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OTEX.TO - Q2 2025 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 second quarter fiscal 2025 financial results conference call. (Operator Instructions)

I would now like to turn the conference over to Greg Secord, Head of Investor Relations. Please go ahead.

Greg Secord - *Open Text Corp - Vice President, Global Head of Investor Relations*

Thank you, and good afternoon, everyone. Welcome to OpenText's second quarter fiscal 2025 earnings call.

With me on the call today are OpenText's Chief Executive Officer and Chief Technology Officer, Mark Barrenechea; OpenText's President, Chief Financial Officer; and leader of Corporate Development, Madhu Ranganathan. And joining us for today's Q&A session are OpenText's President, Worldwide Sales, Todd Cione; and OpenText's President and Chief Customer Officer, Paul Duggan.

Today's call is being webcast live and recorded with a replay available shortly thereafter on the OpenText Investor Relations website, which is investors.opentext.com. Earlier today, we posted a press release on our website, including our investor presentation, a supplemental RPO disclosure, and all of those are available on the OpenText Investor Relations website.

OpenText will be participating in the following upcoming investor conferences; Susquehanna Financial Group on February 28, which is a virtual conference, Morgan Stanley Technology Conference on March 3 in San Francisco where I'll be joined by Madhu, and the Scotiabank Telecom, Media & Technology Conference on Wednesday, March 5, in Toronto, also be joined by Madhu.

And now on to the reading of our Safe Harbor statement. During this call, we will be making forward-looking statements relating to the future performance of OpenText. These statements are based on the 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. 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 releases that -- our press release that was distributed earlier today and 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 again are available on our website.

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

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Thank you, Greg, and welcome to our Q2 earnings call. Since the Micro Focus acquisition and the AMC divestiture, I've been focused on getting our business model right and building a solid operating foundation to support our full growth potential. Post AMC divestiture, our number one priority was margin. And with our first half performance and strong Q2 operating results, we've delivered. Now we're ready to make growth our new number one priority.

Today, I'm going to provide insight into our large growth opportunity, outline some of our challenges that are in focused areas, provide insight into our revised F'25 outlook as well, provide expanded and new insights into RPO and cloud cRPO. And overall, you will notice a new style and approach to communications today. We look forward to your continued feedback as we build the market-leading Information Management company.

In Q2, we delivered $501 million of adjusted EBITDA dollars or 37.6% adjusted EBITDA margin, $307 million of free cash flow, $1.11 of adjusted EPS, each of these metrics up significantly excluding AMC. We grew our quarter-over-quarter cash to $1.12 billion. And within the quarter, we purchased and retired 2.2 million shares at an average price of $29.82. And over the last three quarters, we deployed approximately $300 million in cash and purchased and retired 10 million shares at an average price of USD30.30. Expect us to continue to implement our current buyback program and reduce our shares outstanding.

On revenue, we delivered $1.33 billion, down 4.9%, excluding AMC. Cloud revenues grew 2.7% and we closed $250 million of new cloud contract value. This is a record quarter of customer demand for cloud and new bookings with 6.1% year-over-year growth. Further, in January, we completed the significant transition services agreement with Rocket Software related to our $2.28 billion acquisition of AMC, which has closed last year in May of 2024.

I'm proud of the team for their amazing work over the last eight months as they performed with excellence and professionalism. The divestiture was complex and time consuming. It is now complete, and we have a new corporate muscle.

These are all important contributors to our long-term success, but let me be clear, we are steadfastly focused on our growth performance as our new number one priority. Q2 reaffirms that the world's most trusted companies trust OpenText. As demonstrated by new wins at Bosch for Legal Tech, ST Micro for the developer, BASF using our Business Network for global supply chain, Novo Nordisk for Observability and Service Management and GWC Qatar for Content.

We win for three core reasons: We are the experts in Information Management, provide exceptional transformative value to our customers. We always deliver and a compelling road map across our market areas, inclusive of Cloud, Security, and AI.

Let me turn to our growth opportunity. We're surrounded with opportunity, and we're focused on intelligently growing our business and driving higher profits from these higher revenues. Returning to organic growth will happen in three steps: first, total company growth; second, cloud grows faster; and three, maintenance growth.

Let me walk through our top growth opportunities in key areas we are looking to outperform in. The first is in our installed base. We have a marquee installed base with 120,000 enterprise customers. We will complete next quarter the delivery of Titanium X or Cloud Editions 25.2. We view each customer as an opportunity to upgrade to Titanium X. We expect to upgrade customers in place, upgrade them to the cloud, and expand capabilities wherever they run their workflows. And if they choose not to upgrade, their support fees will gradually rise over time. This is a multiyear opportunity for us in our installed base.

Next, we have a hot handle of Content in AI that creates intelligent Content Management, secure collaboration, and automated workflows. SaaS and AI, our core drivers to continue our growth in this key category where we look to outperform. We had large SaaS wins last quarter at SAP, BASF, Aldi and Munich Re.

The third is investing in our security business to be a top category for OpenText. Muhi Majzoub has taken on a new role to solely focus on security. Our new security cloud spans identity, applications, networks, forensics, and soon XDR. This is our ability to ingest, detect and respond on a massively scaled Vertica database combined with our new partnership with Microsoft Security Copilot and all hosted on Azure puts us in a key position to win in XDR.

