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OTEX.TO - Q2 2026 Open Text Corp Earnings Call

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PRESENTATION

Operator

This is the conference operator. Welcome to the Open Text Corporation second-quarter fiscal 2026 financial results conference call. (Operator Instructions)

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

Greg Secord - *Open Text Corp - VP & Head of Investor Relations*

Thank you, operator, and good afternoon, everyone. Welcome to OpenText's second-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, our Interim Chief Executive Officer; and Steve Rai, our Executive Vice President and Chief Financial Officer. Today's call is being webcast live and recorded with a replay available shortly thereafter. Just look on the OpenText Investor Relations website at investors.opentext.com.

Earlier today, 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 some upcoming investor events. OpenText will be participating in the Scotiabank Technology Media Telecommunications Conference in Toronto. It's on March 4. We look forward to meeting with you there.

And now on to reading 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 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 the 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 the press release that was distributed earlier today, all of which can 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 the other materials that 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*

Thank you, Greg, and welcome, everyone, to our Q2 fiscal 2026 earnings call. Last week, we announced Ayman Antoun as our new CEO. Tom will talk more about Ayman later in this call, but I wanted to take an opportunity to welcome Ayman to OpenText, and I look forward to working with him when I return to an executive role on the leadership team.

In this past week, we announced that we had entered into an agreement to divest Vertica to Rocket Software for \$150 million. I would like to recognize the dedication of our teams and thank our customers and partners for their continued trust during this process. The transaction places the Vertica solution with a strong, committed steward, and I look forward to working with Rocket to support customers and to ensure a smooth and thoughtful transition.

We ended off the quarter with a solid performance, beating our own expectations on total revenues, adjusted EBITDA margin, and adjusted EPS. Our results for this quarter and the first half of '26 demonstrates our commitment to deliver on our objectives and maintain a steady ship as we continue to implement our strategy of reshaping our business to focus our faster-growing core businesses.

Since August, our goal has been to ensure that our clients receive strategic support from OpenText as they progress through their cloud journey while rapidly advancing their AI readiness. Our clients are using our AI Aviator tools to gain additional value and insights from their content.

The secure information management capabilities that we have provided to our clients for the last 30 years delivers the same data that AI requires. Therefore, we are well positioned whether our customers use AI or applications to meet their business needs.

Steve Rai will go through our quarterly results in more detail. However, I would like to highlight that in Q2, we generated total revenues of approximately \$1.33 billion, led by overall cloud growth of 3.4% year on year. We continue to see strong enterprise cloud bookings of \$295 million or growth of 18% year on year. Total cloud RPO is up 13.7% year on year, and we closed 53 cloud deals larger than \$1 million.

We introduced disclosure on the revenue performance of our product categories in September of last year. And you can see that our total content business, which consists of 43% of our total revenues, grew 4.5% year on year in Q2. And if you look specifically at cloud revenue for content, it grew 18% year on year. I would like to call out that our revenues for our core business continue to grow at approximately twice the pace of total revenues. Content, which is our largest and fastest-growing business, continues to demonstrate strength, and it also leads to our cloud growth.

There is no change to our F26 revenue target of 1% to 2% growth year on year. I would like to turn to some of our customer wins in the quarter that highlight the growth trajectory of our core business. We secured a win from US Bank, where it completed a full migration of its on-premise license to hosted architecture and cybersecurity. Solenis faced complex document management needs across their global operations, and they opted to integrate OpenText's extended ECM with SAP for more streamlined and unified processes.

We had another cybersecurity win with BNP Paribas. They needed a single integrated application security stack to help avoid production vulnerabilities and reduce remediation costs. They chose OpenText software since it delivered the best results after testing all major vendors. At OpenText World Conference last November, we received very positive feedback from our clients and partners on our new product cycle release. We had customers such as IBM and Honda join us on the main stage to speak about using OpenText AI solutions.

IBM spoke about using our content management and content Aviator to support their 280,000-plus employees worldwide. United Airlines discussed why they chose our ITOM platform and ITOM Aviator to reduce critical incident resolution time. And Honda chose our business network trading grid and business network Aviator for autonomous supply chain issue resolution.

At the conference, we also introduced the OpenText AI Data Platform, which we will be shipping next quarter as well as a host of new tools for orchestration of data, integration, and agentic AI. Our AI data platform can facilitate any major LLM model and provide over 1,500 connectors to various ERP, CRM, ITOM systems such as Oracle, Salesforce, SAP, et cetera.

