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PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the OpenText Corporation first quarter fiscal 2026 financial results conference call. (Operator Instructions) The conference is being recorded. (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 - VP & Head of Investor Relations.

Thank you, and good morning, everyone. Welcome to OpenText's [first](corrected by company after the call) quarter fiscal 2026 earnings call. With me on the call today are OpenText's Executive Chair and Chief Strategy Officer, Tom Jenkins, together with James McGourlay, Interim Chief Executive Officer; Steve Rai, Executive Vice President and Chief Financial Officer; and Cosmin Balota, our Senior Vice President and Chief Accounting Officer. Today's call is being webcast live and recorded with a replay available shortly thereafter on the OpenText Investor Relations website at investors.opentext.com. Earlier yesterday, we posted our press release and investor presentation online. These materials will supplement our prepared remarks and can also be accessed on the OpenText Investor Relations website.

Now turning to the upcoming investor events. I'd like to take the opportunity to invite institutional investors and financial analysts to join us at OpenText World 2025 Investor Track on Tuesday, November 18 in Nashville.

The OpenText World Conference is a unique opportunity for investors and financial analysts to learn about our latest product innovations and with full conference access, allow open dialogue with our customers and partners on site. The conference keynotes and investor track will also be available by webcast virtually.

OpenText will also be participating in the following investor conferences. On November 21, we'll attend the Needham Tech Conference virtually. And on November 24, we'll be at the TD Technology, Media & Telecom Conference in Toronto. On December 2, we'll be at the Bank of America

Leveraged Finance Credit Conference in Boca Raton and on the same day, we'll also be at the UBS Global Technology and AI Conference in Scottsdale, Arizona. On December 8, we'll be at the Raymond James TMT and Consumer Conference in New York.

And then finally, on December 10, we'll be heading to the Barclays Global Technology Conference in San Francisco. We look forward to meeting with you at one of those events.

And now on with the reading of our Safe Harbor statement. During this call, we'll be making 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.

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 the future performance results of OpenText are contained in OpenText recent Forms 10-K and 10-Q as well as in our press release that was distributed earlier yesterday, 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'll hand the call over to James.

James McGourlay - *Open Text Corp - Interim Chief Executive Officer*

Thanks very much, Greg. I would like to welcome everyone on the call today. Joining us today is Tom Jenkins, Executive Chair and Chief Strategy Officer. I also want to give a warm welcome to Steve Rai, who joined OpenText as Executive VP and CFO in October. Steve brings a wealth of experience from technology and software.

He is based in our Waterloo, Ontario headquarters. Also joining on the call is Cosmin Balota. I want to thank Cosmin for his leadership as Interim Chief Financial Officer, and Cosmin has now resumed his role as Chief Accounting Officer.

The entire OpenText team is committed to delivering secure information management products that let our customers curate and enable agentic AI with their content. We have a tremendously strong and deep customer relationships.

It is because of this that we have such incredible and loyal installed base. Now let's get into our Q1 fiscal '26 results. Q1 total revenues, ARR, adjusted EBITDA margin, adjusted EPS are all above Street expectations. As you saw with the Q1 performance, we are continuing our momentum from last quarter, especially in our core content business. We remain focused on sales execution, having just completed a major product cycle.

We believe we are in the market with the right products at the right time. Turning to our cloud performance this quarter. Q1 cloud revenue was \$485 million, up 6% year-over-year, which is well on track towards our FY26 outlook range of 3% to 4% growth. Cloud bookings continue to remain strong as we saw Cloud cRPO up 6% year-over-year. More importantly, our long-term cloud RPO is up 16% year-over-year, and total cloud RPO is up 11% year-on-year.

Our other measure of cloud performance is enterprise cloud bookings, which were up 20% year-on-year in Q1. This puts us in a good position towards achieving our FY26 outlook range of 12% to 16%. We closed 33 deals greater than \$1 million in Q1, which is up 43% year-on-year.

We had key wins in the quarter with ALTEN, Australia Department of Health, Core42, Optiv Security and mh Services. In September, we provided additional disclosure on our main business -- businesses, which we break into product categories.

This disclosure is in our IR presentation on the website and allows you to better track the performance. Tom will speak more about the tremendous opportunities in our core information management for AI business. For Q1, you can see that Content being our largest business continues to lead

our growth in Cloud. Content Cloud grew 21% year-on-year in Q1. This was driven mostly by bookings won in financial services, energy and utilities as well as telecom verticals.

We saw strength in retail, automotive and manufacturing verticals which also contributed to our business network positive growth in Q1. We are pleased with our Enterprise cybersecurity business growth this quarter and mainly driven by a few sizable wins.

Our product offerings continue to be recognized by industry experts such as Gartner, and we are establishing key partnerships that are important for content management and agentic AI. We're excited about our upcoming OpenText World event being held in Nashville from November 17 to 20.

Thousands of our customers and partners and other stakeholders will join in person to see our latest product offerings and innovations, especially our Aviator and agentic AI solutions in action.

