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OTEX.TO - Q3 2026 Open Text Corp Earnings Call

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PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the Open Text Corporation third quarter fiscal 2026 financial results conference call. As a reminder, all participants are in listen-only mode and 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 - Vice President, Global Head of Investor Relations*

Thank you, operator, and good afternoon, everyone. Welcome to OpenText's third quarter fiscal 2026 earnings call. With me on the call today are OpenText's Chief Executive Officer, Ayman Antoun; together with James McGourlay, our President and Chief Client Officer; Steve Rai, our Executive Vice President and Chief Financial Officer; and Tom Jenkins, our Executive Chair. Today's call is being webcast live and recorded with a replay available shortly thereafter on the OpenText Investor Relations website, that's investors.opentext.com.

Earlier today, we posted our press release and investor presentation online. These materials will supplement our prepared remarks and can be accessed on OpenText Investor Relations website. Please see our investor presentation for further details of our core and non-core revenues by product categories.

Now turning to upcoming investor events. OpenText will be participating in the Needham Virtual Technology Teleconference on May 14; the Barclays Leverage Finance Conference in Austin, Texas, on May 19; the CIBC Technology Conference in Toronto on May 21; the TD Cowen TMT Conference in New York on May 27; and the Jefferies Technology Conference in Newport Beach, California, on May 28. 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. This may all 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 Ayman.

Ayman Antoun - *Open Text Corp - Chief Executive Officer, Director*

Good afternoon, everyone. Thank you for joining us today. I'm excited to be here as CEO of this iconic Canadian technology company with global reach. To get started, I wanted to begin by sharing why I joined OpenText. We're living in the world of AI. Reliable, quality, curated, governed, integrated, and secure data is critical for credible AI outcomes that are traceable, explainable, and most importantly, deliver value. Simply put, data is not a feature, data is the foundation.

Data is foundational across every organization, every industry, and every economy. Nowhere is that more true than in financial services, healthcare, and regulated sectors, where the cost of getting it wrong is simply too great. OpenText is a global leader in data management.

This company is built for this moment. That's why I'm here. Today marks my 14th working day as CEO. I'd like to share where my focus has been and where it will continue to be in the period ahead.

Four clear priorities are guiding me right now. First, listen. Listening to our clients, partners, colleagues, investors, and shareholders. On the morning of day one as CEO, I reached out to over 100 clients and 20 business partners to arrange one-on-one conversations with each of them. Those meetings are underway. I'm also meeting with colleagues and individually with investors. There's no substitute for first-hand feedback and data to strengthen our go-forward strategy.

My second priority is to learn. I'm spending dedicated time understanding every aspect of our business and the full depth of our portfolio, specifically our core portfolio, where we have a genuinely differentiated value proposition. Our core portfolio is where we will continue to invest, enhance, and build on.

My third priority is to assess. I have started a detailed review of every part of the business, understanding the areas that are working well and need to continue, and the places where we can get better outcomes. In particular, I'm focused on where we can sharpen our go-to-market deployment and execution, deepen our strategic relationships with ecosystem partners, and strengthen our core portfolio value proposition.

My fourth priority is to build. Using everything I learned from listening, learning, and assessing, we will build a sustainable organic growth plan with a clear set of KPIs to guide our disciplined execution with milestones so that we can measure our progress, hold ourselves accountable along the way. Our intense focus on our clients is the foundation for these priorities. Our methodical approach to execution, our disciplined focus, our data-driven strategy will be anchored in serving our clients.

When we consistently partner with clients to solve their most pressing challenges and realize the full value of their AI investment, they reward us with growth, loyalty, and value creation for our shareholders. As we move through these four priorities, I will share progress with you. You should expect transparency and consistency from me going forward on what is working, where we are making changes, and how we're tracking against the clear plan we set out.

Before I hand it over to James, let me leave you with this. I am deeply excited about the opportunity and equally confident in where we are headed. I look forward to meeting with many of you in the coming weeks. Thank you.

James McGourlay - *Open Text Corp - President and Chief Client Officer*

Thank you, Ayman, and welcome everyone to our Q3 fiscal 2026 earnings call. I want to take the opportunity to welcome Ayman to OpenText, and I'm really looking forward to working together with Ayman in my new role as President and Chief Client Officer.

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. The secure information management capabilities that we have provided to our clients for 30 years delivers and protects the same data that AI requires to gain additional value and insight from their content, and most importantly, the metadata wrapped around that content.

Turning to Q3, we ended off the quarter with solid performance in total revenues, beating our own expectations for free cash flow and adjusted EPS. Our results for the quarter and year-to-date of fiscal 2026 continue to demonstrate a strengthening business and momentum in the cloud, especially in our flagship business of content management in the cloud.

