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OTEX.TO - Q4 2026 Open Text Corporation Earnings Call

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## PRESENTATION

**Operator**

Thank you for standing by. This is the conference operator. Welcome to the Open Text Corporation fourth quarter fiscal 2026 financial results conference call. (Operator Instructions) The conference is being recorded. (Operator Instructions)

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

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

Thank you, operator, and good morning, everyone. Welcome to Open Tech's fourth quarter fiscal 2026 earnings call. With me on the call today are Open Text's Chief Executive Officer, Ayman Antoun; and Steve Rai, Executive Vice President and Chief Financial Officer. Today's call is being webcast and recorded with replay available shortly thereafter on the Open Text 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 the Open Text Investor Relations website. Please see our investor presentation for further details of our Core and non-Core revenues by product category.

Now turning to upcoming investor events. Open Text will be participating in the Oppenheimer Technology Conference on August 12, the Deutsche Bank Technology Conference in Los Angeles on August 26, Citibank Global TMT Conference in New York on September 10, and the Bank of Montreal TMT Conference in Toronto on September 15. We look forward to meeting with you there.

And now on to the reading of our safe harbor statement. During this call, we will be making forward-looking statements related to the future performance of Open Text. 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 Open Text are contained in Open Text recent forms 10-K and 10-Q, as well as in our press release that was distributed earlier today, all of which may be found on our website. We undertake no obligation to update these forward-looking statements unless required to do so by law.

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

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

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

Good morning, everyone, and thank you for being here today. For Q4 fiscal year 2026, we delivered balanced year-over-year growth in constant currency. Our top-line revenue grew 1%, our Core portfolio grew 3%, Cloud revenue in our Core portfolio grew 9%, and our adjusted EBITDA margin was 37.1%. Our CFO, Steve Rai, will take you through our Q4 and full year 2026 results and our fiscal 2027 outlook shortly.

Fiscal 2027 is a foundation year for us, centered on ruthless prioritization and focus, disciplined execution, Core growth in constant currency, and putting in place the foundation for enhanced performance for years to come. When I joined you last quarter, I was just days into my role as CEO of this iconic Canadian technology company.

On day one, I set out clear priorities around listen, learn, assess, and act. Today, I have three updates I'd like to share with you. First, the feedback I heard from our stakeholders. Second, the enterprise assessment work we launched as a result of stakeholder feedback. And third, the early actions and disciplined capital allocation we're executing to drive consistent sustained performance now and for the future.

Finally, before I close, I will highlight examples of the value we are delivering with AI for our clients. Before I cover these updates, I want to pause on an important theme that stands out. Every client, partner, and shareholder meeting I had over the last few weeks came back to AI and the promise AI holds for every enterprise in every industry.

What clients told me was clear. Governed, secured, and integrated data is fundamental to their AI ambitions because there is no large language model, no AI agent, no application, functions without data. And that data needs to be trusted and in context to produce AI outcomes that bring value to an organization.

Canadian in our roots, global in our reach, Open Text is a secure data foundation in the AI stack. Simply put, our portfolio of data management solutions is the difference between AI that is trusted and AI that is not. Enterprise-grade data is our differentiator. We're built for this moment in AI and for the future.

And now let me start with feedback from our stakeholders. I will start with our North Star, our clients. They value our team, our solutions, and our partnership with them. In many cases, these partnerships span 15, 20, 25 years. They want a more integrated Open Text, one that moves with speed and brings them innovation with purpose.

Our ecosystem partners, they want more joint engagements. They see our differentiated value and want to scale with us. They want to pair our trusted data foundation for AI with their technology and services to capture more of the estimated $300 billion addressable market opportunity.

Our Open Text colleagues, they want what I want, more speed and simplicity, so we get more done and show up better for our clients. And our investors, they want us to be more focused, play to our strengths and deliver consistent revenue growth with a consistent set of KPIs to measure our progress. This invaluable feedback is already shaping how we operate.

Now let me show you how. With the direct feedback from our clients, investors, partners, and colleagues, we launched an end-to-end enterprise assessment that assesses the end-to-end part of everything that we do, in particular, that enterprise assessment is to focus on two things. Identify early actions to drive growth now and to lay the foundation for enhanced and consistent growth for years to come.

