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OTEX.TO - Q4 2024 Open Text Corp Earnings Call

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## PRESENTATION

**Operator**

Welcome to the OpenText Corporation fourth-quarter fiscal 2024 financial results conference call. (Operator Instructions) And the conference is being recorded. (Operator Instructions)

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

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

Good afternoon, everyone, and welcome to OpenText's fourth-quarter fiscal 2024 earnings call. With me on the call today are OpenText's Chief Executive Officer and Chief Technology Officer, Mark J. Barrenechea; and OpenText's President, Chief Financial Officer and Corporate Development, Madhu Ranganathan. Also joining us are Todd Cione, President, Worldwide Sales; and Paul Duggan, President and Chief Customer Officer.

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 presentations 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 conferences. The Virtual Oppenheimer Technology, Internet, and Communications Conference on August 12; Virtual Morgan Stanley Nasdaq Investor Asia Conference on August 20 and 21; Deutsche Bank's Technology Conference on August 29; and Citi's Global Technology Conference on September 5 in New York.

And now on to our Safe Harbor statement. During this call, we will make forward-looking statements relating to the future performance of OpenText. These statements are based on current expectations, assumptions, and other material factors that are subject to risks and uncertainties, and actual results could differ materially from the forward-looking statements made today.



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Additional information about the material factors that could cause actual results to differ materially from such forward-looking statements, as well as risk factors that may impact future performance results of OpenText are contained in OpenText's recent Forms 10-K and 10-Q, as well as in our press release that was distributed earlier this afternoon, which may be found on our website. We undertake no obligation to update these forward-looking statements unless required to do so by law.

In addition, our conference call may include discussions of certain non-GAAP financial measures. Reconciliations of any non-GAAP financial measures to their most directly comparable GAAP measures may be found within our public filings and other materials, which are available on our website.

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

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Thank you, Harry. Thank you all for joining today. We kick off fiscal '25 with the launch of OpenText 3.0 Information Reimagined. Simply put, our vision is to be the best information management company in the world, and our strong belief is that information elevates every individual and organization to be their best. We're very excited about our market today and the significant opportunities directly in front of us.

I'll speak to our Q4 results and outlook in a moment, but I want to start today's call by clearly outlining our top priorities. First, build an even stronger competitive advantage with information management business cloud, business AI, and business technology.

Competitive advantage is everything and information management is the center of business transformations today, led by data-driven decisions, next-gen cloud automation, foundational information security, and promising AI.

Titanium X or our Cloud Editions 25.2 is on target for delivery in fiscal '25. This is our next-generation autonomous cloud, strengthening our competitive advantage and the platform for information-based transformations.

Second, accelerate cloud revenue growth. We delivered 7% cloud revenue growth in fiscal '24. We're targeting up to 5% organic cloud growth in fiscal '25. And with a laser focus on key growth programs, strategic partnerships and Titanium X, we are building to 7% to 9% organic cloud revenue growth in fiscal '27. I'll get to our growth programs in a minute.

Third, drive upper quartile margins and capture the large margin opportunity we have over the next four to eight quarters. In fiscal '24, we delivered $2 billion in adjusted EBITDA dollars or 34%, which included 10 months of ultra-high AMC adjusted EBITDA and our F25 targets are up to 34% with no AMC adjusted EBITDA. We're not pausing at 34%. We expect fiscal 2016 to be in the range of 35% to 36% while investing in innovation, go-to-market and with a higher cloud revenue mix.

Our F27 targeted adjusted EBITDA range is unchanged at 36% to 38%. Our adjusted EBITDA expansion will be driven by higher revenues, including more SaaS, lower cloud costs, more cloud automation, leveraging AI internally, and locating our great talent in the right places. We have a clear path for accomplishing our margin goals.

Fourth, strong and predictable capital allocation. Our capital allocation strategy is expressed as primary allocation and additional allocation. Our primary allocation is to return 50% of trailing 12-month free cash flows for dividends and buybacks. Our additional allocation of free cash flow, which is continuously assessed, is to allocate our additional capital to the highest return areas across dividends, buybacks, debt reduction, or M&A.

We delivered free cash flow of $808 million in fiscal '24, 23% year-over-year growth. In fiscal '25, our free cash flow is expected to grow mid- to high-single digit, excluding our one-time tax payment from the AMC divestiture gain. Our fiscal '27 free cash flow aspirations remain unchanged at $1.2 billion to $1.3 billion.

As our free cash flows expand, so does our capital flexibility and return. In fiscal '24, we returned $417 million to shareholders or 52% of our free cash flow. In fiscal '25, we plan to return $570 million-plus, this is over 90% of F25 free cash flows allocated to dividends and share repurchases because we believe this is of the highest return.



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In support of this plan, we announced today a new and increased NCIB program in the amount of $300 million in share repurchases, and we're also raising our annualized dividend from $1 per share to $1.05 per share or a 5% rate increase. By the end of fiscal '25, we will have returned approximately $3 billion over the last decade, including expected $1 billion return in F24 and F25 combined.

We see four outcomes from these priorities. Stronger competitive advantage in cloud growth, value creation for our shareholders, and elevated bar with higher goals. And for the next three years, we expect to grow annually adjusted EBITDA, adjusted EPS, free cash flow, and our return of capital. The leadership team and company are focused on the fiscal year ahead, fiscal '25, delivering to our exciting future and implementing programs that lead to higher performance.

Let me go a little deeper and speak about our talent, key growth drivers, and cloud momentum. Highest performance begins and ends with our talent of living the OpenText business system with a relentless focus on execution, an OpenTexter always puts customers first, innovates, cares about people, helps teams succeed, and strives for exceptional performance.

We start here because great people make great software companies. And we're attracting or attaining the next generation of great talent. We're a global and diverse organization. The majority of the company's talent is now Gen Y and Z and 90% of our employees are outside of Canada, and our employee retention rates are at a record high of 92%-plus.

Today, we published our annual corporate citizenship report. We believe in being a responsible and responsive company to the environment, to the communities we work and live in, and that diversity and inclusion of people and ideas are essential to innovation.

Our annual corporate citizenship report reflects our commitment with a practical and impactful mindset to all our stakeholders. Our leadership team is the strongest it's ever been. We have Todd Cione joining us today, President of Worldwide Sales. Paul Duggan and joining us today, President, Chief Customer Officer.

