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OTC.TO - Q1 2014 Open Text Earnings Conference Call

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OVERVIEW:

Co. reported 1Q14 total revenue of $324m and GAAP net income of $30.6m or $0.52 per diluted share.

CORPORATE PARTICIPANTS

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Thanos Moschopoulos *BMO Capital Markets - Analyst*
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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Open Text Corporation first quarter fiscal year 2014 results conference call. During today's presentation, all parties will be in a listen-only mode.

(Operator Instructions).

Today's call is being recorded. At this time I would like to turn the conference over to Greg Secord, Vice President, Investor Relations. Please go ahead, sir.

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

Thank you, Britney and good afternoon everybody. I would like to cut 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 Open Text that contain forward-looking information. While these forward-looking statements represent our current judgment, actual results could differ materially from a conclusion's forecast or projection in the forward-looking statements made today.

Certain material factors or assumptions were applied in drawing any such conclusion while making any such 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 the conclusion, forecast or projection in the forward-looking information and the material factors or assumptions that were applied in drawing the conclusion while making the forecast or projection as reflected in the forward-looking information, as well as the risk factors that may project the future performance results of Open Text are contained in Open Text forms

10K and 10-Q, as well as in our press release that was released earlier today, 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. In addition, our conference call will include a discussion of certain non-GAAP financial measures, reconciliations of all non-GAAP financial measures to their most directly comparable GAAP measures have been included in today's press release which may be found on our website. With that, I would like to welcome everybody to the call. With me today is Open Text's President and CEO Mark J. Barrenechea as well as our Chief Financial Officer, Paul McFeeters.

As with our previous calls, we will read prepared remarks followed by a question-and-answer session. The call will last approximately one hour with a replay available shortly thereafter. I would also like to direct investors to the investor relations section of our website where we have posted an updated PowerPoint that will be referred to during this call as well as a summary table highlighting Open Text's historical trend and financial metrics. With that, I will hand the call over to Paul McFeeters.

Paul McFeeters *- Open Text - CFO*

Thank you Greg. Turning to the financial results I will highlight our first quarter fiscal year 2014. Total revenue for the quarter was $324 million, down 0.5% compared to $326 million for the same period last year. Regionally, the Americas contributed 54% and EMEA, 37% and Asia Pacific 9%. License revenue for the quarter was $55.3 million compared to $55.7 million reported for the same period last year.

We saw license revenue broken down by vertical sector. With 19% from basic materials and conglomerates, 17% from services, 14% from financial services, 13% from healthcare, 12% from technology, 12% from public sector, 5% from utilities, 4% from consumer goods and 4% from industrial goods. Cloud services revenue for the quarter was $42 million compared to $44 million in the same period last year. Cloud services gross margins were 65.7% in the quarter compared to 59% for the same period last year.

The current quarter margins were up partially due to a one-time impact of a reversal of certain sales tax liabilities. Absent this, the cloud services margins current quarter would have been approximately 61%. Customer support revenue for the quarter was $168 million, up 3.9% compared to $162 million in the same period last year. Customer support gross margins were 86.8% in the current quarter compared to 84.1% for the same period last year.

The increase was due to efficiencies gain from the centralization of technical support resources and by reduction in third-party technology costs. Professional services and other revenue for the quarter was $59 million, down 8.5% compared to $65 million in the same period last year. The professional services gross margin was relatively stable at 23.1% in the current quarter versus 22.5% for the same period last year.

Gross margin for the quarter before amortization of acquired technology and stock compensation, was 73.9% compared to 70% for the same period last year. Pretax adjusted operating margin before interest expense and stock compensation was $99 million this quarter, up 5.8% compared to $94 million in Q1 of the last fiscal year. Adjusted net income increased by 6% to $82 million this quarter, up from $77 million in Q1 of the last fiscal year.

Adjusted earnings per share was $1.37 on a diluted basis up from $1.31 per share in Q1 of the prior fiscal year, an increase of 4.6%. The sequential effect of foreign currency movement on adjusted EPS for Q1 was a positive $0.02. The adjusted tax rate for the quarter was 14%, the same as it was last fiscal year. On a GAAP basis, income from operations before interest and taxes for the first quarter was $52 million, up 29.8% from $40 million in the first quarter of last year.

GAAP net income before taxes was $49.6 million in the current quarter versus $35.6 million in the same period last year and income for the first quarter, in accordance with GAAP was $30.6 million or $0.52 per share on a diluted basis, compared to $19.4 million or $0.33 per share on a diluted basis the same period a year ago. Operating cash flow for the quarter was $79.9 million, compared to $61.8 million in the same period last year. There were approximately 59 million shares outstanding on a fully dilutive basis for the first quarter of fiscal 2014.