Turning to our F26 outlook. As I mentioned, we are reaffirming our total revenue growth of 1% to 2% year on year. Our expectation for FY '26 year-on-year customer support and ARR growth as well as enterprise cloud bookings also remain unchanged. As we look forward to the next quarter, we expect Q3 total revenues to be between \$1.26 billion and \$1.28 billion.

To summarize, we are really excited about our cloud growth in our core product groups, especially in Content, our largest and fastest-growing business. Overall, we see opportunity for our core products to continue growing in the cloud as our clients make fundamental decisions on their cloud and AI needs.

And with that, I would like to hand the call over to Steve.

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

Thanks, James. Good afternoon, and thank you all for joining the call today. I will also take this opportunity to congratulate Ayman on his CEO appointment and look forward to working together in a couple of months on this exciting journey.

After my first full quarter with OpenText, I have gained excellent insight into the business. OpenText maintains a strong financial position, and I am very optimistic about the strategy we're executing to pivot the company to higher growth with a solid margin and free cash flow profile. We remain operationally focused and are making good progress on the major strategic initiatives that we've outlined in the last couple of quarters, including on our portfolio reshaping and business optimization plan.

In Q2, our Content Cloud business continued to lead our growth, and we also performed well on margins and cash flow. As James mentioned, we generated total revenues of \$1.33 billion. Cloud revenue was \$478 million, up 3.4%, mainly driven by Content Cloud. As a reminder, please see our Investor Relations presentation for further details of our core and noncore revenues by product category.

Q2 represents the 20th consecutive quarter of organic cloud growth, and our Cloud net renewal rate remained consistent at 95%. Customer support revenue in the quarter was \$582 million, down 1.5% and on track with our fiscal '26 outlook. Our customer support net renewal rate also remained consistent at 92%. Annual recurring revenue, or ARR, was \$1.06 billion, up 0.7% year over year. And ARR as a percentage of total revenues was 80%, which increased by 1 percentage point.

Regarding profitability, GAAP gross margin was 74.0% and non-GAAP gross margin was 77.6%, both up 70 basis points and 40 basis points, respectively. This was mainly driven by the increase in cloud and customer support gross margins, partially offset by the decline in gross margins for license and professional services.

Adjusted EBITDA was \$491 million or 37.0% margin. This was down 2.1% and 60 basis points, respectively. The decline was driven primarily by investment in the sales team, including commissions, partially offset by savings from our business optimization plan, which remains on

track. Regarding that, we still expect to realize this year approximately one-third of the total estimated savings of between \$490 million and \$550 million. Please see slide 34 in our Investor Relations presentation for more details.

GAAP net income was \$168 million, down 26.9% year over year. The decline was largely due to FX on acquisition-related derivatives. Non-GAAP net income was \$286 million, down 2.4%. Q2 GAAP diluted EPS was \$0.66, down 24.1%, and non-GAAP diluted EPS was \$1.13, up 1.8%. And free cash flows was \$279 million, down 8.9%. On a year-to-date basis, total revenue was up 0.4% and cloud revenue grew 4.7%.

License was also up 1.3%, partially offset by a decline of 1.5% in customer support and 10.2% in professional services. First half fiscal '26 adjusted EBITDA margin was 36.7%, up 40 basis points. Non-GAAP diluted EPS of \$2.18 was up 7.4%, and our free cash flow was \$381 million, up from \$190 million for the same period last year.

We announced the divestiture of Vertica for \$150 million in cash before taxes, fees, and other adjustments. Vertica is part of OpenText's on-prem analytics product group, and it contributed approximately \$80 million annual revenue in fiscal '25. OpenText intends to use the proceeds from the sale to reduce outstanding debt.

Under the terms of the agreement, the software, customer contracts, and associated services and employees will be transferred to Rocket Software. The transaction is expected to close during fiscal '26, subject to customary approvals and closing conditions.

Turning to our full-year fiscal '26 outlook that James touched on earlier. Our expectations remain unchanged at 1% to 2% for total revenue growth. While not impactful to the overall percentage range, we are reminding investors and analysts to reduce their revenue models for the remainder of the fiscal year by approximately \$15 million to reflect our divestiture of eDOCS, which was completed in January. All other previously announced outlook remains unchanged. We continue to watch global currencies and are being slightly more specific that, in fiscal '26, we expect our core business total revenue to grow in constant currency terms.