We have Madhu Ranganathan, of course, our President, CFO, and Corporate -- Head of Corporate Development, joining us today. Muhi Majzoub, our Chief Product Officer, Sandy Ono, Chief Marketing Officer. Shannon Bell recently joined us CDO and CIO and the rest of our highly skilled and expert team. We have the talent and next-generation mindset to be the best information management company in the world and to create a powerful future.

In fiscal '24, we delivered $5.77 billion in revenues or 29% year-over-year growth, including positive organic growth. Our cloud revenues were $1.8 billion, with 7% year-over-year growth. Our fiscal -- for fiscal '25 our cloud revenue outlook is up to 5% organic growth and total revenues between $5.3 billion to $5.4 billion or constant to 1% organic growth ex-AMC.

What supports our cloud revenue growth are new bookings built on the foundation of strong renewal rates and consumption expansion. Paul will speak a bit about this. In fiscal '24, we signed the largest cloud contracts in our history. Our cloud renewal rate was in the low 90s, and we delivered $701 million of new cloud bookings or 33% year-over-year growth. Our cloud momentum continues as we expect to grow bookings 25% in fiscal '25, higher than our previous target.

On accelerating cloud revenue growth, here are the key drivers for us in fiscal '25. First is just driving expansion of our business clouds, led by content, business network and ITOM. Customers are deeply focused on reimagining knowledge workers, consolidating the digital cores and operations, deeper value and resiliency from their supply chains, attaching new SaaS services to existing workloads.

We're continuing to invest in trust, global security, compliance, and industry certifications across many industries, financial services, pharma, biotech, health care, government, and more. Customers are beginning to seek alternatives after the recent global security events. Our partner ecosystem expansion with Microsoft, Google, SAP, Salesforce, and stronger, and richer Aviator and AI use cases. Also lower cost in AI, spending -- and spending in time to value with ease.



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For example, we're working with Robert Bosch, North America to help them use Aviators to connect with their data sets in whole new ways. Cloud growth, stronger execution with unified sales and field organization, higher renewal rates driven by digital renewals and expanded services, and you'll hear from Todd and Paul, as I said just in a moment.

Let me provide a few remarks on Q4 results and Q1 outlook. I'm extremely proud of what our team delivered in fiscal '24 for the long-term success of our business. On Q4, let me summarize our financial results, and Madhu will provide further detail. Total revenues was $1.36 billion, ex-AMC total revenue was down 4% centered on license. Cloud grew 3%.

Strong free cash flows of $145 million are up 59%. We repurchased 150 million of our shares for cancellation at an average price of $29.57, we delivered $445 million of adjusted EBITDA dollars with strong operations, and we had significant customer wins in content, in AI, Nestle; in BN and AI, Johnson & Johnson; in ITOM, SICK Sensor Intelligence; in ADM, California EDD; in experience, Sutter Health.

Let me highlight two important dynamics in Q4. First, our license to cloud transition continues, and you see this in our Q4 financial results, with cloud and free cash flow that are up and license down. We had great cost optimization in the quarter. Second, we had two strategic corporate programs within the quarter that required significant corporate attention that the divestiture of the AMC business and the business optimization planning.

These strategic programs will have positive impact in fiscal '25 and beyond but impacted Q4. To recap the two strategic programs that we have now concluded, closing the AMC divestiture, transitioning 750 employees, operationalizing a transition service agreement, separating out our systems and data, and discussing the transaction with thousands of customers. This was a large divestiture in the company's first and the team executed incredibly well.

Second strategic corporate program was completing the business optimization, which required precise strategic talent planning and affected about 5% of our workforce, all the planning took place in Q4, and the team executed extremely well.

On Q1 outlook, we're excited about the start of the new fiscal year. OpenText 3.0 launch, our healthy pipeline, our strategic corporate programs complete behind us, Titanium X, and our new leadership team ready to go. And to reiterate, we manage our business annually and quarters will vary.

On Q1 outlook has a path to growth and margin expansion. We're expecting revenues between $1.25 billion to $1.3 billion. At the higher end of our range, we are growing year-over-year ex-AMC. Our adjusted EBITDA range between 32% to 33%, our adjusted EBITDA dollars are expected to grow year-over-year ex-AMC.

Let me wrap up with a few final thoughts. We're proud of what we accomplished in fiscal '24, 29% total growth, 7% cloud growth, organic growth, $2 billion in adjusted EBITDA dollars, and $417 million of capital returned to shareholders. Information management competitive advantage is everything with Titanium X, Aviators, security, our competitive advantage grows stronger.

We are excited about fiscal '25 focused on delivering to our annual targets, focused on building shareholder value through cloud growth, margin expansion, and the strongest capital return in our corporate history. We'll keep you updated on our primary and supporting metrics throughout the year.

The operational improvements we deliver in fiscal '25 will put us in a position to raise the bar in fiscal '26. And again, I want to emphasize, for the next three years, year over year, we expect to grow annually adjusted EBITDA, adjusted EPS, free cash flow, and our capital return.

We thank our shareholders for their feedback and continued input. We've listened, and we believe this is a strong plan to deliver value to you and to all our stakeholders.

A huge thank you to my colleagues and fellow OpenTexters, for the amazing talent and contributions to our customers for placing your trust in OpenText and may the one that brings peace, bring peace for all.



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Let me hand the call over Todd Cione, OpenText's President of Worldwide Sales. Todd, welcome.

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**Todd Cione** - *Open Text Corp - President, Worldwide Sales*

Thank you, Mark. I am excited and grateful to be a part of the OpenText team. Over my first 100 days in the company, I've worked to bring my learnings and experiences from 30 years in the technology industry at Microsoft, Oracle, Apple, and a few others to contribute to OpenText 3.0. And I've immediately prioritized my time to connect with, learn from, and execute alongside of our team, our customers, and our partners.

And it's these early relationships and experiences that directly shaped our F25 plan with our worldwide sales team. And that plan is launched, and it's actually being executed right now.

Let me outline our priorities in that plan, including what's different. First and most importantly, my top priority is people. I'm a believer that there's a direct correlation between great people and great results. We have a very strong foundation of people.

And it's my ambition to build the highest performing and most efficient sales force in the world and for the best information management company in the world. We've already made several changes in the sales force that are now complete, and we're off to a fast start.

