscal 2023 results. Madhu will provide deeper insights. Let me touch on a few key highlights in constant currency. For Q4, $1.5 billion in total revenues, up 66.5%, $455 million in cloud revenues, up 10.6%, strong adjusted EBITDA margins of 31% and our enterprise and cloud renewal rates in the mid-90s with Micro Focus renewal rates showing clear improvements into the mid-80s.

I want to thank FEMA, DHL, BNP Paribas, CNA, Renesas, Warta, Vertex and Daikin for selecting OpenText technology during the quarter. For FEMA and DHL, we're providing cybersecurity. For CNA and Renesas, our content platform is essential to their business. BNP, a new DevSecOps platform with Value Edge, a Micro Focus cloud win and Warta AI information platform for content tailoring.

For the year fiscal 2023 in constant currency, $4.6 billion in total revenues, up 32.2%, $1.7 billion in cloud revenues, up 13.3%; $1.5 billion in adjusted EBITDA dollars or 32.4% and free cash flows of $655 million. These results reflect the strength of our solutions in addressing the specific needs of customers across content, supply chains, developers, cloud migrations, IT operations and growing climate and sustainability needs.

Now before I finish, let me provide some initial thoughts for fiscal 2024. On page 18 of our investor presentation, you'll see that we have delivered three consecutive years of accelerating organic cloud growth in constant currency. You will note from our F 2024 targets and F 2026 aspirations, we continue -- we expect to continue this trend.

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We are targeting enterprise cloud bookings of 15% plus in 2024, up from 9.5% we delivered in 2023. Let me note that we grew enterprise cloud bookings by $57 million sequentially from Q3 to Q4 or $108 million to $164 million. Q4 bookings growth was strong at 12% year-over-year. We have solid momentum to the 15% plus. The expected acceleration is based on our pipeline, growing demand for the cloudification of Micro Focus products and our previous investments in Titanium.

F 2024 is going to be an unprecedented year as customers consume more information management capabilities, consolidate away from competitive platforms, move more workloads into the OpenText Cloud, adopt security, digital operations and application automation as customers begin to look to -- next Gen AI capabilities.

Further, the Micro Focus products have expanded our information management vision and provided foundational AI tools. Customer confidence is back, renewal rate expanding and we expect to return Micro Focus to organic growth this fiscal year. That is to exceed the $2.3 billion in revenues. I plan to show you our Micro Focus progress every quarter this fiscal year.

Now on to our F 2024 outlook highlights in constant currency. Total revenue is between $5.85 billion to $5.95 billion or 30% plus growth. Total organic growth of 1% to 2% or up $90 million of new organic revenues in the year. To note, in fiscal 2023, we added $41 million of new organic revenues. And this year, we expect to add up to $90 million of new organic revenues.

Total cloud growth of 6% to 8%, Enterprise Cloud bookings of 15% plus; adjusted EBITDA margin of 36% to 38% and growth of our free cash flow to a range of $800 million to $900 million. It remains much new this earnings season on macro issues and the demand environment. OpenText is well-positioned to help our customers capture the next gen of transformation with our information management business clouds, our cloud additions and opentext.ai. Our internal dashboards remain consistent with previous quarters. And we are playing offense right now to advance our unique opportunity. Once again, our F 2024 targets do not yet have any Aviator revenues built in.

I want to thank our customers for making fiscal -- making fiscal 2023 such an enormous success and for your partnership and the trust you placed in us. I want to thank our employees for advancing our customers' mission through innovation for their incredible and transformational work on the Micro Focus acquisition and providing an exemplary customer experience. We accomplished so much in fiscal 2023 to our customers, to our partners, to our new employees to employees who have been with us for many years, I think you can all see for an amazing place and the best days remain ahead of OpenText and opentext.ai. You are the source of our inspiration.

I'd like to thank you again, and I'd like to highlight that today, we published our fourth annual corporate citizenship report. I'd encourage you to read it. The report reflects our core values and our culture as well as our commitments as we strive for a more sustainable and inclusive world as we strive to create an even better company. We see corporate citizenship as both an imperative and a tremendous opportunity. And may the one that brings -- brings peace for all.

