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OTC.TO - Q4 2013 Open Text Earnings Conference Call

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OVERVIEW:

Co. reported 4Q13 revenue of $347m and GAAP net income of $42.2m or $0.71 per diluted share.

CORPORATE PARTICIPANTS

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Paul Trieber *RBC Capital Markets - Analyst*

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Gabriel Leung *Paradigm Capital - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the OpenText Corporation fourth-quarter of fiscal year 2013 financial results conference call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session.

(Operator Instructions)

I would like to remind everyone this conference call is being recorded today, July 31, 2013 at 5.00 PM Eastern time. I would now like to turn the call over to Mr. Greg Secord, Vice President Investor Relations. Please go ahead, sir.

Greg Secord - ***OpenText Corp - VP IR***

Thank you, Matt, and good afternoon, everybody. I would like to start up the call of 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 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 our 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 forward-looking information. As well as risk factors that may protect the future performance results of OpenText are contained in OpenText Form 10-K and Forms 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 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 OpenText's President and CEO, Mark J. Barrenechea as well as our Chief Financial Officer, Paul McFeeters.

As with our previous calls, we'll read prepared remarks follow by a question-and-answer session. The call will last approximately one hour with the replay available shortly thereafter. I'd 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 in this call. We have also posted the summary cable highlighting OpenText's historical trended financial metrics. And with that, I will hand the call over to Paul McFeeters.

Paul McFeeters - ***OpenText Corp - CFO***

Thank you, Greg. Turning to financial results, I will highlight our fourth quarter and then fiscal year 2013. Total revenue for the quarter was $347 million, up 13.6% compared to $306 million for the same period last year. Regionally, the Americas contributed 54%, EMEA 36% and Asia Pacific 10%. License revenue for the quarter was $78.8 million, up 1% compared to $78 million reported in the same period last year. We saw license revenue broken down by vertical sector as 23% from services, 11% from technology, 10% from consumer goods, 14% from a financial services, 12% from basic materials, 14% from public sector, 7% from healthcare, 6% from industrial goods and 3% from utilities.

Cloud services revenue was $42 million for the quarter compared to $43 million in the third quarter. Customer support revenue for the quarter was $165 million, up 1.1% compared to $163 million in the previous year. Professional services and other revenue in the quarter was $62 million, down 4.3% compared to $64 million in the same period last year. Professional services margin was 22.4% in the current quarter versus 20.3% in the same period last year. Gross margin for the quarter before amortization, acquired technology and stock compensation was relatively stable at 72.9% for both the current quarter and the same period last year.

Pretax adjusted operating margins before interest expense and stock compensation was $102 million this quarter, up 20.8% compared to $85 million in Q4 of last fiscal year. Adjusted net income increased by 22.5% to $85 million this quarter, up from $69 million in Q4 of the last fiscal year. Adjusted EPS $1.43 per share on a diluted basis, up from $1.17 per share in Q4 of the prior fiscal year, an increase of 22%. The sequential effect of current foreign movement on adjusted EPS for Q4 was a positive $0.02. The adjusted tax rate for the quarter was 14%, the same as it was in the previous fiscal year.

On a GAAP basis, income from operations before interest and taxes for the fourth quarter was $49.5 million, up 24.6% from $39.7 million in the fourth quarter last year. GAAP net income before taxes was $41 million in the quarter versus $29 million in same period last year. Net income for the fourth quarter in accordance with GAAP was $42.2 million, or $0.71 per share on a diluted basis compared to $8 million and $0.14 per share on a diluted basis the same period a year ago.

Operating cash flow for the quarter was $65.2 million, inclusive of a $27 million litigation settlement primarily related to a legacy EasyLink liability compared to $79.8 million in same period in the prior fiscal year. Adjusting for this one-time payment, operating cash flow for the quarter were $92.2 million, an increase of 16%. During Q4 we incurred $6.8 million of special charges made up of $4.2 million in restructuring costs and $2.6 million in acquisition and other related costs.

The restructuring costs were on account of EasyLink with their restructuring activities and a realignment and rebalancing of our operations in North America and Europe. With respect to realignment, we expect to incur an additional $5 million to $6 million in restructuring costs in Q1 of fiscal 2014. There are approximately 59.2 million shares outstanding on a fully diluted basis for the fourth quarter of fiscal 2013.

Turning now to our fiscal 2013 results, total revenue was $1.363 billion, up 13% compared to $1.27 billion in fiscal 2012. License revenue for the year was $280 million, down 4.8% compared to $294 million in the prior-year. Cloud service revenue was $174 million in fiscal 2013. For fiscal 2013, we reclassified certain revenues related to our managed hosting services business to our professional services and other revenues line and the amount of $4.8 million. We decided that since these services were being delivered both on premise and in the cloud by our professional service team that it would be more appropriate to be classified as revenues and cost of sales in professional services. The breakdown in revenue by quarter is $1 million, $1.3 million, $1.2 million and $1.3 million for each Q1, Q2 Q3 and Q4 respectively.

Customer support revenue was $658 million, up 0.3% compared to $657 million in fiscal 2012. On a constant currency basis, customer support revenue was $2.1% year-over-year. Professional services and other revenue for fiscal 2013 was $252 million, down 2.1% compared to $257 million in fiscal 2012. Gross margin for the year before amortization of acquired technology and stock compensation was 71.3% for fiscal 2013 compared to 72.5% for fiscal 2012. This reduction overall is due to the gross margin of the EasyLink business.

