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OTC.TO - Q4 2016 Open Text Corp Earnings Call

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OVERVIEW:

Co. reported 4Q16 total revenues of $484m and GAAP net income of $86m or $0.71 per diluted share.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the Open Text Corporation fourth quarter and fiscal year 2016 conference call. As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation there will be an opportunity to ask questions. (Operator Instructions). I would like to turn the conference over to Mr. Greg Secord, Vice President, Investor Relations. Please go ahead.

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

Thank you Operator. Good afternoon everyone. I would like to welcome you to today's call. With me today is Open Text CEO and CTO, Mark J, Barrenechea, our CFO, John Doolittle, and our President, Steve Murphy. As with our previous calls, we will read prepared remarks, followed by a question and answer session, the call will last approximately an hour, with a replay available shortly thereafter. I would like to take a moment and direct investors to the Investor Relations section of our website, where we posted PowerPoints that will be referred to during the call, including our quarterly supplemental update on the financial results, and an update to the strategy presentation from our May 12th Investor Day. I encourage all of our investors to download both presentations. As with previous quarters, we have updated a summary table highlighting Open Text's historical trends and financial metrics. Both PowerPoints and our trended financial spreadsheet are downloadable from the front page of our IR section of our website.

And with that I will proceed to 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, forecast or projection in the forward-looking statements made today. Certain material factors and assumptions were applied in drawing any such conclusion, while making a forecast or projection as reflected in the forward-looking information.

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

We undertake no obligation to update these forward-looking statements unless required to do so by law. In addition our conference call will include the discussion of certain non-GAAP financial measures, reconciliations of the all non-GAAP financial measures to their most directly comparable GAAP measures, have been included in today's press release and investors materials, which may be found on our website. With that I'll hand the call over to John.

John Doolittle *- Open Text - CFO*

Okay, Greg thank you very much. Welcome to the call, everyone. Apologies that we were a couple of minutes late. We were having some phone difficulties here in Toronto. Let's go through the numbers, and my references will all be in millions of US dollars, unless indicated otherwise. Total revenue for the quarter remained stable at $484 million, compared to $483 million for the same period last year. For fiscal 2016 total revenue was $1.824 billion, down 1% compared to $1.852 billion for 2015, and up 3% on a constant currency basis. Recurring revenue for the quarter was $398 million, up 3% compared to $386 million for the same period last year. For fiscal 2016 recurring revenue was $1.541 billion, down 1% compared to $1.558 billion for 2015, and up 3% on a constant currency basis.

Next the impact of foreign exchange. Foreign exchange did not have a material impact on our revenues or adjusted EPS during the quarter. However for the full year 2016 our revenues were negatively impacted by $80 million compared to fiscal 2015, and adjusted EPS was negatively impacted by $0.12. The negative effect of $80 million by revenue type is broken down as follows. License $15 million, Cloud $19 million, customer support $33 million, and professional services $13 million. License revenue for the quarter was $86 million, down 11% compared to $97 million for the same period last year.

For the full year 2016 license revenue was $284 million, down 4% compared to $294 million in fiscal 2015, and up 2% on a constant currency basis. Cloud services and subscriptions revenue for the quarter was $157 million, up 5% compared to $149 million last year. For the full year 2016 Cloud services and subscription revenue was $601 million, down 1% compared to $605 million in 2015, and up 2% in constant currency. New MCV bookings this quarter were $67 million compared to $56 million in the same period last year, up 20%. For the full year 2016, new MCV bookings were $211 million compared to $199 million in 2015, up 6%.

Customer support revenue for the quarter was $193 million, up 5% compared to $184 million for the same period last year. For the full year 2016, customer support revenue was $746 million, up 2% compared to $732 million during 2015, and up 6% in constant currency. Professional services and other revenue for the quarter was $48 million, down 8% compared to $52 million for the same period last year. For the full year 2016 professional services and other revenue was $193 million, down 12% compared to $221 million during 2015, and down 7% in constant currency. Steve will comment on our plans to improve the results for professional services.

Gross margins for the quarter were as follows, Licensed margins remain stable at 96%. Cloud services and subscription was 59%, compared to 61% same period last year. Customer support was 87%, compared to the same period last year, stable. Professional services was 14%, compared to 18% in the same period last year. This decrease in margin was primarily caused by integration efforts for recently acquired assets, and lower than expected revenue. Gross margins for the full year 2016, licensed remains stable at approximately 96%. Cloud was 59% compared to 61% last year. Customer support was 88% compared to 87%, and professional services was 19% compared to 22%.

Adjusted operating income was $158 million this quarter, up 6% compared to $149 million in Q4 of last year. On a constant currency basis, adjusted operating income was $155 million, up 4%. For the full year, adjusted operating income was $617 million, up 8% compared to $573 million during fiscal 2015. On a constant currency basis, it was up. It was $635 million, up 11%. Adjusted operating income was up on both a quarter and annual basis, as a result of the decrease in operating expenses of approximately $13 million and $49 million respectively, primarily resulting from ongoing expense management. Adjusted net income increased 2% to $109 million this quarter, up from $107 million in Q4 of last year. This is primarily due to a $9 million increase in adjusted operating income that was partially offset by higher interest as a result of the high-yield notes issued in Q4 fiscal 2016, and higher taxes due to a change in the Company's adjusted tax rate from 18% to 20%. For the full year, adjusted income was $432 million, up 2% from $425 million, and up $22 million, or 5% on a constant currency basis. The increase is primarily due to an increase in adjusted operating income of $44 million, partially offset by higher interest as a result of a high-yield note issued in Q3 of fiscal 2015 and Q4 of fiscal 2016, and our higher adjusted tax rate as I mentioned. Interest expense was $22 million in the fourth quarter, up from $18 million last year. On an annual basis, interest expense is $76 million, up $22 million, again due to the high-yield notes raised in fiscal 2015 and fiscal 2016, offset by approximately $2 million of income earned from cost-base investments. Going forward we estimate our quarterly run-rate for interest expense to be approximately $28 million.