We now have one unified worldwide sales team with continued global coverage, and this means we have an aligned approach globally to everything that we're doing, while we still enable flexibility to serve our customers locally.

We've also moved quickly to attract new and elevate existing talent within worldwide sales. We're attracting outstanding sales talent who have proven backgrounds at leading technology companies like Apple, Tricentis, Microsoft, and Salesforce. I've worked previously with many and there's more to come.

With the broader sales team, we're building a structured approach to refine the consistent and modern commercial capabilities needed to win in this dynamic marketplace of cloud, AI, and security. And we've doubled down on our business cloud specialization within the worldwide sales force. We fully expect the outcome of these people efforts to directly contribute to improved sales force productivity in F25.

Second, as Mark highlighted, and OpenTexter always put customers first. And for our worldwide sales team, earning the trust of our customers is a priority. This includes how we segment the marketplace to ensure we deploy the right resources to the right customer exactly at the right time.

Our largest customers, we consider strategic accounts and for these accounts, we've invested in global account directors to manage the holistic OpenText relationship. The enterprise business is essentially the Global 10,000, and it's a very heavy focus for us.

We're making progress on serving the mid-market with a modernized and important inside sales force, and the SMB and consumer businesses are served very heavily through partnerships and digital channels.

Now regardless of the market segment, make no mistake that it's our intent to provide a clear and compelling value proposition to our customers. We have industry-leading technology in our business clouds.

And as our customers are increasingly interested in reinventing knowledge work, resilient supply chains, engaging with their data in new ways, being more secure, moving workloads to the cloud, and having machines do the work via AI and automation. Our specialized worldwide sales force will translate our technology into value, directly aligned to customer business priorities.

And we're scaling this right now, and we have some outstanding customers as an example, while in Europe recently, I met with Carsten Trapp, the CIO of Zeiss Group, a leading global high-tech manufacturer, Carsten, is relying on the value of our OpenText Business Cloud to modernize Zeiss's processes. And he highlighted this in an article published in CIO magazine just last week. Partnerships also like SAP, Microsoft, Google, and others will play an increasingly important role in how we support all of our customers. The outcome of these customer-focused efforts will directly contribute to our accelerated growth in fiscal '25.



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Third and lastly, rigor is a priority for worldwide sales. This means bringing fundamentals and modern innovation to our commercial strategy, processes and to our tools, all to support our worldwide sales force. Now with the Olympics ongoing right now, I think a sports analogy might be appropriate. The US men's college basketball coach with the most national championships in history as John Wooden, and Coach Wooden once said, I believe in the basics, attention to and perfection of tiny details that might commonly be overlooked. They are the difference between champions and near champions.

I totally agree with Coach Wooden, and I believe this philosophy directly applies to sales. We are committed to being brilliant at the basics, in refining how we manage our business, how we empower and support our sellers, and how we deliver compelling value propositions to our customers.

We're also committed to innovating in our sales motions. And as an example, we've already launched projects to leverage OpenText AI internally to support RFP responses and proposal generation. And we have an exciting lineup of additional internal innovations to be launched this year. The outcome of this commitment to rigor will directly boost sales force productivity and predictability in F25.

Now in closing, these priorities of people, customers, and rigor for our unified worldwide sales force make the foundation of our F25 plan. And as I've mentioned, this plan is already being executed now, and we've started fast. I couldn't be more excited about the journey ahead in F25 and beyond with this team to accelerate OpenText 3.0 in the marketplace.

Now I'm going to hand the call over to my colleague, Paul Duggan. Over to you, Paul.

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**Paul Duggan** - *Open Text Corp - President, Chief Customer Officer*

Todd, thank you. Thrilled to be joining the call today to provide an update on the renewals business at OpenText. Today, I'll address two areas, '24 -- F24 update, including Micro Focus and our key priorities in the year ahead for F25.

Let's start with F24. As Mark noted in his opening remarks, renewal performance is the foundation on which we build growth. And there's no question, OpenText has a long history of predictable and sustained performance despite some of the world's most disruptive events over the past decade. F24 was no exception. Our renewal rates finished at 95% for off-cloud and 92% for cloud, excluding Micro Focus.

And on that note, I'd like to briefly make two comments on metrics. First, renewal rates are a primary instrument in any recurring revenue business. There are also different variants of this rate. On our cloud business, we have been publishing a gross renewal rate, or GRR, which does not include any expansion or upsell on those renewals.

In F25, we intend to publish net renewal rates, or NRR, which aligns better with large cloud vendors approaches. This will capture insight into consumption and expansion and give you a more complete view of our performance.

Factoring in these dynamics will highlight rates that are even stronger, for example, had we applied this methodology in Q4, the cloud renewal rate would have been in the mid- to high 90s. Second, we have other primary instruments beyond renewal rates. These include on-time renewal rates, annual price adjustments, cancellations, and past due rates.

Taken together, these metrics tell a story about the motion of the business. And over time, if they're in the green and in agreement with each other, then one can expect continued strength. And I'm pleased to say that, that is the profile we saw in F24 and during our fourth quarter.

On our Micro Focus off cloud renewal business, our top priority remains unlocking new value. F24 was all about the rapid execution of our standards and programs, and we did this very well. As we end the year, the Micro Focus renewal rate was at a record high in the high 80s as we planned.

Our sights are set on moving into the 90s in F25. The path there is laser focusing on the next set of products that have a meaningful installed base and a renewal rate below our standard. Then prioritizing the product road map, support programs, and sales plays that influence renewal decision factors.



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This is our proven OpenText playbook for lifting renewal rates, we did it with Documentum, and we're doing it with Micro Focus. It's already lifted us from the low 80s to the mid- to high 80s and will ultimately lift us into the 90s.

As you heard from Mark and Todd, F25, it's all about growth and expansion. F24 was a record year for incremental bookings in our cloud business, and we expect this to continue in F25. For off cloud, we added new offerings like premium support last year, and we expect this to grow in the year ahead as well.

In terms of what's new, two things; first, we formed a new digital renewal center, July 1. This is a strategic segmentation model and structure that brings together all customers, cloud, off cloud in all product areas at a specific spending level and is focused on a mission of automation and self-service. This will unburden the rest of the team from transactional work and allow us to reinvest that time and energy into growth programs in the middle and top spend segments.