On the balance sheet of September 30, 2013 deferred revenues were $282 million compared to $294 million at June 30, 2013 and $270 million as of September 30, 2012. Accounts Receivable was $153 million as of September 30, 2013 compared to $175 million of June 30, 2013 and $170 million as of September 30, 2012. Days sales outstanding were 43 days at September 30, 2013 compared to 45 days as of June 30, 2013 and 47 as of September 30, 2012.

On September 30, 2013 our headcount was approximately 5,300 comprised of 1,500 in R&D, 200 in cloud services, 700 in customer support, 1,000 in professional services, 1,150 in sales and marketing and 750 in G&A. During Q1, we acquired Cordys Holding B.V., a provider of BPM and case management solutions, offering one platform with cloud, mobile and social capabilities. Cordys is based in the Netherlands. The purchase price of this acquisition was $33.2 million. Last quarter we revised our target operating model for fiscal 2014.

We increased the range for gross margins for licensed and professional services each by 100 basis points and lowered the operating cost ranges as a percentage of total revenues by 100 basis points for both R&D and G&A. As a result, we increased the range for non-GAAP operating margins to 27% to 31%. Our target operating model is posted on our website in the investor relations section. On October 30, 2013, the board declared a dividend of $0.30 per share for shareholders of record on November 29, 2013 payable on December 20, 2013. Now I will turn the call over to Mark.

Mark Barrenechea ***- Open Text - President and CEO***

Thank you, Paul. And welcome everyone to our fiscal 2014 Q1 earnings call. There are three main things I would like to speak about today in my prepared remarks. The first is intelligent growth. These are the operating principles for our financial strategy and our overall business model that guide the organization every day. Second, our Q1 results. I will go a little deeper this call to provide additional insights into the quarter and our performance. And then third, Red Oxygen. Customers have begun to gain access to our next big release.

They like what they see and I will spend some time today highlighting the major aspects of Red Oxygen. Let me get right into it with intelligent growth. We are focused on creating value for our stakeholders. We do this by growing our earnings and our cash flows. We do this through our dividend program. And by onboarding acquired assets to our operating model that can create value for our stakeholders while investing in innovation and markets we know we can win in. We lead with value. We invest for growth. We do not chase growth at all costs.

Rather, we have an operating principle of creating tangible and sustainable value. We call this intelligent growth. Over the last two years we have grown our cash flows and earnings. We have achieved this while creating a stronger, more efficient business. Over this period of time to a large degree we have insulated our cash flows and earnings growth from the ups or downs of license. This could not be clearer than in our Q1 results. Our adjusted operating margin was up 6% to 30.6%. Our operating cash flow was up 29%.

Our adjusted net income was up 6% and our adjusted EPS was up 5% on a centrally flat revenue. We continue to invest in innovation, our sales force, customer support and marketing. We continue to make these investments and believe they will yield tangible results as measured by organic growth. This is what we call intelligent growth. Let me transition to Q1 results. Last quarter was a challenging environment for many tech companies, including Open Text.

Let me talk about an important contributing factor for essentially flat revenues. We all read the same newspapers and the US government shutdown and default debate were disruptive to closing business towards the end of the quarter. And the destruction was widespread. Software sales are predominantly backend loaded and when the government of the largest economy in the world begins to shut down and talks of financial default and then ultimately shuts down, it pauses purchasing in many countries, in many industries, and in many governments due to large-scale uncertainty.

Again, notwithstanding our essentially flat revenues, we delivered strong operating cash flow of 29%, adjusted operating margin of 30.6%, adjusted net income of $81.5 million and adjusted EPS of $1.37. Let me get into the revenue number with a little more detail. In EMEA our revenues were up by $4.8 million compared to Q1 last year with a strong contribution from customer support.

In the Americas, our licensed and customer support revenues were up but our overall revenues were down by $2.6 million primarily due to our professional services business which was down $5 million, but I note our overall EPS margin was up to 23.4%. Further we continue to expand our Latin America operations though the revenue contribution remains small and will take some time to scale. In EPJ, our revenues were down $3.3 million and within that $3.3 million, cloud services were down by $1.6 million, driven by foreign exchange and a workload change in the Japan market.

The market is moving away from broadcast fax which is a lower end service within our overall messaging services business. We also had a large license deal that pushed into Q2 which we have subsequently closed. Within the quarter, we had five license transactions over $1 million, eight transactions between $500,000 and $1 million, 58% of our business was direct, 42% partner influenced.

In regards to license by industry, services -- people related businesses contributed 17%, financial services 14%, healthcare 13%, technology 12%, government -- federal, provincial, state and local 12% and basic materials 12%. By total revenues, the Americas was 54% of our business, EMEA 37% and APJ 9%. Customer support was 52% of total revenues, license was 17%, professional services 18% and cloud 13%.