We had amazing SaaS wins in the quarter. Nestle and Fortify, code level security, Frost Bank and Voltage transaction encryption and Capgemini for identity management. We have turned around the Micro Focus security business. Our growth strategy also means embedding AI everywhere to empower knowledge workers to significantly raise their productivity. With Titanium X, we have -- we'll have in market 15 aviators and over 100 agents. Beyond Titanium X, we are working on Agentic AI across all our product lines to create a new type of corporate worker called a digital worker. Aviators work with Titanium X. So, the next wave for AI is upgrading customers to Titanium X.

We are also still very much in the license business. This is a meaningful mechanism for customers to own, not subscribe, to our Information Management capabilities. I'll speak in a moment to the grants of certain IP rights from last year. Excluding these grants from last year, our license business will grow this fiscal year. We introduced in January a new mechanism for customers to own our technology via a license. We call it the OpenPass PELA, a perpetual end user license agreement. The OpenText PELA is an uplift on existing license and maintenance, allowing the customer to remove limits on their usage while in active support.

In addition, these customers gain cloud credits for future consumption, thus providing an additional incentive to purchase the OpenPass.

License and maintenance growth are intrinsically related. It's important to note that while our core maintenance business continues to return impressive results, the ITOM and ADM areas are not growing this year due to the license performance. With this, our total maintenance revenue growth rate will be negative this year.

Our return to total maintenance growth is centered on three programs: continued execution on APA and premium services; two, sell more licenses including ITOM and ADM and OpenPass; and three, new advanced customer services or ACS. We are focused on growth. We will return to growth and we will update you on our year-end call. Paul Duggan is on the call today to answer any questions you may have about our growth plans and the next steps in the business.

Our next top growth opportunity is getting our ADM and ITOM businesses performing better, get them to their best, including their cloud growth. These areas have been holding back our growth and impacting our license and maintenance revenues as noted above. Our new Chief Product Officer, Savinay Berry, who rejoined OpenText from Ericsson and Vonage will be laser-focused here.

Let me walk you through our actions and confidence in returning these two groups to overall growth. On ITOM with Titanium X, we are differentiated in observability, which includes discovery assets vulnerabilities and IT service management, where we're expanding the corporate service management. We plan to relaunch and reengage our 5,000 customers with our new Observability Cloud and our new Service Management Cloud, conjunctive with ramping sales go-to-market and professional services. The next leg of ITOM growth will be driven by expanding outside of traditional IT workflows into employee workflows, customer and industry workflows and the merging of IT and operational workflows.

On the ADM side, we have reoriented our go-to-market strategy as a top of market focus. ADM is differentiated not for a single developer, but for large-scale organizations who are writing software. This is a really good place to be as we are all software companies today.

Our top industry focus includes software and cloud companies, financial services, auto, telecommunications, biotech and more. With this new strategy and with Titanium X, we have two key SaaS wins already in Q2 at Pfizer and Lilly. I am confident we'll return to growth with Titanium X, SaaS, AI and our top of market focus. We're also live internally across 10,000 engineers for requirements management, productivity insight, lease management and quality. We took all our requirements and put them in the product, and now that's part of Titanium X. I find when you can run the software yourself and gain value, you build strong momentum from there.

Next growth opportunity continues to be with our hyperscaler partners who play an expanded role in our cloud growth. Real simple, Microsoft, we've decided to bring our XDR to market on Azure and integrate it with Microsoft Security Copilot. Our new SaaS platform and our new sovereign capabilities run on GCP. Our private cloud runs across all the hyperscalers for customer choice with AWS, GCP, and Azure, our SAP products run in the SAP cloud and across all hyperscalers. And as I said at OpenText World, we make multi-cloud work, and these partnerships will contribute markedly. And finally, in addition to all these organic programs, we will continue to evaluate strategic opportunities to create value and/or increase our growth rate through divestitures or combinations.

Let me turn to RPO. With growth as our new number one priority, I want to present our new RPO disclosures and new cloud cRPO metric that will provide insight into our cloud growth over time. There are two strategic points I'd like to make, and then Madhu will go into detail. First, we are now providing further insight into RPO, both for cloud and maintenance, both current and noncurrent. As you can see from ending Q2, cloud RPO was $2.3 billion and larger than our maintenance RPO at $1.8 billion. Please note, this is now for the entirety of our cloud business and fully includes enterprise and SMB. There's no more asterisks on our disclosure, including this, not including this. This is our full cloud business.

Second, we're also introducing a new metric, cloud cRPO and what flows in and what flows out and a common sense formula to calculate the change in cloud cRPO from a beginning period to an ending period. We also included an example contract waterfall, we designed our disclosure after reviewing market-leading cloud companies, including SAP and Salesforce, and of course, we welcome your continued feedback to improve even more.

Now we're also including periods ending June 30, '24, September 30, '24, December 31, '24, and we'll provide these new disclosures every quarter going forward. And when we complete this fiscal year, you can then begin to gain further insight by tracking year-over-year cloud cRPO comparison and growth. We thought it was a good time to provide a deeper insight into RPO.

Let me move on to our financial targets and turn to our updated F'25 targets. We're revising our revenue downward by $130 million to a range of $5.17 billion to $5.27 billion. The $130 million is broken out approximately 25% FX, 25% DXC impacting license and maintenance and 50% from ITOM and ADM performance impacting license and maintenance. And we added a slide 9 to our investor presentation to provide detailed insight into the $130 million.

Now conjunctive with this, our cloud revenue range is unchanged. Our adjusted EBITDA percent target is unchanged. Our new cloud bookings growth range is 20% to 25%, representing a very strong second half and momentum into '26. We're raising our free cash flow range to $600 million to $650 million. We're on track to delivering $570 million plus of record capital return to shareholders this year through dividends and buybacks and our F'26 and longer-term aspirations remain unchanged, and our next update on our longer-term view will be on our year-end call. Like all businesses, we are monitoring the impacts of tariffs, currency and the transactional nature of US policy, all of these items are creating some business uncertainty.