Steve Rai will go through our quarterly results in more detail. However, I would like to highlight that in Q3, we generated total revenues of approximately \$1.28 billion, led by overall cloud growth of 6.6% year on year. 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 44% of our total revenues, grew 6% year on year in Q3. If you look specifically at cloud revenue for content, it grew 22% year on year.

Content, which is our largest and fastest growing business, continues to demonstrate strength, and it also leads our cloud growth. As I mentioned last quarter, the revenues for our core business continue to grow at approximately twice the pace of total revenues. We see opportunity for our core product groups to continue growing in the cloud as our clients make fundamental decisions on their cloud and AI needs. Some notable Q3 and year-to-date metrics include Q3 cloud revenue of \$493 million is the highest in the company history.

Q3 core cloud business up 12% year on year. Q3 adjusted EPS of \$1.01 is the highest in Q3 company history. Year-to-date adjusted EPS of \$3.19 is tied with our highest Q3 year-to-date figure ever in Q3 FY 2024. Year-to-date, we have \$651 million in enterprise cloud bookings, also the highest in Q3 year-to-date in company history.

We saw 41 cloud deals greater than \$1 million in Q3, an increase of 28% year-on-year. Q3 year-to-date cash flow of \$686 million is the highest Q3 in company history. Turning to some of our client wins this quarter that highlight the growth trajectory of our core business. Michelin in our business network. Michelin navigated an increase of market consumption for e-invoices that required integration with Microsoft and our business network as part of the company's innovation program.

Through their expanded relationship with OpenText, Michelin can capitalize on the implementation of our business network for self-service, apply AI to those B2B workflows, and supply chain use cases supporting their business needs. Hargassner in content. Hargassner aimed to establish a single source of truth for enterprise content across all business applications, including their current deployment of SAP public cloud.

By implementing a unified content platform, Hargassner expects to contextualize their content effectively and ensure every stakeholder has access to the right information, enhancing productivity and decision-making. Third, HPE Aruba Networking in our cyber enterprise. HPE Aruba Networking requires best-in-class threat intelligence to enrich their controllers, access points, and switching products with cyber protection. OpenText provides dynamic real-time threat intelligence for URLs, IPs, and cloud services intelligence for cloud applications.

Aydem Energy in our ITOM business. Aydem has a strong focus on renewable energy and operates complex multi-regional systems that demand consistent governance and robust processes. Aydem expanded use of our ITOM platform delivers end-to-end test monitoring powered by GenAI, designed to provide a competitive, efficient, and scalable test environment.

Turning to our product news. A few weeks ago, we announced that select enterprise data and AI solutions will be available on the AWS Sovereign Cloud, extending its hybrid cloud deployment options in Europe. The offering is aimed at regulated EU clients requiring strict data residency and sovereignty while leveraging Amazon Web Services infrastructure. Strategically, this extends OpenText's addressable market in Europe and reinforces its positioning in secure content management for AI, though near-term financial impact is likely limited.

As a reminder, OpenText data AI platform is shipping this 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.

We are seeing our clients accelerate their moves to the cloud, but on their terms, whether that is on-prem, private cloud, public cloud, sovereign cloud, or a hybrid approach. This optionality is a strategic advantage and a differentiator for OpenText. Turning to our outlook, there is no change to our FY 2026 revenue target of 1% to 2% growth year on year once you adjust for \$30 million of anticipated revenue that went away with our divestitures. Steve will talk more about this and some of our other metrics in our outlook.

I took on the role as interim CEO with the objective to maintain a steady ship for OpenText. This is an exciting time at the company, and we've made the right choices to set us up for the AI opportunity in front of us. We have had some great achievements over the last three quarters, especially in our Content Cloud business. In my new role as Chief Client Officer, I'm even closer to our clients, driving a culture at OpenText where client success is at our core.

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, everyone, and thank you all for joining the call today. Also, an official warm welcome to Ayman as CEO. We've been working very closely together the past few weeks at the Waterloo headquarters and are very excited to have you on board to help shape the next chapter at OpenText. OpenText had a strong Q3. This momentum positions us well for the final quarter of fiscal 2026. Our Q3 and year-to-date performance demonstrates how our cloud and AI offerings are resonating with our clients as they prepare their data for AI. While James talked about our strong cloud performance, I'd also like to highlight how OpenText continues to build on a solid foundation of margin and cash flow, which affords us the flexibility to allocate capital to investments that generate the highest return and adjust our priorities quickly in a rapidly changing environment.