Within the quarter, margin performance was solid and up across all our business lines. License margin was 94.5%, cloud services margin was up to 65.8%, customer support margin was up to 86.9%, and professional services margin was up to 23.4%, all of which contributed to our adjusted operating margin of 30.6%, up 7%. Customer highlights include Bank of Hawaii purchased our ECM platform with plans to migrate its legacy solutions for business profits improvements, increased productivity and future growth expansion.

Transportation for London, also known as TFL, selected Tempo Social. TFL will use Tempo Social as a communication platform for incident reporting and service delays and quality. This information is vital for the organization's own internal processes. The monitoring of incidents allows TFL to produce accurate and timely and statutory and performance reporting. By learning from past incidents they aim to ultimately improve the service to their growing numbers of customers, a great example of what Tempo Social can do.

Other wins include the National Security Technologies group who has selected our ECM platform for information management at the US, Nevada national security site. Volkswagen of India and NRI, the Nomura Research Institute in Japan each selected our BPM platform. Also within Q1, as Paul mentioned, we closed Cordys. Cordys is based in Putten, the Netherlands and is the market leading BPM platform as a service provider deployable both on premises and in the cloud.

Cordys brings a marquis customer base and it includes customers such as Siemens, Mercer, Pacific Blue Cross, PACA Steel and Fujitsu as well as a cloud based BPM platform. Lastly, we also onboarded a new EVP of worldwide field operations, John Hunter, who is a seasoned world-class sales executive and off to a fast start. John joins us from CA where he led a multi-billion dollar Americas field organization. He is experienced, driven, hits the ground running and shares the passion for our mission and intelligent growth.

John will be with us at Enterprise World where many of you will have a chance to meet with him there. John is a great addition to my executive leadership team. Let me transition to my third topic today, Red Oxygen. Red oxygen is a project name, a code name for the next big release of our software. We have over 500 customers and partners beginning to experience Red Oxygen through our beta program and they are excited about what they see.

This is our first choreographed release in the history of the company and Red Oxygen is important enough that I want to spend some time on it today. Red Oxygen will help our customers digitize, govern their information, be more secure, go mobile, be social, build revenue-generating applications, consolidate their information platforms and go global. In a recent industry report it was referenced that it's time for CIOs to invest in enterprise information management.

And only 13% of the respondents indicated that they had a formal information management strategy. With that in mind, the first principles behind Red Oxygen, based on customer feedback include focus on new large EIM functional blocks, deeper integration across our modules, information flow similar to ERP flows like order to cash, compelling and consistent user interface, enabling developer to synchronize releases. These are some of the first principles behind Red Oxygen.

With stronger integration and a synchronization of our releases, we intend to go to market with larger, stronger packaging. We will have seven main packages with options versus hundreds of stand-alone modules. This is a big step forward for the company. These seven packages are Content Suite, Process Suite, Discovery Suite, Information Exchange Suite, Experience Suite, App Works, and Tempo. Seven packages versus hundreds of modules.

Within Red Oxygen, our suites of software will include a new restful service layer, kind of a modern API layer, targeted at the developer and (inaudible) workloads. Across these suites we will have over 300 points of integration, more EIM integration than EMC, Microsoft, IBM or Adobe. Integration equals value and time to adoption. Let me touch on some of the Red Oxygen highlights suite by suite. Content suite will include an easier to use interface, API, reports, a report writer, and archive in the cloud.

Open Text archives is a single platform for archiving Google apps, Exchange, Notes, file systems, and all of Open Text software. This will reduce costs and enable best governance practices. Discovery suite will include more connectors and a new CIO cash board for information. InfoFusion is ready for search in the enterprise with its next release. Process Suite will have smart process apps including case management, case intelligence, and flexible deployment for on premises or in the cloud.

Experience Suite will include omni channel publishing and adaptive media, Web and social analytics, e-commerce connectors, and our new HTML5 user experience would give you one user experience across all devices. Information Exchange Suite will include secure e-mail and large follow acceleration while advancing our messaging services layer for fax, notification and EDI services. Our EasyLink network will have its first programmable interfaces.

This suite will include a new seamless user experience, real-time audit trails and Outlook integration. Tempo will include a new module for content altering that we call Tempo Note. Also Tempo Box, Tempo Social, and Tempo Note will be integrated to ensure documents are managed, secure, and governed within content server. Further and perhaps most important, developers can begin to create software using our suites with App Works.

App Works is our new application gateway, new API layer, and a new online developer network called the Open Text developer network or OTDN for short. OTDN will include software for download, social communities and example libraries for creating EIM programs. Developers can begin writing code using our suites within hours. Pre-Red Oxygen, it would take weeks for a new developer to get productive.

In the future, we will host online environments so developers can begin writing code in seconds. As I like to say, the developer makes all things possible and Red Oxygen is developer ready. Red Oxygen is the biggest release of software ever from Open Text and will further our EIM products and strategies. It will also be a strong indicator that we have turned the corner as an innovator.