The assessment work is focused on the following areas: go-to-market, how we show up in front of our clients, and I will share with you more on this shortly. It covers our portfolio composition, differentiation, and our development process, marketing and demand generation engine. It's looking at our execution model, and decision rights to ensure that we are operating with discipline, accountability, simplicity and speed. And it also covers our talent and culture, which brings all of this to life.

This work is being led as we speak by our senior leadership team. Its output will define our multi-year growth plan and the financial model that creates and sustains shareholder value. As the assessment continues, we are not waiting to make changes that drive growth now.

Next, I will walk you through the actions we are taking. First, we're investing in sales capacity. We are adding more than 300 new quota carrying sales colleagues worldwide with clients backed by one dedicated client executive who owns the relationship and makes it easier to do business across our portfolio.

Second, we're investing in our ecosystem partners to expand our market reach. We're privileged to partner with the world's leading global and regional system integrators, hyperscalers, and vertical ISVs like SAP. Together, we're now focused on effective co-selling and enablement to bring clients enhanced offerings. We are injecting our winning partner ecosystem directly into our go-to-market model this year, partner-led market segments.

Third, we are empowering the team closest to the clients with clear decision rights so they can move with speed and simplicity to cross-sell our portfolio. Next, to continue the momentum of growth, we will be shifting more of our R&D investment into our Core portfolio, cloud capabilities, and AI offerings. And finally, as I said on our first call together, capital discipline is a commitment we hold ourselves to.

In Q4, we made an additional debt payment of $300 million from our net cash for a total of $649 million total debt paid in fiscal 2026. These early actions with more to come this year will make fiscal 2027 a foundation year for us to deliver growth in constant currency. The enterprise assessment concludes in a few months. And I look forward to sharing its outcome with you, our multi-year strategic plan in early calendar year 2027.

This brings me to my final update, how we empower our clients with enterprise-grade data for AI. In the end, this is all about our clients' success. They're moving from experimenting with AI to implementing AI at scale. Aviator is our Open Text AI platform. Available across our portfolio, Aviator agents turn secure trusted data into AI outcomes you can trust. Since Aviator agents were introduced only eight quarters ago, the number of deals where Aviator agents are integrated have more than doubled annually. And when Aviator agents are included in our clients' deals, our deal size is four times larger.

The proof is in our client success stories. Let me share a few. Let's start with Content cloud, the system where a company's knowledge lives and gets put to work. At one of the world's largest technology firms, Aviator agents turn millions of HR records into instant, conversational, self-service while keeping every record governed, compliant, and trusted.

Next, Cybersecurity, the system that protects a company's data and keeps it running. At one of the world's leading telecom companies where connectivity and security are the lifeblood of the business, Aviator agents work inside network and data operations, helping teams find and fix vulnerabilities, cutting meantime to repair during an outage from one day to one hour.

Next, Business Network, which moves transactions and data between companies. A third of Fortune 500 banks globally use Open Text Business Network. Overall, we process over $11 trillion in network commerce each year. When our corporate clients need to pay vendors and run payroll, our Business Network trading grid sits in the middle and makes it work, so payments flow reliably whatever the source. And Aviator is built into trading grid, surfacing the right answers on demand, flagging risks before they become failures and resolving issues in real time.

And finally, Application Delivery Management, what we call ADM, the system that helps teams build, test, and deliver quality software faster. At a major healthcare provider, Aviator agents are, in their words, an easy button. ADM, automated testing, cutting mobile test effort by 35% with faster releases and more efficient product development cycles. And we see growing demand across retail, banking, healthcare, oil and gas and logistics, where clients are coming to us to embed Aviator agents into the workflows.

I have never been more confident in where we are headed. I will now hand it over to our CFO, Steve Rai, who will take you through our Q4 and full year 2026 results and our fiscal year 2027 outlook. Thank you.

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

Thank you, Ayman. Good morning, everyone, and thank you for joining us today. We are pleased to have delivered a solid finish to fiscal '26. The performance of our Core business reflects the critical role that we play helping organizations unlock the value of their data as they advance AI initiatives.

Our results underscore the strength of our operating model, which continues to perform consistently across market environments. Supported by a large, diversified, and highly recurring enterprise client base, we benefit from a foundation that provides both stability and visibility. This strength translates into healthy profit and strong cash flow generation, giving us flexibility to invest in innovation and growth opportunities while maintaining a robust balance sheet. Our balanced approach to capital allocation continues to support sustainable value creation while returning capital to shareholders and positions us well for the future.