We will also showcase our sovereign cloud, keeping our customers data local and secure. We are very excited to see how our customers unlock the power of their own data using OpenText products to foster innovation and spur growth.

As we look ahead to the rest of fiscal year, we are not changing our fiscal '26 annual outlook. Please remember that we are an annual business and that results can fluctuate quarter-over-quarter. With that said, we expect Q2 total revenue to be between \$1.275 billion and \$1.295 billion and the adjusted EBITDA margin to be between 35.5% and 36%.

We continue to see strength in our Content business going forward. For the second half of fiscal '26, we expect revenue to skew higher towards a strong Q4. There is typical seasonality that we see in Q3, but the momentum from our new product cycle is expected to come mostly in the latter part of fiscal '26 and beyond.

We continue to expect ARR to return to growth in fiscal '26 with Cloud growth outpacing maintenance declines, while customer support revenue is on track to meet our fiscal '26 annual outlook. We are seeing some of our customers making faster decisions to shift their workloads from on-premise into the cloud.

We have always given our customers the choice of where they want to deploy and note that the on-premise deployment is still being sought after in heavily regulated industries and governments. To conclude my remarks, I want to take a moment to thank our OpenText team across the company for their professionalism, dedication and hard work during this period of change as well as our partners, customers and shareholders.

Finally, I would like to thank Tom Jenkins and all of the members of the OpenText Board of Directors. Their support to both myself and all of our employees has been tremendous. This is an exciting time for OpenText.

We're in a great position financially and operationally. We are in the right markets of secure content and data that trains agentic AI. When I stepped in as Interim CEO, my main priority was to take care of our customers and carry forward our initiatives and deliver our fiscal '26 annual outlook. We had a great start to Q1, which sets us up nicely for the rest of the year and beyond.

With that, I will hand the call over to Steve Rai, our EVP and CFO.

Steve Rai - Open Text Corp - Executive Vice President, Chief Financial Officer

Thank you for the kind introduction, James. It's great to be here. Good morning, everyone, and thanks for joining the call. I'm one month in at OpenText and very excited to contribute to the tremendous opportunity ahead. Over the past few weeks, I've spent a lot of time with James and Tom and the extended team, and I'm in full support of the company's vision and direction.

I look forward to working together with them to deliver on this. Cosmin Balota, our Chief Accounting Officer, who was the Interim CFO before I joined, is on the call today, and he will discuss the highlights of our Q1 financial results.

I would like to thank Cosmin personally for his unwavering support, insights and maintaining a steady ship through the transition. For those of you who may not know me, my last role was as CFO at BlackBerry, where I was deeply involved in the company's corporate technology and organizational changes. I'm truly energized to join Open Text at this stage in its journey and will be based in our global headquarters in Waterloo, Canada.

Since joining, I've been very impressed with the professionalism and passion from everyone that have met across the organization. I see a company with solid financial fundamentals with expanding margin and free cash flow and excellent foundational technology.

OpenText supports an impressive global enterprise customer base and is poised to capture a broad-based step change in the market for training and adoption of agentic AI. I look forward to putting my deep experience in technology and transformation to work with such a dedicated team.

With that, I'll hand the call to Cosmin to discuss our Q1 highlights.

Cosmin Balota - *Open Text Corp - Senior Vice President, Chief Accounting Officer*

Thank you, Steve, and good morning, everyone. Let me start by saying that in Q1, we continued our momentum from last quarter, particularly from growth in cloud revenues, led by our Content product category and through overall margin expansion. Total revenues for the quarter were \$1.3 billion, which was an increase of 1.5% year-over-year. This growth exceeded our expectations for Q1 and was mainly driven by Cloud and License revenues. In the quarter, our Cloud revenues of \$485 million were up 6% year-over-year.

This growth was mainly attributed to strong demand in our Content product category, which makes up approximately 40% of our overall business and grew 21% year-over-year in Cloud and 3% in total revenues, as outlined on slide 6 of our investor presentation. Customer support revenues of \$587 million were down 1.5% year-over-year, while our ARR or annual recurring revenue was \$1.1 billion, which was an increase -- sorry, an increase of 1.8% year-over-year.

ARR was 83.2% of total revenues, which was a slight increase compared to the 82.9% in the same quarter last year. Moving to profitability. Q1 GAAP-based gross margins was 72.8% or 76.5% on a non-GAAP basis, which were up 100 basis points and 60 basis points year-over-year, respectively.

These increases were mainly due to Cloud gross margins growing 280 basis points year-over-year and 270 basis points on a non-GAAP basis. Adjusted EBITDA for the quarter was \$467 million, which is a 36.3% margin and was up 130 basis points year-over-year.

This improvement was mainly driven by higher revenues, which, as I mentioned, was primarily from continued growth in Cloud and our Content category with additional benefits realized from the expanded business optimization plan and improved gross margins.