Let me get to some key financial highlights for the quarter. We generated total revenues of \$1.28 billion. Cloud revenue was \$493 million, up 6.6%, mainly driven by Content Cloud. Please see our investor relations presentation for further details of our core and non-core revenues by product category.

Q3 represents our 21st consecutive quarter of organic cloud growth. Our cloud net renewal rate was 95%, down slightly by 1% year over year and consistent with our annual model. Customer support revenue in the quarter was \$565 million, down slightly by 0.4%. Our customer support net renewal rate was 93%, up 3% year over year. Annual recurring revenue or ARR was \$1.06 billion, up 2.7% year-over-year, and representing 82% of our total revenue and consistent year over year.

Turning to profitability, GAAP gross margin was 73.1%, and non-GAAP gross margin was 76.7%, both up by 150 basis points and 100 basis points respectively year over year. This was mainly driven by the increase in cloud, customer support, and license gross margins, partially offset by the decline in gross margins for professional services. Adjusted EBITDA was \$438 million or a 34.1% margin. This was up 10.8% and 260 basis points respectively year over year. The increase was driven primarily by cost management actions and the business optimization plan.

The plan itself remains on track. We still expect to realize this year an additional approximately one third of the total estimated savings of between \$490 million to \$550 million. Please see our investor relations presentation for further details.

GAAP net income was \$173 million, up 86% year over year. The increase was largely due to the sale of eDOCS and unrealized derivative gains. Non-GAAP net income was \$250 million, up 15.9% year over year. Q3 GAAP diluted EPS was \$0.70, up 100%. Non-GAAP diluted EPS was \$1.01, up 23.2%. Free cash flow was \$305 million, down 18.4%. On a year-to-date basis, total revenue was up 1%. Cloud revenue grew 5.3%.

License revenue was also up 2.4%, partially offset by a decline of 1.1% in customer support and 9.3% in professional services. Year-to-date adjusted EBITDA margin was 35.8%, up 110 basis points. Non-GAAP diluted EPS of \$3.19 was up 11.9%, and our free cash flow was \$686 million, up from \$563 million for the same period last year.

Turning to our full year fiscal 2026 outlook. Our expectations remain unchanged at 1%-2% for total revenue growth year over year. With the strong cloud performance this year and based on higher conversion rates in enterprise cloud bookings, we are increasing our cloud revenue growth range for fiscal 2026 from 3% to 4% to 4% to 5% year over year.

We are also increasing our enterprise cloud bookings growth range, which was 12% to 16%, now moving to 16% to 20% year over year, as we are experiencing greater interest from our clients in deploying our cloud offerings, especially for content. In addition, we are also increasing our outlook range for free cash flow growth from 17% to 20% to 22% to 25% year over year.

In the longer term, OpenText will benefit from clients migrating to the cloud, and as a result, RPO and adjusted EBITDA dollars will grow over time. We are already seeing the early signs of cloud RPO growth over the past couple of quarters and in fiscal Q3. Cloud current RPO is up 5% year over year, and cloud long-term RPO is up 19% year over year.

The strength of our margins, cash flow, and balance sheet gives us a strong platform to run the business. Our Board regularly reviews the company's capital allocation strategy, and we are being disciplined with our approach under the current macro and geopolitical environment.

Earlier this year, we increased our share buyback program from \$300 million to \$500 million for fiscal 2026. We repurchased and canceled 9.7 million shares in Q3 and reduced our share count by 6.7% year over year to 242.2 million shares outstanding. We are maintaining our dividend policy and are being prudent in our portfolio reshaping activities in the current environment. In Q3, we delivered a strong quarter of cloud growth, margin, earnings, and free cash flow. This momentum sets us up well for the final quarter of fiscal 2026.

I look forward to partnering with Ayman and the rest of the ELT to deliver on our strategy for growth and help our clients migrate faster to the cloud and support their AI journeys. With that, I will hand the call over to Tom.

P. Thomas Jenkins - *Open Text Corp - Executive Chair*

Thank you, Steve, and thanks everyone for joining the call. My warmest welcome to Ayman, who officially joined in April. Ayman has been deeply engaged with our board, executive leadership, OpenText colleagues, partners, clients, and he'll be meeting with many of our analysts and investors in the coming months. Now that Ayman officially joined us two weeks ago, I'm stepping away from my role as Chief Strategy Officer and continuing my position as Chair of the Board.

In less than a year, we've already achieved most of the important milestones that we set out last August. Our core businesses of content, business networks, ITOM, and cybersecurity are essentially components to train agentic AI. Well-managed governed data is the foundation of enterprise AI, OpenText is uniquely positioned because we manage and secure those three distinct data types at scale: human-generated, machine-generated, and transactional data.