Now to Q4 and full year fiscal '26 results. Starting with revenues, in Q4, we had a strong performance in the Cloud driven by contribution from AI. Total revenues of $1.35 billion were up 2.9% year-over-year or up 0.9% in constant currency terms. Total revenue for our Core portfolio was $1.05 billion, up 5.3% year-over-year or up 3.1% in constant currency.

Total Cloud revenue was $503 million, up 6.0% or up 4.3% in constant currency. Cloud revenue for our Core portfolio was $341 million, up 10.7% or 8.9% in constant currency. Just a reminder that our Core business includes Content, Business Network or BN, IT Operations Management or ITOM, and Cybersecurity enterprise product categories.

Q4 represents our 22nd consecutive quarter of organic cloud growth. We closed 64 cloud deals greater than $1 million in the quarter, an increase of 49% year-over-year. The growth was driven by our Core, Content and BN categories and many of these cloud deals included Aviator. For additional detail on product category performance, including Core and non-Core breakdowns, please see our Investor Relations material.

Customer Support revenue in the quarter was $554 million, down 4.6% year-over-year. As a reminder, this includes the impact from our divested eDOCS and Vertica businesses. Annual Recurring Revenue or ARR was $1.06 billion, up 0.2% and representing 78.3% of our total revenue.

Turning to bookings, Enterprise Cloud bookings were $295 million in Q4, up 24.1% year-over-year and above our fiscal '26 target range of 16% to 20%. Q4 total RPO is up 7% year-over-year. Total cRPO is up 1% year-over-year, of which Cloud cRPO is up 10%, partially offset by Customer Support and other cRPO by 6% year-over-year.

The year-over-year increase in Cloud cRPO was mainly due to strong bookings in Content and BN, partially offset by Cyber SMB and C. The decline in Customer Support and other cRPO would include the impact from our divested eDOCS and Vertica businesses.

As we look ahead, we are streamlining our bookings-related disclosures. Given our reporting of Cloud cRPO and total RPO, both widely recognized indicators of future revenue and demand, we will no longer report Enterprise Cloud bookings as a standalone metric, starting in Q1 of fiscal 2027. This change reflects our commitment to providing investors with the most relevant information while simplifying our disclosure framework and improving consistency with broader industry practice.

On profitability, GAAP gross margin was 75.0%, up 270 basis points year-over-year and non-GAAP gross margin was 78.3%, up 220 basis points. The increase year-over-year reflects the continued improvement of Cloud gross margin mainly related to lower hyperscaler costs and infrastructure performance improvements.

GAAP net income was $156 million, up 439.9% year-over-year. Non-GAAP net income was $299 million, up 19.7% year-over-year. GAAP diluted EPS was $0.64, up 481.8% year-over-year. Non-GAAP diluted EPS was $1.23, up 26.8%. The increase in GAAP net income and diluted EPS was primarily due to higher profit, unrealized derivative gains, FX, and gain on sale from divestitures.

Operating cash flow for the quarter was $186 million, up 17.5% year-over-year, helped by the strong quarterly performance and ongoing streamlining of the business. Free cash flow was $122 million, down 1.6% and relatively consistent year-over-year. For the full fiscal year '26, total revenues were $5.2 billion, up 1.5% year-over-year or down 1.1% in constant currency terms. Total revenue for our Core portfolio was $4.0 billion, up 2.9% year-over-year and consistent in constant currency terms.

Cloud revenue growth continues to drive the business with total Cloud revenue of $2.0 billion, up 5.5% or up 3.4% in constant currency. Cloud revenue for our Core portfolio was $1.3 billion, up 10.3% year-over-year or 7.8% year-over-year in constant currency. On a reported basis, Customer Support revenue was down 2.0%. License revenue was up 8.4% and Professional Services and Other Revenue was down 8.6%. As a reminder, the year-over-year compare for our on-prem business reflects the impact from our divested eDOCS and Vertica businesses.

On net renewal rates, our Cloud net renewal rate was 94%, down 180 basis points year-over-year and in line with historical levels. Our Customer Support net renewal rate was 93%, up from 91% year-over-year and also consistent with historical levels. On profitability and cash flow, GAAP operating margin was 20.6%, up 340 basis points.