And with that, I'd like to turn the call over to Madhu.

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

Okay. Thank you, Mark. And thank you all for joining us today. Our fiscal year 2023 saw a strong finish with outstanding Q4 results driven by solid execution from the entire OpenText team. For Micro Focus, we are ahead of plan, as you see in our financial results since the close of the acquisition on January 31. We are one company. It is our fiscal year-end and consistent with earlier communication, we are providing you with additional disclosures.

And let me outline the complete list of materials in conjunction with our release today in addition to the AI-related materials Mark talked about. Our earnings release, Form 10-K, our investor presentation, and let me draw your attention to a few key items. On page 17, we are providing a view into the size of our high-value businesses. On page 18 is our annual organic growth disclosure highlighted by three consecutive years of accelerating cloud organic growth in constant currency.

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On page 20, our target model. It highlights our expectation of returning Micro Focus to organic growth in fiscal 2024, one year ahead of plan. On page 22, we have updated our financial integration framework to provide deeper insight and a clear path to doubling free cash flow by fiscal 2026. So moving to our Q4 results, please refer to page 13 of the investor presentation. All references are 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 stated otherwise.

On a year-over-year basis, we had record enterprise cloud bookings of $164 million, up 12% year-over-year. We had record cloud revenue of $452 million, up 9.7% and 10.6% in constant currency. We had record ARR revenue of $1.2 billion, up 56.4% and 57.7% in constant currency it represents 78% of total revenue. This was our 10th consecutive quarter of organic growth in constant currency for both cloud and ARR.

Our active total revenue of $1.5 billion, up 65.2% and 66.5% in constant currency with Micro Focus contributing $602 million in the quarter, strong renewals at 94% in Enterprise Cloud and 95% of cloud. And moving to other financial metrics. GAAP net income was a loss of $49 million, down from income of $102 million with higher operating expenses, amortization, special charges, and interest expenses related to the acquisition of Micro Focus.

GAAP gross margin of 71.4% versus 70.2%, reflecting increased revenue contribution from license and customer support. Non-GAAP gross margin of 76.9% led by higher gross margin for the Micro Focus business and continued strong OpenText customer support performance. Adjusted EBITDA of $463 million or 31% of revenue versus $314 million or 34.8% of revenue an increase of 47.6% year-over-year and 44.3% in constant currency and breaking this down further, OpenText's adjusted EBITDA margin was 32.9%.

And Micro Focus had an adjusted EBITDA margin of 28.4% in Q4, a significant improvement from 23.1% in Q3. We continue to make excellent progress bringing Micro Focus into our adjusted EBITDA model. We generated $115 million in operating cash flows and $91 million free cash flow in the quarter. Working capital performance remained strong. Our DSOs were 41 days, compared to 43 days in the prior year.

For full year fiscal 2023, on a year-over-year basis, enterprise cloud bookings of $528 million, up 9.5% year-over-year, cloud revenue of $1.7 billion, up 10.8% and 13.3% in constant currency, ARR revenue of $3.6 billion up 26.2% and 29.7% in constant currency and representing 81% of total revenue.

Total revenue of $4.5 billion, up 28.4% and 32.2% in constant currency, with Micro Focus contributing $977 million for the five months ended June 30th. Foreign exchange in fiscal 2023 was a revenue headwind of $132 million, approximately half of this in customer support and 30% in cloud. And moving to other financial metrics for the full year, GAAP net income of $150 million, down from $397 million with higher operating expenses, amortization, special charges, and interest expenses related to the acquisition of Micro Focus.

GAAP gross margin of 70.6% versus 69.6% again, reflecting increasing revenue contribution from license and customer support. Non-GAAP gross margin for the year was 76.1%, supported by higher gross margin for the Micro Focus business as well as continued OpenText customer support performance. Adjusted EBITDA of $1.5 billion or 32.8% of revenue versus $1.3 billion or 36.2% of revenue, up 16.4% year-over-year and up 18.2% in constant currency, and making this down further, OpenText adjusted EBITDA margin was 34.7%, and Micro Focus had an adjusted EBITDA margin of 26.3%.