Let me turn to DXC for a moment. It's well chronicled that HPE, DXC and Micro Focus had a strategic relationship where DXC was a major reseller and consumer of HPE and Micro Focus software. During Q2, the long-life Micro Focus alliance agreement with DXC has now run its course, and that reflects the end of an unlimited deployment model with DXC in Q2, and we did not come to a mutually beneficial new agreement. This ending is the best outcome in the long run for OpenText as we're able to establish now full value for our software, engage customers directly.

However, in the near term, it creates some headwinds for renewals and maintenance revenue in the second half of the year, second half of fiscal '25. More importantly, it positions us for success in '26, which is growth. DXC remains partner, and we hope to build a forward-looking partnership from here.

As we discussed during our last earnings call, Q2 and F'25 are difficult year-over-year comparisons. Please recall in fiscal '24, we disclosed license revenue, up primarily from inclusion of Micro Focus and grants of certain IP rights. This was particularly called out within Q2 and Q3 of last year. I want to give a really important perspective here, really important.

When you're looking at the core health of our business and the foundation we are building on for growth as our new number one priority, excluding AMC, excluding license revenue from grants of certain IP rights, excluding the FX impacts, our F'25 year-over-year revenue growth would be constant, not declining. And excluding the second half, DXC impact would be growing. And further and very important, we expect the company to return to bright-line organic growth in Q4. Hope you find this insight helpful.

Let me wrap up with some qualitative comments as we look over the remainder of fiscal '25. Post AMC divestiture, margin was clearly our number one priority. With our first half results, and our Q2 delivery, we have delivered. Now that we've delivered, we're setting a new number one priority, which is growth.

We have our business model right and our operating foundation is strong, and with a Q2 adjusted EBITDA of 37.6%, $307 million of free cash flow and raising our free cash flow outlook for the year. Our growth challenges are in focused areas, and we have a clear plan to resolve them in the short term with a more focused leadership team. We expect Q4 to have bright-line total revenue growth, and this sets us up for a successful F'26.

We're excited about the opportunity of growth in Titanium X, Content, Security, AI, SaaS, getting ITOM and ADM to its best, improved sales execution, OpenPass for license, Advanced Customer Services for maintenance, all expanding our competitive advantage.

I'd also like to note that near 60% of our business is in the US and the new administration is focused on pro-growth initiatives and investments like SMB and expanding manufacturing. We're excited about these pro-growth opportunities ahead of us in the United States. Growth, plus competitive advantage, plus margin and free cash flow expansion, plus capital return is the OpenText formula for creating exceptional shareholder value.

You asked for more transparency into the exceptional items in our cloud, so I hope you find the deeper insights helpful today. You have my full commitment to continue this style of communication.

So let me end with, we're making progress, leadership team is focused, and we will not rest nor will be satisfied until we deliver total growth, cloud growing faster, and back to maintenance growth.

So with that, let me turn the call over to Madhu.

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

Thank you, Mark, and thank you all for joining us today. Please refer to the IR materials posted on our website.

In Q2, we demonstrated the strength of our operating model, delivering 37.6% adjusted EBITDA, a significant achievement, and that reflects our operational efficiency as a larger company. Today, I will also present expanded disclosures and new metrics relating to RPO and cRPO. In specific instances, I will provide year-over-year comparisons, excluding the impact of AMC divestiture.

And moving to financial metrics. GAAP net income was $229.9 million or $0.87 diluted EPS. Non-GAAP diluted EPS was $1.11, down 10.5% due to the impact of AMC divestiture. GAAP gross margin of 73.3% was down from 73.6% year-over-year. Non-GAAP gross margin of 77.2% compared to 78.6% due to higher margin license revenue in the prior year from AMC and IP rights. Non-GAAP cloud gross margin was strong at 63.3%.

Adjusted EBITDA of $501.5 million or 37.6% and continues to reflect our extreme operational focus to capture our large margin opportunity. Operating cash flows of $348 million and free cash flows of $306.7 million, DSOs at 43 days, one day higher than 42 days from last quarter and down four days from Q2 last year at 47 days and that reflects the strength of our working capital in what is seasonally the highest billing quarter for us.

Now moving to outlook. First, let me draw your attention to our Q3 quarterly factors included in slide 12 of our investor presentation. We expect $1.26 billion to $1.3 billion of total revenue and ARR of $1.025 billion to $1.045 billion. We're targeting Q3 adjusted EBITDA margin of 29% to 30%. And let me recall that while our fiscal year-end is June 30, January of each year starts the clock for employee salary uplifts, the higher benefits, and vacation accruals. To note, our total spend in Q3 will be approximately 8% higher on a quarter-over-quarter basis due to the factors I just noted, yet 3% lower on a year-over-year as we continue to optimize our expense models.

Mark has provided you with an insight into our updated fiscal '25 outlook and that there is a clear path ahead to address our near-term challenges. We remain on target for our fiscal 2025 adjusted EBITDA target of 33% to 34% and have increased the free cash flow range to $600 million to $650 million for the year.

Now let me offer more details on our expanded disclosures relating to RPO. Please refer to supplemental materials on our IR website, which include the expanded disclosures to be read, alongside our Form 10-Q page 13 of the filing today. You will see total RPO of $4.1 billion, including cloud RPO of $2.3 billion and customer support, AKA maintenance and other, RPO of $1.8 billion. For cloud, current cRPO is a new metric. The percentage to be recognized for the next 12 months is approximately 50%. The remainder is the balance beyond 12 months.