Second, we launched new cloud success service tiers in July. These tiers give all customers access to our digital assets through a portal starting at our standard level, success plan templates best practice documents and checklists, then the fee-based option to move to higher tier levels, premier and signature, which add dedicated customer success managers, workshops, and technical success management. We've already closed several deals in the run-up to the launch, and we're very excited about the new cloud revenue opportunities this program brings forward.

So in summary, F24 was a strong year for renewals. We have confidence in F25 and a clear plan, we are already executing. This will give us the platform to raise the bar even further into F26. I always like to close by saying thank you to our customers. We know your trust is earned and not given, and we are committed to delivering on the promises we made to you every day.

And with that, I will hand the call over to Madhu.

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**Madhu Ranganathan** - *Open Text Corp - President, CFO & Corporate Development*

Thank you, Paul, and thank you all for joining us today. During Q4, we executed very well on our operational efficiencies. Today, we're expanding our margin targets for fiscal '25 and providing additional -- and providing insights into adjusted EBITDA for fiscal '26.

Please refer to our press release, two sets of IR materials, first, the financial results and fiscal 2025 targets and second, business overview, as well as our Form 10-K that was filed today. We have simplified our Investor Relations materials, and you will see that as you read through all the information.

So let me walk through the financial results on an as-reported basis unless stated otherwise. Starting with Q4. Q4 cloud revenue was $464.9 million, up 2.9% as well as 3.3% in constant currency. Our enterprise cloud bookings was $179.8 million or 10.3% year-over-year growth.

ARR, annual recurring revenue of $1.093 billion, down 5.5% and 5.2% in constant currency and represents approximately 80.3% of total revenue compared to 77.6% of total revenue in the year ago quarter, primarily due to AMC divestiture.

Q4 total revenue of $1.36 billion was down 8.6% and 8.3% in constant currency, primarily due to the AMC divestiture and lower license revenue, offset by growth in cloud services. Our Q4 results reflect continued customer adoption of the cloud.

And moving to other financial metrics. GAAP net income was $248.2 million or $0.91 diluted EPS, inclusive of a gain of $429 million from the AMC divestiture. GAAP gross margin of 72.5% was up from 71.4% year over year and reflects operational improvements in cloud and professional services, as well as the reduction of amortization related to the divestiture of AMC.

Non-GAAP gross margin of 76.4% compared to 76.9%. Non-GAAP cloud gross margin at 62.8% was the highest during the fourth quarter as we saw efficiencies in cloud deployments driven by our cloud investments. Adjusted EBITDA of $445.4 million or 32.7% reflects the operational efficiency during the quarter, inclusive of bringing Micro Focus to our upper quartile adjusted EBITDA model.



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Non-GAAP diluted EPS was $0.98 up 7.7% and 8.8% in constant currency. Our overall working capital performance remained strong with our DSOs at 43 days, an improvement of two days from 45 days in Q3. Now Micro Focus is fully on our working capital model. We generated $185.2 million in operating cash flows and $145.2 million free cash flows in the quarter.

For full year fiscal 2024 on a year-over-year basis, our cloud revenue was $1.82 billion, up 7.1% as well as 6.8% in constant currency. Our enterprise cloud business delivered strong annual bookings of $701.4 million, up 32.9% year over year.

ARR, annual recurring revenue, of $4.53 billion, was up 25.4% and 24.6% in constant currency and represents approximately 78.6% of total revenue compared to 80.6% in the prior year. Total revenue of $5.77 billion, up 28.6% and 27.7% in constant currency. With respect to Micro Focus, we had an excellent year of execution from our sales, products and renewals team to turn around a declining business. We met our plan for fiscal 2024.

In other financial metrics for the year, GAAP net income was $465.1 million or $1.71 per share, inclusive of the gain on AMC divestiture of $429 million. GAAP gross margin of 72.6% was up from 70.6% and reflects reduced amortization on AMC intangibles from the divestiture. Non-GAAP gross margin of 77.3% was up from 76.1% and reflects improvements in professional services margins.

Adjusted EBITDA of $1.97 billion, a year-over-year increase in dollars of 33.8% and 31.6% in constant currency. Our adjusted EBITDA margin was 34.1% up from 32.8% year over year as we continue to drive operational efficiencies across the organization. Non-GAAP EPS was $4.17, up 26.7% and 24% constant currency. We generated $968 million in operating cash flows and $808 million free cash flow for the fiscal year.

Turning to outlook. Starting on slide 11 of our financial results and target presentation, let me speak to Q1 fiscal 2025 quarterly factors. We expect $1.25 billion to $1.30 billion of total revenue. ARR of $1.04 billion to $1.07 billion. We expect adjusted EBITDA margin between 32% and 33%.

We are presenting our fiscal 2025 model today on slide 12 of our financial results and target presentation. We are reaffirming our preliminary targets shared in May, while increasing the targets for enterprise cloud bookings and adjusted EBITDA. Cloud revenue of $1.85 billion to $1.9 billion; annual recurring revenue of $4.25 billion to $4.3 billion.

Our license revenue, excluding AMC at constant to fiscal '24, plus or minus 1%. Total revenues between $5.3 billion to $5.4 billion, total revenue growth of constant to 1%, excluding AMC. Our enterprise cloud bookings growing at 25%. Note, this is an increase from our preliminary target of 20%-plus.

We're increasing our adjusted EBITDA margin range to 33% to 34%, up from a preliminary range of 32% to 33%. We have updated our preliminary targets on free cash flows to a range of $575 million to $625 million to reflect special charges related to our business optimization plan.

As you may recall, we will record the onetime tax payment on AMC gain of approximately $250 million in our fiscal 2025 cash flows. This relates to the proceeds of $2.275 billion from the AMC divestiture, this tax payment will be a Q1 cash outflow. Excluding the tax payment, we expect to grow free cash flows mid- to high single digits during fiscal 2025.

And now let me expand on the growth of adjusted EBITDA during fiscal 2025 and 2026. We have programs and projects to deploy, and we made incredible progress in our fourth quarter where ex-AMC, our operating expenses were lower year over year by approximately $100 million across all functional areas.

Early July, we announced a business optimization plan that is now allowing us to expand adjusted EBITDA to 33% to 34% by 100 basis points in fiscal '25. Also, fiscal '25 includes additional 800 new hires in sales and services as further investment into the business.