We generated $779 million in operating cash flows in fiscal 2023, compared to $982 million in the prior year. The decline primarily related to integration of the Micro Focus acquisition. Free cash flows in fiscal 2023 of $655 million compared to $889 million in the prior year. This performance was better than our target range of $580 million to $620 million and reflects strong collections and working capital performance as well as a rapid operational integration of Micro Focus.

And Micro Focus contributed positive free cash flow for the year, driven by their strong working capital performance. Free cash flow performance in fiscal 2023 provides a solid platform for our fiscal 2024 target range of $800 million to $900 million and our aspiration for fiscal 2016 of $1.5 billion plus. Turning to the balance sheet, please see page 23 of the investor presentation. We finished Q4 with $1.2 billion in cash and $9.1 billion of total long-term debt. Our net leverage ratio was 3.5 times for Q4. Last quarter, we mentioned our net leverage ratio would fluctuate slightly over the next few quarters, reflecting timing of investments and the impact of integration expenses and adjusted EBITDA.

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After we closed the quarter, we further reduced our debt by $175 million as part of our deleveraging program. We are committed to delivering a net leverage ratio of less than three times by the end of fiscal 2025 or sooner. Turning to our dividend program; today, our Board of Directors approved a quarterly cash dividend of $0.25 per common share. The record date for the next quarterly dividend is September 1st, 2023, and a payment date of September 22nd, 2023. The annualized dividend increases to $1 per share subject to quarterly board approvals.

Turning to our targets and aspirations; we present our business on a constant currency basis for our quarterly factors, targets, and aspirations. Our Q1 fiscal 2024 quarterly factors on page 21 of the investor presentation, on a year-over-year basis, we expect revenue of $1.36 billion to $1.41 billion, reflecting Q1 seasonality. ARR of $1.09 billion to $1.13 billion. Adjusted EBITDA year-over-year margin percentage down 250 to 350 basis points, again reflecting Micro Focus integration costs.

As mentioned earlier, we view and plan our business on an annual basis and quarters will vary. Specifically on free cash flows, we are confident in our annual target of $800 million to $900 million Q1 is expected to be neutral to slightly negative as a result of interest, special charges and integration costs as well as seasonally lower working capital at the start of the fiscal year. Starting from Q2, we expect free cash flow growth on a year-over-year basis in each subsequent quarter. Our fiscal 2024 targets and constant currency are provided in page 20 of our investor presentation.

We look for enterprise cloud bookings growth to grow 15% plus year-over-year. Cloud revenues up 6% to 8%, customer support revenues up 40% to 42%. ARR, up 24% to 26%. Total revenues of $5.85 billion to $5.95 billion, representing growth of 30% plus. Non-GAAP gross margin range, 77% to 79%, adjusted EBITDA range, 36% to 38%. At current exchange rates, FX would be a revenue tailwind of approximately $40 million to $60 million. Our fiscal 2026 aspirations remain unchanged, and these are included in page 24 of our investor presentation.

And let me turn to the financial integration framework update on page 22 of the investor presentation. We have actioned $260 million of our $400 million cost savings with the balance expected to be completed in fiscal 2024. We have incurred $6 million of the $70 million integration expense with the balance expected to be completed in fiscal 2024.

Finally, we have incurred $146 million of the special charges. We expect $180 million to $200 million of the remaining Micro Focus charges and expenses to be incurred in fiscal 2024 and the remaining $150 $190 million in fiscal 2025. All of these are outlined on page 22 of the investor presentation, the related initiatives driving these spend include global entity simplification, tax structures and technology footprint optimization. These are fully reflected in our targets and aspirations. Turning to our free cash flow; we are reaffirming our fiscal 2024 free cash flow target range of $800 million to $900 million and our fiscal 2026 aspirations of $1.5 billion plus. Our fiscal 2026 FCS (free cash flow) aspirations are more than double our fiscal 2023 free cash flow for the year.

In summary, we are very pleased with our outstanding Q4 and full year performance. Our enhanced global size and scale enables us to deliver stellar metrics for gross margin, adjusted EBITDA and free cash flows driven by innovation and growth. On behalf of OpenText, I would like to thank our shareholders, loyal customers, and partners. To the OpenText team members, you have proudly delivered great milestones for fiscal 2023 and put us in a position for an outstanding fiscal 2024. I'm looking forward to that exciting journey ahead.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Richard Tse from National Bank Financial.