From a strategy perspective, we made the right choices for OpenText in both product categorization and leadership, while positioning the company to be at the heart of enterprise AI.

Turning to our divestiture strategy, we expect the Vertica divestiture to close shortly, and we remain in the process of continuing to reshape our portfolio. Obviously, there is currently geopolitical and macro uncertainty, and this created a more selective buyer environment. We're disciplined sellers, though, and being disciplined means we do not sell assets at the wrong moment to the wrong buyer.

There's still plenty of interest in our assets, but we will not be doing any so-called fire sales. As we wait for improved market stability, our non-core businesses continue to contribute to our overall margin and cash flow.

Before I turn the call to Q&A, I'd like to say that I'm proud of what we've accomplished in less than a year, and all the hard work has resulted in putting OpenText in a solid position for the next phase of growth. I'd like to thank all the OpenText staff and you, our investors, for your patience during this transition. Cloud and AI remain at the forefront of our future and will fuel future years' growth.

With that, this concludes our prepared remarks. Operator, would you please open the line for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Richard Tse, National Bank Capital Markets.

Richard Tse - National Bank Financial Research - Analyst

Yeah, Ayman, I'm not sure this is an entirely fair question. I'll sort of try, and if you can if you could sort of give us a good color, that'd be helpful. You've been there for less than three weeks. What would you say are your initial observations on where you see the most opportunity to drive growth here at OpenText, either strategically or operationally?

Ayman Antoun - Open Text Corp - Chief Executive Officer, Director

Hey, Richard. Good afternoon, and thank you for the question. My experience is nothing is called an unfair question, so I appreciate the question very much. As you heard me say in the opening, even though I'm at the beginning of the journey of listening and learning, to your point, I had a number of client interactions, and they are very direct. That's one of the many things I love about our clients, is they tell you what you do well, and they give you the opportunity to improve.

My early observations, if I were to package them into things that we would build on and continue, and this is informed by what clients and partners and colleagues have said to me so far in the last 14 days, is the culture that is client-focused. You have everybody at OpenText that wakes up in the morning looking for ways to solve client problems and to do them in the most efficient and creative way.

The second observation that clients have been vocal about as well is the strength of our core portfolio. They see where we play. They understand the value proposition we bring them. Areas of opportunities to work on and strengthen, and this is just in complete transparency because that's what you should expect from me every time going forward, is enhancing our engagements with our ecosystem partners. There's some good pockets of success, but we need to scale that and accelerate it. That's one of the reasons why I've reached out to 20 partners on day one.

I was incredibly encouraged by the response I got from every single one of them. Looking forward to strengthening that relationship. The other point I would tell you is strengthening the muscle of disciplined execution across the entire operating model. Disciplined execution from a sales point of view, from how we prioritize development efforts, capital allocation. Those would be my as early informed 14-day view, but more to come, Richard, as I continue that journey of interacting with more clients, partners, investors, and colleagues.

Richard Tse - *National Bank Financial Research - Analyst*

Okay, thanks. Really appreciate that. I just have one other one, and I'm not sure who this is for, but with respect to AI monetization it's been a, I think a pretty compelling story in terms of what OpenText has to offer. I'm curious as to the bookings, if you can maybe share what component or percentage of the bookings is sort of tied to AI, whether it serves an OpenText product or a use case for that?

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

Maybe I'll start. It's Steve Rai. Obviously, in terms of that level of granularity, we don't typically provide that. Now, in terms of sort of general demand and approach and kind of attach rates to it, I'll let James comment on that further.

James McGourlay - *Open Text Corp - President and Chief Client Officer*

Thanks, Steve. I think as Steve points out, we don't comment specifically on the attach rates or numbers, but we are seeing an increase in both the deals and the size of deals that are closing. We're seeing larger deals being closed with our Aviator. The deal size is larger. We're seeing larger deals. We closed a deal this quarter. It was a seven-figure deal with Aviator included. That was a major component there. We are starting to see a continuing build of this.

Looking forward into the pipeline, we can see similar trends in our pipeline and growing deals, larger deals, and a higher number of deals with Aviators included.

Operator

Kevin Krishnaratne, Scotiabank.

Kevin Krishnaratne - *Scotiabank GBM - Analyst*

Hi, Ayman. Looking forward to working with you. I'd like to ask you a question on your view on OpenText's competitive positioning and specifically from your experience competing with them on FileNet and Sterling. What would you say are maybe some of the underappreciated aspects investors may not know about the OTEX assets that you saw when you were coming up against them on deals on the other side?