Adjusted earnings per share for the quarter was $0.89 on a diluted basis, compared to $0.87 for the same period year last year, up 2%. For the full year adjusted earnings per share were $3.54, compared to $3.46 for fiscal 2015, up 2% and 6% on a constant currency basis at $3.66. GAAP net income for the quarter was $86 million, or $0.71 per share on a diluted basis, compared to $69 million, or $0.56 per share on a diluted basis in Q4 of last year. For the full year, net income was $284 million, $2.33 per share, compared to $234 million, or $1.91 per share on a diluted basis in fiscal 2015. There were approximately 122 million shares outstanding on a fully diluted basis, both for the fourth quarter of fiscal 2016, and on an annual basis.

Operating cash flow for the quarter was $119 million, down 10% compared to $132 million in the same period last year. Net income increased $18 million, and our two working capital items, Accounts Receivable and Accounts Payable added $11 million. However there was a significant change in deferred tax assets resulting from the IP organization, which I will talk about later in the call, and some timing delays in customer support renewals, plus the impact of acquisitions on deferred revenues when combined reduce our operating cash flow by $46 million. Driving cash flow improvements continues to be a top priority of mine. For fiscal 2016, operating cash was $526 million, up 1% compared to $523 million for last year. On the balance sheet at June 30th, deferred revenues were $411 million, compared to $386 million at June 30th, and the increase is due primarily to the impact of our acquisitions in the fourth quarter. Accounts Receivable was $286 million at June 30th, compared to $284 million at June 30th, 2015, and our days sales outstanding were unchanged at 53. During the quarter, we announced that we closed a high-yield debt offering of $600 million in unsecured notes at 5.875% due 2026, so with the addition of these high-yield notes we are suggesting investors model interest expense of $28 million per quarter going forward as I mentioned before.

We announced four acquisitions during Q4, closed two transactions in the quarter. we acquired customer experience management assets from HP, and acquired ANXe, a cloud-based information exchange network. These businesses did not contribute meaningful revenues or earnings in the quarter. We closed the acquisition of Recommind, a provider of the eDiscovery and information analytics solution on July 20th, and the financial results of Recommind will be consolidated with the Company in our first quarter of fiscal 2017. On July 20th we announced that we signed an additional agreement to acquire certain customer communication management assets from HP. This transaction is expected to close during the first quarter of fiscal 2017, and is subject to customary regulatory approvals and closing conditions. The combined purchase price of these four transactions is approximately $750 million. We plan to have all four acquisitions on to our operating model within 12 months of their respective acquisition dates.

Now to the external model, fiscal 2017 non-GAAP operating margin target remains at 30% to 34%, and the model and support information is contained in our investor presentations on our website. We are also affirming our fiscal 2020 aspirations of non-GAAP operating margin of 34% to 38%, and a revenue mix that would reflect 50% of our revenues from cloud, as part of 90% recurring revenue portfolio in 2020. Mark will give further information on the external target model.

Now for a tax update. Let me start with an update on the IRS draft NOPA matter regarding historical tax years. There remains no update to provide at this time. We still have not received the second expected draft NOPA, and the status remains as previously disclosed. We will continue to monitor, and I would reiterate our strong disagreement with the IRS's position expressed in their draft NOPA from last year. We will provide an update following any material developments.

Now to the bigger news in the quarter, looking back to 2010, we announced our plan to consolidate our intellectual property to create operational effectiveness. We chose Luxembourg for the consolidation, and along with this effectiveness came certain tax advantages. Fast forward 7 years. We find ourselves in a situation where IP is not consolidated, but that continues to be our objective. Additionally, the international tax environment has dramatically changed, and our tax rate has been climbing every year. With that as a backdrop, we examined a number of options, and we decided to reorganize in order to consolidate our intellectual property into Canada.

This achieves our goal of operational effectiveness through consolidated ownership, management, and development of our IP. As a consequence of the reorganization, the IP enters Canada with a tax base equal to fair market value, and this will allow us a stable and predictable platform for years to come. As a result of the reorganization, as well as the integration of recently completed acquisitions, we released a $35 million reserve or valuation allowance, primarily related to certain Canadian deferred tax assets in the fourth quarter of fiscal 2016, which contributed to the lower GAAP tax rate in fiscal 2016, compared to 2015.

We also expect to recognize a material tax benefit currently expected to be several hundred million dollars in the first quarter of fiscal 2017, associated with the creation of a deferred tax asset resulting from the reorganization. We expect this to materially reduce our GAAP income tax rate for fiscal 2017, which is anticipated to be significantly below zero.

Our adjusted tax rate for fiscal 2017 is expected to be approximately 15%, and is indicative of our anticipated cash tax rate. We calculate this rate by dividing anticipated current tax provision for the period by adjusted pre-tax income. Illustration of this adjusted tax rate is anticipated to be more representative of the actual cash tax burden on adjusted earnings, and we believe is more aligned with financial market expectations. Please refer to our investor presentation on our website for more details.

On July 6th, 2016, the Board declared a cash dividend of $0.23 per share for shareholders of record on August 26th, 2016, payable on September 16th, 2016. Lastly, on to our NCIB program, I confirmed that we did not repurchase any shares in the fourth quarter under our expiring share purchase plan. However, on July 26th, our Board authorized a new share repurchase plan for the repurchase of up to $200 million of our common shares, if considered advisable from time to time. Thank you. I will turn over the call to Steve Murphy. Steve.