The costs and benefits associated with the business optimization plans and other savings initiatives, as outlined on slide 19 of our investor presentation, and they have not changed since the prior quarter. The strong margin performance in Q1 resulted in an adjusted EPS of \$1.05, which was up 12.9% year-over-year.

Q1 free cash flows was \$101 million, which was a significant increase of \$218 million year-over-year. As you may recall, in Q1 of last year, we made a onetime tax payment, driven by the gain on sale from the AMC divestiture. This concludes my summary of the Q1 fiscal '26 financial highlights.

And with that, I'd like to hand the call back to Steve.

Steve Rai - *Open Text Corp - Executive Vice President, Chief Financial Officer*

Thank you, Cosmin. The results in Q1 demonstrate the resilience of OpenText's business supported by the strong financial position of the company. Along with our portfolio-shaping initiatives and announcing the recent sale of our eDOCS business. This solid foundation supports our capital allocation strategy of consistently paying a growing dividend, buying back shares, reducing debt and reinvesting in growth.

I'm a month in and looking forward to continuing my engagement with the OpenText team and meeting our investors and analysts.

I'm excited to work with James and Tom and the rest of the executive team and Board to carry out our strategic objectives.

With that, I'll hand it over to Tom.

P. Thomas Jenkins - *Open Text Corp - Executive Chair & Chief Strategy Officer*

Thanks, Steve. Good morning, everyone. Before I get started, I'd like to thank Mark Barrenechea for his 13 years of dedicated service to our company. His leadership scaled and developed our company as a leader in enterprise information management. And Steve, a very warm welcome to you, and welcome to OpenText.

You've only been here for a month, but I appreciate having you here on the call today. Since we made our announcement on August 11, we've met with hundreds of shareholders and analysts and investors. And it's been great for me to renew all the acquaintances. And I thank all of you who said that I haven't aged a day since the last time you saw me, I wish that was true. This has allowed us an opportunity to communicate to you a simpler strategy for the company to unlock the value that Open Text has.

We're going to concentrate on our core business units and enterprise information management and specifically those that provide the training for the new area around enterprise artificial intelligence. You'll hear us use the term at agentic AI as well and more on that in a minute.

After all, it makes sense for us because OpenText is one of the biggest -- we think it's the biggest, but it's certainly one of the biggest corporate data and metadata vendors in the world with hundreds of connectors to legacy and current data sets. That's a powerful asset inside OpenText for AI, and we plan to unlock it. We'll do this first, though, by selling off all our non-core business units and using those proceeds to further create shareholder value.

And that's really our end goal. And so in a way, what is old is new again, we're going back to our historical roots of being a content management company, except this time, we have additional products in business networks and machine management, wrapped in an enterprise-class security layer. That will be our core business.

We already have the global scale, the go-to-market sales force, the product line in these businesses and the core of our core, which is the Content Management business, is also our largest business unit at about 40% of our total revenue. And it also happens to be the fastest growing with, on average, more than 20% Cloud growth over the past few years. So it was a pretty obvious strategic decision by the Board to take these actions. We now have the entire company from the Board, the exec management team to our 20,000-plus strong global workforce aligned and locked into achieving our FY26 objectives and beyond. We're going to stick to our plan. There are early signs that we may be even going faster towards the cloud as the year goes on.

And as we shed the non-core units, our Cloud Content business will be soon the dominant share of all of our revenue sources. That's our goal. We'll keep reporting our business unit breakout as we go through this journey so that you can track right along with us our progress towards that goal.

So speaking of progress, if you take our August 11 release and some of the short-term priorities that we said we would address. I'm pleased to report we've addressed almost all of them.

We've had a very busy 90 days and the next 90 days will be just as busy. As I mentioned, we started by providing additional transparency with all of the revenue breakout performance for our business units. We did this in early September so that you could track along with us on our progress. That's where you saw the strength of the Cloud growth. In fact, last year, Content Cloud grew 17%.

And this quarter, it grew 21% year-over-year, and that's the acceleration I was referring to. So clearly, our Content Management customers are moving even faster to the cloud, and this will start to change our revenue mix slightly in our plan, but it's an indication that we're moving faster to becoming a fully cloud-centric company.

Now of course, we appointed Steve Rai as our permanent CFO. And he, of course, has a solid background in financial and operational reporting. And even more so, with his background at BlackBerry, he has a lot of experience in portfolio shaping.

So we welcome that wisdom to the management team. This was followed by our first announcement of a non-core business unit sale within the analytics business, as has already been mentioned. It's an on-premise piece of software. So that will help the pivot towards cloud even further as we shed the non-core units. We also talked about the refreshment of the Board.

And recently, we appointed a new Board member, George Schindler. He's the former CEO of global IT consulting giant, CGI. He's a fantastic addition to the Board, brings valuable perspective and now includes other members that we've announced in the past year, such as the senior partner in technology and telecom from Accenture, the Chief Human Resources Officer of Hewlett Packard, the CIO of Cisco, among just the new members that we've announced in the past year.