Turning to Q3. We expect total revenue between \$1.26 billion and \$1.28 billion. This number reflects a \$7 million reduction for the eDOCS divestiture. Q3 adjusted EBITDA margin is expected to be between 33.0% and 33.5%, which, as in prior years, is a seasonally lower margin quarter. We continue to expect total revenue in the second half of fiscal '26 to skew higher from Q3 to Q4.

Last November, at our OpenText World Investor Briefing, I provided an illustrative example of how we anticipate our total revenue mix could change and grow in the coming years as our customers move faster to the cloud. For reference, we included this on slide 8 in our Investor Relations presentation.

In the longer term, OpenText will benefit as we expect to see cloud revenue, ARR, and RPO increase significantly. This is a classic strategy utilizing the same modeling as for all other software companies experienced -- as they experienced through their cloud transitions. We closed the divestiture of eDOCS in January and used the proceeds to pay down our debt.

We continue to execute on our previously announced \$300 million share buyback program, and we have repurchased for cancellation half of this on a year-to-date basis so far in fiscal '26. Subject to customary regulatory approvals, we intend to further increase the amount of our existing buyback program, particularly given recent valuation levels. We are also looking to do small tuck-in M&A as opportunities arise. Our robust cash flow engine provides us with the scale and flexibility to continue investing for growth within our core Enterprise Information Management for AI market.

With that, I will hand it over to Tom.

P. Thomas Jenkins - *Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer*

Thanks, Steve, and good afternoon, everyone. It's been a busy six months, but I'm happy to see solid results for the second quarter and first half of the year, thanks to the leadership of James and Steve and the rest of the executive leadership team. The company has been

operating smoothly while we continue to move forward with our strategy to pivot OpenText to higher growth while maintaining a solid margin and free cash flow profile.

Last August, we made some promises, and I'm happy to say we've met all of them. We've completed our hiring and performance targets. We're moving forward with some solid milestones in our portfolio shaping activities.

Let's review what we've done so far. As Steve and James have highlighted, we've had strong Q2, had a strong Q1 before. First half of the year is going well. We're on track to meet all of our F26 outlook targets as we promised. We appointed Steve Rai, who's now fully immersed and focused deeply on strategy, operations and financial reporting.

On the portfolio shaping, we've announced the sale of Vertica as well as the closing of the eDOCS divestiture, but we're not done. We've set a cadence of one divestiture per quarter, and we're working towards streamlining our portfolio to get to our core business. We've elected two new Board members at our AGM in December, and that brings to a total of five new Board members in the past year alone. We provided additional transparency with quarterly reporting of our product category revenue so everyone can track our progress every 90 days as we move to our core business.

And lastly, we appointed our new CEO, Ayman Antoun, a software industry veteran. I'd like to echo James and Steve's warmest welcome to Ayman. He won't be on this call since we just announced his appointment last week, but Ayman will be ready to participate in next quarter's earnings call.

The Board is very pleased to welcome Ayman to OpenText. And as we look ahead to the company's future, the Board believes that he's the best leader to drive shareholder value by growing organic revenue in our core enterprise information management business to train agentic AI. Ayman brings more than three decades of global technology, operating discipline, transformation leadership to OpenText.

Built over a seasoned career in the information technology industry, most recently as President of IBM Americas, he led the company's largest and most complex business unit across US, Canada, and Latin America, about \$30 billion in revenues all told. During his tenure at IBM, he drove major advancements in cloud, infrastructure, cybersecurity, cognitive solutions, digital modernization as well as divestitures such as Kyndryl. We're also welcoming Ayman back home as he went to high school and university a few blocks from our headquarters office in Waterloo.

James continues to serve as Interim CEO until Ayman officially joins us in a couple of months. Upon that transition, James will move into a role within the executive leadership team. I'd like to thank James for his steadfast leadership as interim CEO and for the strong results we're realizing by his continued commitment to our clients.

Part of our portfolio shaping strategy, we recently agreed to divest Vertica to Rocket Software for approximately \$150 million, and this comes shortly after we announced the closing of the eDOCS divestiture for \$163 million. We're executing to our strategic plan, focusing on our core product offerings, our expertise in secure data for enterprise AI that provides strategic choice where you can choose LLMs and flexibility for our customers.