During the fourth quarter, non-GAAP cloud gross margin was 62.8%, 310 basis points higher compared to Q3. For the full year fiscal '25, we are modeling a constant level of hyperscaler costs giving us non-GAAP cloud gross margins in the low 60s.



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Lastly, during fiscal '25, we will complete the simplification pieces of the G&A integration such as legal entities rationalization, which will also provide cost savings. Higher EBITDA of 35% to 36% in fiscal '26 will build upon the key drivers Mark outlined in his remarks, higher revenues, lower cloud cost, more automation, and leveraging AI internally also locating a great talent in the right places.

Our fiscal 2025 and 2026 progress will set us up well to meet our fiscal 2027 aspirations of 36% to 38% adjusted EBITDA and $1.2 billion to $1.3 billion free cash flows. The higher EBITDA will support free cash flow growth given the strides we've made on working capital and CapEx efficiencies.

Turning to the dividend program. On July 31, the Board of Directors also approved a quarterly cash dividend of $0.2625 per common share. The record date for the next quarterly dividend is August 30, 2024, and the payment date is September 20, 2024.

As you heard from Mark, Todd, and Paul today, we are focused on delivering a strong fiscal '25 and through competitive differentiation, cloud growth, margin expansion, and the strongest year of capital return in our history. We remain well positioned to meet our targets and aspirations.

To all the OpenText team members, thank you for your incredible efforts during fiscal 2024 and here's to a great fiscal 2025. On behalf of OpenText, I would like to thank our shareholders, our loyal customers, and partners for your continued support.

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

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Raimo Lenschow, Barclays.

**Raimo Lenschow** - *Barclays - Analyst*

Thank you for the detailed outlook from you, guys. Congratulations and I'm looking forward to an exciting future. Can I -- could we just spend a minute on Q4 and try to dissect that because obviously, I listened to your comments that there was some level of disruption. You also had like the license to cloud migration, which is impacting numbers.

Like could you help us understand a little bit like how much of what we saw in Q4, especially on the license side, was macro related versus internal things that impacted the quarter? And then I have one follow-up.

**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yes, it sounds great, Raimo. Thanks for the question. Mark here. No, it's not macro related. As we noted in our remarks, it's our continued license to cloud transition. We're an annual business as well. So quarters will vary. We note that our cloud is up.

We have strong free cash flow. Our operations were just stellar in Q4. But the two strategic programs were very unique for us. The first is the divestiture. And I know the world sees a press release that we've divested our mainframe business.

But the work was strategic concluded in the quarter, but we had a transition there 800 employees. We had to split out systems, transition service agreements. And we had our sales force and PS Force talking to a lot of customers because they're mutual customers. And that had an impact.

We also took our managers and our leaders and did very detailed business optimization planning. The execution is complete and was complete in early July. But this is all towards a stronger OpenText and a stronger F25. And so it's on us. It's not on the macro. It's complete.



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And as we look here into the year, as Madhu highlighted, we think the license business will be constant plus or minus 1%, organic cloud up 5% this year, and up to 34% adjusted EBITDA in '25, up to 36% and '26, and up to 38% in fiscal '27.

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**Raimo Lenschow** - *Barclays - Analyst*

Yeah. Perfect. Thank you. And then on that, if you think about those -- the margin progression you outlined for the coming years, like how much of that is efficiency gains that you can still drive forward versus like just growing revenue on a controlled cost base that is driving that forward? Thank you

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yeah, just a small point, it's over the next really four to eight quarters, right? And not seven years.

So yeah, right -- so look, there's no doubt that we're going to -- just to recap, in '25, we're looking up to 34% adjusted EBITDA, in '26 up to 36%, and in fiscal '27 up to 38%. So we're not resting at all. I mean we're running right through the numbers. How do we get there? There's no doubt that higher revenues are going to help, continued talent design and location balancing.

We have opportunities to improve cloud margin. Titanium X, we have some incredible autonomous features that are going to let the machines do the work and not the humans and the machines are less expensive if you will. We've deployed our first versions of AI, as Todd talked about, we have our sales force responding to RFPs, customer requirements, tech support as well, which will drive down cost.

And most notably, we're going to be adding more SaaS workloads that are a higher margin. So it's a collection of things that will rise us back into the high 30s, which we've historically operated in, and we see a clear path to getting back to even in larger scale and even with the higher cloud mix.

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**Raimo Lenschow** - *Barclays - Analyst*

Okay. Perfect. Thank you. Well done.

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**Operator**

Steve Enders, Citi.

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

Hey. This is George Kurosawa on for Steve. Maybe just to start with on macro. I know you described that there wasn't really macro impact, but maybe just under the hood, if the aggregate environment was stable. Were there any sub areas within your portfolio where you saw a relatively stronger or weaker or anything moving up or down the priority stack?

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yeah, sounds great. Welcome, George. A couple of comments from us as you go through our IR materials, as Madhu noted, the team has done a fantastic job simplifying the materials. You'll also see in the materials we're showing AMC revenues. So when we start to speak about ex AMC and comparisons, it's just very clear.



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You'll see in the materials, we also, on an annual basis, show by our business area, the percent of revenue. You'll see the strength in content, right? Our content business is going incredibly strong. I look into the year, content business network and ITOM, I believe, are going to be standouts for us. on that up to 5% cloud organic growth.

Look, we all read the same reports and we factored this into our outlook for the year. I mean, the IMF got a great report out in July that talks about GDP for advanced economies around 2%; Europe, sub 1%. But we have factored this all in. And to the extent the lights become greener, our path is even more upward than what we're presenting for fiscal '25.

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

Okay. Great. And then just a follow-up on cloud booking strength and how that translates over to revenue. I think last quarter you mentioned this phenomenon was ramping deals and that maybe pushing out revenue recognition, how did that trend in this quarter? And any updated thoughts there?

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yeah, I would say it's consistent quarter over quarter, more awareness, I think we're going to improve on it quite candidly. But we ended the year at 33% of bookings growth and translating into what our renewal rates plus new bookings up to 5% cloud organic growth in '25. We've upped our bookings target to 25% here in the quarter. We'll update along the way. But we are pleased coming out of the gate in Q1 at 25% bookings growth and up to 5% organic. Todd, anything you want to add to that?