So we're quickly retooling everything at OpenText. Yesterday, we published our Q1 fiscal '26 results that demonstrates the resilience of the business and the continued demand for Content Cloud and AI.

We're focused on the right market at the right time. It leaves us with one major priority remaining, which is to find a permanent CEO. Their search is ongoing, both internal and external candidates, and I'm pleased to note that we have had many world-class candidates step up and put the hat in the ring for consideration by our search committee.

Our goal is to find a leader whose solutions focused and to help us elevate to the next phase of OpenText's journey. In the meantime, I'd like to thank James for stepping in as Interim CEO.

He's been a steady hand leading the operations of the company and to Cosmin for leading the financial group. As you can see from the results, they've both done a great job stepping up on short notice. OpenText is on a solid financial and operational foundation of growing long-term margin and free cash flow.

And we're committed to unlocking shareholder value through our capital allocation strategy, which will include reducing debt, paying a dividend, share buybacks and tuck-in M&A. And with all of this, we're committed to providing investors with clear, simple, transparent metrics so you can better understand our business and performance and follow along with us on this journey.

Let's turn to our strategy now and how OpenText plays an important role for our customers in agentic AI. We provided some slides. And obviously, we're also going to speak at our user conference and Analyst Day next week, as James had mentioned.

So a lot more detail to come, but we thought we'd give you an overview of what you'll be seeing next week. And it really falls around a recent MIT study on agentic AI, which indicated that the importance to productivity that AI must be trained by specific content that can only be found inside the firewall of organizations.

Keep in mind that many of the world's first most amazing GenAI products like ChatGPT and Perplexity and Claude were all primarily trained on public information. Now public information only represents about 10% of the world's information. About 90% of that information is behind the firewall.

In fact, many years ago, OpenText wrote a book called Behind the Firewall that described where all this information is and how you find it and how you use it. Now of course, most of that was built as records management and archive for regulated industries, and OpenText was the leader in all of that.

So that positions us with an enormous access to all the data. And so as you know, we have hundreds of thousands of organizations all throughout the world that we've built these systems for over the past 35 years. That's really the gold mine for customers that are seeking to build productivity-related agentic AI. So we'll provide a lot more information on that. But where does that apply to OpenText?

Well, OpenText in enterprise information management, it's got data stored in three major business units that we've broken out for you today in Content, our ITOM and our business networks. These products, our users are able to use their own data to train agentic AI that's way more powerful for anything that's available in the public domain.

So that's why we call this enterprise artificial intelligence in the same way that we used to call it enterprise information management and before that, enterprise content management. So what is old is new again, and we're returning to our roots. And we think that there's an enormous demand for this as we go forward.

Now we're also seeing an interesting change around proprietary clouds. And in the case of governments, they call it a sovereign cloud. Users don't want to lose the keys to their castle. AI is very different than just storing data. And our users are starting to find that they want to be very careful how they construct clouds that use AI.

They want to make sure that they're inside the firewall. So we're noticing that the domestic telecoms throughout the world are starting to take a more substantial role in the supply chain for these proprietary clouds. And I think you'll see in the future, OpenText get more involved with those telecoms throughout the world as those channel opportunities present themselves.

It's interesting because we're finding that major corporations that went to the cloud actually don't have an IT capacity internal to their companies anymore. And that's why they're seeking alternatives where they can maintain a proprietary AI, but do it on a managed service basis through ourselves, other vendors and the telecoms, as I have mentioned.

Now these trends, they're going to be a major topic of our upcoming user conference. James has mentioned that we'll be having later this month in Nashville as well as the Analyst Day. Now we're also going to have a new book called enterprise artificial intelligence available that explains all these concepts in much more detail, both to yourselves as well as our users.

So in closing, what lies ahead for OpenText is perhaps the greatest opportunity in the history of the company. We hope that you'll follow us on that journey as we take our core businesses and focus on them.

We're going to train agentic AI with all that content. Our Board committee continues to make the divestitures of the noncore business, and our Board identifies and on boards our new CEO.

So with that, could the operator please open the line to have questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the analysts question-and-answer session. (Operator Instructions)

Richard Tse, National Bank Financial.

Richard Tse - National Bank Financial Research - Analyst

Yes, thank you, so Tom, you're embarking on a pretty ambitious strategy here. I just kind of want to get your thoughts in terms of what you think OpenText's competitive edge is and content as you make this pivot to leveraging your data for AI because there are a number of companies in the marketplace.

P. Thomas Jenkins - *Open Text Corp - Executive Chair & Chief Strategy Officer*

Yeah, the competitive edge, you don't create competitive edges overnight, as you know. That competitive edge was built over 35 years. We're the only company that has the hundreds and hundreds of data connectors. You had to be around back in 1995 to be able to have a connector into Word Perfect and into the Lotus Notes and then the Lotus 1-2-3 and all that stuff. And the reality is that legacy data is critical to training agentic AI.