We want to provide additional insights and sharing two numbers relating to cloud revenue in any given 12 months. Approximately 60% of the cloud revenue arises from cRPO, current RPO balance, and remainder of the 40% has contributed in year by revenue from in-year new business, revenue from in-year renewals, and do refer to our strong cloud renewal rates, Revenue from in-year uncommitted business, which include business not on committed contracts and contracts more aligned to consumption models like our Business Network.

Page 4 of our supplemental materials for details on cloud cRPO model and a cloud contract example on pages 5 and 8. Our enterprise cloud bookings, $250 million for Q2, flow completely into the cloud RPO balances and only the current portion of those bookings flow into cRPO.

For customer support, the percentage to be recognized for the next 12 months is 79%, given the predominantly annual nature of support contracts and ratable revenue recognition. RPO balances can fluctuate from quarter-to-quarter. We are a global company operating in multiple industries and verticals and seasonality is inherent in our business. Calendar year-end and our fiscal fourth quarter, June, will generally see stronger bookings.

In summary, I would like to close with our previously communicated 4-point strategy to create shareholder value. As we continue to accelerate cloud growth, capturing a large margin opportunity and cash flow expansion remain front and center. Alongside disciplined capital allocation, all enabled by the OpenText Business System.

Our strong operational improvement during the last two fiscal years are paying off. These efforts continued in Q2, posting 37.6% adjusted EBITDA margin in Q2. Our free cash flow and working capital performance in Q2 was driven by strong cost controls and leveraging timely and advanced billings supported by steadfast collections.

Turning to the dividend program, the Board of Directors declared a quarterly cash dividend of $0.2625 per common share. The record date for this dividend is March 7, 2025, and the payment date is March 21, 2025. We continue to be on track to deliver approximately $570 million of capital via our dividend and share buyback programs this fiscal year.

I will close with a few areas relating to operational initiatives with a deep lens again into margin and cash flow expansion. Expanding cloud profitability, by addressing our fixed data center space, optimizing cloud infrastructure, our vendor contracts, and customer level cost structures and hyperscaler cost containment, all will continue to benefit our cloud gross margins.

Our next wave of high-value use of AI internally are in full motion in sales and R&D. Todd Cione, who is with us today and can certainly take your questions. Todd has rolled out programs towards consistency and elevating sales excellence. This will improve sales productivity while giving us operating leverage. We continue to expand our centers of excellence, given the incredible talent and capabilities. Our geographical shift to the centers of excellence has a strategic focus to ensure roles and regions are optimized.

In terms of investments, our plan includes investments in marketing for demand generation, sales university for enablement and training, new sales leadership in Content, Cyber and Legal Tech, all to drive our go-to-market initiatives. We remain well positioned for return to growth in Q4 fiscal '25, to expand margins and cash flows to deliver a strong fiscal 2025 and setting us up for even greater success in future years.

On behalf of OpenText, I would like to thank our shareholders, our loyal customers and partners for your continued support. A big thank you to the fellow team members at OpenText for your unwavering commitment to drive greater results.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Raimo Lenschow, Barclays.

Raimo Lenschow - *Barclays - Analyst*

Perfect, thank you. Congrats on the extra disclosure. I'm really looking forward to kind of digging into that. One area that is obviously like helping you or not helping you is currently economy. Mark, can you kind of talk a little bit about what you saw in the quarter, what you saw in the different regions? That would be a great start for us.

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Yes. Thanks, Raimo, and thanks for the comments. We're excited to provide that increased visibility and you have my commitment to continue that style of communication.

Look, I think around the globe, the only area I'd shout out is Europe. And growth is hard in Europe right now. But we are in very good industries. We're in strategic manufacturing, we're in communications, we're deep with governments. And that's really the only macro area that I would shut out. We're quite excited about the pro-growth American investment initiatives happening in SMB and US-based manufacturing. And there's no doubt that currency, the new US administration is focused on the US currency, which is creating FX challenges for everyone who's a global business. We are not subject to tariffs as a digital company.

We'll see where that progresses over time, but it's really on physical goods not digital services. And that just creates some uncertainty for others. Actually, we're here to help customers to think about moving manufacturing or supply chains to kind of right balance their portfolios. So, we're not subject to the tariffs. We're helping customers. We're excited about the pro-growth investments in the US. But I'd say growth in Europe is elusive right now, but I like the industries we're in.

Raimo Lenschow - *Barclays - Analyst*

Perfect, thank you. And one follow-up. Can you talk a lot about -- I have one follow-up, like you talked a lot about like ITOM, and you mentioned observability, ITSM, et cetera. The one question I get a lot from US investors is around like how should we think about you and the market? Because obviously, there is like there's ServiceNow on the ITSM, ITOM side. There's like the observability guys out there. Like where do you think you kind of play and where do you win? Thank you and congrats from me.

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Yes. Thank you. Well, I like very much the -- that's why I highlighted, we want to outperform in key categories. And the three key categories are Content, Security and what we call ITOM today. So if you think of our ability to discover a company through observability and monitor it, be able to manage all its unstructured Content, intelligent content collaboration and workflows, but on top of that, have our own packaged staff, not just for IT service management, but for HR help desk, for supply chain help desk and corporate employee experiences, I think we're very well positioned in that core stack to outcompete and outperform. So expect us to focus on observability and service management being real focused in those two areas but combined with Security and combined with our strength in Content.

