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OTC.TO - Open Text Corp Conference Call discuss the Strategic Update

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OVERVIEW:

Co. provided a strategic update on its business. Expects 4Q15 revenue to be approx. $440-455m and adjusted EPS to be approx. $0.64-0.72.

CORPORATE PARTICIPANTS

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Eyal Ofir *Dundee Capital Markets - Analyst*
Paul Steep *Scotia Capital - Analyst*

PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the OpenText Company Strategic Update conference call. As a reminder, the conference is being recorded.

(Operator Instructions)

At this time, I would like to turn the conference over to Greg Secord, Vice President, Investor Relations. Please go ahead.

Greg Secord - ***Open Text Corporation - VP of IR***

Thank you, operator, and good afternoon everybody. I would like to start the call with the reading of our Safe Harbor statement. Please note that during the course of this conference call, we may make statements relating to the future performance of OpenText that contain forward-looking information. While these forward-looking statements represent our current judgment, actual results could differ materially from a conclusion, forecast, or projection in the forward-looking statements made today. Certain material factors and assumptions were applied in drawing any such conclusion, while making a forecast or projection, as reflected in the forward-looking information.

Additional information about the material factors that could cause actual results to differ materially from a conclusion, forecast, or projection in the forward-looking information, and the material factors or assumptions that were applied in drawing a conclusion while making a forecast or projection as reflected in the forward-looking information, as well as the risk factors that may project the future performance results of OpenText are contained in OpenText Forms 10-K and 10-Q, as well as in our press release that was distributed earlier this afternoon, each 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.

And with that, I would like to welcome everybody to the call. With me today is OpenText, President and CEO, Mark J. Barrenechea, as well as our Chief Financial Officer, John Doolittle. As with our previous calls, we will read prepared remarks, followed by a question and answer session. The call will last approximately 30 minutes, with a replay available shortly thereafter. I'd also like to direct investors to the Investor Relations section of our website, where certain investor materials may be referred to during this call. And with that, I hand the call over to Mark.

Mark J. Barrenechea - ***Open Text Corporation - President & CEO***

Thanks, Greg, and let me welcome everyone to today's call. As Greg noted, today's call will be about 30 minutes in length, and John and I wanted to walk through the press release we issued earlier today. So let me get right into it.

I am pleased to announce that I've resumed my full involvement in the day-to-day operation of the business. Let me thank the OpenText Board, our customers, employees, and stakeholders for all their support. Also, I'd like to thank John Doolittle and Gordon Davies for co-chairing with me the CEO Operating Committee over the last 90 days. We have disbanded the committee now that I have resumed the operations of the business, and I continue to look forward to John and Gordon contributing even more to OpenText. They are outstanding leaders and executives.

Today, cloud is approximately one-third of our total revenues. In the next few years, we need the cloud to be the majority of our revenues. This is the genesis of our strategy update today, and resulting actions to support that strategy.

OpenText has grown into a near $2 billion business over the last 10 years, by being a leader in on-premise EIM solutions. We have built our business via acquisitions, being a value-based consolidator, through our own product innovations, and by building a global distribution network, as well as expense discipline, operational excellence, and efficient capital allocation. As we look to the future, we see customers transitioning to the cloud, and this is the new growth opportunity.

We will follow that growth opportunity, and be the market-leading EIM business in the cloud. We will grow our cloud business via acquisitions, through our own product innovations, through new distribution channels, and through new ways in which consumers can purchase our solutions, such as enterprise subscription and managed services. At the end of the day, today's strategy update is about growing our cloud revenues to be the majority of our total revenue.

This is further supported with strong recurring revenues, currently representing approximately 85% of Company revenue. Over the last three years, the Company has grown cloud revenues from zero to over 30% of total revenues, and expanded adjusted operating margins of approximately 26% to 30%. The company has delivered significant cloud innovations such as OpenText Core, Trading Grid 15, Enterprise Subscription, Enterprise Managed Services, and recently iX Analytics. We're off to a solid start.

These cloud-based innovations will drive future growth. The enterprise market, however, remains hybrid today, that is customers continue to purchase both on-premise and in-the-cloud solutions. The Company will fully support on-premise customers should they choose to stay on-premise, or transition to the cloud or a combination of both. Further, the Company will invest where customers are going, and that new growth opportunity is the cloud.