Steve Murphy ***- Open Text - President***

Thanks John. So let me get into my intro. It has been seven months since I joined Open Text, and I am pleased to say that the organization is exactly what I had expected. We are a business with a world class product offering and a high integrity group of folks. We are passionate about making our customers extremely successful. I was brought into focus on driving efficient operations, and to help grow our revenue while improving margin and cash flow. There is opportunity to balance cost discipline with driving sustainable organic growth initiatives. My mission hasn't changed. I am pleased with our progress.

Let me talk a little bit about Q4 and our fiscal year overview. I would like to take a quick look at the quarter performance. We had a strong Q4 for our customer support and cloud businesses. MCV is showing improvement, and we see growth in the cloud in both North America and Europe, where large deals are becoming more prevalent. We have achieved stability in the field, with key leaders in place across the board. This includes senior leaders in place for professional services, customer support, license sales, and cloud.

We have a structure and a leadership team that is stable and scaling well. At a time when the software industry is changing rapidly, and we are acquisitive, this stability is of great value. Let me share some great stats for the quarter. We had 10 on premise license deals greater than $1 million. The geographic split of total revenues was Americas 58%, EMEA 33%, and Asia PAC 9%. On Premise customer successes in the quarter include Nevada State Controller's Office, Schwan Cosmetics, Kamehameha Schools, eMeter Corporation, APA group, State of Iowa, and KUKA Manufacturing. In terms of industry breakdown, financial, services, technology, and public sector industries saw the most demand.

Let me give you some quick cloud stats. Q4 cloud revenue was up 5% year-over-year in constant currency, and we had 10 new MCV cloud deals greater than $1 million. Cloud customer successes in the quarter include Red Hat and s.Oliver. We added 38 new managed service customers in Q4, which brings our total managed service customers to 955. We had 20% MCV growth from $56 million to $67 million, compared to the second quarter last year. And average deal size for MCV increased 42% to $587,000 compared to $413,000 last year. Financials, services, technology and consumer goods saw the most demand for cloud.

Let me give you some quick annual stats. On an annual basis we grew MCV bookings by 6% over fiscal 2015, reflecting continued strength in our business network and enterprise businesses. Our average MCV deal size was up by the year by 8%, as we see the strategic nature by our deployments driving increase in both the size and the scope of cloud transactions. Let me talk about a little bit about some specific customer wins. In the cloud for starters, Red Hat, Red Hat has selected Open Text B-to-B managed services to support its growth initiatives and provide a Best-in-Class experience for its customers. Red Hat and Open Text will expand the existing B-to-B program around the globe, as well as implement additional transactions in support of the order to cash cycle.

Next state of Iowa. The state of Iowa is creating a digital platform as a service, or PaaS, to support its internal customers. The initial project is to implement Open Text to enterprise content management, ECM, for their Department of Administrative Services, integrated with their ERP system. The goal here is to extend ECM and PaaS clouds, and to extend that into the state agencies. The solutions will help the state of Iowa take full advantage of the opportunities offered through digital transformation.

KUKA, a large German manufacturer of industrial robots automates contract management with Open Text extended ECM for SAP. This quarter they extended their investment in Open Text to optimize their sales process. Lastly, Nevada State Controller's Office purchased Open Text's Information hub, or I-hub, for its reporting needs. I-hub conforms with the other data management products deployed by the state of Nevada Controller's Office, and offers many ways to share analytic content securely with their teams.

Talk a bit about customers. At the heart of any great Company is a loyal customer base. With a culture of customer firsts, Open Text remains committed to the customer, and to customer care and satisfaction. We value this culture and we will fiercely protect it as a key driver of our success. It is worth repeating, customers don't buy from companies but rather they buy from people. We are a software Company with our focus in the right place, squarely on the customer. We have the skills and products to solve our customers' toughest problems. This positions us to win new business and repeat business again and again. Enterprise World was a great opportunity to see this in action, engaging customers, better understanding their business challenges, and celebrating their successes in deploying Open Text products. Let me touch a bit on our partners. Open Text also has a healthy ecosystem of strategic partners and system integrators. Our global partner program is gaining tradition, and we remain committed to building these relationships. The premise is simple, if partners invest in us, we will invest in them. We have a significant stable of global SIs and VARs, including SAP, Accenture and

Deloitte, that are industry and regionally focused. In many cases it is better to have a partner service a region where we don't have a presence, and we continue to support their initiatives with significant marketing and resource commitments. Talk a bit about sales. Turning to our sales organization, I have a lot of confidence in both our account planning and sales execution in the field. As I mentioned earlier, structure and leadership is scaling well. We have world class leaders in the field. The energy and enthusiasm they express for the business is contagious. We are competing and winning. Release 16 is a rallying point for our field to up-skill and bring a truly differentiated product to our many sales cycles. Sales enablement and field readiness is key. Taking advantage of customer upgrade opportunities and competitive replacements. Again leveraging Release 16. Our salespeople know how our products solve our customers' toughest problems. They sell this differentiated value in a way that best serves the needs of the customer.

There is also strategic value in our managed services offering. I can't stress enough that our hybrid model is a big competitive advantage. We know that the customer ultimately makes the decision on which model to deploy, and we respect that process. We provide a consultative environment where the customer can accurately weigh the costs and the benefits of either model for their situation, and then work with us to do what is best for them.