Adjusted EBITDA margin was 36.3%, up 170 basis points. The increase was mainly due to continued streamlining of operations, including the business optimization plan and FX. GAAP diluted EPS was $2.58, up 56.4% and non-GAAP diluted EPS was $4.42, up 15.7%. Operating cash flow was $1.0 billion, up 21.2% and free cash flow was $808 million, up 17.5% year-over-year.

Fiscal '26 free cash flow while strong, came in approximately $31 million below our fiscal '26 outlook, mainly due to collections timing near the year-end cutoff. As we enter fiscal '27, which is an important foundation year for our next phase of growth as Ayman laid out, we provide the following outlook ranges.

On a reported basis, we expect total revenues to be $5.135 billion to $5.185 billion or negative 2% to negative 1% inclusive of an approximate $30 million foreign currency headwind at current rates. Total revenue growth is expected to be 0% to 1% in constant currency terms, excluding divestitures. Total Core revenue growth is expected to be positive 2% to 3% in constant currency terms. We expect each of our four Core businesses to grow in fiscal '27 in constant currency. Again, at current rates, approximately $25 of the $30 million FX headwind relates to Core revenue.

Core Cloud revenue growth is expected to continue its momentum at 8% to 10% in constant currency terms. We expect an approximate $5 million FX headwind on Core Cloud revenue. Adjusted EBITDA margin is expected to be in the range of 32% to 33%.

As Ayman mentioned earlier, we are taking early actions to drive growth and this includes increasing sales capacity, investing in our partner ecosystem to expand market reach, and shifting more R&D investment into our Core portfolio, Cloud capabilities and AI offerings. These investments are estimated in the $100 million to $200 million range and are weighted toward our go-to-market initiatives and moderate our adjusted EBITDA margin range for the fiscal year '27.

Free cash flow is expected to be in the range of $625 million to $725 million. These factors in our growth investment plan, expectations around CapEx, and working capital items, including tax payments. And of course, the natural impact of the divestiture of our profitable eDOCS and Vertica businesses in fiscal '26.

Turning to our outlook for Q1 fiscal '27, we expect total revenue to be in the range of $1.22 billion to $1.25 billion and an adjusted EBITDA margin range of 32% to 33%. The targets I have outlined do not reflect the impact of any potential future divestitures and therefore may be revised accordingly. We continue to see growing Cloud adoption as clients prepare their data environments for AI. We view this as a long-term tailwind for Cloud growth, supporting expansion in both RPO and adjusted EBITDA over time.

Turning to our capital allocation strategy, we prioritize across four key areas: debt reduction, organic growth investments, dividend payout, and share repurchase. This balanced approach reflects our commitment to strengthening the balance sheet while continuing to innovate for sustainable long-term growth and returning capital to shareholders. We are confident in our ability to meet upcoming debt maturities supported by the strength of our cash flow generation previously discussed.

We have used net proceeds from our recent divestitures to pay down our debt. In Q4, we reduced debt by $459 million, including a $300 million discretionary debt repayment from available liquidity and $150 million net proceeds from divestitures and delivered total debt reduction of $649 million in fiscal '26.

Our net leverage ratio has reduced from 3.02 times to 2.75 times, now in line with our historical target range of 2.5 times to 3 times. We expect to access our debt markets over the coming quarters to refinance upcoming maturities and optimize our capital structure.

In fiscal '26, we returned $268.4 million via dividends and the Board declared a quarterly dividend of $0.28 per share payable on September 18, 2026, to shareholders of record on September 4, 2026. We also repurchased and canceled approximately 14.8 million shares in fiscal '26 or 6% of our common shares outstanding. We have renewed our NCIB for fiscal '27 to repurchase up to 10% of the company's public float as of July 31, 2026.

Our divestiture strategy remains active and disciplined. We are not inclined to divest non-Core assets at any cost. These businesses continue to generate positive margins and cash flow. And we will remain opportunistic in pursuing transactions with shareholder value in mind.

Overall, we are pleased with our fourth quarter and full year performance. As mentioned, looking ahead to fiscal '27, we expect revenue for our Core business to grow 2% to 3% on a constant currency basis. We remain confident in our strategic direction and believe we have built a solid foundation to execute on our growth strategies.

With that, we conclude our prepared remarks. Operator, please open the line for questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Kevin Krishnaratne, Scotiabank.