We're moving quickly but methodically to ensure that we obtain the best market value for our assets and do it in a way that will not disrupt our sales and operations. By rationalizing these noncore assets, we're strengthening the portfolio, reinforcing our capital allocation framework and positioning OpenText to invest more deeply in our cloud businesses. That will drive sustainable long-term growth and shareholder value. The rise of AI has confirmed our thesis that providing data to train AI is the best choice for our core business.

I'd like to turn our attention to some changes we made at the Board level. We held our AGM last December, and we welcome two new Board members, John Hastings and Margaret Stuart. And of course, Ayman will be joining the Board as well in April. As I mentioned before, that brings a total of five new members joining the Board just in the past year.

We announced back in August that the company will be focusing on our core markets anchored by our largest and fastest-growing Content Cloud business. This requires us to reshape the current product portfolio. And with the announcements that we've made so far of Vertica and eDOCS, we're pushing forward at a methodical pace to sell one business unit or product category per quarter. This timing is approximate and can vary depending on the size of the transaction that we're working on.

As OpenText moves towards a leaner content cloud and AI-focused software company, it's important to be reminded of why we are doing this. OpenText is positioned as a leader in the Information Management space, particularly for training Agentic AI. Our product strategy remains focused on the need of our customers to organize and curate their data to use with Agentic AI. And our core businesses and especially content couldn't be better positioned in this market. We're managing, organizing and securing data are critical steps in training and deploying Agentic AI tools.

As you all know, OpenText for 30 years have been making this information management for applications that our customer used in regulatory industries because they needed permissions to access sensitive information. And it just so happened that when AI was invented, it needed the same kind of information management to train the enterprise AI, also known as Agentic AI.

So we're very fortunate that we were ahead of the curve and that all of our technology that we developed over the last 30 years is immediately usable to an AI through our Aviator connector. The focus of our development has been on making Aviator connector to as many popular large language models as possible that are being used to train as agents within organizations using sensitive data.

So we're doing what we said we would do. There are more milestones to come, and we're operationally ready to support further portfolio reshaping, and I'm confident in our leadership team and the existing operating model. The core of OpenText is growing while management remains disciplined on margin and focused on growing adjusted EBITDA dollars. We appreciate the patience given to us by our shareholders while we evolve into a higher-growth content cloud and AI-focused software company, and we're excited by what lies ahead.

With that, this concludes our prepared remarks. And could the operator please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Richard Tse, National Bank.

Richard Tse - National Bank Financial Research - Analyst

Tom, you sort of touched on this a little bit, but in light of the events over the past few weeks in software around all of the Anthropic news, given where you sit and your background, can you maybe elaborate a little bit in terms of why AI cannot disrupt OpenText and content management? We're getting sort of a lot of inbound questions from investors to articulate this a bit better from a technical perspective.

P. Thomas Jenkins - Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer

Yes. Thanks for the question, Richard. Well, the simple answer is OpenText doesn't make applications. We feed content into applications. So we feed content into training agentic AI, which then can go and replace certain application software.

But you still need the content, whether you're providing the content to a human being using an application on a console or you're providing the content into a robot that's being trained to do the same thing. It's the same thing. You still need to train it and use the content. So we're in one of those fortunate positions where all the content that we've created and managed and curated over the years is the same thing.

Richard Tse - *National Bank Financial Research - Analyst*

Okay, thanks for clarifying that, and my other question has to deal with the divestitures. It looks like you've got some pretty good pricing on the recent announcements. Are you still confident that you could do one per quarter? And are the valuations kind of falling here relative to your initial expectations going into this?

P. Thomas Jenkins - *Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer*

So the short answer is yes and yes. And why are we saying yes and yes? Well, first of all, we see the pipeline of the various auctions going on, and there's lots of interest. So there's no shortage of people interested. It's because they're very high-quality assets. The only reason we're getting rid of them is because we got something better to do. It's not a problem with any of these product lines.

The second reason is that the buyers are generally financial buyers. And so these are really driven valuations by discounted cash flows. And so all of these factors that go into the market really come out as a DCF analysis. And so all of our forecasting is based on the same approach that they would make. So yes, we're pretty confident that the answer is yes and yes.

Operator

Raimo Lenschow, Barclays.