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**Todd Cione** - *Open Text Corp - President, Worldwide Sales*

No, we're just excited about executing the F25 plan. We have a healthy pipeline and we've started fast.

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Fair enough. Thank you, George.

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

Thanks for taking my questions.

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**Operator**

Thanos Moschopoulos, BMO Capital Markets.

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

Hi. Good afternoon. Mark, given your comments on your plans for capital return over the upcoming year. Should we take that to mean that you'll be putting M&A into the backseat relatively speaking, a wrong interpretation?

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yeah, Thanos. Thanks for the question. Well, I'll start with it's all about the highest return on capital. And as we look into F25 right now, we're buying our stock, or said a little differently, we're buying ourselves, and that's of the highest return. You'll see in our investor materials. M&A remains a part of our strategy.

But heading into F25, we're focused on cloud organic growth, capturing a large margin opportunity that we outlined and delivering to our shareholders while largest capital return in our history, and that's our focus. M&A will remain a part of our strategy. We'll assess how to deploy that additional capital. We've assessed it coming into the year and to a degree, we're buying ourselves. So I'd include that in M&A strategy as well.

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

Great. And can you give us maybe more color in terms of what you're seeing with Aviator and just generally customer interest in content management substage for subsequent I guess the feedback from a lot of the industry has been that there's a lot of experimentation pilots happening, not a lot as far as large-scale deployments. Is that on just what you're seeing right now?

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yeah. It's going to be steady progress. It's going to be steady, steady, steady, then we're going to see a step up. There is no doubt that this technology and approach is adding value. And we're engaged literally in hundreds of discussions around AI hundreds of discussions.

And it's helping us win. You're seeing this reflected in our strength of our cloud bookings and our confidence in our getting to high single-digit organic cloud revenue growth. And the costs are coming down.

The time to value is coming down. The use cases are getting crisper, and if you look at the evolution of content management, first, you digitize things and we put them into folders. We then were able to search, then we gotten to be able to exchange that outside of firewalls, then it moved to the cloud.

And now that next evolution of knowledge workers is about engaging with that content in a whole new ways. So we're making progress. We're driving down costs. We got more use cases. We're embedding it more. We're engaged in more conversations.

And we have customers speaking with us. Nestle and their content in AI, Johnson & Johnson in the supply chain, Robert Bosch, North America, engaging in their content platform. I think the strength will come from content, it will come from the business network, and it will come from ITOM.

And that's where the next wave that we see. But it's going to be steady progress, more use cases, and then there will be some inflection point where it steps up. But it continues to be very real.

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

Great. Helps a lot. Thanks.

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**Operator**

Samad Samana, Jefferies.

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**Samad Samana** - *Jefferies LLC, Research Division - Equity Analyst*

Hi. Good evening. Thanks for taking my questions. So maybe first, Mark, just since you mentioned it, my ears perked up a little bit. You talked about a global outage -- you didn't mention the specific vendors, so I won't do that either. But you said that it's leading people to seek alternatives.

So can you maybe help us understand, is that something specific to OpenText, where it's driving alternatives as in business for you? Or is that just you thinking through what the consequences are. Help us understand what you meant by that?

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yeah. I mean the outage may be over, but the impact is not. Our cloud was unaffected our company was unaffected by -- and I'm not here to throw names so I won't. And we weren't affected because we use our own software and we deploy best practices.

And so conversations are beginning around what are the alternatives to that particular vendor in their lack of quality, their lack of process, technology deficiencies. And top of the stack for us coming into the year on the product side is content, BN ITOM and driving security across everything we do, driving AI across everything we do. So yeah, it's beginning to drive new conversations on -- with our AEs on our security portfolio.

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**Samad Samana** - *Jefferies LLC, Research Division - Equity Analyst*

Interesting. Thanks for sharing on that. And then -- as I think about the up to 5% cloud revenue growth, when you think about the -- if you could give us some guardrails around that with the building blocks? And what I'm trying to ask is when you think about the net retention number versus the -- versus, call it, like new products being introduced versus I guess, again, popping the prime inside of the base and bookings that you've already gotten this year.

How should we think about where that range lands? What's the biggest flex factor in there that gets you to that 5% number or somewhere below it?

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yeah. So up to 5% organic growth and driving towards high single digit by '27. So we're not resting in the up to 5% organic. So let me highlight a couple of things and maybe go to Paul on the renewal rate and maybe Todd a little bit about what he's seeing in the field.

The first is just driving expansion of our business clouds. And again, our content business, business network and ITOM business are going to lead the way. Customers can see this reinvention, the reimagining of knowledge workers.

Second is with Titanium and Titanium X, the main driver is our SaaS portfolio and adding more SaaS to off-cloud workloads or existing private cloud workflows or just independent SaaS deployments, are going to be incredibly helpful.

We got partner system, partner ecosystem expansion. We're working at new strategic levels with Microsoft, SAP, new relationships with Salesforce, of course, and then just driving in security and AI across all that we do. And that's going to lead us to that higher end of the range that we talked about. Maybe Paul a little bit on the cloud renewal side. And Todd, your views on the field.

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**Paul Duggan** - *Open Text Corp - President, Chief Customer Officer*

Yeah. Thanks, Mark. I guess, let me first say again, our gross renewal rate for the cloud really understates the strength of the business performance that we have. So for that reason, now that we have a scaled cloud, we're moving to this industry standard of using NRR.



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And through that lens, again, in Q4, we'd be in the mid- to high 90s. Let me tell you about how we expand on the renewal side. So our strategy there is really three-pronged. Our pricing policies and controls to raising commitments for our consumption base renewals, and three, adding new services like the customer success and premium support offerings I mentioned.

So those strategies drive significant expansion on rules and are in addition to actually large numbers of lead pass opportunities that we do as well for cross-sell opportunities that flow into Todd's team. So it's going to give you a better representation of the business performance in that foundation that Mark talked about that on which we build the growth. And then with my partner here, Todd, we'll build.

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**Todd Cione** - *Open Text Corp - President, Worldwide Sales*

Yeah, Paul, you had me at cross-sell. That's a big opportunity and something we're executing right now across our specialized by business cloud sales force. So we have great customers who depend on our content business who depend on business networks on ITOM and our cybersecurity business, and we have a great opportunity to cross-sell and we've launched programs to be able to accelerate that now in F25 and I think the pipeline reflects it.