**Kevin Krishnaratne** - *Scotiabank GBM - Analyst*

Hey, there. Good morning. I wanted to talk about the Core growth expectations for '27. You laid out 2% to 3%. Wondering if you're going to unpack thoughts across the various segments. In particular, your Content was up 1% last year. Does that continue to move higher? And then in particular, the strategies that you have in place for the ITOM and the Cyber businesses, which were down 3% last year. Just would love your thoughts?

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

Hey, Kevin, good morning and thank you for the question. Let me just start and Steve can join. It's very important for us that each category of Core grow and that's the commitment that we have and the outlook that we have as well. We today feel that Content as a subset of Core will be in a faster growth trajectory than the total of Core, and we expect Cyber and ITOM to also grow in FY27.

And part of it is the way that you've heard Steve say it, we're redirecting more of our R&D dollars toward the category of Core, it's not going to be a peanut-butter approach across all four categories but Cyber will be one of the components of Core that will get an injection of some of the reallocation. In addition to the way we're going to reallocate is being very precise around infusing more AI capabilities in each of the Core categories and accelerating the Cloud versions of each one of those categories as well.

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**Kevin Krishnaratne** - *Scotiabank GBM - Analyst*

Thanks for that. Maybe related to that on the growth initiatives, I think, Steve, you talked about the investments and skewing more towards go-to-market. Maybe to make it easier, just in the model, last year, your R&D percentage of revenue was around 12%, sales and marketing 21%. Can you maybe help us for modeling purposes understand where those should land for '27?

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

Yeah, good question. I think the as Ayman said and as I said in our prepared remarks, I mean obviously the focus is on the go-to-market side, which is adding sales capacity. So coming down to the percentages there, obviously, there's some puts and takes with R&D. I mean, there is going to be some reallocation between the categories that we've got. But overall, I'd model that consistently with fiscal '26 and sales marketing, I'd probably take up a point or two.

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**Kevin Krishnaratne** - *Scotiabank GBM - Analyst*

Thanks so much, guys. I'll pass the line.

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**Operator**

Doug Taylor, National Bank.

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**Doug Taylor** - *National Bank - Analyst*

Thank you. Good morning. A couple more questions on your guidance here, the reinvestments you're making into your go-to-market motions, both direct and indirect. You talked to 300 new reps. Can you talk about the time horizon you expected to complete that investment? And then moving on from that, how much you expect these to mature within this fiscal year and how much of the benefit from that is factored into your growth guidance?

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

Hi, Doug. Another very important question. So our expectation in the hiring engine started earlier than the beginning of this quarter is by the end of fiscal quarter FY27, I expect our sales capacity to be at the level that we want it to be for the full year. And of course, that will ramp up and we have very precise programs around sales enablement to accelerate the sellers' ability.

We know exactly which clients we would assign them to. So a lot of the groundwork is done so that as soon as everybody is in the seat, they can hit the ground running. We have factored that timeline and their capacity into the guidance that we give for Core. And of course, part of that is they become part of the baseline as we get into beyond FY27.

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**Doug Taylor** - *National Bank - Analyst*

Next question for me. You've got some materials in your slide deck about the migration from legacy to Cloud. To what degree is your growth guidance here predicated on migration of some of your existing business to Cloud versus net new business, perhaps you can wrap some numbers or thoughts around that qualitatively or quantitatively. Thank you.

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

Maybe I'll start there. So we're in early stages of that. Now obviously, there's some very positive signs and markers that we indicated. Obviously, you start to see this in our build in the Content cloud cRPO numbers, I mean up 10% current, 15% long-term in terms of the Cloud piece of it. And the traction in the deals greater than $1 million and all that.

So we've got -- we'll try to get more specific on that, but it's a little early in terms of the modeling, but probably look forward to some more specificity early next year with respect to kind of the broader topic of Cloud migration and how that's tracking in the longer-term modeling around it.

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**Doug Taylor** - *National Bank - Analyst*

Is it fair to say that your growth for cloud is a balance of that migration and net customer growth? I mean, I'm just trying to unpack that a bit more.

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

Yes, Doug, it's Ayman. I think what is encouraging for us -- first of all, if you just let me back up for second, one of the continuous feedback I get from clients, and I had the privilege of meeting with 63 individual clients since I got in the seat, is they like the fact that we allow them choice. Choice of acquiring on-prem or cloud and choice of what cloud, whether it's public or private.