Pretax adjusted operating margin before interest expense and stock compensation was $400 million for fiscal 2013, up 21% compared to $330 million in the prior fiscal year. Adjusted net income increased by approximately 22% at $329 million in fiscal 2013, up from $270 million in prior fiscal year. Adjusted EPS was $5.57 per share on a diluted basis, up from $4.60 per share for the prior fiscal year, an increase of $0.97, or 21%. On an GAAP basis, income from operations before interest and taxes for the year was $198 million, up 32.3% from [$149] million in fiscal 2012. GAAP net income before taxes was a $178 million in fiscal 2013 versus $137 million for the prior fiscal year. And income for fiscal 2013 in accordance with GAAP was $149 million, or $2.51 per share on a diluted basis compared to $125 million, or $2.13 per share on a diluted basis for fiscal 2012.

Operating cash flow for fiscal 2013 was $318.5 million inclusive of a $27 million litigation settlement primarily relating to a legacy EasyLink matter, compared $266.5 million in the prior fiscal year, an increase of $52 million. Adjusting for the impact of this one-time item, operating cash flow for fiscal 2013 would have been $345.5 million, an increase of $79 million, or 30%. The balance sheet at June 30, 2013 deferred revenues at $294 million compared to $287 million as of June 30, 2012. Accounts receivable was $175 million compared to $164 million at June 30, 2012. Day sales outstanding were 45 days at June 30, 2013 compared to 48 days at June 2012. On June 30, 2013 our headcount was approximately 5,000 comprised of 1,300 in R&D, 200 in cloud services, 700 in customer support, 950 in professional services, 1,100 in sales and marketing and 750 in G&A.

During Q4, we acquired ICCM Professional Services Limited, a provider of IT service management solutions. ICCM is based in the UK. The purchase price for this acquisition was $18.9 million inclusive of cash acquired of $5.1 million. Our target operating model is posted on our website in the Investor Relations section. We have revised the model for fiscal 2014. We have increased the range for gross margins for license and professional services each by 100 basis points. We have lowered the operating cost ranges as a percentage of total revenue by 100 basis points for both R&D and G&A. As a result, we have increased the range for non-GAAP operating margins to 26% to 31%. On July 31, the Board declared a dividend of $0.30 per share for shareholders of record at August 30, 2013 payable on September 20, 2013. Now, I'll turn the call over to Mark.

Mark Barrenechea - ***OpenText Corp - President and CEO***

Thank you, Paul, and welcome, everyone to our fiscal '13 Q4 earnings call. Let me begin with a few summary points before I get too deep into my prepared remarks.

First, we have EIM right. We continue to see momentum build around our strategy and innovation in EIM for both our customers and our ecosystem. In our customers we are securing major enterprise wins type EIM including Hasbro and Ralph Lauren. In the ecosystem, we are seeing growth and expansion of our partner community on a worldwide basis. Over 150 new partners joined the OpenText family including new digital agency and system integrators throughout the last 12 months. Further, we see more and more industry thought leadership including most recently, industry analyst Forrester Research identified EIM and EIM strategies as a key investment priority for enterprises. EIM is the next generation of enterprise software, and we are confident that our momentum around new wins in new partners will continue to build in fiscal '14.

Secondly, we improved our annual adjusted operating margin by 200 basis points to [29.3%] while on boarding a significant acquisition, EasyLink, that was performing below our operating margins. (technical difficulty) Further, we added $174 million in cloud services revenue and grew over our overall margin profile. Third, annual adjusted new income grew from $270 million to $329 million, and 22% year-over-year increase. And fourth, in a challenging environment we grew license in Q4, we grew license in Q3, we grew license second half 2013 over second half 2012 by 6%. Our EIM momentum is increasing.

The topics I would like to be covering today include our progress in fiscal 2013, our Q4 and fiscal 2013 results, the EIM market and our views on fiscal 2014. So, let's get right into them. Fiscal 2013 was a pivotal year for OpenText. The Company set forth an ambitious but measured agenda. I trust you can see outside looking in what I can see inside looking out, solid progress over the last 12 months. Let me start with my view of our important accomplishments in the year.

We repositioned the Company from content management to enterprise information management and thus expanded our operations centered on being a long-term strategic partner with the world's largest and most important enterprises and government. We have a whole section reserved about -- on EIM in today's remarks. Second, the Company transitioned from many business units, small and large, to organizing principals centered on three key areas -- function, geography and customer. Today's organizing principles are clear, spans of control are concise and the structure will scale more effectively and with greater efficiency.

Fiscal 2013 was the first full year with this improved structure which led to improved operating performance. We strengthened our existing leadership team with industry veterans such as Muhi Majzoub in engineering, James Mackey in corporate development, Gary Weiss in iX and cloud, Kevin Cochrane in marketing and Manny Sousa in HR. We also promoted within the Company James McGourlay to lead worldwide customer services and Walter Kohler to lead worldwide professional services. We are the best team imagine of to deliver on our strategy.