Raimo Lenschow - *Barclays Services Corp - Analyst*

Congrats from me as well. One for you, like with Ayman joining -- well, first of all, thank you for giving us the extra disclosure on the revenue breakdown for the different divisions. What we can see is that the core business is doing well compared to the other parts of the business. If you think about Ayman starting now, like how broad is this mandate in terms of being able to do more here in terms of divestment, focusing on the core business? Can you speak to that, please? And I have one follow-up.

P. Thomas Jenkins - *Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer*

Yes. The recruiting of Ayman came with a full discussion about what the strategy was of the company, and we had pretty strong congruence between the Board and Ayman. I think we see the situation the same way. So I don't think you'll see any difference. Now of course, Ayman coming in as CEO, once he gets into the chair, he's going to look at it and work with his ELT and then come back to the Board.

So things change all the time in tech, as you know. But no, we've got good congruence. We're blessed with Ayman's wonderful background in all of the product categories. So he's got a very, very good inside view of all of the both core and noncore. So we're blessed with someone that understands all the different pieces. So yes, we're pretty satisfied with the congruence.

Raimo Lenschow - *Barclays Services Corp - Analyst*

Okay. Perfect. And then I know revenue is backwards looking for some of that. But like if I look at the quarter, like some of the numbers decelerated a little bit from a growth perspective. But just on a constant currency basis, could you speak a little bit how the quarter played out for you guys more on the bookings side, what you saw in the field?

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

Yes. So we actually -- we had a good quarter. As we were going through the quarter, the deals shift sometimes from quarter to quarter. But as we're coming through, we saw some strong bookings in our license towards the end of the quarter. We had a number of deals that were in different parts of the year that came into Q2 for us.

You got to keep in mind that we run an annual business. And as we run that annual business, deals can move around. So we've got a strong pipeline going forward, and we're very excited about the year coming up.

Operator

Kevin Krishnaratne, Scotiabank.

Kevin Krishnaratne - *Scotiabank GBM - Analyst*

Tom, maybe just to follow up on some of your comments on agentic AI and customers training agents. Is there anything you can share for us in terms of maybe usage or customer penetration or adoption of Aviator across different business units, maybe if not quantitatively, just sort of like what you've been seeing over the past couple of quarters? Just trying to get a sense of where you're at and how rapidly consumers are, in fact, training using the data on the platform?

P. Thomas Jenkins - *Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer*

Yes. Thanks for the question. Again, we are so early. You can't even say we're in early innings. We're really at the first batter. This is so early. Most of our customers are anticipating the need so they -- what they're doing is they're actually getting their content in order. They've run some prototypes, but this is a long way to go. This is the reengineering of decades of industrial software.

So I think everyone should realize that if you were a CIO in a large organization, you're running a pilot with an agent. But in background, what you're really doing is getting ready with your content, making sure that you've got it curated and assembled into a way that you can train the agents with permissions because you have to remember that if you're subject to something like GDPR or you're subject to any kind of restriction on your customers' information or the corporation's information, that AI that you create is also restricted.

So it's not like you can train something and then just put it up on the web. You have to be very careful how you do the deployments. So most of the activity because we're training and so the content is being prepared to then train each of the LLMs. So this is a nontrivial exercise. And I think you'll see this unfold over many, many years. But where we see a lot of the activity right now is people getting ready.

Kevin Krishnaratne - *Scotiabank GBM - Analyst*

Got you. Okay. Maybe one for Steve. Just on the bookings and the cloud bookings, so you did -- cRPO grew 6% Q1, 9% Q2, the cloud revenue growth guide, 3% to 4%. I'm wondering if you could just talk about sort of the dynamics there, a little bit of the disconnect.

I don't know if there are elements of the business network or transactional piece that are offsetting. But maybe just talk about sort of the strong bookings to start the year, but then the revenue guide, maybe what you're seeing from customers.

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

Yes. James touched a little bit on the bookings topic. I mean, cloud bookings, which obviously kind of flows into the RPO have been nice double-digit growth there. And there's obviously, that flows into -- the bookings number is going to have both current and longer-term

components to it. So from a revenue profile, I mean, obviously, in terms of the overall mix, there's other things at play, right? So when you look at the breakdown of the product categories that we now disclosed, you can kind of see that interplay there.

And from a second half standpoint, I mean, there's a bit of seasonality here that's typically at play. So in terms of the outlook and the 3% to 4% guide, I think that you referenced, we're holding to that. But Q4, as I said, the results and the activity is somewhat skewed to Q4, and it will kind of depend on the mix that comes through there. But it's continuing to track on a healthy trend.