Operator

Samad Samana, Jefferies.

Billy Fitzsimmons - *Jefferies LLC - Analyst*

I appreciate the question. This is Bill Fitzsimmons on for Samad from Jefferies. Mark, you highlighted multiple growth opportunities in the prepared remarks. Maybe expanding on the previous answer. One of those growth opportunities you talked about was Security. Maybe to double-click there. Can you talk about where you do particularly well in Security today and additional areas of investment you're making right now to grow in that market?

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Yes, very happily and thank you. Just a little echo on the phone there. So, where we're focusing -- where we are today is core identity applications, network and forensics. That's where we excel today. And I highlighted some of our new SaaS wins in that area. Nestle, for example, code-level security, Frost Bank and Voltage for transaction encryption and Capgemini in identity management.

Our next deliverable or the next market segment for us is XDR, right? The ability to ingest, detect and respond. And we think we're very uniquely positioned with some of the core assets from Micro Focus as well as the vertical database, some of our own technology, and we partnered with Microsoft.

We've built this integrated to Azure. We've built this integrated with Security Copilot. We're going to go to market with Microsoft and we believe we're going to be a composable solution. Now we don't think we have to go in and displace anyone actually. We want to be -- we want to incorporate them all into what we do. And we think we can provide value on top of them all to be able to literally ingest billions of events a day and process them down to multiple -- a needle in multiple haystacks.

The next area is we want to bring all that to our installed base. So, when we launch Titanium X next quarter, the XDR capabilities will be pre-integrated to our Content platform and pre-integrated to our Business Network platform. So we can go into our installed base and not just try to win XDR stand-alone, XDR on top of other vendors, but pre-integrate it into our own software.

So that's why I highlighted it as my second point of growth, and a category we're going to outcompete in, and we put into lead the engineering side of the business, we repositioned Muhi Majzoub to do nothing but security. So that's why we feel pretty confident here.

Billy Fitzsimmons - *Jefferies LLC - Analyst*

And then if I could sneak in a second one. A big focus during the presentations at OpenText World was on some of the go-to-market changes across the business. Can you just remind us of some of those announcements and obviously, it's only been a few months and things take time, but maybe updates on progress thus far and maybe where there's still more work to be done.

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Yes, we have Todd Cione with us. So Todd, do you want to jump in?

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

Yeah, absolutely. Thanks for the question. Look, we've been heavily investing in our sales force capability across a comprehensive and global sales excellence program that commenced a couple of quarters ago. And we're beginning to see outcomes from that investment now. In Q2, we actually saw improvement of AE productivity, both tenured and new AE. In the second half, the sales excellence program investments continuing. Myself, Sandy Ono, our marketing leader, who are going to be on the road in Asia, ANZ, Europe and US market driving this with our sales force. So, we're excited about the productivity gains that it's driving. And then in addition, look, we're in the people business. So there's been a lot of improvement in boosting of leadership within our sales organization as well.

Operator

Thanos Moschopoulos, BMO Capital Markets.

Thanos Moschopoulos - *BMO Capital Markets - Analyst*

Mark, can you expand a bit in terms of the challenges in ADM and ITOM, was that more on the go-to-market side, or a bit of both as part of it maybe just those products that having been classified and how you're addressing that with Titanium X? Just any color would be helpful.

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Yeah. Very good. Thanks for the question. Yes, we -- as I committed to, we're going to have a new style of communication, and so when we have exceptional items or things to communicate, we're going to provide the detail. And that's what we're doing today, inclusive of materials in our IR deck. So, within the $130 million, 25% is FX, 25% is DXC. That really focuses on -- focus us down to just ADM and ITOM about $65 million to $70 million, where it's the core challenge. And it's related to license and maintenance not the cloud side. So, we got the Security business back on track. So, in ITOM, it's about Titanium X. It's the -- our new Observability Cloud, our Service Management Cloud, we believe we're ready now, including some of the investments Todd was talking about, and we're simply going to relaunch with Titanium X and reengage our 5,000 customers.

On ADM, we have now refocused the portfolio to be top of market. And this idea of to be everything to all things, which was the previous strategy, just isn't the new strategy going forward. We're not here for a single developer. We're here for a large-scale developer organizations. We're now live on the product. I got 10,000 engineers on the product every single day. We've taken all those advancements, put them back in the product and they release with Titanium X. Thus wins like at Pfizer and Eli Lilly that we talked about. So, we're confident that here in the short term, we're going to return those 2 pieces back to growth. I'd also like to take the opportunity, if I can.

Again, less the IP licensing, license will grow this year, less the IP and FX, our business is constant this year unless DXC would be growing. So we're very focused on that area of ITOM and ADM, license maintenance, $65 million to $70 million. And I believe we got the right plan here in the short term to return them to growth.

Thanos Moschopoulos - *BMO Capital Markets - Analyst*

Great. And then you touched on the new licensing model in your prepared remarks, which should be a bit of a tailwind. Just any further color on that? And when specifically was that launched?

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Yes, we launched it in January. This is the OpenText PELA. And look, we have a large license installed base, and we're in the license business. And there are a couple of models in the industry that when you get pretty mature in this space, customers want to keep -- for those customers who want to keep running on-premise or off cloud, we want to help support them. And they've grown, they've acquired, they may want to expand to new divisions, add more users.