During the year, we were all saddened to see Greg Corgan in a worldwide field operations transitioned out of OpenText. But it was the right thing as Greg needed to focus on personal matters. We all wish him the utmost best on his journey to a complete recovery. I have always been and will always be fully engaged with our customers and field teams. From account strategies to forecasting and pipeline management to closing business. I am deeply involved in sales operations and dedicated to leading our field organization while we continue our search for a worldwide leader of field operations.

Further, we strengthened our field leadership teams across many of our selling regions. Simon Harrison in EMEA, Steve Best in North America, Graham Pullen in APAC, Robert -- Roberto Regente joined to lead Latin America, Noriyuki Hayakawa joined to lead Japan and Bernadette Nixon joined to lead our corporate teams for BPM inside sales in our portfolio products. We also recently welcomed Jay [Chou] to OpenText to lead our China operations.

Our field team leader positions are now filled. Our distribution strategy got wider and deeper during fiscal '13. We expanded our direct selling capability, our SAP relationship got stronger, gained a stronger focus on SIs and agencies, we created an inside sales function and hired our first 20 telesales personnel and we added 157 new value added partners during the year.

Let me highlight some of our early successes from our new VARs in fiscal '13. [Dice] Technology helped us close a [SAP SIFO Corp] in South Africa, [Antochi] helped us close CGE USC Technologies in Chile. [DOTS Flowed] helped us close the world food program in Italy, and [Rico] Hong Kong help us close the Electric Company of Macau. We added EPAM and CGI as new SCIs and new [iXs] and added [Site Works] as a new agency.

Our license business grew 6% second-half over second-half in a challenging environment which demonstrates that our programs and investments are working and providing us momentum as we enter fiscal 2014. Our strong operating model got even stronger, and our operating performance improved while we made key investments in the Company. You can see this operating performance improvement in the year-over-year margin expansion.

We initiated a dividend program. We have always been committed to delivering value to our stockholders through technology and innovation, strategic acquisitions and now through a dividend program. We are innovating -- fiscal '13 was a turn the corner year for us in innovation. We have a better balance between innovation and consolidation, we have introduced major new product releases such as InfoFusion, Archiving 10.0, the Tempo series in Web 8.5, each of which are contributing to the Company.

And lastly, the cloud. During the fiscal year we acquired three businesses, EasyLink, RKT and ICCM, RKT for reporting information visualization and ICCM for smart process applications, both on top of our BPM platform. With EasyLink, we acquired a cloud platform. The business performed in line to our expectations, was bright line accretive to our fiscal 2013 results and now our platform for messaging services and managed hosting in the cloud. Unlike the majority of cloud businesses I had reviewed, OpenText is demonstrating a well run business can operate profitably in the cloud.

Fiscal 2013 was a pivotal year for OpenText, and we have made solid progress. Let me transition on to our Q4 and 2013 results. In a challenging environment, we executed prudent management -- and by prudent management I mean we delivered adjusted operating margins, adjusted operating income, adjusted earnings growth, both year-over-year and sequentially. After Q4 we delivered $347 million in revenue, up 13.6% year-over-year. License was $79 million, or 1% year-over-year and up 6% second-half over second-half.

Adjusted net income was $85 million, up 23% year-over-year and adjusted EPS was $1.43, up 22% year-over-year. Professional services was back on track with $61.7 million in revenues and adjusted margin of 22.8%. Our adjusted operating margin was 29.5%, up 180 basis points year-over-year. Americas contributed 54%, EMEA contributed 36%, APJ contributed 10%. We completed 20 deals over $500,000 -- that is inclusive of our deals over $1 million which was 5. Public sector had its best performance in five quarters. Services vertical had a strong quarter with 23% contribution. We also had a solid quarter in our ECM and CEM pillars.

As we grew license 1% year-over-year, 14% sequentially, 6% second-half over second-half, our execution was below our expectations in North America. The issues are related to deal execution and conversion, and I am focused on increasing the consistency of our performance in North America. Customers that purchased within the quarter included Alcatel-Lucent, Apotex Pharma, Consol Energy, Dimeler in Southeast Asia, the Dangote Group in sub Sahara, Deutche Post, the European Food Safety Authority, Hasbro, MAN Diesel and Turbo, Marvel Entertainment, National Health Laboratory Service in South Africa, Ralph Lauren, State of New Jersey, Tullow Oil, the UK Nuclear Decommissioning Authority, the US Department of Education and the Wellington City Council in New Zealand.

As for the full fiscal year, we delivered $1.36 billion in revenue, up 12.9% year-over-year. License was $280 million, down 4.8% year-over-year, adjusted net income was $329 million, up 22% year-over-year and our adjusted EPS was $5.57, up 21% year-over-year. Our adjusted operating margin was 29.3%, up 200 basis points year-over-year. Notwithstanding our challenges and license growth on the first half of the fiscal year, we remain prudent in operations and drove strong growth and adjusted net income and EPS, 22% and 21% respectively and delivered record adjusted operating margin. Further, we enter fiscal 2014 increasing our adjusted operating margin target model by 100 basis points to 27% to 31%.

Let me move on to the EIM market. Markets change. The PC era is dead, ERP has matured, the EIM era is just beginning. We live in an information society where information is the lifeline of an organization. Information sources have exploded over the last few years and with that, many challenges are created. From data sovereignty, fragmentation, management, security and more. Making decisions has become more complicated due to the number of data sources.