Let me speak a bit about our financial philosophy. As we execute to our cloud business strategy, we do not expect our financial philosophy to change, nor our view on being a value-based acquirer, and the Company remains focused on delivering superior shareholder value. Over the last seven years, OpenText has delivered a revenue cumulative average growth rate, a CAGR of 15%, and an adjusted net income CAGR of 28%. (sic - see press release "28%") We have delivered our revenue growth through a combination of acquisitions augmented by organic growth, and we delivered our earnings growth through operational excellence.

We will continue to focus on operational excellence, being efficient capital allocators. And since its inception, our dividend program will have delivered $180 million back to shareholders as of June 2015. We value earnings over unprofitable revenue growth. Now let me emphasize this point again, we value earnings over unprofitable revenue growth. Our financial philosophy is not going to change with our cloud business strategy.

We are also announcing today we are restructuring the business to support our cloud focus and strategy. Effective immediately, we are announcing a simplification of our business structure around enterprise, information exchange and analytics, as well as the new Global Technical Services organization. This new structure will allow us to scale, as we continue to acquire complementary businesses, and will provide additional focus on expanding our install base, winning the customer, and capturing the lifetime value of that relationship. As a result of the restructuring, we expect to save approximately $50 million in annualized operating expenses. The restructuring will not have a meaningful impact this quarter, Q4, and the structure will be accretive to FY16 earnings, with little to no impact on revenues.

I am pleased to announce the following appointments. First is James McGourlay, Senior Vice President of Global Technical Services. Mr. McGourlay will lead the OpenText Global Services Business. This new organization will focus on technical support, renewals, customer onboarding, and professional services, managing all post-sales services, customer lifetime value, and accelerating customers time to value.

The organization will be near 3,000 employees strong, focused on customer success. I'm very excited to watch their future contributions and successes. James has been with the Company for near 18 years, and has led our most profitable businesses at OpenText.

Simon Harrison, Senior Vice President, Enterprise Sales. Mr. Harrison will lead the OpenText Enterprise business, and all enterprise on-premise businesses within a single group. Simon has been with OpenText for near 15 years, previously leading our EMEA enterprise business, and fast-growth markets. George Schulze, Senior Vice President, iX Sales. Mr. Schulze will lead the OpenText Information Exchange business, and our core Cloud services. These core cloud services can be sold by any of our salesforces in the Company. George was with GXS for 10 years prior to joining OpenText, and is an industry veteran for the Cloud.

Andy Wild, Senior Vice President, Analytic Sales. Mr. Wild will lead the new OpenText Analytics business. I am excited about building this new business area at OpenText. As I said on our last earnings call, we expect Actuate be fully on our operating model within 12 months. Also, whereas we mentioned, we were off to a slower than normal start for an acquisition. This has now been fixed. Andy joined OpenText about a year ago, and understands the analytics market inside and out.

As a result of the restructuring, John Hunter, Executive Vice President of Worldwide Field Operations, is no longer with OpenText. I would like to personally thank John for his service, and we wish him the best in his future endeavours. I am confident the executive management and senior sales leadership teams will capture the Cloud growth opportunity for OpenText, and deliver for our customers.

I would like to just recap the executive leadership, and sales -- the senior sales leadership teams, which consists of the following executives: John Doolittle, our Chief Financial Officer; Gordon Davies, Chief Legal Officer and Corporate Secretary; James McGourlay, Global Technical Services; Muhi Majzoub, Engineering; Adam Howatson, our Chief Marketing Officer; David Jamieson, our CIO; Lisa Zangari, our Head of Human Resources; Gary Weiss, leading our Cloud strategy; Russ Stuebing, Corporate Development, and our senior sales leadership of Simon Harrison for Enterprise Sales; George Schulze, for iX Sales; and Andy Wild for Analytic Sales. You can see our website for the profiles on each of our executives.

Lastly, we're providing guidance for Q4. Looking at foreign exchange impacts for the quarter, as well as our customer transitions to the OpenText Cloud, and to a lesser degree the global selling environment, we felt it important to ensure expectations are aligned for the quarter. So we are providing one-time quarterly guidance. We do not expect to provide future guidance. The following numbers are approximate.

Within Q4, we expect a negative $44 million revenue impact, a negative $0.11 impact to adjusted EPS due to foreign exchange alone. With the negative impacts of FX already factored in, we are expecting Q4 revenues in the range of $440 million to $455 million. In constant currency, that would translate into $484 million to $499 million for Q4 revenues. In the press release, we walk through how we calculate constant currency, and John will touch on this in his remarks as well. With the negative impacts of FX already factored in, we're expecting Q4 adjusted EPS in the range of $0.64 to $0.72. In constant currency, that would translate to $0.75 to $0.83.