So we're going to make it easy for them. We're going to allow them to go enterprise-wide, not have to count anymore. And that will require a license uplift and a maintenance uplift, and we'll give them some cloud credits along the way. So, when they're ready to move to the cloud, they're even more invested in the OpenText solution. So again, less the IP licensing, license is growing this year, and we want to kind of continue that momentum with this new OpenPass mechanism.

Thanos Moschopoulos - *BMO Capital Markets - Analyst*

But the premise is that the clients pay more but in exchange, get unlimited licenses. Is that the core of it?

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

That's correct. They will -- they'll pay more in license. They'll pay a little more in maintenance. But in exchange for that, they'll be able to go unlimited and they'll no longer have to count.

Operator

Stephanie Price, CIBC.

Stephanie Price - *CIBC World Markets - Analyst*

Just in light of some of the recent news around large language models such as DeepSeek, just curious how you're thinking about planned investments in AI and whether you think you can benefit from some of the cost reductions in the LLM space?

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Yeah. We're -- I said earlier -- Stephanie welcome on the call. A great question. I said very early on, there'll be 1,000 language models and let 1,000 models bloom, to quote a poem, that was tulips, not language models, let 1,000 tulips bloom. So let 1,000 models bloom. We like the spirit of DeepSeek to lower the cost of language models. And we're already embedding some open source models into parts of our solution to -- for ease of deployment, predictability of expense and lower expense. So, we applaud the spirit behind DeepSeek, and we think this trend will continue.

Now for technical point, we have DeepSeek in a quarantined area fully installed. We've tried the R1 model, and it doesn't really work. So, it's actually more expensive than running Llama. So, I don't want to get into the technical aspects of the version in China, how it may be running the technical back end. But we've done just a pure test in a quarantine Faraday cage, and it simply doesn't outperform Llama and is not more cost effective. But we applaud this idea of innovation, open source models and lowering the cost, and we will benefit from that.

Stephanie Price - *CIBC World Markets - Analyst*

And then in your prepared remarks, you mentioned evaluating strategic alternatives to increase value, either through divestitures or combinations. Just hoping you can expand on how you're thinking about capital allocation at this point?

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Well, great question. And look, I think it goes like this. With -- margin was our number one priority post AMC divestiture. And I couldn't be more proud of the team and how they delivered in the first half, including Q2, I mean, $0.5 billion of adjusted EBITDA dollars. So, we have a new number one priority. We have multiple priorities, but this is the number one overriding priority at the company, which is now growth, and it's across all BUs and maintenance. We're going to return to bright-line growth in Q4. And yes, we all want more growth, and we expect more growth and will return to growth in Q4. That's our current focus.

Now in parallel, we're going to continue to evaluate strategic opportunities. And what does that mean? In some cases, I think it will mean for BU an acquisition. I think in some other cases, it could mean a combination and divestiture. But my macro point is this, and my intention for purposely saying it on the call in my script is I want to deliver more paths and more reasons to buy our stock. And I think those answers are total growth, higher cloud growth, higher margins and higher free cash flows, upper quartile capital return and unlocking the value of each of our business units beyond organic growth through this strategic thinking.

So clearly, we're focused right now on record capital return in '25. Completing the divestiture and getting the margin operation engine, boy, it's just a whole different level of oxygen with the growth as our number one priority. And as we focus on each BU to do that, I wanted to kind of walk through just how I was thinking in parallel to just focusing on organic growth. Hope that's helpful.

Operator

Paul Treiber, RBC Capital Markets.

Paul Treiber - *RBC Capital Markets - Analyst*

I just wanted to ask a question on bookings and your expectations for bookings going forward. I think the outlook calls for a pickup in growth in the second half of the year. What do you see as the primary driver of that? Do you expect Titanium X to drive a surge? Or do you just see less seasonality than the past and $200 million or so in bookings per quarter as sort of the new normal going forward?

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Yeah, Paul, let me just jump in and I'll hand to Todd. Look, on a percent basis, it was a little over 6% in Q2, but it was a record high watermark of $250 million of guaranteed new bookings that flowed right into RPO. So that is a high watermark. And clearly, we're expecting a very strong second half.

And Todd, I'll let you talk to the strong second half.

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

Yeah. Thanks, Mark, and thanks for the question. So I mean, just as Mark mentioned, we're super proud and excited about that record quarter of customer demand for cloud and new bookings. And we see this continuing into the second half because we've got a solid pipeline in Q3. And in Q4, we have our largest cloud pipeline ever. That means we've got really strong coverage.

In addition to that, we've launched already a focused list of programs and incentives to convert that pipeline. And we also fully expect that Titanium X being completed next quarter it's going to provide a tailwind for that pipeline conversion as well. So we're super bullish.

Paul Treiber - *RBC Capital Markets - Analyst*

That's great to hear, thanks for the explanation. Shifting gears and speaking on AI, could you walk through -- you touched in the past like there's internal initiatives around AI. Do you have any metrics that you can share in terms of either productivity gains that you've seen or ways that you can be more efficient when you're spending internally, so perhaps you can shift that -- those dollars to focus on growth initiatives?

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Yeah, great question. Thank you, Paul. We're not ready to put a quantum on it. But we have two large initiatives and there'll be a third and a fourth that's right on the event horizon for us. The first is our platform, Athena, where you can imagine the breadth of software we build and development environments, it's -- we're close to 10 billion lines of code across multiple environments and IDEs and all of that.

We've built a proprietary AI platform internally for our developers to use Athena, we don't use Copilot, to use Athena for things such as the following: explain a piece of code to me. I'm a new developer, and I got to learn a piece of code, explain it to me. I need to fix a bug. Help me. I need to write an interface to an API, generate the code. I need to localize it in Hiragana or in left to right languages. So, generate the screens and GUIs for me.