But to give you just statistics of what we have seen happen in FY26, which I believe will continue in FY27, is 92% of our cloud bookings were new clients going to the cloud as opposed to base converting to the cloud. That's not to say the existing base doesn't have a desire, but we kind of like the mix that 92% of our cloud bookings are coming from new engagements, if you will.

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**Operator**

Sagar Karri, BMO Capital Markets.

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**Sagar Karri** - *BMO Capital Markets - Analyst*

Hi there. Good morning. This is Sagar on behalf of Thanos. So I just had a question on divestitures. So with respect to divestitures, something that you continue to actively explore with interested parties, has that discussion continued or have those discussions been paused for the time being given current market conditions?

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

Thanks for the question. That absolutely continues. We've got an active process and engagements related to that. Obviously, given market dynamics, as we've said before, we're not going to fire sale anything. We want to get a fair and reasonable price as the right thing to do as custodians of these assets and for shareholder returns.

But in the meantime, just a reminder, I mean, these are good businesses. They're profitable businesses and generating profit and good cash along the way. So we're being methodical about it.

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**Operator**

Stephanie Price, CIBC.

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**Stephanie Price** - *CIBC World Markets Corp - Analyst*

Wondering if we could circle back on kind of the investment. So $100 million to $200 million is a pretty large investment for Open Text. Just curious if you can give any further details about how to think about it between R&D and sales capacity and partner. In answering one of the prior questions, it sounds like R&D is still expected to be at 12% of revenue. So just any additional breakdown, if you can kind give there any color?

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

Stephanie, good morning and thank you for the question. The investment in capacity, I would put it in two categories, which is a significant part, at least in the FY27 modeling, a significant part of the overall investment. It's adding face-to-face sales capacity in front of the clients, over 300 more sellers that carry a quota.

In addition to that, reactivating our ecosystem partner channel, which is a significantly important route to market for us to reach segments that we have not reached on our own. And part of that reactivating is investing in enabling those partners, supporting them with sales plays, and having a financial model that's attractive for them to be our partners.

And when I say partners, I think of the four categories, the hyperscalers, the global and regional system integrators as the second category, the vertical ISVs like the SAP, and sorry, the regional system integrators, not just the global ones. So everyone has a different requirement, bring us different value, and reactivating that is an important part of our growth strategy going forward and we felt it's prudent to spend that investment in FY27 so that we can ramp it up and reap the benefits down the road as well.

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**Stephanie Price** - *CIBC World Markets Corp - Analyst*

That's a great color. And then maybe on the free cash flow guidance for '27 and the free cash flow conversion that it kind of implies. How should we think about the puts and takes here? I think there was a comment about divestitures kind of impacting free cash flow in the year. How do you kind of think about free cash flow here?

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

Yeah, obviously, the growth investments are factored into the range that we've provided. I mean, it's fairly significant, as you noted. Now, obviously, the timing of it in terms of exactly when that lands, there could be a little bit of variability there. So that's why we've got that range, but it's largely that.

The divestitures that I was referring to was the ones that we completed last year. So obviously, they'll have a full year effect in terms of the cash flow. They were profitable businesses and so if they're no longer in the mix, but that's also a part of it.

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**Operator**

Paul Treiber, RBC Capital Markets.

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**Paul Treiber** - *RBC Capital Markets Inc - Analyst*

Thanks for taking the question. Good morning. You've run very large sales organizations in the past. Open Text has gone through sales capacity investments in prior years. From your point of view, why perhaps did those investments did not have as much of a payoff as perhaps they should have, and how are you taking a different approach this time?

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

Hi, Paul. Thank you for the question. It's a really important one because sales capacity not spread properly and surgically doesn't give you the same returns. So if I were to mention three things that we're working to do materially differently than we have done in the past is one where we are allocating that capacity.

So we have segmented our market, the client segments that we are focused on into three segments. We used to have a lot more than that, so we are more focused on which clients we want to target and those are the clients we're putting that investment in terms of sales capacity because they're the ones that have given us the feedback that if you are spending time with me, more time with me, and bringing me an integrated Open Text, not the brand by brand version, but the integrated Open Text where you're stitching all the products that I acquire from you into a holistic story, you will reap the benefits. So surgically putting the coverage, not a peanut-butter approach, but in certain places.