Before I hand the call to John, let me just summarize our release, and comments of today. I am delighted to be back running the day-to-day operations of the business. Today's announcement is all about a simple and clear strategy, to be the market-leading EIM business in the Cloud, and delivering a majority of revenues from the Cloud.

As our customers transition to the Cloud, this is a new growth opportunity, and we will deliver growth through acquisition, new product innovation, new distribution and new ways to purchase our services. Our financial philosophy is not going to change, and we value earnings growth over non-profitable revenue growth. We are value-based acquirers, and we look to be efficient allocators of capital.

We have returned $180 million to shareholders as of June 2015 through our dividend program. Today, we have streamlined our operations to prepare ourselves to grow, scale better, and deliver a market-leading EIM Cloud business. I am confident in our team to capture this opportunity. Let me turn the call over to John to provide his remarks, and walk you through the restructuring and guidance in more detail.

John Doolittle *- Open Text Corporation - CFO*

Thank you very much, Mark. We're delighted to have you back. Hello, everybody.

First of all, as noted in our Q3 earnings call, and again in today's press release, our annual target model that we set out at the beginning of the fiscal year remains unchanged. The model is publicly available on the website as part of our Investor Relations PowerPoint presentation. Our results year-to-date, and again in Q4, have been impacted by unprecedented foreign exchange volatility as Mark noted.

Our outlook is adjusted for anticipated negative foreign exchange impacts of approximately $44 million of revenue, and approximately $0.11 to adjusted EPS, compared to the fourth quarter of FY14. Our view of the quarter has not changed since the last call. But when we compared it to market expectations, it was clear there was a gap, which we believe is primarily due to foreign exchange. We felt it was prudent to provide guidance in our press release to help align expectations for all stakeholders.

As Mark just outlined, we announced the restructuring plan to simplify and align the business with our evolving Cloud strategy, and focus on the recurring revenue profile of our business. With these initiatives, we will incur a pre-tax restructuring charge of approximately $25 million, with the expected benefit of realizing approximately $50 million in annualized savings going forward. These initiatives will impact approximately 5% of the Company's workforce, with a focus on a few key areas.

Within sales, we're simplifying layers to have more direct relationships with customers, removing areas of general overlap, and realizing efficiencies in additional areas, as we move forward with our Cloud strategy to deliver a more customer-oriented sales experience. Customer support and professional services teams have been consolidated into one group, Global Technical Services, under one leader. This will create efficiencies in the

3,000-plus person organization, with cost savings where for example, there is duplication, and building a renewed focus on capturing the long-term value of the customer relationship.

We also make changes to other areas of the business, such as our facilities footprint as necessary. Again, with a focus on finding efficiencies, and streamlining our organization to focus on the Cloud, and recurring revenue with our customers. We expect to substantially complete the workforce changes in the first quarter of FY16, with the balance to follow in Q2 2016, and the facilities charges will be undertaken throughout FY16.

Going back to what we discussed in our Q3 call, and on page 9 of our Investor PowerPoint that's on the website, I want to review, to reiterate a few key metrics to help everyone with the modeling. Our estimated adjusted tax rate for Q4 remains at 18%. Our quarterly interest expense run rate will be approximately $18 million in Q4, and going forward. Also note, our capital expenditures are running at approximately $75 million per fiscal year.

And finally, to foreign exchange, we calculate constant currency impacts by translating the foreign currency revenues and expenses of the current period, using the rates that apply to the comparable period of 2014. For example, the euro to US dollar average exchange rate in effect during Q4 of FY14 was [1.38]. The rate for the first two months of FY14 of the fourth quarter of FY14 have been [1.09] a difference of over 20%.

This leads to the period-over-period change to revenues of $44 million and $0.11 EPS, assuming the rate stays at [1.09] for the month of June. In addition, the Company translates its foreign currency revenues and expenses for each month, using the closing rate of the immediately preceding month. And I would urge and encourage anyone, who has questions on foreign exchange to please contact Greg Secord, Investor Relations.

And with that, I will pass the call back to Mark.

Mark J. Barrenechea - *Open Text Corporation - President & CEO*

Okay. Thank you, John, and thanks for those remarks. Operator, we'd like to open the call up for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Our first question today comes from Richard Tse of Cormark Securities.