Operator

Stephanie Price, CIBC.

Stephanie Price - *CIBC World Markets Corp - Analyst*

Last quarter, you talked about accelerated cloud migrations. Just curious if you can talk a little bit about what you're seeing in terms of the demand environment and client moves to the cloud here.

P. Thomas Jenkins - *Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer*

Yes. Thanks for the question. I'll turn this over to James, but I have to say, as we started with our user conference, we're getting a lot of positive feedback. We're quite pleased with how customers are reacting. And I think you're going to see that there's two parts to our go to Cloud. One is the installed base and one is first-time sales.

And I think as we mentioned last time, we're very aware of how other software companies have done this, and we're simply going to follow in their tracks. And that's what we were trying to say last quarter is that you'll see a much more vigorous cloud campaign from us, which started within a few weeks of the call last time.

James, over to you.

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

No, I agree with you, Tom. The thing I'll add is about the response from our customers. We are seeing our customers actively engaging with us and building out plans to migrate their installations into the cloud. The deals do take time, as you know, our deals have a longer cycle time. So these deals are forming up, and we do expect to see them really kicking in over the next few quarters. We have had some great success in Q2 with some large cloud deals coming in as we talked about the number of deals that were over \$1 million.

P. Thomas Jenkins - *Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer*

I think the other important thing that's part of our modeling going forward, we do not anticipate a dip in revenue. This is a very encouraging development for us. As we've talked about the value that we're bringing in the cloud transition, it turns out that we're able to benefit from the more mature models that other enterprise software companies went through the learning curve. I guess in a simple way, we're not going to follow the pattern that others did about five, six years ago, because we get to benefit from that learning curve that they went through. So we're anticipating just pure growth from it.

Stephanie Price - *CIBC World Markets Corp - Analyst*

Great. And then maybe a bit on capital allocation, just given what's going on in the market the last few weeks. I think Steve mentioned potential increased buyback program. How do you think about buybacks versus dividends versus M&A here?

P. Thomas Jenkins - *Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer*

The Board always reviews. In fact, just recently, the Board met and reviewed all of that as a basket. And as you say, it's very market specific and also strategy specific. So as Steve mentioned, the company is now seeking approval from the authorities to expand its buyback program. And once we receive that authority, we'll communicate that further to the Street.

Clearly, we are quite robust in our dividend program. Steve also mentioned that you should be anticipating that we'll continue to do tuck-under acquisitions. And also as we do the divestitures, we're paying down debt.

So we hope that we're meeting all of our shareholder needs that we are doing a blended approach to capital allocation, very thoughtful. Board meets on it, has fulsome discussions about the right balance. We are blessed with a substantial cash flow. And so we have lots of capital to be able to execute right across all four dimensions. And I think you'll see us continue to do that in a thoughtful manner.

Operator

Thanos Moschopoulos, BMO Capital Markets.

Thanos Moschopoulos - *Bank of Montreal - Equity Analyst*

Just to clarify, with respect to the cloud migrations you're seeing from the installed base, are those more weighted towards being hosted on OpenText infrastructure? Or is more of that going towards public cloud infrastructure that you're managing?

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

No. We're going to hyperscalers in general.

Thanos Moschopoulos - *Bank of Montreal - Equity Analyst*

And that's despite the, I guess, the growing interest in sovereign cloud, which might skew a bit the other way?

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

Sure. Yes. So we're working with the hyperscalers really across the world as the majority of our customers are looking at where they want to go to the cloud. Many of those hyperscalers have installations, all the hyperscalers have installations in geographically distributed areas. At the same time, we are looking at options as we continue to work out our sovereign cloud strategy.

P. Thomas Jenkins - *Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer*

And I think if you recall from the user conference, we published a book on how to deploy enterprise AI. And in chapter seven of that book, we outlined a hybrid strategy because we think clients that are concerned about sovereign data would be best served to do the majority of their workloads that do not require sovereign data on hyperscalers because it's the most efficient, most effective way of deploying what they're trying to do.

And then where they do have to have a sovereign data stack, we can also deliver that and do that in an alternative way, either through our own data network system or a third party as the case may be. It's an evolving area. But I think if you read chapter seven of the book we put out, you'll understand what we're doing. And at the end of the day, like everything we do, we give the customers the choice.