Second, we have picked the markets where we believe not only there's an opportunity that we have the right win, a value proposition that resonates. So we've configured ourselves globally across 16 markets with a market leader for each one of those 16 markets, he or she is accountable for the resource model, for the performance of the unit, and have all the decision rights in the market, that's another key change. The decision rights to speed what we do for our clients is in the hands of the market leaders, you don't need to phone home, you don't come to headquarters, so to speak.

And then the final one I would say that is different than in the past, it's part of the investment that's going into the ecosystem. That is a place that I have really good experience with. When you do it right, it is a significant force multiplier. It takes time and the investment eventually pays off, but I did not feel we had enough investment there. The partners told me that in the last three months where I've spoken to our top 22 partners. So we have listened and acted in terms of investments and resources to support them, sales enablement, and financial incentives as well.

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**Paul Treiber** - *RBC Capital Markets Inc - Analyst*

Second question, just on renewal rates, specifically in a cloud net renewal rate. It was down on a year-over-year basis, but you mentioned that it was in line with historical trends. Can you just sort of elaborate a bit more on that dynamic? And ideally, where would you prefer net renewal rates to trend to over time?

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

Yes, I'll start there, maybe Ayman can add on. Obviously, the historical rates are they are, but being in the low to mid-90s there is pretty good. I think maybe we'll -- with what's happening, we likely, given the trends that we're seeing, that should, I think, improve to some degree over time because the stickiness and the level of investments that companies are making and the AI deployments really ticking up, deals getting larger, and longer quite significantly, I think, should positively impact that over time.

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**Paul Treiber** - *RBC Capital Markets Inc - Analyst*

Thanks for taking the questions.

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**Operator**

David Kwan, TD Cowen.

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**David Kwan** - *Cowen and Company LLC - Equity Analyst*

Thanks and good morning. Want to get back to the question on the asset divestitures. So can you comment on, I guess, what the environment is looking like right now, particularly as it relates to deal financing, because I know I think it was on the last call you talked about just challenges in terms of potential buyers, particularly financial ones struggling to access credit. I'm wondering to what extent that might have changed since last call.

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

My take on it is that while things are starting to potentially loosen up a little bit, it's by and large similar, right? You're absolutely right, the debt markets remain pretty tight in the space. But on the other hand, there is a lot of capital on the sidelines waiting to be deployed. So it's that kind of dynamic and there's obviously a lot of market participants out there looking for to take advantage of current valuations and market. So I think it's kind of more of the same, but it should improve given a bit more time.

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**David Kwan** - *Cowen and Company LLC - Equity Analyst*

I appreciate the color. And then on the capital allocation strategy, it sounds like really more focused on investing for stronger organic growth and debt reduction. Is that right? And on a related note, despite kind of where the shares are trading right now, should we expect a slower pace of buybacks this year versus last year given maybe a change in priorities?

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

Hi, David. It's Ayman. You called it right. On our page 21, the capital allocation categories were listed. You should read that as listed based on priorities for us, debt reduction and organic growth investments. But as you heard from Steve in his remarks, we did renew the NCIB process and it is part of our capital allocation, but we're prioritizing the first two.

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**David Kwan** - *Cowen and Company LLC - Equity Analyst*

Appreciate it. Last question for me, and I apologize if this maybe was discussed on the call as I was late jumping on, but I'm curious to get your commentary on token consumption and how that's impacting your business from a cost perspective. Is it having a material impact and is that I assume that's reflected in the market?

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

When we started to make that available to our development team, at the beginning, we started to see a ramp up that was going to get dangerous if we don't put the right governance around it. So very quickly, the team did a really nice job monitoring the early stage of token consumption and who's using it and for what reasons and are we getting the ROI.

And very quickly our Chief Development Officer and our Chief Information Officer partnered together and put a very tight but with speed and simplicity governance model around it. And we feel pretty good about how we're managing that going forward.

**Operator**

(Operator Instructions)

Steve Enders, Citi.

**George Kurosawa** - *Citi Research - Analyst*

Hi. Thanks for taking the questions. This is George on for Steve. I wanted to ask about this ongoing enterprise assessment. Sounds like pretty sweeping. Clearly, there were some signals that were loud enough to enable you to take some fairly decisive actions before completing that. But just when you think about the range of outcomes, what are some of the areas where you feel like there's the most sort of uncertainty in where you could go strategically following that assessment?