Release 16. Speaking of our product portfolio, as I mentioned in may at our investor conference in New York, I am focused on growing healthy and sustained organic revenue for Open Text, and I'm convinced that Release 16 will help us to achieve this. The dialog about Release 16 with customers is strategic. And I think that it's exciting to have this level of innovation and an integrative platform that offers such a compelling value proposition. The field has been fully trained, are engaged with customers, and enter into this product cycle with enthusiasm and laser focus on the immediate business problems that we can solve.

Let me touch on professional services, PS update. We're on schedule to deliver on a stronger, more efficient professional services organization. With a new leader in place and one quarter into our plan to improve PS revenue, utilization and margin performance, we have a great foundation to build on our improvements to the professional services organization.

Acquisitions. Turning to acquisitions, as Jon mentioned we have recently announced four acquisitions, and to date we have closed three. Our customer support organization under the leadership of James McGourlay is already seeing traction out of the integrated assets we have acquired. Onboarding acquired revenue and integrating teams and product sets are core competencies at Open Text. We are good at it. It is in our DNA. We have foundation and structure to scale, and we are executing a plan. I see synergies for both sets of HP assets, and we have a strong leader already in place, with full knowledge of the products. We have brought together a great set of products that fit both organizationally and from a one-stop shop perspective.

ANXe is firing on all cylinders with great products and strong leaders. It's been a seamless transition in our business network. ANXe revenue is highly recurring and has proven to be a very good fit. So a quick summary before I hand off to Mark. We delivered strong annual performance in our recurring revenues. Specifically growing cloud and customer support while expanding margins and growing adjusted operating income. License sales have been consistent on an absolute dollar basis, and our PS business has stabilized and is on track with our improvement initiatives.

With deep customer loyalty, we're positioned in the right market at the right time with the best product suite in EIM. We're leveraging our leadership position to achieve market share gains, through sales enablement, field readiness, customer upgrades, and competitive replacements and takeout. We have stability in the balance sheet. We have got stability in the field and we have got stability in our management team. I absolutely believe in our overall ability and our business plan and our ability to achieve the business plan. So over to you, Mark.

Mark Barrenechea - ***Open Text - CEO, CTO***

Hey Steve, thanks for the great update. I really appreciate it. There are two topics I would like to cover today. First, a review of our fiscal 2016 highlights and second, an outline of our key objectives for fiscal 2017 and the year ahead. Fiscal 2016 was the most extraordinary and foundational year for Open Text. In constant currency we grew revenues 3% to $1.9 billion, expanded adjusted operating margin by 240 basis points to 33.3%. And delivered $447 million in adjusted operating income, up 5% year-over-year. These results are all-time highs for Open Text.

When I joined the Company 4.5 years ago, our adjusted margins were 27%. Improving our margin performance by over 600 basis points is a fundamental reset in our performance, allowing us to input acquired and organic revenues into a more efficient engine, and output more cash flow. This engine will continue to translate into shareholder value for many years to come. We defined our hybrid strategy as grow cloud and recurring revenues, hold constant our license revenues, and expand margins. Our hybrid strategy is working. In constant currency for fiscal 2016 our cloud services business was $620 million, and our license business remained relatively constant on an absolute basis. As we added more cloud revenues and expanded our margins. We outlined our hybrid model as a strategic goal for the Company, and have achieved this four years in a row. In fiscal 2013 our license revenues were $273 million, in fiscal 2014, $306 million, in fiscal 2015, $294 million, and in fiscal 2016, $284 million, while over the same period our cloud revenues have grown from zero to $620 million, and our margins have expanded to over 33%. Our hybrid strategy is working, and the transformation to this model is complete.

Now in relation to our business and market strategy, at our annual Investor Day in May, we outlined our comprehensive approach to M&A and shareholder value creation. We called it Strategy to Value Creation. M&A is our leading growth driver. We outlined four major elements in May to our business and market strategy. Our EIM market strategy, our M&A focus, number two. Third, the Open Text business system and fourth, creating superior shareholder value.

Our EIM market strategy places us in the center of a $30 billion-plus market, a market of transformative value for customers as they move to digital platforms, and EIM attracts more key enterprise customers from all industries and all geographies. It is a market that also affords strong margins and cash flows as compared to other hardware or software sectors. And there are hundreds of EIM acquisition targets. We made a key decision in fiscal 2016 that M&A will be our leading growth driver, evolved our corporate resources and focus, while leveraging our proven approach from deal sourcing to Company integration. And reinforcing a returns-oriented mandate.

The Open Text business system unlocks value and is differentiated from other business systems, given its focus on integration. Integrative sales forces, integrated R&D, and integrated operations. Integration is the operative word. Within M&A models, Open Text is a platform operator, and the Open Text business system is performance-centered. The outcome of these tenets is creating superior value by focusing on our cash flow growth, by focusing on our large recurring revenue base, and executing to our policy of disciplined capital allocation. You only have to look over the last 100 days in our four announced acquisitions, to see the Open Text business system in action. As a basket we are acquiring approximately $300 million of revenues while putting $750 million of capital to work.

In January I streamlined and realigned my executive team to enable greater accountability and future scale of Open Text. Muhi Majzoub was promoted to lead all products, cloud services, and IT, Gordon Davies was promoted to lead both our legal organization and corporate development. John Doolittle was promoted to lead finance and Human Resources and Operations, and Steve Murphy joined us to lead all customer-facing activities. I could not be more proud of my entire executive leadership team. The structure and team is performing, and you see that in our results.