Our data suggests that less than 10% of the Fortune 5000 have a formal or comprehensive information management strategy. Not dissimilar than that of ERP 20 years ago when the Fortune 5000 were under automated, or running one-off custom systems. It is time to invest in EIM. EIM allows enterprises to speed time to innovation, time-to-market and time to revenue while reducing costs and governance and compliance risks. And since information is the ultimate competitive advantage in today's digital economy, enterprise information management is becoming mission-critical for CIOs to drive business insight, innovation and impact across all lines of business from manufacturing to marketing to sales to customer services.

I define EIM to include four technology layers intersecting with five functional pillars. The technology layers include platform technologies, applications, analytics and the developer. The five functional pillars include ECM, BPM, CEM, iX and Discovery. By 2016, EIM is estimated to be a $19 billion market with a CAGR of 10%. These numbers do not include analytics. We strive to be number one in each functional pillars while delivering deep integration across them all.

Today, I am announcing the most comprehensive and largest engineering project in the history of OpenText. That project is code-named Red Oxygen. Red Oxygen intends to bring new levels of integration across our EIM products and deliver a set of information management suites. Each targeted to specific buying centers in the enterprise. Based on our EIM pillars, each suite will contain ground breaking innovation to extend our market leadership in each of our core product markets. We will not rest until we are number one in each pillar.

Across suites, we intend to deliver shared services for process management, discovery and archival. With unification, innovation and common services, we intend with Red Oxygen to make our products simpler to buy, simpler to deployed, simpler to use, simpler for the developer. Their power in simplicity and power in what we believe to be the most exciting engineering project in OpenText history. Project Red Oxygen will be unveiled in detail at Enterprise World in November. To have some fun with this, William Shatner will be joining me live at Enterprise World for the launch. Project Red Oxygen, our largest engineering project in the history of the Company, suites of information management software designed to work together compelling new capabilities and integrations. We expect customers to benefit from project Red Oxygen in the second half of fiscal 2014.

With that, let me transition to 2014. I am outlining four core messages for the new fiscal year. First is what I call intelligent growth. OpenText is focused on growing our earnings, cash flows and creating value for our stakeholders while investing in those markets that we know we can win in. Further, we know these investments and programs are meeting their objectives when our license business is growing of the market rate, which we estimate today to the 10%. I call this intelligent growth.

Second, establishing a broad EIM ecosystem as influential as the ERP ecosystem. the EIM ecosystem is internal and external to the Company. It includes the innovations I mentioned above in project Red Oxygen, also going wider and deeper with our distribution, including our direct selling organization, inside sales, strategic partners, system integrators, agencies, OEMs and VARs. Further, creating compelling tools, services and communities for the information developer and industry-leading programs that help CIOs increase their adoption of EIM. The ecosystem as a force multiplier for OpenText.

Third, improved performance in established markets. We actually have made marked progress in our established Western European and North American businesses. There is still more progress we need to make. This ranges from operations, programs and execution all contributing to improved results.

Fourth, accelerated results in fast growth markets. OpenText defines fast growth markets as Latin America, China, India, Southeast Asia, Japan, South Africa and the sub Saharan, Middle East, as well as Russian and Eastern Europe. We have identified over 3,000 key target accounts and believe we can see a $2 billion market opportunity for OpenText of these fast growth markets alone, and we are now focused on accelerating our results here.

The progress over the last year and the defined market opportunity gives me the confidence to invest in these fast-growing markets. We have penetrated only 20% of the top 3,000 accounts in some form. We have proven we can close million dollar deals and have established customer references in fast growth markets. It is time to invest more and accelerate our results.

Let me wrap up my remarks for the call. Fiscal [2013] was a pivotal year. We launched EIM, established the organization structure, strengthened the leadership team, put in place a functional model for sales with a name to count strategy and built stronger distribution channels. We fostered an innovation culture, entered the cloud, improved our operating performance, initiated a dividend program and our license business grew 6% in the second half of the year. Fiscal 2013 highlights include 12.9% revenue growth, 22% adjusted net income growth and 21% adjusted EPS growth.

The ERP era has fully matured, the EIM era begins, and we are well underway in the largest engineering project in the history of the Company -- Red Oxygen, which will define the future of EIM and OpenText. We have laid out another ambitious year ahead, intelligent growth, broader EIM ecosystem, improved performance in our established market and accelerated results in our fast growth markets. I find that momentum tends to build on itself and I am confident that our pace of improvements in fiscal 2013 will build on itself as we enter fiscal 2014. With that, let us open the call up to your questions.

QUESTION AND ANSWER

Operator

Thank you. Ladies and gentlemen we will conduct a question-and-answer session.

(Operator Instructions)

Richard Tse of Cormark Securities, please go ahead.

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

Yes, thanks. Mark, you talked about adding about a 150 new partners in the quarter. I just have a question in regards to the partner contribution this quarter. If I look at your supplemental financial stats, it looks at the contribution has gone down about 31% from about 39% last year to probably the lowest it's been in quite some time. Can you give us some color on that?