We expect Information Exchange Suite, Content Suite, Tempo and App Works to be GA by the end of fiscal two, this quarter, and Process Suite, Experience Suite and Discovery Suite to be GA by the end of fiscal Q3 or next quarter. But Oxygen will help create a new product cycle for us in the second half of the year. We expect Red Oxygen will help secure existing customer investments in our software and prove adoption of existing products, accelerate time to new modules and features and attract new customers to Open Text.

Let me summarize the call. We are focused on intelligent growth as I outlined earlier in my prepared remarks, which is creating value for our stakeholders through our operating principles. The quarter was solid for cash flow, margin and adjusted earnings on essentially flat revenues. We could not overcome the macro economic challenges towards the end of the quarter, specifically the US government shutdown. We have onboarded a great executive to lead the field, John Hunter, who will join us at Enterprise World.

Further, I am delighted customers are starting to get excited about Red Oxygen and they see the value. Larger functional blocks, deeper integration, synchronized releases, thus enabling a simpler go-to-market approach for Open Text. This is the technology foundation for the future of the company. You will be able to experience Red Oxygen at Enterprise World and the Open Text team is eager to unveil it to all our customers, partners and stakeholders. With that, I would like to open the call to your questions.

QUESTION AND ANSWER

Operator

Thank you, sir. Richard Tse, Cormark Securities.

Richard Tse - *Cormark Securities - Analyst*

Yes. Thanks, Mark. With your comments on the government shutdown, I just want to get a sense of in post that shutdown today where your sales stand. Have things noticeably turned around? I have got a related to question to that after.

Mark Barrenechea - *Open Text - President and CEO*

Yes. Sure thing. It certainly feels like business is getting back to normal, post the shutdown. You know, we enter Q2 with a strong pipeline. We of course have to convert that pipeline, but we enter the quarter with a strong pipeline. I also noted that we had a large deal that slipped in Q1 and Asia-Pacific that we have subsequently closed. So things are returning to normal now that the shutdown is over.

Richard Tse - *Cormark Securities - Analyst*

So related to that, I think in the past you have broadly talked about growth expectations in the order of 10% on licenses. You know given that turnaround in terms of the pipeline, should we expect that that is a pretty good bogie that we are shooting for this year?

Mark Barrenechea - ***Open Text - President and CEO***

Well, you know, all our investments -- the design point for those investments are to grow at the market rate. And the best that we can continue to tell is that market rate is near 10%. As you, know we do not have guidance. We provide an operating model for the company. But I can tell you we are focused on getting the company and our investments to the market rate.

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

And then one last question on Red Oxygen. Given that you are consolidating the portfolio, I'm guessing that the price points are going to be higher. So can you give us what your ASP was for this quarter and your expectation for the ASP's of each module looking out into Red Oxygen?

Mark Barrenechea - ***Open Text - President and CEO***

Yes. Our ASP, our average sales was $268,000 for the quarter. And that is probably a bit of a longer discussion kind of pillar by pillar and maybe we will take that off the call.

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

Okay. Thank you.

Operator

Scott Penner, TD Newcrest.

Scott Penner - ***TD Newcrest - Analyst***

Thanks, Mark. I would just like to ask a bit about the capital allocation strategy as it stands right now. As you have pointed out the license revenue has been a bit disappointing the last two quarters and yet if you look, at as you mentioned, the cash, even net of acquisitions, is up over $50 million in the last couple of quarters. So what can you do -- what is the plan for that cash going forward? Is it to secure additional acquisitions and then assuming that is probably the answer, what kind of comments can you give us on the outlook for the deal environment right now?

Mark Barrenechea - ***Open Text - President and CEO***

Very good. Thanks for the compound question. You know, on the first part of the question, if I look back over the last two years or so, the company has done an amazing job operationally of insulating our earnings growth, our cash flow growth from the variability of license. And that is an incredible achievement for the company and that is part of what I call intelligent growth, being able to grow our cash flow, our earnings creating a dividend program and investing in the markets we believe we can win in.

So that remains our strategy. Our design point is to -- for the investments we make in the business, whether it be Red Oxygen, whether it be investing in faster growth markets, getting additional coverage, bringing more partners on board, more program spend, the design point, remains getting to the market rate.

We do not guide to that but those are our design principles. Thirdly, in terms of capital allocation strategy there is no change to the strategy. We have continued with our dividend program every quarter. The board meets and reviews the dividends. Paul and I think of the dividend program roughly as 20% of our cash flows -- operating cash flows. And we will continue to acquire. So no change on the capital allocation strategy.