Let me recap the last 100 days, which have just been extraordinary. The announcement and closing of the customer experience software assets of HP Ink, the announcement to acquire the CCM assets of HP Ink, of which we will close on very soon. The announcement and closing of ANXe, the announcement and closing of Recommind, our IP reorganization into Canada, Enterprise Role 2016 in Nashville, and our plans for Open Text

Magellan. Here's the finer point of it all, with Release 16 and our recent acquisitions, we are the only enterprise software provider to complete the business process flow of engagement to insight. Engagement, capture, content, process, collaboration, discover, exchange, and insight. All of the technical capabilities needed to digitize, automate and manage information-based business and digital processes.

Open Text is the only vendor capable of providing such a comprehensive and cohesive digital platform. There was a time in ERP when there were 1,000 providers of some level of ERP capabilities. Then the market consolidated around Oracle and SAP, because they were able to automate the seminal ERP process flow, campaign to cash. The seminal EIM process flow is engagement to insight, and only Open Text can automate this. It was a foundational year for the Company.

On to fiscal 2017. I have never been more excited at the beginning of a fiscal year as I am today. Fiscal 2017 is shaping up to be a year of growth. Growth driven by M&A plus our organic efforts. We will continue to make acquisitions, expand market share, and drive innovation. In our recent acquisition announcements, all combined, we discussed annual revenues between $290 million and $330 million. By annualized, we mean full year revenues when we own these businesses for a full year. Given the timing of the closes, we are expecting approximately $300 million of acquired revenues in fiscal 2017, along with double digit growth on all revenue lines. As well we are expecting double digit adjusted operating income growth for the fiscal year.

Further, please note that Q1 will be a partial quarter of acquired revenues. And it's not until Q2 that we expect to have a full quarter of acquired revenues. We expect our revenues and margins to ramp accordingly throughout the year. All around it's going to be an exciting fiscal 2017. Let me provide a few words on margin. We delivered great margins in fiscal 2016. We are not raising our target models in fiscal 2017, but we expect to be on the high end of the margin range. Given the timing of acquisitions and need to onboard assets to our operating model, we expect to grow into the high end of the range as our fiscal year progresses. We also expect to continue to make value-based acquisitions in fiscal 2017. We have a strong balance sheet with $1.3 billion in cash, available cash through our credit facilities, and a $1 billion shelf prospectus to be filed in May. And of course our future cash flow. I note our fiscal 2016 operating cash flow was $526 million.

On this arithmetic, we have approximately $3 billion of available capital to put to work on the right opportunities. In many ways, our available capital keeps regenerating itself with growing in net new cash flows. Let me also note by way of example, on every $500 million of revenues we acquire, our model suggests we should add $0.70 of adjusted EPS, and this should only get stronger as we get more efficient with automation and scale. The state and outlook for EIM are excellent. As for organic growth, as Steve discussed, we have a strong product lineup for fiscal 2017. Release 16 is our flagship solution featuring Cloud 16 and Suite 16 packages, for cloud-based and on-premise customers respectively. Our field organization and partner network are engaging customers for upgrades and upsells.

There have been thousands of downloads and hundreds of customers presently working Release 16 since its full launch in late April, and we are on target to deliver Release 16 EP1 in October, which will create new opportunities with large ecosystem partners, such as SAP, including success factors and Hybris, salesforce.com, Accenture, Deloitte, and E&Y. We're also expanding the reach of our keystone extended ECM solutions by offering a new solution specifically designed for government, as in most major markets, US, Canada, Germany, Japan and the UK, there are new laws surrounding electronic information for citizens and public policy.

We hope to capture that opportunity through EP1, and the release of Extended ECM for government built on Open Text Release 16. Managed services remain a top priority and growth initiative for us in fiscal 2017. And by the end of Q1 we will have over 1,100 customers who have outsourced their processes, data or people to the Open Text cloud. We added 38 new customers in Q4 including Allstate, Exxon Mobil, Lloyds Bank, and Red Hat, and more. Recommind brings over 130 new managed service customers, and Recommind recently closed two impressive multi year, multi-dollar MCV transactions. First with a large auto customer involved with a multinational investigation and litigation. And second, with a large multi-national Bank using Perceptiv analytics, for derivative contract extraction and analysis.

But customer response to Open Text Magellan, our next generation analytics offering is extremely promising. Magellan is directly targeted at the IBM Watson market, and will be deeply integrated with our voice, data, image, natural language and semantic processing, text mining, and numeric engines. We'll also incorporate Apache Spark as an open algorithmic engine. This will make available thousands of algorithms in open language, to create new algorithms and empower our customers to unlock the value of their enterprise information. Magellan will be another key differentiator for Open Text, and we expect it to be available in the second half of 2017. In many ways, Magellan is the promise of EIM. Centralize your unstructured data, secure it, govern it, build apps with Release 16, automate it completely from engagement to insight, to unlock the value through Magellan. While performance in 2016 and our plans for 2017, each reinforce our 2020 aspirations. 90% or greater recurring revenues, 50% of our business in the cloud, and adjusted operating margins between 34% and 38%. Each year we progress towards these aspirations. I am often asked how we'll get to 50% cloud revenues by 2020, and my answer is simple; We will acquire our way there, while also growing our cloud revenue organically. Let me wrap up my comments. Fiscal 2017 will be a year of double digit growth across all our revenue lines, as we onboard approximately 300 million of acquired revenues. We should also see double digit growth for our adjusted operating income. We will continue to acquire with over $3 billion of available capital, that regenerates itself with new acquisitions and our operating improvements. Release 16 EP1 will open up new opportunities and new partnerships. Our recent acquisitions enable Open Text to deliver on the vision of engagement to insight. No other single Company can provide this fundamental and complete platform. And lastly and most importantly, Magellan will deliver on the promise of EIM, enabling customers to gain insight, and unlock the value of their enterprise information. I have never been more excited about a new fiscal year. With that, I would like to open up the call to your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). The first question today is from Paul Steep of Scotia Capital. Please go ahead.