So that's going to uplift productivity. Is that 5%, 10%? We'll see. It could be mid-single digit, could be low double digit. And if we can do that, I just added 1,000 developers at no extra cost. On the sales side, we are live on a platform we call internally Ollie.AI. Ollie was the original name for our pre-demo environment back in the LiveLink days, and we've advanced it to Ollie.AI, where we're helping -- we demoed it at OpenText World to generate RFPs. Can that uplift sales productivity, 5% to 10%, 15% increase our win rate. Todd, any comments you want to provide on Ollie.AI?

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

Yes. So, if you're a presales leader at OpenText, that is your first stop when you have an RFP right now. It's live and it's active. And we are at the precipice in Q3 of expanding that into capabilities for the entire sales force, account executives will have new information at their fingertips via mobile as well. So we're really excited about AI boosting our efficiency in worldwide sales.

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

So the next stop is tech support. And one of the next stops post that is helping increase our win rate and competing in more opportunity. So look, I -- from what we've seen from theory to test beds to version 1, even version 2s internally, I'm absolutely convinced we'll raise productivity and engineering, sales, support and helping us compete more and win more. But not ready to put a hard dollar number on it yet, Paul, but we'll keep you updated.

Operator

Seth Gilbert, UBS.

Seth Gilbert - *UBS Securities LLC - Analyst*

Thanks for the questions. Maybe two, if I may. To start, you made a comment in the beginning of your prepared remarks about the upgrades in Titanium X reengaging the 5,000 customers and upgrade fees kind of rising over time. I was wondering if you could talk about the upgrade journey in Titanium X. How is it going? Is there maybe a plan to migrate a certain percent of customers in FY25?

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Yes. Fair enough. So, Titanium X is fully delivered next quarter, right? So we're almost there. And we have 5,000 customers who are just on ITOM, not the overall installed base of 120,000. Look, the opportunity is large for us. We want to get the entire install -- I mean I'm just going to start a big general, I want the entire installed base to be engaged and move to Titanium X over time. We got to bring our installed base with us. And it's compelling.

Gen AI and aviators, 15 aviators, 100 agents. SaaS at-scale, I've already started to highlight some of the wins, SAP, BASF, Aldi, Frost, Capgemini. Content plus in the content world, intelligent Content plus AI workflow plus SaaS, ITOM, the one you highlighted, Observability Service Cloud, ADM, the features that run OpenText can now run you BN Control Tower and AI and Security XDR.

So Titanium X is compelling. We're going to start with those on older versions. We're going to look at three major buckets. One of those buckets is the customers on 3 releases and back. We have a world-class PS organization, they'll engage, they'll have upgrade programs, and that's the first place that we're going to go to with Titanium X. And we respect customers who don't want to move, and we'll perfectly understand that, but we'll begin to raise your prices, and because our cost will go up of supporting you off cloud. So that's bit of the opportunity. That's a bit of where we're going to start, and we begin next quarter.

Seth Gilbert - *UBS Securities LLC - Analyst*

Got it. Very helpful. Maybe just as a follow-up, unless I missed it, I didn't see any of the disclosure around the business unit revenue split. I guess we were hopeful that we would see maybe a little bit of it this quarter. So even if -- and correct me if I maybe missed it in the filings. But even if not quantitative, I was wondering if you could provide maybe some qualitative color on some of the faster-growing BUs, business units, and maybe some that are not growing as quickly?

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Yeah. No, you didn't miss it. And what we did this quarter is focus on cloud. And so the new RPO disclosure is very important and very strategic and ties to our number one priority. So we put our energy there because this is the long life disclosure for us to give you the insight into the strength of our cloud growth over time. So that's where we put our energy to get RP -- both maintenance and cloud RPO and cloud RPO, cloud cRPO. So that's fully available.

We also focused our attention in the communication around -- and I just want to say it again, that again, less the IP licensing, license is growing this year, new insight for you. Less IP and FX, the business is constant, new insight for you and less DXC, we would be growing. So we focused on those insights versus breaking down each BU. We will, at the end of the year, provide our usual BU update, if you will. Content, our hot hand with AI. Security, growing. SMB, it was a negative year last year. We're performing constant this year with paths to the second half growth.

For example, we just delivered the new secure cloud secure PC optimizer. We have EDR on Secure Cloud. We have a whole new online presence at cybersecurity@opentext.com. So, SMB went from negative to constant path to growth in the second half should be a positive contributor in the year out.

We also provided some insight into ADM and ITOM on the call, specifically around maintenance and license. So we thought that was a better usage of our time to give you that insight. And so that's a little bit of the BU insight. But we'll have a full BU update at the end of the year.

Operator

Kevin Krishnaratne, Scotiabank.

Kevin Krishnaratne - *Scotiabank - Analyst*

A question on the cloud business that had a nice uptick in growth this quarter, but you've maintained the guide 2% to 5% for the year, you sound really bullish on that business. You talked about a lot of different initiatives, big SaaS wins. And I'm just curious, what would -- is there anything to think about that would make the revenue growth in the cloud be closer to the 2% range rather than the 5% range? Just wondering about the guidance and your thoughts there.

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Well, I'll highlight a couple of things and maybe Todd or Madhu jump in. One is record new commitments in Q4, $250 million flows right to the top of the RPO, and you can now see the RPO and you'll see it next quarter.