And we have all of those connectors, whether it's in business networks, whether it's in IT operations management or in human content. And that stuff gets built up over decades. You had to have been there at the time.

And so all that source code, all of that plumbing is buried inside our products, whether it's SAP archives that are written directly in ABAP, that kind of stuff, you just can't make up later. You had to have been there at the time.

So that's the part that really gives us a huge competitive advantage. I think the other part that we're going to find play out in the market is that we offer a hybrid mix. We offer on-prem through license as well as in the cloud and managed services.

So there's a mix that users can pick because as you go to build these AI systems, that information is located throughout corporations in many, many different attics, so to speak, throughout. And we're equipped to be able to do that.

Richard Tse - *National Bank Financial Research - Analyst*

Okay, great, and my second question has to do with the Content business. Thank you for that segmented disclosure. It obviously is growing at a pretty rapid rate, certainly on the cloud side. Can you maybe give us a bit of color in terms of the mix of where that growth is coming from? Is it sort of AI readiness?

Or is it something else because for mature markets, granted its sort of off a small base on the cloud piece, but still curious to see how that's playing out.

P. Thomas Jenkins - *Open Text Corp - Executive Chair & Chief Strategy Officer*

Yeah. I'll defer this to James. But I will say one thing when a CIO approaches this problem, the first thing that they have to do is they have to curate their content in general. That's why I think you're seeing a lag in some of the adoption of AI because even though we had COVID and even though we created a lot of digital pieces inside our organization, the reality is we were doing that in a hurry during COVID. Getting this in an organized fashion, that takes a lot of content management.

It takes a lot of archival, a lot of records management. So a lot of organizations were simply getting digitally ready. They had never been asked to do this before. They were keeping all that data for regulatory reasons. Now they're starting to present that data in real time and ready so that they can do training.

So I'll leave it to James to talk about the very specific parts.

James McGourlay - *Open Text Corp - Interim Chief Executive Officer*

I think you covered it pretty well, Tom. We're seeing our customers looking at moving into the cloud for a number of reasons, including the managed capability that we offer, curating their data for AI readiness and just overall simplification of the management of the system for them.

So customers are moving quickly. We're seeing new customers coming in, coming on board, jumping directly into our cloud offering, as you would expect in this day and age. But it's across the board, we're seeing a shift to cloud in the customer base.

Operator

Kevin Krishnaratne, Scotiabank.

Kevin Krishnaratne - Scotiabank GBM - Analyst

Hey there, good morning. Maybe, Tom, just on that last point on the data readiness and can appreciate the sort of decades worth of content that you're managing for your customers. Is that -- like can you just talk about maybe -- is there a sweet spot in terms of how far back customers need to go?

You talked about all the data that you've got to train agentic. But I'm wondering like how relevant is data from 30 years ago versus, say, 5 years ago? Is there -- again, just sort of a sweet spot that you're seeing in terms of how far back -- how much data customers are bringing in to think about their agentic AI training purposes? Thanks.

P. Thomas Jenkins - Open Text Corp - Executive Chair & Chief Strategy Officer

Yeah, that's a great question. And even to go further, we could say that there were early attempts to create synthetic data where you would take five years of data and just simply replicate it to try and fake out some form of agentic AI training.

The reality is, I think the person who did this analysis the best was Larry Summers, who is, of course, now on the Board at OpenAI and former Harvard President when he was doing the analysis of how the Fed had made such an error during COVID. And when he went to look at the Fed models, he discovered that they had gone back 20 years. And you can go on YouTube and watch this.

It's a fascinating presentation and analysis by Larry Summers. And basically, he looked at them and he said, you didn't go far enough back. You had to go to where the black swan was, which was in the '70s. And that's why you missed it. And it's an interesting point because what you're doing when you're training GenAI, you're going back looking for patterns.

And so if you have the data, you go back as far as you can because you're looking to get the pattern of the black swan. That's what a corporation wants to be able to see. Where are those anomalies. And so quite frankly, you can't go far enough back. If you've got the ability to go back 35, 40 years, you're absolutely going to do that because your AI will be more accurate and quite frankly, wise.

And that's the race. There is no such thing as data that is not useful. The more you have, the better off you are.

Kevin Krishnaratne - Scotiabank GBM - Analyst

That's super fascinating, thanks for that. Maybe switching over to Steve, welcome to the team. If you think about the Q2 guide on revenue, it's a range. It does imply a scenario that could see quarter-over-quarter decline. So I'm just wondering if you can maybe talk about the drivers that would get you on the one hand down to the bottom of the range and on the other hand, the top end of the range.

Can you just talk about expectations for the coming quarter?

Steve Rai - Open Text Corp - Executive Vice President, Chief Financial Officer

Well, I think it's the most critical item for the quarter and the rest of the year and beyond is this theme that we -- that Tom has been talking about and James commented on. I mean, focus -- I'm new on the scene, right? But what's so compelling to me as -- from what I look at is you look at content and those -- and the core pieces that kind of feed into that and -- and that -- and then take a look at the cRPO, right? That current remaining performance obligation, that is just really kind of going to -- that's what's carrying everything here. That is the biggest component of the business.