Scott Penner *- TD Newcrest - Analyst*

And just on the valuation of deals as you look out right now, even the past -- you repeated that you want to be a value buyer. What have you seen in terms of the valuations of targets you may be approaching? Are they in the ballpark of what you are willing to pay or are they creeping up?

Mark Barrenechea *- Open Text - President and CEO*

Like I commented on the last call, I have no change. We continue to be a value buyer. We look for certain ranges. And we are going to continue to look in those ranges for value assets. So no change to our strategy.

Scott Penner *- TD Newcrest - Analyst*

One question for Paul, the special charges were expected to be $5 million to $6 million. They are little bit below that. Can you give us an outlook of the next couple the quarters on that?

Paul McFeeters *- Open Text - CFO*

Yes. We will probably be -- I'm looking at about $3 million for the next quarter or maybe $1 million each of the following two quarters, so the remainder of the year right now is about $5 million.

Scott Penner *- TD Newcrest - Analyst*

Okay. Thank you.

Operator

Thanos Moschopoulos, BMO Capital Markets.

Thanos Moschopoulos *- BMO Capital Markets - Analyst*

Hi. Good afternoon. Mark, can you comment on the level of sales turnover in the quarter? We saw a higher level than typical during the last September quarter. I was wondering if it was more consistent with historical average this quarter or if there was any difference in that regard?

Mark Barrenechea - ***Open Text - President and CEO***

Good question. No. I would say we are operating really back to historical norms. We have not seen ourselves having high turnover coming into the new fiscal year at all. So I would say we are operating quite within historic norms. We also rolled in the year with minimal changes to the field organization. So I am quite pleased with our retention rates coming into the year.

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

On a year-over-year basis we should still think about you guys being 20% higher in terms of sales headcount than you were last year?

Mark Barrenechea - ***Open Text - President and CEO***

Roughly. Yes.

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

Okay. A question for Paul. Paul, can you break out the contribution from ICCM and Cordys in the quarter?

Paul McFeeters - ***Open Text - CFO***

Well ICCM was very low revenue and Cordys we acquired middle of the month so both were actually quite negligible. We don't break it out because it is not material and certainly negligible in the license and so, correspondingly any maintenance we picked up there was a very small (inaudible). It takes about a $0.5 million for the next year. So Cordys trailing revenue about $30 million.

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

Okay. That is helpful. And just one last one for me. Mark, can you clarify the professional service line? That was down year-over-year and quarter-on-quarter. Any dynamic there or is that just some quarterly volatility in that number?

Mark Barrenechea - ***Open Text - President and CEO***

Yes. PS -- we love our PS business and we get great value for it, but in a lot of ways it is a trailing indicator to license. So if PS is going to be down, it is probably a trailing indicator and even if licenses was down -- is down, we are compensating by having a stronger margin performance to continue to drive earnings growth. So I think of it as a trailing indicator to license.

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

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Okay. Thanks guys. I'll pass the line.

Operator

Paul Steep, Scotia Capital.

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

Thanks. Mark, maybe you could talk a little bit about the metrics you are thinking about and the board is thinking about in terms of measuring success for Red Oxygen when it launches. How are we going to determine when you have won or when we are there? And that is the first one.

Mark Barrenechea - ***Open Text - President and CEO***

Well, the customer adoption, competitive replacements, are certainly things top in mind for me and the leadership team as well as ultimately gaining new logos, new customers, and licensed revenue. It is an important release for us. We have choreographed, organized 1,000 engineers to deliver instead of a couple hundred models, seven suites of software with deep integration, over 300 integration points. So I would be looking towards competitive wins, customer wins, new logos, and then ultimately leading to licensed revenue.

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

So on that same topic again, just a last one for me, it would be, what is the plans or maybe you can remind us what the stance is toward customer support or migration towards Red Oxygen and what the expectation would be in terms of when you think you want to move the base over? Thanks.

Mark Barrenechea - ***Open Text - President and CEO***

Yes. Fair enough. As we get into Enterprise World, we will certainly highlight what's part of customer a maintenance fee and what is not. So we are going to have opportunities for some of these suites to not just have it as part of maintenance. So this will be part of our rollout when we get to Enterprise World on the pricing as well as what is included in maintenance and what is not. So there will be opportunities both within the install base and obviously to attract new logos and new customers. So pricing and packaging will release at Enterprise World.

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

Sorry. Just to clarify. It was not so much about pricing, I just wanted to see what is the policy on end of license legacy products? What is the force or the push to migrate people more quickly. I should have been more clear.

Mark Barrenechea - ***Open Text - President and CEO***

Yes. No problem. I misunderstood the question. We typically support two releases back. So when Content Suite 10.5 goes GA, we will support two releases back. And we have been on sort of a two year strategy so customers 4 years to 5 years behind would get an end-of-life notice and then would have to upgrade. So we tend to support two releases back.

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

Thank you.