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**Samad Samana** - *Jefferies LLC, Research Division - Equity Analyst*

Okay. Appreciate the comprehensive answer, everybody. Thank you.

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**Operator**

Paul Treiber, RBC Capital Markets.

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

Thanks very much and good afternoon. Just firstly, just a clarification question. Just in light of the revised capital allocation strategy or more flexibility there is no change in the '27 revenue aspirations, which implies that, that's organic. Is that the case and that you're not assuming acquisitions to make those targets?

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Paul, you broke up a little bit. So I couldn't hear it fully.

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**Madhu Ranganathan** - *Open Text Corp - President, CFO & Corporate Development*

When you mentioned, Paul, this is Madhu here, the F27. Could you just repeat that part of the question?

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

Is the F27 aspirations, is that purely organic? And could you confirm it doesn't include acquisitions?

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yeah. So again, I've stated our F25 strategy, right? And the F27 number is always the revenue over the next, right, three years. And we have many -- it's always to revenue, and we have many paths to get there. But, Paul, be very clear in '25, very clear in '25 that we are focused on the highest



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return of capital which is returning up to $570 million this year or 90% of our free cash flows and driving up the 5% cloud organic growth and accelerating that into the high single digit.

So is there some M&A in the '27 number? There's probably some -- there could be some small M&A in the '27 number. But that's not the focus at all, right? It's not the focus at all. Our focus is driving our '25 cloud organic growth, continuing that expansion rate. And obviously, in the model, the vast majority of fiscal '27 would be organic. So I think that's the best way to answer it.

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

Okay. Thanks for that. Second question --

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Is that clear? I mean is there anything to play back? Is that clear? Is '25 clear?

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

Yes, definitely, definitely clear.

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Okay. I just want to make sure. So --

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

Second question and just with the focus on return metrics that you've emphasized in the capital allocation -- how should we think about -- and maybe I need to wait for the circular, but how should we think about like incentives for management compensation? Would it also align or incorporate more return metrics?

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

You'll see the plans we're actually making four disclosures in the CD&A. We've listened intently to our shareholders. The committee and the Board has listened intently. The talent and comp committee and the Board have made -- we're making four disclosures as to advancements in our comp program. You'll see it in the CD&A.

The standard approach to attracting senior talent is based on revenue and margin, right? And -- so you'll see revenue and margin in our annual compensation. And then longer-term compensation is tied to getting the stock up as benchmarked to the Nasdaq.

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

Thanks for taking my questions.

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yeah.



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**Madhu Ranganathan** - *Open Text Corp - President, CFO & Corporate Development*

Thank you Paul

**Operator**

Stephanie Price, CIBC.

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

Hi. Good evening. Thank you for the additional disclosure with the quarter. Maybe, Madhu, one for you. I know just a PowerPoint that overall constant currency organic growth was roughly flat in fiscal '24. And you did mention that Micro Focus had organic growth during the year. Can you give us a little bit more color on Micro Focus here? And maybe also just excluding AMC and how we should think about organic growth at Micro Focus post the divestiture?

**Madhu Ranganathan** - *Open Text Corp - President, CFO & Corporate Development*

Yeah. So I would say, let's recall back to where we had set the Micro Focus baseline at $2.3 billion, right? And vis-à-vis that given the renewal rate performance in fiscal '24 for the entire year, we did organically grow Micro Focus. We met our plan. I think the ex-AMC, including AMC, what I will say is that we had the AMC assets for 10 months, right? It's not like we have the AMC asset for two months.

So I think it's important to measure Micro Focus organic growth at the end of June 2024 more holistically as Micro Focus, including AMC, and we actually not only brought down the declining rates in many different product lines and portfolios, we also did very well with the AMC business.

So yeah, putting all of that together, Stephanie, we did meet our plan for Micro Focus organic growth.

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

Great to hear. Okay. And then maybe, I guess, another one actually from me for you Madhu, just on the restructuring that you announced a few weeks ago. Can you talk a little bit about the areas where the cost savings are coming from and how you think about the timing there? I think we might have calculated a slightly higher margin benefit. So just wondering if you can walk through is the reinvestment along with the restructuring as well.

**Madhu Ranganathan** - *Open Text Corp - President, CFO & Corporate Development*

Yeah. So a couple of things. One is -- and I'll let Mark take a part of the question as well. So where did it come from? Again, think of this as continued efficiencies and talent, talent structure, regions, right, as Mark mentioned, placing our talent in the right regions where a lot of talent exists, and the cost differential is really meaningful for us from a cost structure and profitability perspective. And certainly, took a look at layers of management, right, at all levels, and that was part of the restructuring as well.

Now to the question of why not more EBITDA expansion of the restructure One comment I'll share, which was in our Form 8-K, in Todd's area as well as in Paul, we are going to be investing in 800 positions, and we're going to be investing earlier in the year to benefit fiscal '25 and going into '26, and that's 800 positions in sales and services.

So with all of that investment and the restructuring, which again we did in early part of July to benefit the entire year, we are able to, on a net basis, increase EBITDA by 100 basis points.



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Mark, do you want to share any thoughts?

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yeah. Stephanie, I would just add one piece. I read your report and thank you for the report. We viewed the starting point a little different than you do, which is when you look at Micro Focus and you take out AMC, their adjusted EBITDA profile is extremely low 30s. So your starting point is lower. And I think you need to factor that in when you look at our target for fiscal '25 up to 34%.

So you also have to -- what's your starting point, right? So I think when you look at Micro Focus ex AMC, their adjusted EBITDA starting point is very low 30s. So the step-up is a little higher. So plus all the investments and good things that Madhu has talked about. So up to 34% in '25, up to 36% in '26, and up to 38% in '27.

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

Great. Thank you for the color.

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**Madhu Ranganathan** - *Open Text Corp - President, CFO & Corporate Development*

Thank you.

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Thank you.

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**Operator**

Richard Tse, National Bank Financial.

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

Thank you. I don't know if Todd is still on the line. but I had a question for --

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yes he is.

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

Okay. Great. So presumably, you brought on to help add to OpenText organic growth aspirations. So you've been there 100 days, you said. As an outsider, what do you think really have been the challenges from your vantage point to accelerate organic growth here?