Ayman Antoun - *Open Text Corp - Chief Executive Officer, Director*

Hey, Kevin, good afternoon, and thank you for the question. Maybe I would point to a couple of things as my early observations, again, based on interaction with clients, because that's one of the questions that I asked. I asked clients, could you tell me when you when we earn your business, could you articulate why you made those decisions? In the cases where we did not earn your business, could you articulate? Again, I just give you that backdrop because I'm a huge fan of just being grounded on client views because they're the ones that pay our paychecks, as you know.

My early feedback and observation is what would probably be underestimated is the length of time that OpenText had around this notion of data and data management. This is not a competency that they have acquired overnight. This is not something that is in pilot phase. This is tried and true. The diversification of the portfolio of clients across industries, across geographies, and across client size in terms of enterprise size tells you that this is not for the largest or the smallest. It's not for certain industries. It's very pervasive in terms of the strength. I honestly believe, with 14 days under my belt, that that's an area that we probably take for granted, and we have work to do to amplify that brand capability in the marketplace.

The second thing I would say is this notion of, and you've heard it in Tom's remarks, and I'm sure you heard from the team before, data is not data is not data. There's the data that you and I generate. We refer to that as the human data. There's the data that systems generate, alerts, cybersecurity incidents, outputs from systems as they communicate with each other.

Then there's the data that is produced when organizations interact with each other, be it e-commerce or something else. OpenText broader context of data through those three dimensions is probably another area that we need to amplify and remind ourselves that it's a strategic advantage for us and ensure we continue to monetize it as we interact with the clients.

Those would be the two early feedback I would give you, Kevin, with kind of over the last 14 days as I engage with clients.

Kevin Krishnaratne - *Scotiabank GBM - Analyst*

Maybe second question maybe for Steve. I know that on the revenue guide, I see that you haven't you've maintained the 1%-2% and that you call out that the core is expected to grow. In your previous slide deck, you it had the commentary that the core expected to grow in CC. I just want to confirm if you are seeing any change on core performance when excluding FX.

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

From a – so that's correct in terms of what you noted. Just given FX on a constant currency basis, it will likely not be growing. However, just a reminder, on the 1% to 2% that we're maintaining, that's after taking into account the divestitures and the revenue associated with that, approximately \$30 million. Just to kind of complete the picture, I mean, obviously we've increased our guide on bookings, which is largely on the back of the Content business. Obviously, that continues to go well. Great pipeline and conversion rates that we've got there.

From the revenue associated with that, we did not update that because obviously there's a few things at play that we've kind of talked about broadly before as clients convert to cloud. There's mix that comes into play. Of course, as you've heard the others talk about just caution with respect to the macroenvironment.

Kevin Krishnaratne - *Scotiabank GBM - Analyst*

Yeah, that's a good point. The previously had \$15 million, I think for eDOCS that was baked in your guidance. The \$30 million's got a portion of Vertica, assumed in that, deductions to get to that \$30 million. Is that correct?

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

That's right.

Operator

Stephanie Price, CIBC.

Stephanie Price - *CIBC World Markets Corp - Analyst*

Hi, good evening. Welcome, Ayman. I was wondering if you could talk a little bit about cloud bookings conversion. I think you mentioned in the commentary that that was stronger at this point. What are you seeing in terms of the timeline for cloud bookings converting into revenue and how should we kind of think about that conversion process?

James McGourlay - *Open Text Corp - President and Chief Client Officer*

Yeah. Talking about the -- sorry, clients converting over to cloud we are continuing to see the progress there. As you can see by our cloud bookings growth in the quarter, that we are continuing to progress along there. Regarding the conversion into revenue, I mean, as we deploy with the clients, you'll see that starting to roll in. You can see our CRPO is continuing to expand. We will expect that to continue.

I think as we've talked about previously, we expect this to be a multi-year process as we convert our clients into the cloud going along over a number of years. I think we'll be able to provide more details on that as we continue to go along in that process.

Stephanie Price - *CIBC World Markets Corp - Analyst*

Okay, that makes sense. Congratulations on free cash flow conversion in the quarter. It seems like it's back kind of more in line with historical this quarter. Can you talk a bit about the measures you put in place that have led to the stronger free cash flow conversion and how to think about this quarter relative to the rest of the year?

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

Yeah, I mean, there's a few things at play there. I mean, obviously quarter-to-quarter, there's some difficult changes just from a working capital standpoint. There's a few things throughout the year that can be a little bit lumpy, such as the tax installment payments and those kinds of things. Basically good continued execution. I mean, we've continued to do a lot of work on the cost savings and business optimizations that we've got at play, and we're starting to see the benefits come through from that, both in terms of our OpEx profile, as well as naturally, into cash flow.