Operator

Eyal Ofir, Clarus Securities.

Eyal Ofir - ***Clarus Securities - Analyst***

Thanks. Just to follow-up on the gross margin line, Paul, I think you mentioned on the early part of the call that cloud services was in 51% without the reversal? Is that correct

Paul McFeeters - ***Open Text - CFO***

61%

Eyal Ofir - ***Clarus Securities - Analyst***

61% okay. Perfect. And then, Mark, you talked about how you're starting to see some of demand in the quarter but, noting the release of Red Oxygen could that also create a drag for you in the current quarter as well as people anticipate the general release?

Mark Barrenechea - ***Open Text - President and CEO***

You know, it was not a lead contributor to the flat revenues. I am sure there are some customers who see it and are pausing but I would not -- I do not think of it as a major contributor.

Eyal Ofir - ***Clarus Securities - Analyst***

Okay. And then you expect Red Oxygen to be a positive impact in the fiscal third quarter.

Mark Barrenechea - ***Open Text - President and CEO***

Yes.

Eyal Ofir - ***Clarus Securities - Analyst***

And also in the fiscal fourth?

Paul McFeeters - ***Open Text - CFO***

Certainly. I certainly see it as a new product cycle for us in the second half of the year for sure.

Eyal Ofir - ***Clarus Securities - Analyst***

Okay. And then just on the pipeline of opportunities you guys are chasing. Its a pretty healthy pipeline. Some of the software vendors that have missed in the quarter as well have also talked about the same thing. Where is that pipeline coming from and in terms of execution, obviously we had some issues over the last two quarters. What gives you confidence you can turn this ship around from and execution standpoint?

Mark Barrenechea - ***Open Text - President and CEO***

Fair enough. So pipeline's up, feels healthy, the effects of the shutdown seem to have worn off and folks are back to business. You know, I look around our geos and last quarter the Americas, the revenue was down 2%. It was primarily PS, though we did greater margin. But license was up and I see execution improving in the Americas.

In EMEA our business was up 5% last quarter with strong CS. And in APJ, although our business was down 11%, I sort of pointed to a deal that slipped that we've closed in broadcast fax in Japan roughly $1.6 million. So just as we saw sort of a pause across geos in Q1, we are looking at the pipeline across our geos right now in Q2. So I am actually going to look to each of our geos here contributing.

Eyal Ofir - ***Clarus Securities - Analyst***

Okay. Perfect. And last question for me before I pass the line. The government shutdown, is there any way you can give us some form of a metric to figure out what kind of an impact this had on you?

Mark Barrenechea - ***Open Text - President and CEO***

Nothing except -- I don't mean to be cheeky except across the board. It really was, for us, an across the board pause coming into the last few weeks of the quarter.

Eyal Ofir - ***Clarus Securities - Analyst***

Okay. Thanks. I will pass the line.

Operator

Paul Treiber, RBC Capital Markets.

Paul Treiber *- RBC Capital Markets - Analyst*

Thank you for taking my questions. You've made a number of changes to your sales force and expanded your reach into new geographies and channels over the last year. Has the ramp-up of these new channels met your expectations?

Mark Barrenechea *- Open Text - President and CEO*

Paul, thanks for the question. You know, I think the short answer is, nothing has changed our thesis on the opportunity and what I'll call our fast growth markets or FGM's. But the time to revenue and the time to scale might be taking a little longer than expected. There is nothing that is changing our strategic thesis of India, Southeast Asia, Japan, Latin America, Middle East, Russia, Eastern Europe, South Africa, which we call our fast growth markets. But time to revenue is probably taking a little longer than we would like to see.

Paul Treiber *- RBC Capital Markets - Analyst*

Okay. And then with Jonathan Hunter on board is your head of sales, do you anticipate any major changes to your direct sales strategy or do you expect to continue the existing one?

Mark Barrenechea *- Open Text - President and CEO*

No. Right now John and I believe that we have the right structure in place so we are certainly not envisaging any big changes to the organization.

Paul Treiber *- RBC Capital Markets - Analyst*

Okay. Thanks. I will pass along.

Operator

Derrick Wood, Susquehanna International

Derrick Wood *- Susquehanna International - Analyst*

Great. Thank you. This is Rakesh Kumar for Derrick Wood. So I have a question, the last quarter you talked about execution issues in North America and the western US. This quarter it's basically macro. I just wanted to understand how much are the execution improved and how much is the weakness coming from macro in this quarter?

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Mark Barrenechea - ***Open Text - President and CEO***

Yes. The flat revenues and up margin in EPS is primarily -- the flattest revenues are certainly driven by the US government shutdown. It had wide effects as we came into the end of the quarter. You know, in the Americas, which I highlighted [and western Canada] last call, license was up. License was up in the Americas. Not enough, but it was up. And all of Americas was down roughly 2%. PS for the most part is a trailing indicator for the business. So execution is improving in the Americas. We see that with license up slightly year-over-year. And the flattish revenues certainly driven by the macro of the US government.