Paul Steep - ***Scotiabank - Analyst***

Great, thanks. Mark, maybe you could talk just a little bit about analytics, and what you have seen over the past year, and where you are at now in terms of the number of deals that have taken analytics into them, and the uptake within the base? And maybe that is a prerequisite to Magellan, or not a prerequisite?

Mark Barrenechea - ***Open Text - CEO, CTO***

Sure. Let me just start with I mean, we're obviously very pleased with our Actuate acquisition. And it met its business plan for fiscal 2016. It onboarded extremely well, and we met our financial goals for the year. One of its key differentiators is its embedability. We won some fantastic business throughout the year, and you also saw how quickly we were able to integrate Actuate into Release 16, which we presented at Enterprise World in November, and presented it again oh, just a couple of weeks ago in Nashville. So embedability is really key for us. And look, it's going to be a key differentiator and one of the catalysts for Release 16. On the basis of that, the next version of Actuate will keep all its embedability, its reporting, its visualization, by opening it up to Apache Spark and open algorithms, as well as bringing together all our other engines in this platform, we think it will another key differentiator for us.

Paul Steep - ***Scotiabank - Analyst***

Great. That helps. One final one, to clarify, is Cloud 16. Can you maybe talk a little bit about what you have seen in terms of the base and migration, and the willingness of clients to shift over there? Thanks.

Mark Barrenechea - ***Open Text - CEO, CTO***

Yes, I would maybe say two things. And look for comments from Steve as well. I would say, firstly we have great new capability. In the US our new healthcare direct protocol, we are seeing an uptick in interest because of that new protocol. MCV, managed services, is just so pivotal for us. We have our VAN. We have our on demand messaging network. These are transactional networks. They are important. But on top of that is vertical apps like ANXe, Healthcare Direct, but managed services. And by the end of this quarter, we'll have over 1,100 customers, again who have outsourced their environments to Open Text. And 1,100 enterprise customers, our key customers. That is getting some real critical mass. Steve, I don't know if there's anything you would like to add to that.

Steve Murphy - ***Open Text - President***

I would just add that at this point we have hundreds of customers that are either live or going live on Release 16.

Paul Steep - ***Scotiabank - Analyst***

Great. Thanks guys.

Steve Murphy - ***Open Text - President***

Thanks, Paul.

Mark Barrenechea - ***Open Text - CEO, CTO***

Yes, thanks, Paul.

Operator

The next question is from Steven Li of Raymond James. Please go ahead.

Steven Li - ***Raymond James & Associates - Analyst***

Thank you. Just a couple of questions for me. John, I thought with the exit from Luxembourg, your suggested tax rate was going up. How are you bringing it back down, and are there any cash outflow implications as you consolidate your IP into Canada?

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

Yes, thanks, Steve. There are nominal cash outflows as we consolidate, so it's a very small amount of cash outflow. And as I mentioned in my remarks, we're bringing the IP back into Canada at fair market value, with a tax base that's equal to fair market value. And that's essentially the way we're going to lower our tax rate to 15%.

Steven Li - ***Raymond James & Associates - Analyst***

Okay. And Mark, maybe a couple of questions for you on the macro. In Europe, was there any impact from Brexit on deal closures at the end of the quarter? And do you expect any impact in Q1?

Mark Barrenechea - ***Open Text - CEO, CTO***

Yes, Steve, thanks for the question. The answer is very simple. We had little to no effect on Brexit. It's less than 5% of our revenues. The UK is less than 5% of our revenues. We moved our operations, our EMEA ops out of the UK into Germany a few years ago. We just haven't seen any effect. And we think in a lot of ways it's either going to be neutral to us. It actually might be a slight positive, because people need to buy more software for governance. So the net effects to us are going to be neutral, to maybe slightly positive. Now, a more global statement as we look into 2017 is FX volatility is going to remain out there, for sure. You do have the Brexit. But for us we see it again to be neutral to maybe a slight benefit. Who knows where the US election is going to go? You continue to have some Russian risk, I think, and some risk around terrorism, kind of all-in global risk. It remains a volatile world, and we've sort of taken our strategy with M&A, to be able to grow our business both from M&A as well as organic growth. And I think we are in a pretty good position if global risk increases.

Steven Li - ***Raymond James & Associates - Analyst***

Great. And last one for me, Mark, the license revenues was quite weak in the Americas for Q4. Was there a specific region, and any changes you've made? Thanks.

Mark Barrenechea - ***Open Text - CEO, CTO***

Steve, any comments on that?

Steve Murphy - ***Open Text - President***

Yes, so we have made some leadership changes. And we've got a new head of license sales for North America. John [Gragias], very happy with the skills he brings and his background, as far as different places he's sold. I think that we will see based on my observation of John and his team, we will see steady improvement in license sales in North America.

Steven Li - ***Raymond James & Associates - Analyst***

Okay, thanks, guys.

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Steve Murphy - ***Open Text - President***

You bet.

Operator

The next question is from Paul Treiber of RBC Capital Markets. Please go ahead.

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

Thanks very much. I was just hoping, could you comment and perhaps clarify some of the growth, or the growth rates of MCV in 2016? I think you mentioned 6%. It does look like it was below the target that you gave out last year. Are those two numbers the right numbers to compare, like from an apples-to-apples point of view? And how should we think about the variance between the two?

Mark Barrenechea - ***Open Text - CEO, CTO***

So we ended the year at $211 million for MCV. And John, what was the growth rate for the year? I can't find it quickly year-over-year.