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

Madhu, on slide 22, when you talk about sort of the special charges, if I kind of look at the prior deck from the prior quarter, it looks like it's sort of gone up here a little bit and just wondering if you maybe unpack that for us a little bit, just to explain why that increased here?

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

Yeah, yeah, absolutely. In fact, if you look at a couple of line items, we have actually gone down on the integration expense by about $10 million, and we've expanded the range to about $40 million of the special charges. And again, these are the current estimates for the global entity simplification, tax structures, etcetera. So yes, through fiscal 2025, it's a net increase of about $30 million.

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

It's probably a little bit too early for this, but obviously, it seems like you're doing quite a good job in terms of the integration with Micro Focus. So as I look at your aspirational guidance going forward to, let's say, fiscal 2026, I'm assuming here it does not include any acquisitions. So just kind of wondering if you could maybe help us understand your thoughts and process around annual capital deployment targets when it comes to acquisitions. Do you look at it that way, or how should we think about that?

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

Yeah. Richard, Mark here, and thank you for the question. At present, we're very focused on returning Micro Focus to organic growth this year, a year ahead of schedule. And that's certainly where our energy is. Second, as I noted, we have a large role to play in AI, and we intend to play it. So, our focus and we had in parallel large set of announcements today about opentext.ai, our strategy and road map for AI or announced a new product line called Aviators and discussion of our initial six Aviators that we expect to be available for sale next quarter. And within that framework, our R&D investments are between 14% to 16% of revenues this year.

So we're very focused on delivering to our F 2024 aspirations, F 2026. And as you know, those are all organic. And certainly, as we bring approach are under 3x leverage, we'll certainly consider if we want to do acquisitions. But right now, we're focused on capturing the organic opportunity for us. And I'd also note on capital return, we brought our dividend up as well to $1 annualized per share.

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

Okay, great. And just my last question. Do you use Aviator within OpenText's current operations? I'm just really trying to understand maybe the use cases there and I guess, related you kind of see that having an impact in terms of the operating model, if that's the case, you're using Aviator within the company?

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

How much time do we have, Richard. So our announcement today are around our initial product offering and our strategy and direction. There's a lot in there. How we're going to use IDOL as a way to translate information into useful vectors and metadata. How we're going to use Vertica as the vector database, not other people's technology, our technology. How we're going to bring embedding technologies in from open source. And we're going to be poly-model. We're going to support highly specialized language models for highly specialized jobs. We're talking about enterprise AI here, not consumer AI. And language models will be highly specialized.

So, our focus is getting that initial product to market, doing that in a private trusted way as well in our private cloud and elevating IDOL and Vertica and Magellan. And if you just allow me for a moment, if we think of the role automation has played in the enterprise over the last 20 years, before ERP suites got integrated, G&A expense was up to 20% of P&L. Automation knocked G&A into the mid-single digits. AI is different than automation, but AI is the next transformative aspects for enterprises. We will use Aviator to transform our own business over time, initial areas that well consider, support, just as I talked about our ITOM Aviator, our ability to transform Level 1 Support.

We have opportunities in our professional services of how we will generate code. We have opportunities how our engineers can transform how they test. So, we'll have a whole -- Richard, we'll speak more and more about how we'll apply Aviators to our business and how we'll transform our

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cost structure, and how we'll transform the revenue side, RFPs in sales. We have 20 years of our history, 200,000 RFPs. We'll put them in our vector database, we'll apply a language model and generate the best information out of it. So that will come in time. But right now, we're announcing our strategy, our vision, our direction, our initial products, our initial R&D investment, and then we will apply it to ourselves as well through time.

Operator

The next question comes from Steve Enders of Citi.

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

Hi, this is George Kurosawa on for Steve. I just want to double click on the enterprise cloud bookings. And just give some help on getting confident in the acceleration into next year. Was there any element of deal push-outs from this year into next year that you expect to close, or I guess, just any more color on, how you guys are thinking about that?