And from a -- what -- where Q2 is versus the second half, we haven't changed our annual outlook. So there is going to be some degree of shift from the other elements of the business, but that trajectory is the key trend to watch.

P. Thomas Jenkins - *Open Text Corp - Executive Chair & Chief Strategy Officer*

Yeah. And don't forget that the thing that we don't know is what's the mix of revenue caused by how fast people are going to the cloud. As you know, the revenue reporting for cloud gets distributed when we make a contract three, four, even five years as opposed to license, which gets recognized right away in that quarter.

So that's part of the issue that we don't know what the mix of that revenue will be. We sure do have the customers, though, it's just that what buckets of revenue will that go into quarter-by-quarter.

That's the thing that we think we're seeing an even faster move to the cloud.

Operator

Stephanie Price, CIBC.

Stephanie Price - *CIBC World Markets Corp - Analyst*

Hi, good morning. Thank you. Maybe just a follow up on Kevin's question around the Q2 guide, and I appreciate the color on the go-forward strategy. In terms of EBITDA growth in the second half, the reiterated guide implies a pretty significant step-up in H2. Just curious about what's driving that growth? Is it primarily transformation initiatives? Or any color on that, Steve, and welcome, would be great.

Steve Rai - *Open Text Corp - Executive Vice President, Chief Financial Officer*

Yeah. I'll let the others jump in. But certainly, there's a lot of the portfolio reshaping, the very significant business optimization initiatives that have been underway for some time and continue to be -- I mean, that's a half a billion run rate improvement since the program was what was announced that we're working on.

So a significant portion of that, call it, one-third, I understand was realized last fiscal year. There's another one-third approximately that's built into the plan for the current year, and then we continue to work beyond that.

So all of those things really drive that improvement.

Stephanie Price - *CIBC World Markets Corp - Analyst*

Great thank you. And then, Tom, maybe just an update on the divestitures initiatives. Congratulations on eDOCS. How should we kind of think about the cadence of divestitures over the next several quarters here as you look to divest 15% to 20% of the overall revenue?

P. Thomas Jenkins - *Open Text Corp - Executive Chair & Chief Strategy Officer*

Yeah, that's a great question. We've been grappling with that and talking to Steve about the right way to do it. Clearly, there are multiple business units here that are non-core. And I think what you'll see is we'll establish a pace of doing one per quarter because it does take a lot of effort.

If you think about what Steve just said, as we divest a unit, there's parts that do not go with the unit sale that we then have to restructure.

So it's a nontrivial exercise. We're going to do it methodically. And I think you'll see us generally be done within the next year. That's sort of what our overall goal is. But yeah, you'll see a drumbeat of this.

It will not be all at once. that would be irresponsible. We want to stay very disciplined on our EBITDA and keep -- as you know, the company is very disciplined when it comes to EBITDA. We'll make sure that we do this in a methodical fashion so that we don't get big changes in EBITDA. So that will guide us.

We'll have to ask everyone's patience while we do it, but we don't want drama. We just want to have it in a real constant drumbeat as we go through the year.

Operator

Steve Enders, Citi.

George Kurosawa - Citi - Analyst

This is George Kurosawa on for Steve, thanks for taking the questions here. Maybe one follow-up on the divestiture point. Steve, I think one of the things that jumped out to us on your resume, your time at BlackBerry was your involvement in divestitures with that organization. Maybe any thoughts on your approach or playbook? What do you feel like is similar or different coming into the situation?

Steve Rai - Open Text Corp - Executive Vice President, Chief Financial Officer

Well, the primary difference that we've got here is the core represents the largest and fastest-growing piece of the business. So that is a great position to be in. And then beyond that, just given the kind of the landscape that Tom painted, everybody realizes we're on the cusp of a major step change in terms of AI and agentic AI, in particular, developing. And we've got -- this company has got AI of its own. But in addition to that, that access to all the information to training it.

I mean that training ground and providing that access to it is, I mean, what a phenomenal time to kind of -- again, this is 35 years in the making, a great position to be in to kind of capitalize on that market picture.

George Kurosawa - Citi - Analyst

Got it. Okay. Great. I appreciate that color. And then I also appreciate the additional disclosure on the business unit side.

I think the Content Cloud side really jumps off the page, it's been well discussed. I think the other thing that caught our attention maybe on the flip side was the cybersecurity enterprise piece, particularly that cloud component declining. I know it's small, but I think we were kind of interested in the cross-sell opportunity there.

So surprised to see that moving in the wrong direction. Just any color or commentary on what's happening in that business and your outlook there going forward.

James McGourlay - Open Text Corp - Interim Chief Executive Officer

Look, I think it's fair to -- it's James speaking. I think it's fair to say that we're working extensively on that business. And we've made several investments in the product development since we acquired the product lines. We are seeing great success as we're moving forward. And we will start to see those cloud numbers coming up with investments in specific regions.