Derrick Wood - ***Susquehanna International - Analyst***

And if I could just add one more -- if you could talk about your SAP channel business? Any color on revenue contribution from SAP relationship? Any changes out there?

Mark Barrenechea - ***Open Text - President and CEO***

No changes to the relationship. It remains strategic. We remain close out in the field. And we are continuing to plan for field engagement, customer successes and the next versions of the product. So strategic relationship remains important to us. Paul, anything on the percent of contribution?

Paul McFeeters - ***Open Text - CFO***

No. It has been consistently -- we have talked about it in the last few quarters being between the 10% and 15% range. Consistent.

Derrick Wood - ***Susquehanna International - Analyst***

Thank you.

Operator

Thank you.

(Operator Instructions)

Michael Nemeroff, Credit Suisse.

Michael Nemeroff - ***Credit Suisse - Analyst***

Hi. This is Mike Anderson on behalf of Michael. Thanks for taking our questions. First, can you just comment on the competitive environment that you experienced in the quarter and maybe the win rates and the large deals that you did win?

Mark Barrenechea - ***Open Text - President and CEO***

On a competitive side, really no change to the dynamic that I have highlighted in previous quarters. We tend to see IBM and Microsoft more so in our ECM pillar, Adobe in CEM and Pega in BPM, [Jaytoo] and RESoft and Kofax in IX and Autonomy over in the Discovery pillar. With the advent of Red Oxygen and strong integration and beginning to enable the developer with modern tools and much deeper integration, I would expect our competitive rates to improve certainly against Microsoft, IBM.

The addition of Cordys will certainly help us against Pega and our new HTML5 interface should help us against Adobe. We do not publish win rates on big deals or our medium-sized deals. No change to competitive environment than we have seen in the last couple of quarters with the advent of Red Oxygen. We are anticipating certainly a competitive advantage uptick for Open Text.

Michael Nemeroff - ***Credit Suisse - Analyst***

Okay. That is colorful. Thanks. With respect to partner driven license revenue, it looks like it did grow a little bit year-over-year. Would you say that that is from SAP, driven by SAP or other partners that you have?

Mark Barrenechea - ***Open Text - President and CEO***

Yes. I mean, when we roll into Enterprise World, I think Monday is all dedicated to our channel and to our partners. Our partner count is up in the quarter for sure. We have talked about two new big partners in the quarter, both ExactTarget and Hybris. So we have a new leader who is running the channel for us -- lots of energy, lots of ideas. Our partner count is up and we certainly announced two new partners last quarter, Hybris and ExactTarget.

Michael Nemeroff - ***Credit Suisse - Analyst***

And then just one last one and this is for Paul. Paul, can you just comment on the FX impact in revenue in the quarter as well as where the support renewal rates fell in?

Paul McFeeters - ***Open Text - CFO***

Yes. The only FX number that we give is the bottom line. So that was a positive $0.02 impact. And the (inaudible) rates are staying very constant in the low 90s.

Michael Nemeroff - ***Credit Suisse - Analyst***

Okay. Thanks for taking our questions.

Operator

(Operator instructions).

Veran Choi, CIBC World Markets.

Veran Choi - ***CIBC World Markets - Analyst***

Good afternoon, gentlemen. Just one quick question on acquisition strategy. Can you provide a bit more color onto the types of targets you could potentially look at? Is it going to be complementary to your EIM strategy and can you provide some color on that?

Mark Barrenechea - ***Open Text - President and CEO***

Sure. Thanks for the question. It is consistent with previous comments that we have made. We are going to continue to acquire. We look for assets that we can onboard to our operating model. These are the usual filters for me and Paul. Third is we are quite happy with our EIM strategy. We are not looking to add new pillars to our strategy. And we continue to be more of a value buyer and we have to see a path to be able to onboard a particular asset to our operating model. And those are usually as much as we talk about on the strategy.

Veran Choi - ***CIBC World Markets - Analyst***

So would big data be a new pillar or would that fall under the analytics bucket?

Mark Barrenechea - ***Open Text - President and CEO***

Our Discovery bucket is a little more oriented, I would say, to applications and platforms. Big data is a big word so it is hard for me to answer that.

Veran Choi - ***CIBC World Markets - Analyst***

Okay. That is all I got. Thank you for the color.

Operator

Eyal Ofir, Clarus Securities

Eyal Ofir - ***Clarus Securities - Analyst***

Thanks. Just a quick follow-up. I know you guys are going through a big migration right now with the end of support of Live Link 951. How is the migration going into CS 10 and maybe give us a little more information on what customers are saying in terms of that migration path and what it has led to in terms of new customer wins or new engagement?