Operator

Thanos Moschopoulos, BMO Capital Markets.

Thanos Moschopoulos - *Bank of Montreal - Equity Analyst*

Hi. Good afternoon. Congrats, Ayman, on your new role at OpenText. In terms of the spending environment, I mean, clearly it doesn't seem to have been an issue for the quarter or in the guide, more broadly, what are you seeing? I mean, on the one hand, I would imagine strong interest in AI; on the other hand, all the geopolitical uncertainty. Any change in sales cycles or buyer behavior to call out in that regard?

Ayman Antoun - *Open Text Corp - Chief Executive Officer, Director*

Good afternoon. That's an important question because I asked the clients I spoke to about how they're thinking through the period ahead and any changes that they have made. I've asked my team because I walked into this in April, and I wanted to know if they've seen anything throughout the quarter. Based on the feedback I got from clients, and what the team has shared with me, we have not seen any material slowdown in clients making decisions, in particular, as you pointed out, around AI opportunities.

That brings us to where OpenText lives. It lives in the data management, the input into all those AI engines, all the AI agents. I certainly did not get any feedback. Not that it's it's a month's worth of data, it's just 14 days worth of engagements with clients. So far, I have not heard anything from them that would suggest that. In some cases, they actually talked about accelerating to catch up because they believe that they were just a bit coming a bit from behind regarding deploying their AI models.

Thanos Moschopoulos - *Bank of Montreal - Equity Analyst*

Great. In terms of converting existing clients to a cloud model, I presume that there might be more carrots and sticks you could use to move that process along. That's, even, I don't know if you have any real thoughts in terms of whether the current approach that OpenText is introducing is the correct one or whether it might be warranted to make that move kind of more aggressively and foster clients to incentivize them to move to cloud sooner.

Ayman Antoun - *Open Text Corp - Chief Executive Officer, Director*

I'll give you my perspective and Steve and James can comment in addition. First of all the approach we're taking where the client data/AI agents workloads reside and allowing the clients to have that choice, I believe deep in my heart and given my experience, that is a really strategic advantage for OpenText.

Our view is we're going to meet the clients where they are in that journey. If they're behind in the journey and on-prem or even if they're not behind, there are strategic reasons for their on-prem decisions, we're there. If they decide it is a public cloud, we're there. If it's a private cloud, we're there.

If it's a sovereign cloud, given a lot of the discussions in the marketplace on that topic, we're there as well. The fact that we offer that choice and stand behind the client versus force their hand is a huge advantage for us. That being said, again, I come in here with 35 years of experience.

In the last number of years we're on the topic, many of the clients are well down that path, and many of them are accelerating. They don't need any convincing. We have lined up our plans, our product portfolio, our go-to-market coverage, our incentives, our operating model, taking into account the fact that that journey has already begun. It's being accelerated, and I don't think we're going backwards.

That would be my view. Steve or James, anything you would add?

James McGourlay - *Open Text Corp - President and Chief Client Officer*

I think you've covered it completely, Ayman. The flexibility that we offer our clients, deciding how they're going to run, where they're going to run, really does give them that benefit. I the benefit of choice and think that's the main things to cover.

Operator

Paul Treiber, RBC Capital Markets.

Paul Treiber - *RBC Capital Markets Inc - Analyst*

The question for Ayman. The in your perspective regarding capital allocation, when you look at the history of OpenText where it is right now, where the stock is leveraged et cetera, what would be your top priorities for incremental capital allocation here?

Ayman Antoun - *Open Text Corp - Chief Executive Officer, Director*

Hey, Paul, good afternoon. Thank you for the question. Let me just zoom out first. Then I'll address your question head-on. When you heard me reference earlier, disciplined execution, I kind of mentioned disciplined execution is about multiple dimensions. It's how you allocate capital and having that discipline is part of that. Capital allocation options and discussions are things that the management team discusses a lot with the board of directors every single board meeting.

Just we concluded one a couple of days ago. That was in the heart of the agenda. It's no magic. There are four or five, depending how you would package them, categories.

Debt reduction, considering dividend payout, share repurchase, which you've seen us do, and even increased in the last quarter, organic growth investments. I think of organic growth investments into the portfolio, into the go-to-market, into ecosystems. It's not just about products growth investments, but across the board as well.

I started with debt reduction. I'm not necessarily giving you this in any priority order, but you see the numbers, you know where our debt is, and that's one of the things that I'm spending time on to understand so I can help, at least from a recommendation to the board, prioritize how we want to spend our future capital from an allocation point of view.