Thanos Moschopoulos - *Bank of Montreal - Equity Analyst*

And looking at the product segments, good to see the sustained growth in the Content business. I guess one thing that stuck out as a bit of a delta from last quarter was cybersecurity enterprise being more challenged this quarter. Is it just lumpiness or anything particular to call out there?

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

Yes. I think you got it right on the head. As I mentioned earlier, we run an annual business. When you look at Q2, it looks a little lumpy. But keep in mind, last Q2 '25, we had a strong cyber quarter, which makes it a tough compare.

We had a strong quarter in Q1 of this year. So we're kind of just below flat there. But we do expect to improve as we go forward. We've got a strong pipeline incoming deals in the next two quarters with some large deals out there. So we do expect it to continue to progress towards growth.

Operator

Paul Treiber, RBC.

Paul Treiber - *RBC Capital Markets Inc - Analyst*

Just a follow-up question, Tom. You mentioned earlier that customers are very early in getting their content in order. How is that impacting software budgets? Are you seeing that drive an increase in software budgets at the moment? Because on the other hand, there's a lot of budget going to LLM. So are you competing against the budget going to LLMs? Or are they continuing on an independent path?

P. Thomas Jenkins - *Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer*

No, I think what you're going to find it's an evolutionary path. And again, I can't speak to the entire industry, only the things that we're seeing. As you deploy an LLM, you're going to start first with public models. It's the easiest. They're the most mature.

You can get your fast bang for the buck, if you will. What we're going to be playing in and are playing in now is where you start to get into that sovereign data, the permissions. Once you train that AI, you have to now start to stay within a regulated environment. That's a whole different kettle of fish. And so that's what I'm referring to.

The public models, that's a very limited area for OpenText. Think of it as if you had a public search engine versus a search engine, which is scanning private financial information or private health care information. If you recall, OpenText began in both the public and the private markets. But as we matured and enterprise content became a thing, we used to refer to it -- it's a bit of a trite way to refer to it. We refer to it as behind the firewall.

So as you start building AI behind the firewall, oh, yes, you've got to have a lot of curation of that content and then you got to control the AI. Because remember, an LLM cannot forget. If you expose an LLM to data that has to be secure, that LLM is now also under the same regulatory restrictions.

So it's that part of the industry that I think you'll see evolve. The first part is clearly around the publicly available information with publicly trained LLMs. If you're a CIO, that's where you're going to go to first. It's as you get into the more nuanced things, which involve proprietary data, that takes a lot more thought and a lot more time and, quite frankly, a lot of enterprise information management.

Paul Treiber - *RBC Capital Markets Inc - Analyst*

That's helpful to understand. Just a question about -- Steve mentioned potential tuck-in M&A. Are you taking into account AI risk in your M&A strategy? Is that something that you're factoring in at this point?

P. Thomas Jenkins - *Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer*

Well, actually, as we've related in the last couple of quarters, the tuck-ins we're referring to is capacity to deliver training to AI. We're actually not focusing on, let's say, software application products and things like that. We're actually focusing on subject matter experts. That's what we need to be able to deploy faster. And so that's what you'll see. And generally, that's why we refer to them as tuck-under. They're not going to be very big. They might be a couple of hundred experts in automotive or in pharmaceutical, et cetera.

They're really subject matter experts that can help us deal with some of the things we've been talking about on this call, which is as you get closer to the cold face and you're starting to train agentic AI, you need to have people that are subject matter experts in that particular area of industry, that particular application because you really do have to test the AI to make sure that what you've trained is really effective. So you need quite a bit of subject matter expertise to be able to go through that process.

Operator

Steve Enders, Citi.

George Kurosawa - *Citi Infrastructure Investments LLC - Analyst*

This is George Kurosawa on for Steve. I wanted to touch on the product segmentation side. The license revenue came in nicely ahead of what we had modeled. I think, Steve, you alluded to maybe some deal timing. If you could just double-click on where you saw the strength and with your more aggressive move into the cloud here, how we should think about that line going forward?

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

This is James. So as I said, we had some large deals that came in. They came in specifically, call it, government sector, but it was across the board. Really, we had a couple of good ones that had been in the pipeline for a quarter or two, and they came in in this quarter. So I think as we're going forward, we'll continue to see those deals move around in the quarters, but we do expect that we do expect to be in line with what we're forecasting here and along the lines what we have in the last two quarters.