Mark Barrenechea - ***OpenText Corp - President and CEO***

Well, the partner account is -- I hope my remarks were clear, we really over the fiscal year. And as we look to accelerate our results and fast growth margins, they were primarily -- not primarily -- would expect about half of our business in the fast-growth market to come through partners. They tend to be more partner oriented. So, I don't read too much into a quarter variance of direct or indirect. The count was really -- the 157 was really a full-year number, and it is us building the strength as we come into '14 with our focus on fast growth markets.

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

Okay. And then when you talk about execution issues in North America in the quarter, can you give us more color on that and what you're doing specifically to the address some of those issues?

Mark Barrenechea - ***OpenText Corp - President and CEO***

Yes, sure thing. We delivered CAD78.8 million in license in the quarter. Every million counts, of course, and another CAD3 million, CAD4 million, CAD5 million on that basis, on the CAD78.8 million basis, would really contribute to a growth rate. Our issues in North America were a bit focused on the US west, as well as Canada and it was primarily related to closed strategies and converting pipeline into wins. So, I and geo leader Steve Best are highly focused on reviewing the pipeline, which is -- it is not a pipeline program problem, it's a -- it was a conversion problem in Canada and the US west, and Steve and I are spending sort of a disproportional time to get that consistency back in North America, primarily Canada and the US west.

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

So, it was the execution more than the environment that caused --

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Mark Barrenechea - ***OpenText Corp - President and CEO***

That is correct. It wasn't competitive, not the environment, we had the pipeline, we simply could not convert it.

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

Okay, all right. Thanks.

Operator

Paul Steep of Scotia Capital. Please go ahead.

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

Great. Mark, actually maybe just to close off of that for a second, on the conversion side, what have you done post the quarter to address some of the conversion issues if the pipeline is actually healthy in terms of getting the process tightened up?

Mark Barrenechea - ***OpenText Corp - President and CEO***

Well, our sort of style is to sit down with the teams and do a deal review, a stage review, pipeline review and a close plan review. And that is what we have done.

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

Fair enough. I guess the second question is, if we look broader term in take it back up to the model and look at the 100 point lift on R&D and G&A, as well as a margin moves. Maybe talk a little bit about behind the thinking, or the confidence, I guess, to shift the model and bump up where you think operating margin is going to land next year.

Paul McFeeters - ***OpenText Corp - CFO***

Yes Paul, it's Paul. We showed in our model in the IR deck, which you may not have had a chance to look at yet, just how we turn it in '13. So, if I just go into operating costs first of all, we end up the year in R& D at 12%. We move from 13 to 15 as well as the 14. I think we're comfortable in that area.

As we talked about in the past, Muhi Majzoub, head of engineering, has done some rationalization of his resources. Still continuing to put the right money into innovation and some of the product initiatives Mark was talking about, like Red Oxygen. But also increase the headcount in R&D in India, of course, with lower cost models. With those initiatives and the results are significant in '13, we are very, very confident with the new range in development, 12 to 14. G&A, as you have seen over time, with scale as we onboard acquisitions, we take out G&A of acquired entities. We finished the year at 7.7%, so moving that down, making 9% to 7% to 8% is kind of a national consequence. So, most of your areas with 100 basis points, which are those categories, a high level of confidence

Next, professional services. Once again, we finished up the year at 22.2%. It's, in our view, a sustainable number, and we had arranged that be the upper end of our range. We have moved that again in terms of a contribution up to 21% to 23%. So, 22.2% with the fiscal year. We had a little hiccup in Q3, and without that, I think we would be well into the upper end of that range. Again, high-level of confidence.

And then the last area that we improved our upper operating margins was a product license area. That was also as a result of a couple of things. One is that we bought a couple of our third party providers like [SAP] and ICCM, and we also continue to rationalize some of the third party software in our products, i.e., reducing some of the dependency around that with their own engineering capabilities. So, we tracked to CAD94.2 million in the year, again, beating the upper range of our range of our operating margins, so moved that up. So, each of those four categories will improve 100 basis points. We definitely have a high confidence level.

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

That helps a lot, Paul. But the take away message overall is tightening up against actuals apart from a couple of little points you made there on licensing. Right?

Paul McFeeters - ***OpenText Corp - CFO***

That is correct, yes. We are already trending into these ranges, yes.

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

Perfect, thanks, guys.

Operator

Blair Abernethy from Stifel Nicolaus & Company. Please go ahead.

Blair Abernethy - ***Stifel Nicolaus - Analyst***

Hi, thank you. Paul, on the ICCM and Resonate acquisitions, can you just walk through what the revenue contribution would have been in Q4 from those acquisitions, and did either of them have an impact on the higher service margins?

Paul McFeeters - ***OpenText Corp - CFO***

The answer the last part, Blair, is no. On the first part, RKT is a negligible, because most part of their revenue was third-party cost to us. So, bigger impact of that would be in the cost of sales back to the improvement in the cost of sales of license margin. So, very little of that. In ICCM, we closed in May. Again, on a trailing basis, they are sub CAD6 million for FY. It wasn't even material that it was disclosed in the K, but for the quarter was about CAD500,000 in all revenue lines for ICCM.

Blair Abernethy - ***Stifel Nicolaus - Analyst***

Okay, in Q4?

Paul McFeeters - ***OpenText Corp - CFO***

In Q4.