Richard Tse - *Cormark Securities - Analyst*

Yes, thanks, and Mark, welcome back here. I just wanted to ask a couple questions. Can you give some specific examples on what you need to, I guess, specifically do to make this transition to the cloud successful for you?

Mark J. Barrenechea - *Open Text Corporation - President & CEO*

Richard, thanks for that -- (multiple speakers).

Richard Tse - ***Cormark Securities - Analyst***

Yes, but just some specific examples on that, please?

Mark J. Barrenechea - ***Open Text Corporation - President & CEO***

Yes, for sure. Well, one is successfully delivering subscription as an alternative to license to our enterprise customers. We are very focused on winning new MCV. We call it minimal contract value, guaranteed three-year non-cancellable contracts for subscription, versus a licence. So it is a very concrete effort that we are working on, in the transition to the cloud.

Second, is going beyond a subscription And we've been fairly successful with the GXS business, and our additions to the GXS business on providing managed services for information exchange, which we're now beginning to do on our enterprise business. So on the revenue line, it's the transition from a license to a three-year or greater subscription, or a three-year or greater managed service arrangement.

On the expense side, we talked about our multi-year CAGR here on delivering that bottom line, or near bottom line operational performance. And we just need to stay very focused on managing those expenses, managing our run rate, keeping a very lean and direct organization to the customer, to continue to deliver that bottom line performance. So very concretely on the revenue side, sell subscription to the enterprise, sell managed services to the enterprise, as well as keeping that operational excellence and discipline down the bottom line through that transition.

Richard Tse - ***Cormark Securities - Analyst***

Does that change the way that you sell, and does it have to result in the retraining of your sales force? What are you doing on that side to address the change in the models here?

Mark J. Barrenechea - ***Open Text Corporation - President & CEO***

Yes, so as part of our announcement today, we basically have Simon Harrison -- he goes by Ted, so if I say Ted, I mean Simon. So Mr. Harrison will be primarily leading -- will be leading our on-premise business, and George will be leading our cloud business. And so, we are streamlining kind of the leadership layers here, to have kind of a direct accountability for license, and direct accountability for the cloud.

The license business we've kicked off -- we announced in November, part of the transitions we are going to make. We went through a full training in January in Q3, to have the enterprise team to prepared to sell subscription and managed services. We will continue with that training, of course. But this will be our first full quarter -- Q4 will be the first full quarter of selling subscription and managed services, and we will have wins we can talk about on our July call.

So we do, we have done a full round of training. The training will continue, and we will be speaking about specific wins on the July call.

Richard Tse - ***Cormark Securities - Analyst***

And to be clear, does that mean your existing reps sell both professional as well as subscription? Or do (multiple speakers)?

Mark J. Barrenechea - ***Open Text Corporation - President & CEO***

Yes, thanks for that follow-up. The answer is yes.

An account executive, direct relationship to the customer, can now sell a license or a MCV contract multi-year, guaranteed, non-cancellable, and get equal credit for either contractual relationship. So AEs, our direct AEs can sell both the license and an MCV contract, and get equal credit for both of them.

Richard Tse - ***Cormark Securities - Analyst***

Okay. Great, and one last one here. Can you give us an update on acquisition environment? And that's it. Thanks.

Mark J. Barrenechea - ***Open Text Corporation - President & CEO***

Thanks, Richard. So no real update over the last two to three weeks from the earnings call. We remain very diligent in working the pipeline.

The pipeline is strong, and looking at acquisitions, and valuations, while debt remains relatively inexpensive, valuations do remain a little bit on an uptick. We are seeing sort of a downtick on cloud-based valuations. And quite candidly, I see the cloud market maturing here over the next few quarters, and really kind of separating the big winners versus sort of normal valuations. You can't run a company that doesn't make money, and it just doesn't last.

So the cloud market is maturing. The valuations are maturing, and we will be in a very good position when they are fully matured, to continue on our value-based acquisition methodology.

Richard Tse - ***Cormark Securities - Analyst***

Great. Thanks, Mark.

Mark J. Barrenechea - ***Open Text Corporation - President & CEO***

Thanks, Richard.

Operator

The next question comes from Thanos Moschopoulos of BMO Capital Markets. Please go ahead.