But I can look at various deals that we've done with large strategic banks where we've sold content and cloud and security together. So we are seeing success in our cross-selling efforts. We're expanding those efforts, and you'll see us continue to expand those efforts as we go through this year and beyond.

Operator

Samad Samana, Jefferies.

Billy Fitzsimmons - Jefferies - Analyst

Hey guys, this is actually Billy Fitzsimmons on for Samad. I want to double-click on Content Cloud because it's important. And when we think about the 21% Content Cloud growth in the quarter, how would you break down that growth between, call it, net new customer wins, seat expansions, ARPU expansion for selling additional modules in the base? And then cloud conversions in your existing base.

And what I'm kind of getting at here is when we think about cloud versus non-cloud, Open Text has always made a point to support customers where they are.

And so just so we're all clear, were there any, call it, shorter-term tailwinds to the Content Cloud growth rate from you guys using either carrot or sticks to incentivize your existing on-prem customers to move to the cloud? Or would you more categorize this as customer-driven and that they're choosing to transition because of their AI readiness?

James McGourlay - Open Text Corp - Interim Chief Executive Officer

So first of all, I would characterize this as -- characterize this as a joint effort between OpenText and customers. As you said, we're selling to our customers where they want to be. We allow our customers to make that choice, and that's where we go. We don't have a program in place that incentivizes customers to move into the cloud. We're not pushing people to the cloud.

This is really a joint effort and a joint decision as we go forward. There's nothing exceptional that I can -- that comes to mind in the quarter that would drive that growth other than the concerted effort of our sales team selling.

P. Thomas Jenkins - Open Text Corp - Executive Chair & Chief Strategy Officer

I think there's also a really big point buried inside that question. We, as a company, are focused on shareholder value. How do we make the most profit and the installed base has a tremendous amount of ARR, what we would classically call maintenance. It's very lucrative for the company. We're not in a hurry to see that leave.

And quite frankly, neither are our customers. Our customers are very -- if they didn't broke, don't fix it. And so we're not in a hurry. I know other vendors because they want to categorize everything into the cloud or converting, we don't see the wisdom of that, not for our customers and not for ourselves. They're happy to actually pay us more under the old way, and we're happy to take it.

So I think you'll see that this, as James says, is a partnership ongoing between our users and ourselves. But we're not dogmatic on this. We're just driven by how do we make the most amount of money and the most amount of money is by doing what customers want.

Billy Fitzsimmons - Jefferies - Analyst

Makes perfect sense and crystal clear on that. And maybe if I can ask one to you, Steve. I'll leave this pretty open ended, but it's only been a month or so since you joined, and this is your first earnings call. Can you just talk through kind of what are your initial priorities as CFO?

Steve Rai - *Open Text Corp - Executive Vice President, Chief Financial Officer*

Well, obviously, understanding the priorities on the part of our customers, understanding the products. Obviously, there's been some very significant strategic initiatives recently announced, and the Board obviously has been very involved in that. But the big things are the primary trend that we've been talking about with content leading the growth and wrapped with all the business optimization initiatives, and that's really the top line, but bottom line, I mean, those are the most significant and most impactful items. So that's where I'm focusing and just obviously getting to know the team and how we do things.

P. Thomas Jenkins - *Open Text Corp - Executive Chair & Chief Strategy Officer*

Steve is certainly not bored. There's a lot of balls in the air, and he's just in a perfect position. We had a meeting early in and I said, Steve, what do you think? He said, go faster. And I think that characterizes Steve for us.

He's a veteran, been around, he sees what we're doing, just go faster.

Operator

Stephen Machielsen, BMO Capital Markets.

Stephen Machielsen - *Bank of Montreal - Analyst*

Hi, good morning. So with respect to the ITOM business, you clearly had some strong cloud growth, albeit off of a small base. What would your expectations be for stabilizing total ITOM revenue? Like is this something you hope to accomplish as you exit this year? Or is it still TBD?

James McGourlay - *Open Text Corp - Interim Chief Executive Officer*

I think we're -- I think we'll say at this point, it's still TBD. I mean we are working on stabilizing as we go along. And obviously, you can see the growth coming in on the cloud. There's some great product features, benefits that are coming out in our upcoming releases. We're seeing stronger demand from our customers.

So yeah, we're working towards stabilizing. I'm not willing to put a date on it at this point in time, but we are progressing well towards that end. And we're winning some great deals against some strong competition. So we've got really positive plans for ITOM and a key part of the portfolio.

P. Thomas Jenkins - *Open Text Corp - Executive Chair & Chief Strategy Officer*

I think what you'll see at Analyst Day and also at the user conference, although we break out these units as ITOM and enterprise security and content, you're quickly seeing us evolve into a go-to-market strategy where we're training all content for agentic AI.