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

Good morning, George, and thank you for the question. So first of all, just to your earlier comment, the way you opened the question, absolutely, the reason that we launched it and the components we included in the assessment was 100% informed. By the discussions I had with the 63 plus clients, over 28 of our investors, over 2,500 of my colleagues and close to 22 of our top partners and these were all one-on-one discussions, not one-on-many, so there was no group thinking in the feedback I received.

And we felt based on when we internalized the feedback, we felt that we have a really good opportunity, not just increasing the capacity from a sales point of view, but to do what the clients asked for, company in a more coordinated fashion. That's why those client executives are the ones that represent the holistic Open Text in front of the client, not brand by brand.

We felt the clients that wanted to see more of us, but we didn't have the capacity to get there would be best served by an ecosystem. That's why we put some of our efforts there. But as we were going through and listening, the clients also told us, be fast and proactive. Give me use cases, give me innovation with purpose, I want to see more AI infused in your portfolio. And our sellers said to us, I'd like to get more sales enablement. The ability to not just understand our portfolio, but make it fit in a given client environment through an industry lens.

And then we kind of looked at how we're spending our R&D money and to do that, we felt we needed to understand if we're putting it in the right category and that was part of the work stream that we launched around the portfolio and the development. So all of it informed by the feedback I received and categorized and prioritized in the set of things that the clients, the partners, the investors, and the colleagues said would make the most.

**George Kurosawa** - *Citi Research - Analyst*

And then I wanted to ask on maybe the deal environment, not universally, but some of your software colleagues in the market have seen some level of deal elongation. It seems like a lot of AI products require additional levels of approvals. When I look at your Q4 results, it seems like bookings is fairly strong. Is that a dynamic that you all have been seeing out there and executed through or if not, what do you feel is allowing you to sidestep some of those headwinds?

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

Yes, that's another really important point that you're raising because as we have seen things happen to the industry segment and players in the segment, that's a topic we pay very close attention to. Throughout the fourth quarter, we have not seen any material slowdown from our clients' engagements or deal delays that caused us not to get to end of job. And candidly, it takes me back to our core value proposition.

There's not a single language model. There's not a single agent. There's not a single application that can function and give the client the output and the outcome they want without data and a data foundation. So because of the space we're in and because of how they're all working hard to translate AI ambitions into reality, it did not cause us in the fourth quarter any visible material delay.

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**George Kurosawa** - *Citi Research - Analyst*

Great color. Thanks for taking the questions.

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**Operator**

I will now hand the call back over to Mr. Antoun for closing remarks.

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

Thank you very much. I just thought to wrap this up and connect some of the points that you heard from Steve and I and also some of the answers to our questions. We were very pleased with how we closed FY26 with the strong fourth quarter. It gives us the opportunity to start FY27, a year that we're calling a foundation year for us that will position us for strength for years to come. I am very confident of the road that we have ahead of us.

As you heard from us, FY27 Core revenue projected to grow between 2% to 3%, but just as importantly, every single one of the four categories in Core, our Cloud revenue will grow between 8% to 10%. We expect our cloud bookings to be significant as well, close to 30%-plus growth. As you heard me say, 92% of our cloud wins are new cloud business as opposed to base conversion.

One of the components that I included in my remarks are the examples around how Aviator is being more and more integrated in our capabilities and the business that the clients acquire from us, where when Aviator is included, the deal size is more than four times when it is not.

You heard about the sales capacity, not just face-to-face in front of the client, but also the investment in activating our ecosystem, and we're doing this while enabling everyone that is in front of the client to have more decision rights, so they can act with speed.

And as we have deployed our capacity, we're very conscious to make sure that it's providing not just additional capability to the client but continuity of relationships so that we do not disrupt those relationships that we value and treasure very much. The activation of the ecosystem will be a force multiplier for us over the next number of years.

And as you stitch all this together with what we started the call with who Open Text is, the data and context foundational layer in the AI stack for our clients, a secure, trusted, mission-critical layer. That will be our value proposition today and going forward, not only just because of the AI buzz but because, as I said, no language model, no AI agent, and no application would be able to produce the outcomes clients want without trusted, secure, well-governed data.

And with that, thank you for everyone for joining us on the call this morning.

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**Operator**

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

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