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

George, happy to, and thanks for being on the call today. So just to recap the numbers, our cloud bookings in F 2023 were 9.5%, and which we've already talked about Q1, Q2, Q3. In Q3, our bookings were constant at $108 million. In Q4, we had a strong bookings quarter, $164 million, up 12% year-over-year. And so Q4 bookings was $164 million. And we've got solid momentum to get to the 15% plus. And so that's based on pipeline, based on deals. So I mean, the different between 12% and 15%, I wouldn't point to push deals at all. Our momentum is up. So we delivered $164 million in Q4, up 12%, and we got solid momentum to get to the 15% plus.

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

Got it. Super helpful. And then just on the Aviator announcement, a really exciting set of products. Maybe just any color on the kind of go-to-market and monetization strategy here? Is there anything kind of unique or I guess what would you kind of highlight there?

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

Yeah. I would say two things. There's two pricing models sort of emerging in the market. You certainly have Microsoft, I think O365, Copilot, ChatGPT, GitHub, GitLab they're ranging from $10 to $30 per user per month. And that sort of makes sense to me. You have kind of the other spectrum where you see Google pricing and others in the enterprise sort of based on process tokens. So -- when we turn GA in the next quarter, we'll introduce the pricing then. But some Aviators will be more oriented towards user pricing per month in the market sort of setting the rate right now, right, between $10 to $30.

And there will be other parts of what we do based more on sort of consumption. And our business network, by the way, is priced on what we call kilo characters, which is the same thing as tokens. So -- when we deliver in 23.4, we'll announce the pricing, and we'll probably have two models built for each Aviator one user based. And again, the market is between $10 to $30 per user per month and we'll have some Aviators more oriented towards consumption either based on kind of tokens or kilo character. But we thought through it, and we'll get the right pricing for the right Aviator.

Operator

The next question comes from Kevin Krishnaratne of Scotiabank.

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

Just maybe one for me. Just on the Micro Focus recurring organic growth a little bit faster. How do we think about that in conjunction with the F 2024 guidance, which -- correct me if I'm wrong, but I think it -- on the top end, it came down a little bit from the preliminary guide that you gave in the last quarter. Can you just talk about maybe perhaps what you're seeing in OpenText Core to lead to that result?

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

Just to recap the numbers, right, in fiscal 2023, our total company organic growth was 1.2%,or $40 million of new organic revenues we added in the year. So, percent on top of percent can be tricky, right? But just really simple -- organically, we grew 1.2%. We're committed to showing you that annually. And -- or said differently, we added $40 million of new revenues. Our target for 2024 is 1% to 2%, but on a much larger base. So that's $45 million to $90 million of new organic revenues in fiscal 2024 because it's not because it's on a much higher base, if you will. So that's up to $90 million, almost $100 million of new revenues here in fiscal 2024.

And as I said in my script, we have no Aviator revenues built in our model yet. And until we have the revenue signals, we're not going to add it. Look, we expect all our product lines to grow, and we expect I don't like speaking this way, but I'll say it this way. We're clearly expecting Micro Focus to return to organic growth and base OpenText to have organic growth as well, both having organic growth. And again, the 1% to 2% for fiscal '24 is up to $90 million of new revenues and we added $40 million of new revenues last year.

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

Yeah. And Kevin, if I could just share just one last point in addition to what Mark said, the last print versus this print to your point, please make note of the FX tailwind we have on slide number 20. And the midpoint there is about $50 million.

Operator

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

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

Thanks for taking the questions. Just given your comments in the prepared remarks, Micro Focus is doing much better than you expected. Fundamentally, why is that? What has changed with the business? And then I might have missed in the prepared remarks, but did you comment on renewal rates for Micro Focus this quarter and how that's been trending?

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

Paul, happily, and thanks for being with us today. So two things. We're executing. We all wind the take back we're experienced acquirers, experienced integrators. We had a vision around how to integrate the company and return it to organic growth and we're executing to it. And it's fundamentals, right? We've released a product road map that's giving customers' confidence and confidence is back. We've integrated the renewals teams to the OpenText practices, renewal practices. We've done our work with the field where the field sells new. They don't sell renew.