You'll see us go to market where the ITOM, which is really machine-generated content for agentic AI, you'll see business networks, which is really transactional content for agentic AI and then the original content server business, which is human-generated content, all of those components are going to come together in an offering from us because our users, when they go to train agentic AI, they don't think of it as ITOM or the way we as vendors would break it up in the historical way of creating content. They just think of it as content, a big data pool.

And so you'll see us go to market where we would in the past call that cross-selling. We're coming to the market now to give our users what they need, which is really all of the data, not select data that previous vendors had but rather all of the data.

I think this is a very important thing you'll see us go-to-market with starting with next week with Analyst Day.

Stephen Machielsen - *Bank of Montreal - Analyst*

All right. We'll look forward to it. My second question is the Q2 revenue guide seems to imply a double-digit decline in license. Can you provide some color on that dynamic? Is it reflective of clients transitioning from license to cloud?

Or is there some other dynamic or factor to point to?

P. Thomas Jenkins - *Open Text Corp - Executive Chair & Chief Strategy Officer*

So this is what I was referencing before. We're really driven by the selection that our customers are making. As James has said, we don't have a definitive target. We simply show up and say, here's the menu. Would you like this on-prem?

Would you like this as a managed service. So in many ways, that mix is really a reflection of how quickly customers are going to the cloud. And quite frankly, last quarter, they chose cloud more than they did license. That could change next quarter because there is that other dynamic going on where the need for a proprietary cloud or a sovereign cloud that will have an element of on-prem, and it will have an element of wanting license revenue. So it's not something that we can predict with absolute precision.

We think overall, though, that the trend line will continue just like what you saw this quarter into the following quarters. But that variability quarter-to-quarter is really hard to really nail down. James, what's your--

James McGourlay - *Open Text Corp - Interim Chief Executive Officer*

I think you covered it great, Tom.

P. Thomas Jenkins - *Open Text Corp - Executive Chair & Chief Strategy Officer*

What we're seeing --

James McGourlay - *Open Text Corp - Interim Chief Executive Officer*

That's what we're seeing. We're seeing our customers move to cloud. There's some large deals out there, some variability in when those deals will happen on the license side. But the main driver is that customers are moving to the cloud. Those are bigger deals, but they're spread over time, and that's the impact on the quarter.

Operator

Seth Gilbert, UBS.

Seth Gilbert - *UBS AG - Analyst*

Hey, thanks for taking the questions. Maybe another one on the 2Q revenue guidance that you outlined. 2Q usually seasonally stronger than 1Q with the December year-end -- calendar year-end. Maybe can you help us out a little bit, is cloud services, is that line going to be less than the 6% because there's a fine mix if you kind of play with license in the previous question and if you play with cloud.

And maybe trying to help us understand for modeling purposes where those two will kind of be in 2Q, I think, could help squash a lot of investor fears. Thank you.

Steve Rai - *Open Text Corp - Executive Vice President, Chief Financial Officer*

I would kind of start with -- we haven't revised the outlook for the full year. So there is some element of larger deal timing, particularly on the license front because the rev rec is more upfront on that. But this is why at the outset, and I think we've covered in some of our IR presentation as well, that if that's a trade-off and the customer chooses to go to the cloud rather than signing up for a license deal with more upfront rev rec, keep an eye on the RPO because that's where that trade-off and that customer choice ends up and particularly the current RPO, which is the next 12 months. So it's that -- it is a positive shift for the long term to see it. But obviously, there's that near-term accounting rev rec impact.

So that's how I guide you to kind of view that.

Seth Gilbert - *UBS AG - Analyst*

Got it, thank you. And maybe as a follow-up, recognizing you have not changed your full year guidance, which was good to see. So maybe this is a question about a little bit further out. But can you talk about how you're thinking about the changing revenue mix to impact margins maybe at a high level?

P. Thomas Jenkins - *Open Text Corp - Executive Chair & Chief Strategy Officer*

Yeah. No matter what the revenue mix, we are committed to the margin. We've always been a very disciplined operator. So there will be no change to the margin regardless of the revenue mix. We will adjust as we go along.

And it's like Steve said, some of this from a rev rec point of view, all the so-called dump truck still has the same amount. It's just that we're letting some of it out slower in one of the scenarios with cloud. But the dump truck still has the same amount of dirt in it. So it's just -- as we meter it out, we will make sure we maintain our margins. We've got a long history of being a very disciplined operator.

Operator

I will now hand the call back over to management for closing remarks. Please go ahead.

P. Thomas Jenkins - *Open Text Corp - Executive Chair & Chief Strategy Officer*

Thanks, everyone, for joining us today. We're excited about our fiscal '26 and all the opportunities in front of us. We hope you'll join us at OpenText World in Nashville on November 18 for our Analyst Day. We'll go into more detail on some of the things that we talked about.

As Greg noted, we'll be out in the field quite a bit at many investor conferences through the fall spending time with you and looking forward to you hearing your feedback.

Thanks again for joining us today.

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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