Second is, I highlighted large strategic SaaS wins before the full delivery of Titanium X. By the way, when we deliver Titanium X, customers don't have to upgrade those pieces. We upgrade them for them. On the Content side, a large win at SAP, BASF, Aldi, Munich Re on the security side, Frost, Capgemini, Nestle, on ADM, Lilly, Pfizer. They're all SaaS wins, faster time to revenue. And then the momentum around the delivery of Titanium X. So yes, we're focused on a $65 million, $70 million in ADM and ITOM. But no, we're not moving our cloud view of fiscal '25.

I don't know if there's anything you want to add, Madhu?

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

Yeah, I'll take the pass and then Todd, please chime in. So Kevin, your specific question on why we left the ranges unchanged, right? I think the good news is that we did leave the ranges unchanged. Notwithstanding kind of the downward trend in the other buckets license and maintenance, right? Now two things I will remind us, our enterprise cloud bookings, the strong cloud bookings still have a ramp to revenue, right? There's about a six to nine month ramp to the first dollar of revenue. So, think of this as providing us more visibility into beyond '25.

And then the second part, as Mark outlined, SMB and C are very strong components of cloud revenue for this year for '25, we are planning them at more neutral to constant. So those are the reasons why we've left the range unchanged. And SaaS is picking up, as you heard from Mark, and over time, beyond '25, certainly, we think the SaaS mix in the overall cloud revenue will provide higher velocity from bookings to revenue.

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

Yeah. And I would -- adding on to my comment I made about the direct sales force in the pipeline, activation and conversion activity we have underway. Partnerships are playing an increasingly important role in our cloud business, and that's going to only continue. Mark referenced a couple of those just to reinforce our industry-leading SAP partnership is driving accelerated cloud growth, our relationships with the cloud service providers, Microsoft and Google, are contributing. And then in our emerging markets in specific industries, resellers are playing an increasingly important role for us as well, and we're excited about that.

Kevin Krishnaratne - *Scotiabank - Analyst*

I really appreciate that extra color. I just want to slip one last one in here. Can you remind us how big your government opportunity is? How much -- sorry, how much rent exposure do you have in the US? And maybe any thoughts on DOGE potential benefits or things to consider there?

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Yes. No, we don't break out just our US government business. But I'd say globally, the public sector is roughly 15% of our revenues on a global basis. Look, we're -- on the business front, we are excited about the opportunities in the US. The mid-market and manufacturing investments, it's 60% of our business in the US. And we're going to be very present to help our customers take advantage of that and do that digitally enabled.

Part of the US government efficiency programs, DOGE, is about becoming more digital. And so we got a great presence in D.C. We're fully represented both on the government intelligence side as well as standard agencies and NGOs as well as the large states in the US. So, I think we're well positioned that as opportunities come along, we'll be right there.

Operator

Richard Tse, National Bank Financial.

Richard Tse - *National Bank Financial, Inc - Analyst*

Just quickly, can you provide some metrics on how Aviator is performing?

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Look, I think the -- we're not disclosing specific bookings or revenue numbers. There is no doubt that our work fully delivered in Titanium X is helping us win. The SaaS wins all have a part of AI. Again, I can't emphasize the strategic enterprise global nature of the SaaS wins, OpenText -- imagine these two words in the same sentence. OpenText and SaaS and what Titanium X. We set out on Titanium X to have as part of it, a SaaS platform. The wins in Q2, SAP, BASF, Aldi, Munich Re, Frost, Capgemini, Nestle, Lilly, Pfizer. I just couldn't be more proud of those wins.

Most of them have Aviator as part of it. So, we're not here yet to kind of break out this much of revenue or this much of booking, but it's unequivocally a part of our platform, part of our win strategy and part of the actual wins at this point. So stay tuned. There'll be more to follow here as we upgrade the Titanium X, there'll be more to talk about on the AI platform.

Richard Tse - *National Bank Financial, Inc - Analyst*

Okay. And just a last quick one here for me. I appreciate you sharing those RPO metrics. I think in the past, you've talked about sort of expanding your disclosures. And so as you go forward, are you going to be looking at disclosing things like net expansion rate? And I only ask that because a big part of your strategy here is selling into the base. And I think having that metric in terms of understanding how that base is growing would be very helpful. So is that something on the radar here?

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Thank you for the feedback. There is -- we're going to assess the feedback. Clearly, it's not about renewal. It's about expansion over time. So thank you for the feedback. We'll take it offline and process all the feedback. It's a big disclosure for us, as you know. It's both cloud and maintenance. It's current and long term with a big emphasis on cloud cRPO and that increased visibility.

And so what are the commitments flowing in, what are the uncommitted portions in there, all the things Madhu talked about, we disclosed a very simple formula. We looked at SAP and Salesforce on how they disclose. We have a net renewal rate as well. So, a good comment on we start to talk expansion. We'll take it as a feedback, and we'll collect all the feedback and then understand what the next set is. So thank you for the question.

Operator

I'll now hand the call back over to Mr. Barrenechea for closing remarks.

Mark J. Barrenechea - *Open Text Corp - Chief Executive Officer, Chief Technology Officer & Vice Chair*

Yes, very good. Thank you for being part of our Q2 call. Margin was our number one priority post AMC divestiture and with our Q2 and first half performance, we delivered, and our new number one priority is growth. Second, we're very excited about the opportunity that Titanium X and upgrades will bring us. And three, we look forward to your continued feedback on our new style of communications and the insights into our business and did you find them helpful and how we can continue to do that.

Thank you very much, and we look forward to seeing you at Morgan Stanley and elsewhere. Thank you very much.

Operator

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