We've gotten our systems aligned, and so we ended fiscal '23 with Micro Focus renewals in the mid-80s, up from the low 80s and we're on a trajectory to get the renewals to the high 80s this year. And we've also announced our road map for the cloudification of Micro Focus. We've delivered our first products. And actually, we announced the first linear, right, of BNP for Value Edge. -- in the cloud. And you can see in the investor deck 23.3, 23.4, 24.1, just a continued pace of more cloudification, right? We transform Documentum into the cloud. right? We will transform Micro Focus into the cloud.

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So it's those fundamentals that are giving us the confidence, plus the pipeline plus our execution that will return Micro Focus to organic growth this year. And I'm going to show you every quarter along the way and showing you the numbers.

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

And in regard to Aviator, I mean you sound very excited about the opportunity that the product -- how do we think about sizing it. And I know you're not giving an outlook, but how do we compare it to some of the products you've had in the past, you've had Magellan in the past, you've had other large product launches in the past. How do we think about the magnitude in terms of the opportunity for Aviator?

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

Yeah. I'm not ready to put a TAM on it, all right? So it's a fair question. We're not ready to put a TAM on it. But as I said in my remarks, I believe it to be a significant long-term opportunity. And we're going to go after the OpenText way, fundamental innovation, when deliver, we're going to show you the signals along the way for sort of predicting those. We don't have any Aviator revenues built into our -- any revenue built into our F 2024 model. So, I think it's going to be relevant for every customer. It's going to be an independent set of products. It's clear that what automation did for the enterprise, I'm going to make the distinction AI can do for the enterprise.

And you need automation. Better the automation, the better the data; the better the data, the better the AI. We're extremely well-positioned where we've been managing large data sets for thousands of customers in content. We are well-positioned where we've been managing billions of business network transactions. We're well-positioned where we have the software and testing scripts in ADM. We're well-positioned in ITOM with IT assets. So, we're in the places where you can create value in the enterprise.

And there's a real -- I mean the McKinsey report, I think, is great because it kind of -- their AI report they have a nice grid of the places of the enterprise are going to be impacted. You look up into the right, it's the developer, it's content, it's contracting. It's the things I've just mentioned. So, I'm not ready to put a TAM on it. Our products are initial Aviators will be available next quarter, be a showcase, obviously, in Vegas. And we'll announce our pricing and spend more time talking about the TAM when the product comes to market next quarter.

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

Just one last question for me. Just, Madhu, the -- in regard to tax. Can you speak to the slope in the tax rate to '26? And obviously, it's a big jump to mid-20% from 14%. And then does that reflect -- what's driving that increase? And does it reflect the global minimum tax?

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

Yeah. So, a few things. First of all, as we end up using up the Canadian attributes, and we've talked about this before, towards the end of fiscal 2024, that plays a role in the creep up of the rates. Now you slap in Micro Focus in here. Again, we're not talking about strategic tax initiatives. There is no immediate, sort of, relief from the statutory tax rate. We're absolutely using the U.K. attributes of Micro Focus, but Micro Focus is a taxpayer on the U.S. front, and so is OpenText.

So really, the slope you're seeing is sort of the utilization expiry of the Canadian attributes at OpenText and adding on the US tax attributes for Micro Focus. Again, as I said, we will spend the next 12 months to 18 months strategizing the next wave of tax optimization, but that is not factored in the slope you're referring to.

Operator

Next question comes from Stephanie Price of CIBC.

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

Thanks for the additional details on the revenue from each of the divisions and the breakout between the different content management security, etcetera. Just wanted to speak a little bit deeper into that. If you think about the mix of the different high-value businesses, if you look at into fiscal 2026 and beyond, which of the businesses do you see is growing above the company's capable growth rate? And where do you really see the most opportunity out of the high-value businesses you've pointed out?

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

Thanks, Stephanie. Thanks for the question. They each have their dynamics. Let me just start with we promised to provide more visibility into each of the high-value businesses on Slide 17 of the investor presentation. You can see content at 45%, cybersecurity at 20%, application automation 10%, business network 15%; IT ops 5%; AI and analytics, 5%. And I'm not get down into growth rates for each one of them. So I'm not going to do that today. But we have clear opportunity in AI and analytics, as we've talked about today, just a clear opportunity.