Thanos Moschopoulos - ***BMO Capital Markets - Analyst***

Hi, good afternoon, and welcome back, Mark. I was wondering if you could maybe provide us with a bit more comfort, in terms of how much of the shortfall relative to expectations this quarter, is coming from the cloud transition, versus weakness in the demand environments? I don't know if you can speak qualitatively to that, or maybe provide us with some metrics when you report your final numbers?

Mark J. Barrenechea *- Open Text Corporation - President & CEO*

Yes, Thanos. Thank you for the question. Well, I will go back to just FX alone, which is really, really the headline here.

In constant currency, that is to say, if we had the same exchange rate today that we did at Q4 of last year in constant currency, our revenues would be in the range of $484 million to $499 million. Right? It is unprecedented, this [1.39] to [1.09] 20% downward delta in just the euro alone year-over-year, which is translating into $44 million alone in FX. Again, in constant currency, our Q4 guidance would translate to $484 million to $499 million. So that's the headline.

In terms of the license, to cloud, it's a few million, I mean it's less than $10 million, right? We will give more color on the earnings call, and really to a lesser degree, it is the global selling environment. But I would really emphasize that $44 million in foreign-exchange. And again, emphasize that in constant currency, our guidance would be $484 million to $499 million.

Thanos Moschopoulos *- BMO Capital Markets - Analyst*

And so, just to clarify. I guess, your commentary is, the global selling environment is challenging, but clearly, that is not the main issue here?

Mark J. Barrenechea *- Open Text Corporation - President & CEO*

That's correct. It's foreign exchange.

Thanos Moschopoulos *- BMO Capital Markets - Analyst*

Okay. And just one more related question on foreign exchange. What would those numbers look like if we were compared to the Q3 exchange rates?

John Doolittle *- Open Text Corporation - CFO*

Yes, I will get you the exact numbers, Thanos, while we're answering the next call. But I will give you the Q3 numbers compared to Q4. Give me a second to get it.

Thanos Moschopoulos *- BMO Capital Markets - Analyst*

Okay. Maybe just a final one for me. As far as the restructuring, are there any specific product areas or product segments, that you are deemphasizing as part of this? Or from a product perspective, will you go to the market with the same portfolio?

Mark J. Barrenechea - ***Open Text Corporation - President & CEO***

Yes, we will go to the market with the same portfolio. We are -- we are looking to -- the restructuring will streamline some facilities.

It will remove a variety of management layers. It will remove overlap. It will provide very direct accountability for license and cloud.

We're also looking to remove non-quota carrying individuals from the organization. None of our relationships between company and customer are expected to change. We are not really looking to cull or thin the product line.

Thanos Moschopoulos - ***BMO Capital Markets - Analyst***

That's helpful. Thanks, Mark. I'll pass the line.

Mark J. Barrenechea - ***Open Text Corporation - President & CEO***

Okay. Thank you, Thanos.

Operator

The next question comes from Eyal Ofir of Dundee Capital Markets.

Eyal Ofir - ***Dundee Capital Markets - Analyst***

Thanks. Good to have you back, Mark. Just on the comments around the -- you guys kept guidance in terms of the model for 2015.

I am trying to figure out, obviously how much impact there is from the transition to the cloud on license revenue in this coming quarter. Is there any way to give us some guideposts to that? You, traditionally, June quarter has been seasonally a strong quarter for you guys. Obviously, the range here sounds like it is going to be either flattish to slightly up quarter, based on this guidance.

Mark J. Barrenechea - ***Open Text Corporation - President & CEO***

Yes. So again, I will emphasize total revenue in constant currency, our guidance would translate from $[484] million to $499 million. We haven't broken down that by revenue line if you will, but certainly, the more volatile of the lines is the license. And our best estimate would be under $10 million, so between $5 million and $10 million on the license line.

Eyal Ofir *- Dundee Capital Markets - Analyst*

So you mean on -- are you talking -- what do you mean $5 million to $10 million? So talking sequentially or annually (multiple speakers)?

Mark J. Barrenechea *- Open Text Corporation - President & CEO*

Yes, if I understood the question, you were going, well, what could be the in-quarter impact on the license line, with our transition to new MCV contracts (multiple speakers)

Eyal Ofir *- Dundee Capital Markets - Analyst*

Yes --?

Mark J. Barrenechea *- Open Text Corporation - President & CEO*

Yes, and I am not modeling Q3 to Q4, right? But we probably have a $5 million to $10 million license to a cloud transition in the quarter.