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

5%.

Mark Barrenechea - ***Open Text - CEO, CTO***

Yes, 5%. So $211 million is the right number. And we're expecting much stronger growth in fiscal 2017. And you are correct, we put out a larger target for us in MCV. And it was our first year in doing that. And there were some uncertainty in that, and yes, you're correct. We missed the number though we still grew year-over-year. And I would expect it to grow faster as we get into 2017. At the same time, our hybrid strategy is, we're allowing customers to kind of choose where they want to place the workload. So we're sort of agnostic as to what revenue line a customer workload falls on. And our goal is to, as we increase those recurring revenues, to expand our margin as we did. So yes, we came in under our aspirations for 2016 on MCV. The number was $211 million, and I would expect it to grow faster on 2017.

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

Thank you for explaining that. How should we think about your bullishness for 2017? What are the signs that you're seeing that lead you to be bullish, and maybe could you just elaborate on the reasons for the shortfall in 2016? Is it product-related timing? Anything would be helpful there.

Mark Barrenechea *- Open Text - CEO, CTO*

So I go back to we're going to see approximately $300 million of revenues onboarded from acquisitions. And when we look at our product road map of Release 16, we have Release 16, the default product fully shipping, EP1 opening up, new ecosystem partners, and Magellan in the second half of the year, the product lineup keeps getting stronger. And we expect to continue to make acquisitions in 2017. And when I look at the shortfall in Q4, really what is top of mind is a few pennies. Right. Those are important in Q4, which is primarily the EPS that is related to professional services. Which I believe we have under control for Q1.

Paul Treiber *- RBC Capital Markets - Analyst*

Okay. Just lastly, just looking at the target model for 2017, the margin model, you mentioned acquisitions would take time to ramp up to your margin model. How do we think about organic investments in 2017?

Mark Barrenechea *- Open Text - CEO, CTO*

I'll start on the product side and Steve can talk about the field side. The organic investments, again we are accelerating our capabilities through an enhancement pack series. Quite candidly, our competitors falter a bit in the marketplace. So EP1 is a very important release for us to support sales force, to support success factors, open up government opportunities for new regulations. And EP2 will support Magellan. So that's a pretty good investment for us as we accelerate those enhancement packs, accelerate those capabilities as our competitors falter a bit in the market. Steve, do you want to talk about some of the field investments for a minute?

Steve Murphy *- Open Text - President*

Yes. So we discussed organic growth in the low single digits, and we have staffed up with account executives, salespeople, and the solution consultants, field engineers that support them to the point where as of now, early in the year, we are fully staffed to meet what we've guided to, which is organic growth in the low single digits. And that's been a concerted and steady effort over the last 6 or 7 months as far as bringing in high-quality salespeople, and making sure that we retain our high-quality salespeople. We've also invested in top executive talent, and at this point all of our senior leadership positions in the field are filled with experienced people, who know what they're doing.

Paul Treiber *- RBC Capital Markets - Analyst*

All right. Thank you. I'll pass the line.

Steve Murphy *- Open Text - President*

Sure.

Operator

The next question is from Stephanie Price of CIBC World Markets. Please go ahead.

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

Good evening.

Mark Barrenechea - ***Open Text - CEO, CTO***

Hi, Stephanie.

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

You touched on the competitive landscape in an earlier question. Could you just walk through what you're seeing there, and where Open Text is gaining traction?

Mark Barrenechea - ***Open Text - CEO, CTO***

Sure thing. There was a critical mass moment in ERP, when the market really considered just a handful of providers, because this is software, right, and services. You are here to automate. And a handful of ERP providers was able to automate campaign to cash. And the market rallied around that, because they could fully automate a seminal process. Engagement to insight is that process for EIM. And I think as we bring on board Recommind, as we bring on board the HP Ink assets and add Magellan, I can't see another Company in the marketplace that can provide this flow.

I ultimately believe that our ultimate competition is IBM. From IBM Watson, from Watson through FileNet, Sterling Commerce, their Tivoli for business process management. When we look at the point providers, from the usual suspects of documentUM, Kofax, SharePoint, Fox, Adobe, Pegasystems, they're starting to continue to get more and more niched around features, while we keep expanding capabilities to engagement and insight. The HP Ink assets really strengthen that engagement piece. That whole box of discovery, we filled first with digests, and now we have really solidified with Recommind, and then insight on our next version with Magellan.

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

Okay, thanks. And then on Magellan, can you give us an idea of the scope of the offering, and what features it's going to focus on?

Mark Barrenechea - ***Open Text - CEO, CTO***

I would point to two large improvements, while maintaining our strength around visualization reporting and embedability. New capability, one, is Apache Spark. Opening up the platform to bring in the Spark engine that will allow for ETL, data integration. A recommendation engine, as well as realtime streaming, and over thousands of open algorithms. IBM Watson is closed. You don't own the IP when you create an algorithm. And you're using proprietary tools to do all of the AI machine learning and algorithmic work. By bringing in Spark, it's all going to be open, and we'll be able to leverage thousands of algorithms.

I would say the second big capability is we're going to bring together all our existing engines on to the platform. Voice. Natural language processing. Image processing. And making those engines integrated and available under the Actuate engines.

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

Great. Thank you very much.

Mark Barrenechea - ***Open Text - CEO, CTO***

Thanks, Stephanie.

Operator

The next question is from Eyal Ofir of Dundee Capital Markets. Please go ahead.

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

Thanks for taking my questions. The first is, can you guys provide us with the contribution or the revenue contribution from the acquired assets in the quarter?

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

It was, as I said in my script, I'm not going to give you the exact number. It was a nominal, both from a revenue point of view and an earnings point of view.