Paul Treiber - *RBC Capital Markets Inc - Analyst*

Thanks for that background on the framework. The next question, just on internal productivity and internal product development, can you speak to the benefit that you've seen from AI internally, and then if you're taking that productivity gain and using it either to save costs or to accelerate product innovation?

Ayman Antoun - *Open Text Corp - Chief Executive Officer, Director*

That's another really important question because one of the things that the team is spending thoughtful time on is to ensure 'cause that's how you get credibility with the client. To ensure OpenText is client zero. When we talk about AI and the value that we can help our clients gain from AI, we're using OpenText as an excellent example where today, we've decided our entire operation is running on OpenText products.

70 of our offerings are actually deployed. The entire enterprise is infused with a large number of AI agents. We've committed to over the next 10 years to save \$1 billion as a result of that. We're seeing the benefit also on the way we support our clients.

The first thing I would share with you is we're being fixated on it's not AI for the sake of AI. What I'm guiding the team to think through for us as client zero is the value of AI is to accomplish three things. Number one is to serve our clients better, the way we support them, the way we deal with challenges, outages, incidents, and what have you.

Number two is to make our products and offerings better by infusing them with AI capabilities from the ground up, not as a bolt-on at the end, from the core. The third is to make our colleagues' work experience, easier and more productive. Those are the three lenses that we're fixated on for ourselves so that we can be a credible, client zero.

Early indication as we're deploying that aggressively internally, when we look at time to restore with incidents, it's up 50% on the back of agentic AI capabilities. When we look at the number of incidents that we're dealing with, they're down almost 20% because if you infuse agents to predict before you have an incident, you can save the incident from happening. We're seeing the early fruit of that labor. I would say, Paul, that that is a journey, it's not a destination. Hopefully framing how we're thinking of AI for our use and to help our clients answers your question.

Operator

George Kurosawa, Citi.

George Kurosawa - *Citi Research - Analyst*

I'm on for Steve Enders. Thanks for taking the questions and welcome, Ayman. I want to echo that as well. I want to touch on the crown jewel here, the Content Cloud business. Further acceleration on the cloud side. Maybe you guys could just double-click on what is working so well in that product portfolio. Then not to get you to commit to segment-level outlooks, but just when you look at your pipeline is there scope for this business to continue acceleration, or does this feel like a maintaining this current growth pace is a success? How are you guys thinking about this business going forward?

James McGourlay - *Open Text Corp - President and Chief Client Officer*

Sure. Thanks for the question. It's James. Looking at our content business, we're very excited at the opportunity that's before us. Our customers are continuing to engage actively with us as we go through this process. In many cases, leading the way, as Ayman talked about earlier. They're already down, made the decision that they're moving to the cloud, we're working along with them.

Content curation is a main focus as people prepare to move towards AI. We're seeing a pickup in that velocity or in the velocity because of that as well. We're also looking at platform upgrades and new functionalities that are coming out in the products that's helping to drive. As we're going along here, I do expect to see us pick up the speed on our content, or our content migration to the cloud. Quite excited about the business.

George Kurosawa - *Citi Research - Analyst*

Okay, great. Maybe just a bigger picture AI strategy question. There's a lot of discussion around capacity constraints of LLM providers in the ecosystem at large. Just given the significant increase in usage, token costs are ballooning. A lot of organizations are bumping up against token budgets within the first quarter of the year. You guys have emphasized your value proposition on the governance and training components of leveraging AI.

Is there now or maybe in the future some element of it seems like you guys might have a position to help customers improve the efficiency of their token usage? Maybe you can talk about if that's a component of the strategy.

Ayman Antoun - *Open Text Corp - Chief Executive Officer, Director*

Hi, George, it's Ayman. That's an important question, you're giving me a couple things to think about and take away. First, thank you for that. What I do want to mention, though, I will take that away because I think that's an interesting point to go double-click on for us as a leadership team.

My experience in this space so far, and my early client conversations, no one is unwilling to spend what they need to spend as long as they believe they will get the ROI investment. Most of them are starting to think about transitioning from use case kind of discussions where here are the use case for back office or front office or somewhere in between, to more of a platform discussion.

More of the clients I spoke to also are starting to kind of prioritize by saying as opposed to, be fixated on reporting how many use cases they have in production. There was a phase where they were trying to outpace their competitors in the space by how many use cases they have produced. They're now trying to focus more on the five or six or seven, half a dozen big rocks of areas where they can make pervasive change to their business model, to the output, to their competitiveness in the marketplace.

They're making bigger bets, I should say. Those bets are assuming that they're going to have the right data in an organized fashion, in a traceable way with the right lineage, history, because in a regulated environment you have to show that. That's a bit of the transition that I'm picking up from my early client conversations, and I'm just sharing. We'll take that suggestion you gave us away.