Eyal Ofir *- Dundee Capital Markets - Analyst*

Got you. Okay, perfect. So that gives me a little better picture.

And now, in terms of going forward, you just talked about M&A in one of the last questions. In the interim, if you are going to be focusing on the cloud, you said that some of these -- you expect over time some of the valuations are going to come down. In the interim, are you still looking at other types of transactions that may not necessarily be purely cloud-related?

Mark J. Barrenechea *- Open Text Corporation - President & CEO*

Yes, I would -- the short answer is yes. It's really around recurring revenues and the cloud. So those businesses that can present sort of their valuation -- their valuation in line with our philosophy, that have strong recurring revenues, and/or cloud revenues, we are interested in.

Eyal Ofir *- Dundee Capital Markets - Analyst*

So you're still looking at some similar companies (multiple speakers).

Mark J. Barrenechea *- Open Text Corporation - President & CEO*

So I would add recurring revenues as part of our selection criteria.

Eyal Ofir *- Dundee Capital Markets - Analyst*

Okay. So companies would still have the -- like this traditional perpetual plus the maintenance line, maintenance revenue you would still be looking at that, those types of companies?

Mark J. Barrenechea *- Open Text Corporation - President & CEO*

With strong recurring revenues that we can optimize within our company and our distribution.

Eyal Ofir *- Dundee Capital Markets - Analyst*

Okay. So those would potentially be your near-term targets versus these cloud ones are going to be longer-term?

Mark J. Barrenechea *- Open Text Corporation - President & CEO*

Well, look, I mean, many cloud valuations have come into line. I still think there is a little more to go, but I just hesitate on the long-term, right. I am not signaling short-term by any means, but we are looking at cloud companies today that are in our valuation range.

Eyal Ofir *- Dundee Capital Markets - Analyst*

Okay. And just, sorry now, going back to the license question again, and I will pass the line. If we're looking into 2016, the $5 million to $10 million that you talked about in-quarter, should that expand going forward when we are modeling this out? Or how should we think about it, looking into 2016?

John Doolittle *- Open Text Corporation - CFO*

Yes, it's John. We're going to -- as I said, we're going to update the target model when we do announce our fourth-quarter earnings, so we will give you a better picture then.

Eyal Ofir *- Dundee Capital Markets - Analyst*

Okay. And then just, Mark, one last thing. When you actually report clouds, will you be starting to segregate cloud, like GXS versus more of these SaaS type or term license models revenue from the cloud line, or are you going to keep it all lumped into one?

Mark J. Barrenechea *- Open Text Corporation - President & CEO*

Yes, we have to think through that. When we, as we usually do, as we've done over the last many years, when we get into July and provide our view into 2016, John and I will evaluate the additional metrics that we want to talk about. So you can monitor and status our progress on the transition to cloud.

And one of the ones, we are certainly thinking about is to better segment -- or kind of get to that next level of detail behind cloud services revenues. So just stay tuned. We will come back with an update in July on that one.

Eyal Ofir *- Dundee Capital Markets - Analyst*

Okay, great. I think that would be helpful. So I will pass the line, thank you.

Mark J. Barrenechea *- Open Text Corporation - President & CEO*

Yes. Understood.

Operator

(Operator Instructions)

Our next question comes from Paul Steep of Scotia Capital.

Paul Steep *- Scotia Capital - Analyst*

Great, thanks. Mark, welcome back. Glad to hear you're well.

I guess, on the cloud transition, is it fair to think of this as more than a multi-year transition? And what I mean by that is, the pressure on license, when do you think the business reaches the crossover point? Is it sort of just abates in 2017, or it's a multi-year phenomenon we are maybe go through?

Mark J. Barrenechea *- Open Text Corporation - President & CEO*

Yes, I think it's a fair question. We have been at this for about three years, and we are really entering -- when we get into July, we will sort of be entering our fourth year of providing -- our fourth year of being in the cloud business. There is going to be customers who always buy a license, and we have examples like the ECB where we continue to -- or lots of financial institutions, heavily regulated companies who want to continue to own the asset, and maybe be surrounded by our professional services -- sort of on-site managed service, or have there own private environment hosted in our cloud.

But the short of it is, we are always going to sell a license, and we have been at the cloud business for three years entering our fourth year now. And I am of sort of the school, when you talk about a transition program, there is a start date and there's an end date. Right? You get done with a project, done in one, and you move onto the next, and you kind of monitor your progress of the done in one.