Blair Abernethy - ***Stifel Nicolaus - Analyst***

And then I'm sorry Resonate?

Paul McFeeters - ***OpenText Corp - CFO***

Resonate was the one I mentioned first where their contribution to revenue is negligible because 80% to 90% of their revenue was our cost of sale.

Blair Abernethy - ***Stifel Nicolaus - Analyst***

I'm sorry, I was -- I thought you had said that was AKT.

Paul McFeeters - ***OpenText Corp - CFO***

Resonate is RKT.

Mark Barrenechea - ***OpenText Corp - President and CEO***

It's Resonates Knowledge Technology, aka, RKT.

Blair Abernethy - ***Stifel Nicolaus - Analyst***

Got it. Okay, and the next question I just had on the R&D headcount, did you say it was 1,300?

Paul McFeeters - ***OpenText Corp - CFO***

Yes, 13, that's the number.

Blair Abernethy *- Stifel Nicolaus - Analyst*

So, what percentage of that roughly would you say is based in India at this point, and is that going to shift materially from where you are now?

Paul McFeeters *- OpenText Corp - CFO*

Yes, the cost materially to people is about 20%, I think that I will let Mark supplement this answer, but I think it says it is going to grow as we build out our R&D.

Mark Barrenechea *- OpenText Corp - President and CEO*

Yes, we -- Blair, we selected a set of locations that are preferred hiring in our preferred innovation centers. Certainly, Hyderabad, India is one of them. Just to select -- to call out a few -- Grosse Pointe outside of Munich. Our Canadian location, the Bay Area, Bellevue and Tucson and Hyderabad. So, we will continue to consolidate into Hyderabad and hire new there as well.

Blair Abernethy *- Stifel Nicolaus - Analyst*

Okay, great. And last quick question for me. Paul, on maintenance, any commentary on pricing and renewals at the end of the year?

Paul McFeeters *- OpenText Corp - CFO*

Yes, we are staying very consistent on the (technical difficulty). It just has not changed at all in the last year. As I mentioned, year-over-year revenue was up about just over 2%. Which would be consistent in the model that I was putting on boarding new maintenance at 20%. We are maintaining our metrics there, which is positive in our view.

Blair Abernethy *- Stifel Nicolaus - Analyst*

Okay, great. Thank you.

Operator

Your next question comes the line of Kris Thompson, National Bank Financial. Please go ahead.

Kris Thompson *- National Bank Financial - Analyst*

Great, thanks. Mark, you mentioned the sales leadership role were completed, obviously except for the one you're trying to replace for Greg. What about the quota carrying reps? Are you full there, or you do expect to add some new bodies?

Mark Barrenechea *- OpenText Corp - President and CEO*

Kris, you are a little hard to hear. I'm sorry.

Kris Thompson *- National Bank Financial - Analyst*

The sales leadership roles, you mentioned they are mostly completed. I just wanted an update of the quota carrying reps, where you are in that process. Are you still adding or subtracting?

Mark Barrenechea - ***OpenText Corp - President and CEO***

Fair enough. So, on our quota carrying reps, I described fiscal '14 as sort of a normal year for us. As we enter '13, we are just clearly behind in our capacity. So, '14 I've described much more as a normal planning year. As we are looking to -- in our established markets, really gets better -- slight increased coverage, but more productivity gains. And our headcount investment is going more towards our past fast growth market, as I described in my prepared remarks. I would call it much more of a normal year for us in adding new quota carrying reps.

In addition to that, we're about halfway hired on our telesales organization. And we are able to build out our inside sales function on telesales. Given that we've moved more strongly to a named account model and we know where our partners are hunting, we can clearly cut off a set of accounts for us to call into for those products we think we can sell remotely by the phone and over the web. So, I describe much more as a normal year for quota carrying reps, except perhaps for the telesales, piece, which we are building new capacity.

Kris Thompson - ***National Bank Financial - Analyst***

Okay, and on the US west and Canada where you had some missed execution there on sales, is that because they are new account managers that are not hitting their stride yet?

Mark Barrenechea - ***OpenText Corp - President and CEO***

Well, I don't want to create the wrong impression here. I am not calling these selling hubs broken. We need more consistency out of these two areas, more consistency. And part of it is sort of getting certain -- getting leadership onto the OpenText way and the discipline of deal reviews and just a solid cadence of closing business. I don't want to call them broke, just more consistency, we need more consistency in their execution.

Kris Thompson - ***National Bank Financial - Analyst***

Okay, fair enough. And just on that, are they sales guys going to hit their accelerators? Are they going to be happy, is there any risk that you might lose some of your top guys just because the license revenue was a bit weaker than I think everybody was expecting?

Mark Barrenechea - ***OpenText Corp - President and CEO***

We are expecting normal attrition here in fiscal 2014. We have been through our big comp plan changes in 2013. We roll into '14 with minimal changes to our plans. We have actually just held our Company in worldwide sales kickoff, and a lot of enthusiasm around Red Oxygen, named accounts, minimal changes in comp plans, account assignments, account segmentations, fast growth markets. I would expect us to trend sort of to market averages and maybe even optimistically, a little below that here in '14.

Kris Thompson - ***National Bank Financial - Analyst***

Okay, thanks. All the best.

Mark Barrenechea - ***OpenText Corp - President and CEO***

Thanks Kris.