George Kurosawa - *Citi Infrastructure Investments LLC - Analyst*

Okay. Great. And then I just wanted to clarify the commentary on guidance as it relates to eDOCS. You maintained the full-year guidance. So is it right to think about this as the headline number is maintained, including eDOCS. So this is sort of an effective raise on an organic basis or more of an organic number maintained, and so therefore the headline number is coming down by the eDOCS number, if that makes sense?

P. Thomas Jenkins - *Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer*

Yes. From an accounting point of view, we can't declare eDOCS as a discontinued business. So there's not a simple way for us to do it when we're mid-fiscal this way. So it's just a simple recognition that the eDOCS business is no longer in OpenText. So we're maintaining the same fiscal year. And it's not just eDOCS, it will be anything else we divest.

In the quarter that we divest, it will no longer be there for the future. We're not guiding down the business, but we are highlighting the logical fact that it's a divested business. We're just not allowed to do it from an accounting point of view. So when you compare year over year, it will look like it's going down, but it's not; the business is not going down. It's just that we divested it. And it will be like that for the next three or four quarters. Steve, is that fair?

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

Yes, that's exactly it.

Operator

David Kwan, TD Cowen.

David Kwan - *TD Securities - Analyst*

Just looking at the guidance for the year, just obviously implies a pickup in growth, particularly in Q4. So I assume that content is going to be a key driver for that expected strengthening of the growth in the coming quarters here. I was wondering to what extent, though, do you expect Business Network, ITOM, and cybersecurity on the enterprise side to contribute as well? Like do you expect these other core products to get to a sustainable positive year-over-year growth in Q4?

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

Yes, we do. We do expect the other product groupings to contribute to positive growth as we go through this year.

David Kwan - *TD Securities - Analyst*

That's great. And then just on the enterprise cloud bookings, pretty strong quarter, up 18% year over year. Again, I see most of that is kind of driven by content, but were there any other products in particular that you want to flag is also seeing stronger demand?

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

No. The content is leading the charge at the moment. And as I said, we're continuing to invest and continue to build pipeline in the other product areas. But at the moment, it is content that is leading the charge. And even though we will see growth in the other products, we do expect that it will continue to be content as we go through the remainder of this year and into next.

P. Thomas Jenkins - *Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer*

If you go back and look at the slides from Analyst Day, you'll note that the other product lines that are in core, we believe they will be dragged along with content over time. Because if you go back and look at the slides, you'll see that they represent other kinds of content, machine content, transactional content. As agentic AI matures, it's going to start dragging along a lot of these other content components. That's why we define it as core. It's just that they will drag along later.

Think of sovereign data. Sovereign data is based on our content, but as more attention is made to the proprietary nature of that data, more attention will also go to cybersecurity. So there is a logic to it all. It's just got to play out over time. And if you look at the slides from Analyst Day, it will sort of give you a bit of the architecture. And if you read the book that we published at the Analyst Day, it goes through all these component pieces and why they're part of a logical set for training agentic AI.

Operator

Seth Gilbert, UBS.

Seth Gilbert - UBS AG - Analyst

Maybe just a follow-up on enterprise cloud bookings. Grew 20% in 1Q, 18% in 2Q against guidance of 12% to 16% for the year. It looks like maybe a tough comp in 4Q, but anything else in the second half that you're anticipating would slow the momentum down here?

James McGourlay - Open Text Corp - Interim Chief Executive Officer

No. We continue to have a strong pipeline across the board on content really. So we're looking to continue to see that rate of growth continue. Our customers are continuing to invest in the cloud and ask us for solutions and work with us on building out those solutions as we're going forward. And I'll leave it at that.

P. Thomas Jenkins - Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer

I think you'll also see the benefits of this company starting to focus on a single theme. Every quarter that goes by, it gets more efficient, more effective, and you'll see the results of that into the next fiscal year.

Operator, we're coming up on the hour. Perhaps we can take another question, and then we'll close it up.

Operator

That is the end of the question queue. So I'll hand it back over to Mr. Jenkins for closing remarks.

P. Thomas Jenkins - Open Text Corp - Executive Chairman of the Board, Chief Strategy Officer

Well, thanks, everyone, for joining us. We had the full hour there. So hopefully, it was helpful for everyone. We look forward to reviewing Q4 and our fiscal year and also welcoming Ayman to our next call and look forward to seeing you at the various investor events through the quarter. Thank you.

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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