We are more than halfway through this transition to the cloud. And is it another year, is it another two years? It is somewhere in that range of saying, license will reach its natural level, and kind of that final wave of transition will be complete.

So perhaps it is in FY16? I doubt it will go beyond FY17, but we will always sell a license, always sell a license.

Paul Steep - ***Scotia Capital - Analyst***

I guess, just to follow on that, if we think about client's reactions to what you put forth, clearly something has gone on in the last two quarters here, where we started to see more of that revenue, telling us the salesforce is agnostic, and obviously it's hitting the numbers. Have clients in the pipeline more significantly shifted to the cloud side? Is that what we are to take away, and think that the license line hits, maybe a steeper slope on the downside?

Mark J. Barrenechea - ***Open Text Corporation - President & CEO***

So there are two part-ers in there, or at least the two parts that I heard. Let me take one part, and then the second part.

The first part, what has changed, right? What's changed over the last two to three quarters? And here's my take of what has changed.

When we look at kind of a large multi, multi billion dollar software companies, all they talk about is the cloud. Microsoft, Oracle, SAP and others, all they talk about is the cloud today. And we come in behind them, right? I mean, we are a substantial company, near $2 billion in revenues, right, but we've got some bigger players in front of us. So we tend to come in their wake if you will, into a sales cycle.

So if Oracle and Microsoft and SAP and IBM have all come into talk to a CIO about the cloud, cloud, cloud, cloud, that sort of hit critical mass over the last couple of quarters. And I think we are seeing that reflected in our install base, and when we come into the conversation behind an Oracle, SAP, Microsoft and IBM. So I think that is a marked difference that's happened in the industry over the last couple of quarters.

We're on our fourth year into this quote/unquote transition to the cloud. And, look, we are always going to sell a license. We're going to have, I suspect, double-digits of license revenue in the Company. It's not guidance, but I would think that we are going to find ourselves, maintaining in double-digits of the license.

So I don't think of this steep downward slope in license. I think of, the next one or two years, kind of completing the transition to a balance of license and subscription.

Paul Steep - ***Scotia Capital - Analyst***

Okay, and I will wrap it up with one last one. If that's the case, then if we think about the progression of the business here, is there an impact on margin profile, and also maybe the level of investment CapEx, if you are moving to more of a managed service model that we likely sort of transition through in 2016 and maybe into 2017, as those margins tick down as you undertake more services for clients? Thanks.

Mark J. Barrenechea - ***Open Text Corporation - President & CEO***

Yes. So the first part is, you have the commitment from John and myself, that as cloud, right now cloud runs around 60 points of margin, license runs roughly in the mid 90s. So as we see some percent of license move over to subscription, you have our commitment to continue to manage to margin and the bottom line for all-in expenses. We have done that fairly well over the last three years.

I mentioned in my prepared remarks, that with three years of moving to the cloud already, right, we have managed our adjusted margins from 26% to 30%. So not only do you have our commitment, you've got a track record from this executive team, that we'll continue to protect margins in kind the final half, right, or final third of the transition to the cloud.

In terms of managed services, we tend to -- the majority of contracts we sign give us 30 days to 90 days to stand up the service and begin revenue. So we don't go out and speculate ahead of need to buy equipment in managed services.

We'll make some -- we do some modeling on our subscription and our value added networks of what we need to do, and that's in the $75 million in CapEx that John spoke about. But we typically, majorly get the opportunity to buy additional capital, once we've signed a guaranteed MCV agreement. So we don't buy speculatively, we buy to contract.

Paul Steep - ***Scotia Capital - Analyst***

Thank you.

Operator

There are no further questions at this time. I'll now turn the call back over to Mr. Barrenechea for any closing remarks.

John Doolittle - ***Open Text Corporation - CFO***

Just Brad, just one -- it's John here, just one comment. I owe Thanos an answer on the Q3 rates. I was hoping to have them before the call finished. I haven't got them yet. So Greg, you will get a hold of Thanos, and if anybody else is looking for the Q3 exchange rates that we used to book our revenues, Greg will have those right after the call. Thanks.

Mark J. Barrenechea - ***Open Text Corporation - President & CEO***

Yes, very good. Thanks, John. Thanks, everyone, and thanks for joining today.

We thought it was important to provide this update. I am delighted to be back, running the operations of the business, and we look forward to speaking to you soon. Thank you, everyone.

Operator

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

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