IT operations management, I'm very pleased with the private cloud and SaaS products that we're bringing to market. I think we have a significant opportunity there and everyone needs cybersecurity. So our -- we've been talking about kind of winning each of these value stack, right? And having select programs across all the value businesses. cybersecurity is an effort underway across all the value businesses.

So as I said, I love all my children. They're each unique. But AI and analytics, obviously, significant opportunity, very optimistic on IT ops, cybersecurity, a deep opportunity. And an interesting thing about AI. Again, you have automation different than AI. And for customers to take advantage of AI, they need to be on some cloud platform, private or public. They need to consolidate their automation and then take advantage of that enriched data through AI. And therefore, I believe that content management has opportunity to continue to grow because there's more automation and more consolidation into that.

Operator

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

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

Mark, can you update us on where you stand as far as sales integration? And have you started to see any early cross-selling or early days on that front?

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

Yeah. We're complete, Thanos. Thanos, thank you for joining us today. I'd like to have you on the call. We're kicked off July 1. Salesforce fully integrated, single global accounts team. We go to market by our buyer. We've completed all our account assignments, singular account plan, we're integrated. And all that work was completed and implemented on July 1. We have a single sales force compensation system as well as an example.

The areas, so we're complete. The second piece is on the select cross-selling. And again, security top of the list, IDOL top of the list as well. And so, as part of our kick-off, which was just a couple of weeks ago, we laid out training for everybody. So, it is early days on the cross-selling, but we're really focused on two areas, security, and it's a metadata and AI tools.

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

Great. And then as far as leveraging, your OpenText channel partnerships with respect to the Micro Focus products. How is that progressing?

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

Well, we're very focused on sort of the top of the pyramid, which we announced earlier this year, the next generation of our partner program. We now call it the OpenText Partner Network, or OPN. And on top of that pyramid are our top 10, Microsoft, Google, Amazon, SAP, Salesforce, DXC, Accenture, TCS and a few others. So that work is beginning to kind of speak holistically to Google, just holistically to DXC, holistically to Accenture, so still early days.

But we've done the work to say, these are the top 10, and we're going to kind of pick key opportunities in each of them. Let me take an example, right? We had a great partnership with Google. At OpenText, we're going to work together on mainframe modernization and moving more workloads into the Google Cloud. We had a great relationship with AWS hosting a lot of our SaaS products, again, bringing application automation into the AWS relationship. So, there's these high synergies. We're focused on the top 10 and the work has begun.

Operator

The next question comes from Adhir Kadve of Eight Capital.

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

I wanted to ask on the Aviator product as well. Can you just give us a sense of your conversations with customers, Mark? Are they excited for what this product could do for their business? I mean we -- of course, we hear that these products are just going to increase productivity. But are customers ready to deploy these products? And just based on those conversations, how do you see adoption going for these customers as we move past the initial deployment in October?

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

Yes. So, look, our early conversations informed us deeply and just 90 days ago, right? We're talking about early conversations. 90 days later, we've announced Aviator, and we've announced Aviator private cloud. 90 days from now, we'll have our first Aviators in production, if you will and with good deployments to a few customers as well. So, it's -- these are our initial strategies, if you will.

We're also going to build a practice area. So, when I speak about Aviator private cloud, we've done -- we have a couple of very unique things that we can bring to market here. We obviously have our tools, IDOL, Vertica, Magellan, unique. We don't have to go out and kind of rent those tools for others. We own them. The second unique thing is our managed services, our private cloud, right?

Customers want to be able to use their data privately securely. So, Aviator private cloud is a strong avenue for our customers already in our private cloud or want to move to our private cloud to use their data privately and train their data privately and not bring it into some public domain. So, we're going to build a practice area around this. So just like we have practice areas and business network, practice areas and content. We have practice areas in AI and language models. So, it's early days. We've announced the initial vision and direction, next set of products coming next quarter, and we'll keep you updated along the way.