Mark Barrenechea - ***Open Text - President and CEO***

Yes. Thank you for the question. I actually do not have the specific numbers from a little older version of 9.X, 9.1. What I can say is, when I look at 10.5, Red Oxygen, Content Suite 10.5. There is significant capabilities. There is a new user interface. There is reports. There is a report writer. There is deployment options for on premises or in the cloud for archives, new targets for archive, a new workflow engine.

10.5 is a destination release so whether customers are on very old versions of 8.X, 9.X or earlier versions of 10.0, 10.1, 10.2, SP1, SP2, we are going to go out and be very aggressive to upgrade everyone to 10.5. because it is the destination release. And with 10.5 you then can expand to Tempo Social, Tempo Note, Tempo Box and other integrations. So I do not know the numbers for 9.1, but 10.5 is for sure a definition.

Eyal Ofir - ***Clarus Securities - Analyst***

Yes. And then I imagine that the whole premise here is then you would be able to not only migrate them over and reduce costs from a support standpoint, but potentially also get them to upgrade the feature set and get a new license within the different pillars within that software release.

Mark Barrenechea - ***Open Text - President and CEO***

I hope to upgrade them and into our cloud as well. Right? So that will be part of what we talk about at Enterprise World, that instead of going on-site and doing upgrades, why don't we just install it for you and migrate your data?

Eyal Ofir - ***Clarus Securities - Analyst***

Okay. I got you. Okay. So do new pillars in the cloud versus on-premise.

Mark Barrenechea - ***Open Text - President and CEO***

Sure thing.

Eyal Ofir - ***Clarus Securities - Analyst***

Okay, sounds good. I will pass it along.

Operator

Scott Penner, TD Newcrest.

Scott Penner - ***TD Newcrest - Analyst***

Just to follow-up. Number one, Mark, can you just remind us what application will be released on top of SAP HANA and what the timeline is for that?

Mark Barrenechea - ***Open Text - President and CEO***

I believe we are already GA so our vendor and voice management, employee file management, and our extended ECM, DAM and document presentment all support HANA today.

Scott Penner - ***TD Newcrest - Analyst***

Okay. Second question is just the BPM assets that were in place for Cordys, is that still a growing business or did you really feel the need to go out and buy a hosted version?

Mark Barrenechea - ***Open Text - President and CEO***

Yes. The Metastorm, Global 360, ICCM and now Cordys. So what ICCM brings us, ICCM was a partner, primarily a service partner who was very good at building applications on top of MBPM or building apps on top of Metastorm. Cordys brings technology, process orchestration layer, developer tools, and case management that work in the cloud. The multi-tenant cloud version versus Global 360 and Metastorm which were on-premise versions. So we want to get more expertise about writing apps, which we got with ICCM and we want to take cloud platform, a path platform that was multi-tenant and that is what Cordys is bringing us.

Scott Penner - ***TD Newcrest - Analyst***

Okay. Thank you.

Operator

Michael Nemeroff, Credit Suisse.

Michael Nemeroff - ***Credit Suisse - Analyst***

Hi. Mike Anderson again. One more quick question for Paul. Can you comment on, based on the acquisitions in the past that you have done, some acquisitions sometimes that affects your operating margin due to the expenses that are related to that. Can you quantify any impact that the recent acquisitions that you have done might have in fiscal '14?

Paul McFeeters - ***Open Text - CFO***

Well, Mike, I will make one reference to the beginning of last fiscal year, where we ended 12 on 27.3% operating margin, we onboarded $165 million of EasyLink which is in the very low 20% margin and at that time we indicated to expect margins to stay relatively flat because we were onboarding a sizable acquisition. As you know we ended the year with 29.3%.

So certainly I would tell you that every acquisition from an accretive, from a margin accretion perspective have done at least as well or better than we have anticipated. It speaks to the intelligent growth point that Mark has emphasized in the last two quarters, is that we are successful on onboarding our acquisitions and achieving the margins. So I would not point to any of them that have not done that.

Michael Nemeroff ***- Credit Suisse - Analyst***

Okay. Thank you.

Operator

We have no additional questions at this time. I would like to turn the conference back to our speakers for any closing remarks.

Mark Barrenechea ***- Open Text - President and CEO***

Very good. Thank you. Thank you everyone for joining today. It was an important call discussing intelligent growth, Q1 results, Red Oxygen, and our EIM strategy. I hope you will be able to join me, Paul, the Open Text team, Greg, our customers and William Shatner at Enterprise World in Orlando Florida November 17 through November 21. Feel free to reach out to our investor relations team for more details. This concludes today's call.

Operator

Thank you. Ladies and gentlemen, this concludes the Open Text Corporation first quarter fiscal year 2014 results conference call. We thank you for your participation. You may now disconnect.