Operator

Our next question comes in the line of Eyal Ofir of Clarus Securities. Please go ahead.

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

Thanks, just a follow-up on the cloud. I know that you guys talked about transitioning some revenue from cloud into professional services, but even if you adjust for -- I think it was a little bit weaker than expected. Is there any dynamic t play there you guys could talk about?

Mark Barrenechea - ***OpenText Corp - President and CEO***

Yes, I think if we do the adjustment Q3 two Q4, the businesses were relatively flat, CAD42 million to CAD42 million. And Paul, correct me if my math is wrong, but I think it's roughly CAD42 million to CAD42 million. And when we acquired Easy Link, it was a business declining for multiple years in a row, and we felt that with our execution and new products we could hold the business flattish in our first year of operating the business and improve its margin. We delivered both, holding it flattish and improving its margin. So, I think we backed out the reclass for Q3, you'll find the business flat Q3 over Q4.

For us to grow the business we will be adding new services. In particular, the one that we are most optimistic about, most excited about is Secure IX, which is a secure notification e-mail and managed file transfer of service into the network. Okay. Paul, so I guess the numbers roughly right?

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

Just beyond, how is your new offerings going so far? I know you are offering Temple Social, Temple Cloud, how are the clients reacting to these new services?

Mark Barrenechea - ***OpenText Corp - President and CEO***

I would say we are off to a medium start. I don't have the numbers right in front of me, roughly, we have a couple of hundred active trials going on across Social and Box in the cloud. So, I would say we are off to a medium start and a couple of hundred trials going on.

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

Okay, thanks. And can you just touch on, first of all, was there any product category that was weaker from a license standpoint? And maybe also, obviously you focused your attention on North America. How did Europe do this quarter?

Mark Barrenechea - ***OpenText Corp - President and CEO***

Let me go through the product pillars a little bit. We had a strong ECM quarter. And when I look a the competitive dynamic, it really feels as if it's a two horse race out there, us and IBM. We had a strong ECM quarter.

In the CEM space, we had direct wins against Adobe with our new CCM and Web 8.5 offering. I was actually quite pleased with the new product that we brought to market. It has been about a year under engineering, and it is a complete modern HTML5 offering products for building new interactive websites. We have been competing head-to-head against Adobe, and we have done extremely well. I think the highlights for us are certainly ECM in CEM. I would say BPM performed fine, and IX Capture did fine as well.

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

Okay, thanks. And just a comment on Europe and I will pass the line, thank you very much.

Mark Barrenechea - ***OpenText Corp - President and CEO***

I don't have the -- I'm trying to find the EMEA breakout, it was roughly 36% contribution within the quarter, and I would say no change to the dynamic. The [DOC] region executed well for us. We did find in northern Europe and the UK, and southern Europe continues to be a bit soft, but not unexpected. It's been -- southern Europe region, across technology has been a bit soft over the last full year or two.

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

Okay. Thanks again. I will pass the line.

Operator

Your next question comes in line of Paul Treiber of RBC Capital Markets. Please go ahead.

Paul Trieber *- RBC Capital Markets - Analyst*

Thanks very much. You'll be out in the market with your AM message for last year, so now it seems like the Red Oxygen is a significant investment in that vision. Does Red Oxygen reflect the interest that you're seeing from customers in EIM and then also their feedback on the existing road map?

Mark Barrenechea *- OpenText Corp - President and CEO*

Absolutely. And I will give you one word behind Red Oxygen, and it is integration. What we have heard loud and clear from our customers to continue the momentum behind EIM is above all, integration. Yes, new capabilities and continue to add features and functions, but continue to add integration, both in inter- and intra- pillar. That will be one of the key things that we deliver, and Red Oxygen is deeper integration across the user experience, technology stack and information model.

Paul Trieber *- RBC Capital Markets - Analyst*

In light of that, do you think the existing product robots maybe restraining some of the demand at a high-level that you may be seeing, or interest at a high-level?

Mark Barrenechea *- OpenText Corp - President and CEO*

Well, this is the balance, right? We have to continue to sell point solutions along the way and then evade both functionally and with integration. We -- this leadership team across that probably has 100 years of experience of doing these sort of transitions. We are off to a good start sort of managing that transition. We will drive our pipeline and closure for the products we have. We will continue to talk about our vision and our future and then deliver against that, selling what we have today but keeping folks interested in what we will have tomorrow and showing them a clear path of what they buy today and how they can get to tomorrow.

Paul Trieber *- RBC Capital Markets - Analyst*

I think you previously mentioned there is about a six month development cycle on your point solutions, existing point solutions. Will the focus on Red Oxygen, will that impact that development cycle in any way? And also, can you provide an update on the BPM product, if we should expect an update before Red Oxygen?

Mark Barrenechea *- OpenText Corp - President and CEO*

It is about a year cycle. We are trying to stay on an annual cycle, or a 12 month cycle for the products. And I don't know how to put a percent weight, but I am going to lead with key integrations. Red Oxygen is being led really by this notion of integration, that in each of the pillars an element of key capability. And I am going to have to hold myself back when talking about some of those key capabilities. I would not expect we'll see another release of BPM before Enterprise World. We -- I think it was last quarter, about 100 or 120 days ago we announced to BPM Assure into full GA, which was our latest set of case management apps on top of the MVM platform. That will carry us through Red Oxygen and carry us through the first half of the year.