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

Excellent. Just for my second question to piggyback on Thanos' question, some of the early Micro Focus customers that you onboarded early post the acquisition. Now that they've had a chance to really experience the combined company, the combined offerings that you've spoken about over the past few quarters. What's your initial feedback? And do you find that those initial synergies that you had envisioned are kind of playing out. Of course, I understand it's early days for that, but just some initial thoughts on that would be great.

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

Returning them to organic growth this year. So -- we -- maybe just to reiterate, confidence is back. Roadmap published. All the key aspects of the integration complete, cloudification has begun, renewal rates up to mid-80s, pathway to the high 80s, initial wins in the cloud and the pace of innovation. You can see some of the Aviators being square in the middle of Micro Focus product lines and accelerating Micro Focus to organic growth this year. So those are the indicators, right? And don't know much more to add to that, but those are the indicators.

Operator

The next question comes from Raimo Lenschow of Barclays.

Jeremy Horowitz - *Barclays - Analyst*

This is Jeremy on for Raimo. I was just wondering, if you could share anything on how the Micro Focus free cash flow conversion is trending, I know that was a point of opportunity when the acquisition closed. And I was just curious if you can maybe talk about any improvement there.

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

Yes, absolutely, Mather. Thanks for the question. So a couple of things. One, as we've shared, I'll start with adjusted EBITDA. Adjusted EBITDA in Q4 was 28%. And up 5 percentage points from although Q3 was only like two months. And also, fundamentally, the question was asked in terms of integration and even like what are the reasons therefore, I will take all the markets that in terms of product market customers to the working capital on the operational side, right?

They have a strong customer base and as we applied our own operational rigor, the teams are very receptive, and you saw that. So, I would say, starting with adjusted EBITDA, we improved the working capital and that is really where you see from a free cash flow perspective, they've positively contributed. So again, I'll answer the question on the second part as well. As you look into fiscal 2024, what we saw adjusted EBITDA in Q4 will continue. And I see continued improvement in the working capital performance -- and all of that adds to our confidence in the $800 million to $900 million for 2024.

Operator

The next question comes from Steven Li of Raymond James.

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

I've got a quick one on organic growth in Q4. So, if I take the 6% or 2% from Micro Focus out of Q4, I get a slight negative organic growth for Q4 for OpenText at constant currency. Given this is Q4, which seasonally probably a stronger quarter for you guys, should we not have seen a stronger organic performance? And maybe any soft areas you want to call out, Mark?

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

Yes. So, Steven, I mean, I'll take that. So, when you look at Q4 and you take out Micro Focus, we are not seeing the negative organic growth. We are seeing positive organic growth as I shared and happy to walk through the numbers, if it will be helpful, but the numbers are all there. So, I'll just say, for Q4, when you factor in Micro Focus, we are positively growing. Organic growth cloud as well as ARR in constant currency. Again, I want to emphasize that.

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

Okay. Yes. I mean, I'm just taking the reported numbers and minus 6% or 2%, and it's lower than last year.

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

Yes. So, when you take out the 6% or 2%, again, as you see license from a constant currency perspective, is down from a year-over-year in the quarter. And cloud is positive organic growth. Customer support is positive organic growth, ARR is positive organic growth as well.

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

Okay. Okay. And then just maybe a housekeeping, Madhu. I couldn't try needing the M&DA, but did you actually disclose Micro Focus different revenue lines like license, maintenance and PS, I think you did that last quarter.

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

Yes, we did. And I can share with you offline the Page number 10-K. We did call out the cloud services -- I mean, I'm sorry, we called out the license. We also called out the customer support in a number of Micro Focus as well.

Operator

The next question comes from Daniel Chan from TD Cowen. Please go ahead. Daniel, your line is open. Please go ahead. Daniel Chan, your line is open. Please go ahead.

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

Okay, operator, there must be something not working there. So I think we can go to -- let me go to wrap up. So, I'd like to thank everyone for joining today's call. And we look forward to seeing you at the Virtual Oppenheimer Technology, Internet & Communications Conference on August 9; Deutsche Bank, August 30; Citibank Global Technology September 7, and we'll be reaching out and hope you can join us in Vegas at OpenText World in October. Thanks for joining today's call.

Operator

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

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