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

Okay. And in terms of thinking about the integration, Mark, maybe talk a bit more on the strategic side. Obviously the HP asset a more of a carve-out. How do you look at integrating those assets? Are they more complicated to integrate? And how has the first traunch gone so far?

Mark Barrenechea - ***Open Text - CEO, CTO***

Let me go through them one by one. We have the CEM assets from HP Ink such as TeamSite, Media Manager, Optimost, and a few others. And quite candidly, we like asset deals. It is the ability for us to, to some degree, pick the assets and liabilities that we're interested in. And it's usually the hardest of the work for an acquirer, and it's the hardest work but you're going to unlock the most value. So we actually like these difficult situations, because we can unlock the most value. So TeamSite in particular is a market leader for engagement, website development, electronic forms, and the beginning of the whole process. So it has integrated extremely well into the business, and this will be a strong quarter for them.

We have not yet closed on the CCM assets from HP. And it's probably the larger and the stronger of the two. But we expect to close on it very soon, and once we're, probably at our next investor conference or next call, we'll give an update on CCM assets. ANXe, strong recurring revenues. They were a partner of ours before the acquisition. And as Steve commented in his script, an incredibly strong team, strong recurring revenues. And I think as we noted when we originally announced it, they were at a relatively high EBITDA already, so they were onboarded to our model right away. And so we're quite pleased with that.

And Recommind is going to turn out to be an incredibly strategic asset for us. It's a box we haven't been strong in. And it's a very timely acquisition as well. I noted two recent wins. It is now closed. And we'll get it on our operating model. They were a privately held business. We'll get them on to our operating model in two to three quarters. But strategically it's incredible value.

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

Great. Before I pass the line, just one more question. On Release 16, have you noticed any more difference in the sales cycle? Obviously it is a potentially bigger sale item, and clients could also look at other vertical applications alongside of it?

Steve Murphy - ***Open Text - President***

Yes, hey, Steve Murphy here. So what we have noticed is that, and I can reflect on a couple of the sales cycles. I was very, very involved with Q4. The deal size increases, and there is a degree of integration across all of the different modules. For instance, when we sell ACM, 16 has a degree of integration with business process management in something like case management, entity modeling that expands the deal size. And that is probably the single biggest difference. Someone asked earlier about the competitive landscape. That is where we're different. Unlike a documentUM or another Company, that is a narrow focus. We've got engagement to insight. And with 16 the customer might be at a sales cycle for content management and find out that they want to buy something else, because of the degree to which 16 integrates all of the capabilities that we have.

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

Okay. So that could also mean that the sales cycle is a bit longer, then, right?

Steve Murphy - ***Open Text - President***

No, I have not observed that to be the case.

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

Okay. Okay. That's great. Just finally, on the PS, I think, I don't know if it was John or Mark made the comment. I think the margin profile was a bit lower this quarter. And you said you were already on track for fiscal Q1. I just wanted to confirm that is the case, that PS margins are back up?

Steve Murphy - ***Open Text - President***

We said that the plan is on track, and a quarter ago we guided for two to three quarters to get back to our target margin range of 20% and our plan is on track. So we're a quarter into that. Probably another quarter or two to get to our target margin range. Any additional comments?

Mark Barrenechea - ***Open Text - CEO, CTO***

No, I agree with that, Steve.

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

Okay, great. Thank you. I'll pass the line.

Operator

The next question is from Blair Abernethy of Industrial Alliance Securities. Please go ahead.

Blair Abernethy - ***Industrial Alliance Securities - Analyst***

Thank you. Following on the last question, if we can talk a little bit about the sales and marketing margins. If I look at your fiscal 2016 to 2017 model, you've sort of raised the target model range in 2017 versus what you were going in at in 2016. What's changing there?

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

You're talking about the sales and marketing in costs, Blair?

Blair Abernethy - ***Industrial Alliance Securities - Analyst***

Yes.

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

I think Steve hit the nail on the head when he said that he has built up the sales team over the last couple of quarters, and whereas we entered 2016 with a smaller sales force, we've built up the sales force heading into fiscal 2017, and it's reflected in the sales and marketing margin.

Blair Abernethy - ***Industrial Alliance Securities - Analyst***

Okay. And just on the Recommind acquisition, where will you be allocating revenue? What revenue lines should we expect to be impacted by the Recommind? And if you can do the same, even though the second tranche of the HP assets hasn't closed, what is going into what I would term as on-premise, versus what's going into cloud?

Mark Barrenechea *- Open Text - CEO, CTO*

On Recommind it will be cloud, and on the HP deals, I think it will be reflective of our normal mix.

John Doolittle *- Open Text - CFO*

Sort of a normal distribution. And Recommind will be majorly cloud.

Blair Abernethy *- Industrial Alliance Securities - Analyst*

Okay, great. Thanks, guys.

Mark Barrenechea *- Open Text - CEO, CTO*

Thanks, Blair.

Operator

This concludes the time allocated for questions on today's call. I would like to turn it back over to Mr. Barrenechea for closing remarks.

Mark Barrenechea *- Open Text - CEO, CTO*

Very good, thank you. Thank you for joining us today. A summary of our key messages, fiscal 2017 will be a year led by M&A growth. We expect approximately $300 million in revenue growth from these acquisitions. All revenue lines should grow double digits, as well as double digit adjusted operating income growth, as well as the benefits of our recentralization of IP back into Canada. With that, I would like to thank you for your time, and I couldn't be more excited about fiscal 2017. Thank you for the call.

Greg Secord *- Open Text - VP, IR*

Thank you.

Operator

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

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