Paul Trieber *- RBC Capital Markets - Analyst*

Thank you. I will pass the line.

Operator

Your next question comes from the line of Derek Wood of Susquehanna Financial Group. Please go ahead.

Rakesh Kumar - ***Susquehanna Financial Group - Analyst***

Great, thanks. This is Rakesh Kumar for Derrick Wood. Mark, I wanted to ask about, do you foresee any structural changes after the departure of head of sales?

Mark Barrenechea - ***OpenText Corp - President and CEO***

No, not at all. We are out in the market searching, our search is going well. In the interim I am leaving the organization. We will fill that role and in the interim, I am leaving it 100%. So, I don't envision any structural changes.

Rakesh Kumar - ***Susquehanna Financial Group - Analyst***

And just another question on -- of weakness in financial services vertical, do you see any different dynamic over there? And any impact of federal budget flush in the first quarter that you foresee?

Mark Barrenechea - ***OpenText Corp - President and CEO***

Well, I tell you, most CEOs would probably dream of a federal budget flush. I -- we are certainly not seeing it. I don't think most folks are anticipating it. Second, on the financial services vertical, just kind of looking at the numbers a little bit. The last quarter was about 12% of our business, 14% of our business in the first half of last year was 18% and 19%. And we have been sort of trailing on average sort of in the midteens. I look at our offering right now in BPM, there is actually quite a bit of interest around process management, shared service centers and case management and financial services. So, we deliver about 14% of our book of business and financial services last quarter that has roughly an average to how we have been performing, and I have seen it a fair amount of interest around shared services and process consolidation.

Rakesh Kumar - ***Susquehanna Financial Group - Analyst***

Okay. Just one last question, how should we look for license growth in fiscal '14 as we model next year?

Mark Barrenechea - ***OpenText Corp - President and CEO***

Sure, it's a great question. So, we had 1% growth in Q4 in a challenging environment as we challenging environment as we have all seen many other companies and how they reported. We grew in Q3, second-half over second-half, we have 6% license growth. Our estimates show the market growing at 10% and that remains our mantra, for our investments. And our aspiration is to know that our investments in our programs and our initiatives are executing when we are growing at the market rate. We exited the second-half roughly at 6%, we know the market is growing at 10%, and our aspirations are to get to the market rate.

Rakesh Kumar - ***Susquehanna Financial Group - Analyst***

Great. Thank you.

Mark Barrenechea - ***OpenText Corp - President and CEO***

Thank you.

Operator

Your next question comes the line of Gabriel Leung of Paradigm Capital.

Gabriel Leung - ***Paradigm Capital - Analyst***

Thanks Mark, Maybe just a point of clarification. When you talk about targeting that 10% license growth for the year,, are you thinking organic or are you thinking with a couple of acquisitions in there?

Mark Barrenechea - ***OpenText Corp - President and CEO***

Yes, I haven't put a timetable on it, just to be clear. Those are all aspirations, and we will know it when we have it in our results. And that rate is an organic rate, not an acquired rate.

Operator

We have time for one more question from the line of Richard Tse, Cormark Securities. Please go ahead.

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

Thanks. Just going back to this execution issue now. I know you're addressing this, but given that you have increased your sales capacity, I would say 20% from a headcount perspective, can you give us some sense of what the pipeline growth is looking like this year versus last year, given that change?

Mark Barrenechea - ***OpenText Corp - President and CEO***

Well, we are not releasing specific pipeline numbers, but our pipeline has grown year-over-year. And the OpenText way, the way we run our organization is we are primarily a named account model in our enterprise teams. And we look at our account executives to own their roughly 20 accounts per AE, and we pair a set of AEs up with, what we call an AD, an account developer, who helps drive programs, initiatives and contacts into those named accounts to help build the pipeline. And we pay attention to where the pipeline is, where our accounts is. We typically don't place capacity ahead of pipeline. So, my macro comments are our pipeline is up, year-over-year. We are not disclosing specific numbers. I like our methodology a lot of pairing up account developers with account executives. And we tend not to place capacity ahead of accounts or having capacity to build pipeline.

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

Okay. Thank you.

Operator

Mr. Barrenechea, please continue with your closing remarks.

Mark Barrenechea - ***OpenText Corp - President and CEO***

All right, well, I would like to thank everyone for joining our Q4 and fiscal year 23 earnings call with Paul and myself, and I would like to leave you with a few thoughts. The first is, on a challenging environment we grew our license 6% second-half over second-half. We exited the year with an adjusted operating margin of 29.3%. I believe we have laid out four compelling programs as we roll into fiscal '14. Intelligent growth, building a broader EIM ecosystem, improved performance in our established markets and accelerated results in our fast growth markets. And I am eager to continue the discussion in the EIM community, our stakeholder community, our partners and our customer community around Red Oxygen, the largest engineering project in the history of the Company. I think one that will be a defining event for enterprise information management. Thank you for your time today, and look forward to our next discussions.

Operator

Ladies and gentlemen, this concludes the Open Text Corporation fourth quarter and fiscal year 2013 financial results conference call for today. Thank you for participating, you may now disconnect your lines.

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