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**Todd Cione** - *Open Text Corp - President, Worldwide Sales*

Yeah. Thanks for the question, and I'm excited to be a part of the team. I think the challenges are really just big opportunities. We've got a great foundation. We had a fantastic installed base. We've got products that provide customers with really deep value, and we've got a lot of upcoming innovation as well.

So I see huge upside opportunities. There's a unified worldwide sales force that we now have that we're doing things a lot more consistently while we're still balancing and executing locally. And we've kept that deep business cloud specialization in place as well, and you couple that with some exciting talent that we're promoting from within, and we're tracking from the outside, and we're pretty excited about the growth potential.

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

Okay. And just like a related question --

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

And Richard, before you get to your second part of your question, I'll give my perspective, too. Companies as you scale, you reach certain inflection points. And as we approach $6 billion in revenues, we've approached our inflection point.

And it's such a delight of having Todd on board as our President of Worldwide Sales to drive that consistency across all our selling theaters and teams and processes. And obviously, we expect great things in our partnership, Paul's promotion on President and Chief Customer Officer, and Madhu's promotion as well with operations and corporate development.

So I think you reach a point in your evolution, and we're not stopping it at where we are in our evolution by any means. But we've gotten to a point of scale where we should have need a single leader with a strong vision on leading a single sales organization.

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

Okay. Great. Thanks. I do have a follow-up question on that. So you laid out a fairly detailed plan at the beginning of that plan, what would you consider the biggest driver for organic growth, meaning those things you laid out, where do you get the biggest bang for the buck here?

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**Todd Cione** - *Open Text Corp - President, Worldwide Sales*

Yeah. I think -- thanks for that follow-up question that people, people, people. So having the right people really focused in the right roles with the right enablement empowered and focused. That's where we're going to get, I think, a significant step up as well.

And again, we have great customers that depend on OpenText technology, and the more that we will consistently make sure that we're connecting and demonstrating a clear value proposition consistently globally. I think we get a significant return there as well.

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

Okay. Great. Thank you.

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**Madhu Ranganathan** - *Open Text Corp - President, CFO & Corporate Development*

Thank you Richard.



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**Operator**

Adhir Kadve, Eight Capital.

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

Hi, guys. Thanks for taking my questions here. Maybe one for Todd or potentially maybe for Paul. You've talked a lot about people today. given that the macro continues to be somewhat uncertain budgets are continually scrutinized. Todd or Paul, how have you guys altered your approach to the sales organization versus those previous cycles that you guys have worked through?

**Todd Cione** - *Open Text Corp - President, Worldwide Sales*

Yeah. I don't know that I would say, significant alterations other than making sure that we're excellent at the basics, like I described. Rigor is a really big part of what we're focused on. And that also includes innovation and allowing our teams to be more efficient by leveraging technology like our own AI internally, as I mentioned, for RFPs, the proposal generation. We've got a long list of other internal innovations that we'll launch this year that will boost their efficiency as well.

So I think those are key parts. Paul, anything.

**Paul Duggan** - *Open Text Corp - President, Chief Customer Officer*

I guess, to tack on to that, one of the areas that comes to mind that we've adjusted a bit is in professional services. So as we look ahead to next gen, we look ahead to AI, and the talent market that's out there that all of our customers are looking to source this unique skill set in, we know that if we can build that up in a rapid way, internally and also pulling in some outside town as well that we're going to have a differentiator in those conversations.

These are tough resources to find. So having that within OpenText, having that as a seat at the table in our partnerships with our customers, and giving them the access to that skill is an important priority for us in the year ahead.

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

Great. And just as a quick follow-up, maybe just on AI, Mark. You continue to say that researching and piloting, what's the gating factor there that's stopping customers from really, really pushing the accelerator on their AI deployments?

**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yeah. We're also winning, right? So just our bookings growth there is unequivocally AI wins in there and AI-related wins. I think an interesting dynamic that I'm seeing is that if I look at our couple hundred interactions, right, in detailed conversations and our active work going on right now, they're around big projects. They're not around small games. They're around big games with our customers.

It's an interesting dynamic that this is a problem set that requires investment, but customers are not thinking of small problems. They're approaching AI with solving some of their biggest challenges that they want. Looking at billion-dollar supply chains and optimizing billion-dollar supply chain, looking at $50 billion in contracts and how to optimize them. Looking at every single trade in the United States at a particular moment.



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So it's an interesting dynamic that it's about big data sets and solving big problems. And I wouldn't have said that a year ago. But I think that's a pattern. And so as the cost goes down, the ease of deployment goes down, I think we'll also see maybe smaller use cases. So that's a dynamic I'll throw out there. And when we get that -- when we get to that point, we're in a premier position to just solve big problems for our customers.

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

Great. Thanks. I'll pass the line.

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**Madhu Ranganathan** - *Open Text Corp - President, CFO & Corporate Development*

Thank you.

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**Operator**

I will now hand the call back over to Mr. Barrenechea for closing remarks, please.

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**Mark Barrenechea** - *Open Text Corp - Vice Chairman, CEO & CTO*

Yeah, fantastic. I'd just like to go back to two questions and wrap up. On the comp and CD&A I made a point made it too fast. One is we're doing something very unique this year when you look at our CD&A or compensation discussion and analysis, we're making forward disclosures. And in that, you're going to see that the talent and comp committee and the Board have set higher bars on leadership, both on growth and margin. I think that's the key takeaway.

And so we're doing a forward disclosure and we're setting higher -- and the Board and the committee are setting higher bars. We look forward to your feedback. On the F27 plan, I want to be very clear, it's completely in our hands. And it is manifestly organic growth. And there should be no ambiguity about that.

In terms of a wrap up, I'd like to just end where we started. We're extremely focused on advancing our competitive advantage is everything. And we're on track with Titanium X, which is the next big step up. We're focused on delivering cloud revenue growth, 7% in '24, up to 5% organic growth in '25, and 7% to 9% growth in '27.

We are focused on capturing the significant margin opportunity in front of us from up to 34% in '25, 36% in '26, up to 38% in '27. And we're excited about our disciplined capital return and having the highest capital return in our history this year of up to $570 million with our new $300 million buyback and our dividend raise of 5%

Thank you all. We look forward to seeing you at our upcoming conferences at Oppenheimer, Morgan Stanley in late August, Deutsche Bank, late August, and Citi's Global Tech Conference in New York City, September 5. Thank you for joining us today. That ends today's call.

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**Operator**

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

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