Operator

(Operator Instructions) David Kwan, TD Cowen.

David Kwan - TD Cowen - Equity Analyst

Good afternoon, and welcome, Ayman. I was wondering if you could comment on just some of the regional impacts as it relates to your business. I know last quarter we saw the softness in the Americas, and it was really driven by the US government shutdown. It was just still down again this quarter, but not quite so bad. I was wondering if there was some lingering impact in there from the shutdown.

By contrast in EMEA, it was also strong again this quarter of double digits. Wondering if there was just a continuation of the strength there. I think the government was one particular vertical that you flagged last quarter.

James McGourlay - Open Text Corp - President and Chief Client Officer

Yeah. James, I think you hit it off, right? We have seen some lingering impact on the government. There's been a few contracts that are still there. They're just haven't closed yet. We've seen that impact in the US.

We've had a great strong quarter in Europe. Some strong deals closed. A lot of activity there. As you know, I talked earlier about some large deals involving Aviator. We saw some of those come through in Europe. That talks a bit to the regionality. Overall we're seeing our balance still. We've got some strong opportunities going up in the current quarter.

David Kwan - TD Cowen - Equity Analyst

That's great. Thanks. As it relates to the four core businesses and trying to get those back to all the growth, I guess, next quarter, is that still the expectation? Cyber security and ITOM were down a bit this quarter. Do you think that it's something kind of looking out beyond this year that if they're on a kind of path of sustainable growth?

Ayman Antoun - Open Text Corp - Chief Executive Officer, Director

Hi, David, it's Ayman. Let me just address that and then Steve and James can jump in. Again, I'm just going to zoom out because I'm a huge fan of context. When you heard me talk about disciplined execution early, let me give you two flavors of that umbrella. I've already mentioned to your colleagues a few, but part of disciplined execution means balanced execution across the geographies.

You heard from James, as you pointed out, Europe was strong. Part of our homework going forward is to make sure we have that balance. That's the first point I would make.

The second dimension of balance is across the portfolio. When you look at our cyber business, we have a really strong portfolio there. That's a space where clients are spending money, and it is on us to make sure that we are very articulate with our value proposition. We have sharp sales execution motion in place to return the business to growth and keep it growing because the clients are spending money.

You summed it well. That is our job as a management team, and that is a clear example of what I mean by disciplined execution earlier.

David Kwan - *TD Cowen - Equity Analyst*

No, that's great. I appreciate that, Ayman. I guess last question, Tom, in your prepared remarks, you talked about, kind of macro headwinds being disciplined sellers, kind of waiting for improved market stability as it relates to the asset sales. Are you still looking or committed to sell or announce the sale of non-core assets one per quarter? Could we see that maybe get stretched out just because the market's not quite there?

P. Thomas Jenkins - *Open Text Corp - Executive Chair*

Yeah. The one-per-quarter comment was about our limit to be able to implement them.

Because at the time, we had lots of interest across all the different business units, but we just couldn't sell them all at the same time. The comment about the buying market is simply that the SaaSocalypse thing didn't really affect serious buyers because they were doing this on a discounted cash flow basis. You can't do that when you also have an active war going on. It's that combination of the two that has caused us to pause because quite frankly, buyers are having difficulty getting financing. We just wanted to alert the Street that as soon as the war is over, you'll see us, I think, get right back into a normal market.

At that point, you'll start to see us start again and again, with the proviso that we'll still implement once per quarter, just simply because the logistics of divestiture. Having said all that, we are nine months into this now, and Steve Rai and the team have gotten very good at this. We'll revisit that again. It all depends on how management feels about it. Yeah, it'll be steady as she goes. We've got to have the capital markets return to normal.

Ayman Antoun - *Open Text Corp - Chief Executive Officer, Director*

Tom summed it up beautifully. The only thing I just want to add, you should expect from us that we will be very responsible with our shareholder money, and we owe it to them that we get the right return for the assets. That's what's behind Tom's comment about market conditions and fire sale. We have an obligation to our shareholders, and that is what's guiding our timing as well.

Operator

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

Ayman Antoun - *Open Text Corp - Chief Executive Officer, Director*

Thank you, operator. Let me just wrap up on a couple points. First, just a sincere thank you for your kind welcome and warm welcome and for being with us and for all of your thoughtful questions. You've given us a couple of ideas that we're going to go double click on. I'd like to just close the way I started with the opening remarks.

I am incredibly excited and equally confident about the road that we have ahead of us, and I'm very much looking forward to speaking with each of you one-on-one in the coming weeks. Have a great afternoon.

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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