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PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the OpenText Corporation Fourth Quarter and Fiscal Year-end 2018 Conference Call. (Operator Instructions) And the conference is being recorded. (Operator Instructions)

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

Greg Secord ***Open Text Corporation - Vice-President of IR***

Thank you, operator, and good afternoon, everyone. On the call today is Open Text Vice Chair, Chief Executive Officer and Chief Technology Officer, Mark J. Barrenechea; and our Executive Vice President, Chief Financial Officer, Madhu Ranganathan. We have some prepared remarks, which will be followed by a question-and-answer session. The call will last approximately 60 minutes, with a replay available shortly thereafter.

I'd like to take a moment and direct investors to the Investor Relations section of our website, investors.opentext.com, where material relating to today's call is posted. And now, I'll proceed with the reading of our safe harbor statement.

Please note that during the course of this conference call, we may make statements relating to the future performance of OpenText that contain forward-looking information. While these forward-looking statements represent our current judgment, actual results could differ materially from a conclusion, forecast or projection in the forward-looking statements made today. Certain material factors and assumptions were applied in drawing any such conclusion. 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, as well as risk factors that may project the future performance results of OpenText, are contained in OpenText's recent Form 10-K, as well as in our press release that was distributed earlier this afternoon, which of course may be found on our website.

We undertake no obligation to update these forward-looking statements unless required to do so by law. In addition, our conference call may include discussions of certain non-GAAP financial measures. Reconciliations of any non-GAAP financial measures to their most directly comparable GAAP measures may be found within our public filings and other materials which are available on our website.

And with that, I'll turn the call over to Mark.

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Thank you, Greg. Hello, everyone, and thank you for joining us today. I'll be briefer in my remarks so we can get to your questions sooner. Let me also encourage you to have our press release and IR presentation in front of you as we go through our call today.

Across OpenText, our teams ended Q4 strong and delivered a record year of innovation, operational and financial performance as they focused on principled and disciplined execution. We have created the information platform, the intelligent and connected core, and we are now adding to that platform via our own engineering and acquisitions. We have refined how we deliver value to our customers via our go-to-market teams. Our performance was in the midst of a dynamic environment and demonstrates our investment in our people, the confidence in our business and our commitment to creating long-term shareholder value the OpenText way. Our business is best viewed on an annual basis, and we strive for greater quarterly consistency through growing our recurring revenues and clear communications, as I hope you'll here today.

Consider, Q3 was slightly below and Q4 slightly overachieved compared to external models as it was a dynamic year as we added $524 million in new revenues. Our business is best viewed annually.

Looking beyond any given quarter and reviewing our fiscal 2018 results, we delivered a record year. $2.82 billion in total revenues with 23% year-over-year growth; annual recurring revenue, or ARR, with $2.06 billion or 73% of total revenue; ARR grew 22% year-over-year and crossed the $2 billion threshold and was a record year as well.

Let me also note, we have successfully transitioned the business to an ARR, annual recurring revenue model. Year-over-year growth related to acquisitions was 17.5% or 17.2% in constant currency. Further, we allocated $321 million in capital to acquire Covisint, Guidance, and Hightail during the fiscal year. Year-over-year organic growth was 5.5% or 2.5% in constant currency. We delivered over $1 billion in adjusted EBITDA or 36% of total revenues, with 29% year-over-year growth.

Operating cash flow was $710 million and 62% year-over-year growth. We delivered $145.6 million via dividends or 2.5% of trailing 12-month cash flows. OpenText finished the year with a very strong balance sheet, including $683 million in cash. Our $450 million revolver is 100% available, and a 1.9x ratio of net debt to adjusted EBITDA. We have the management bandwidth and financial capacity to pursue our M&A strategy and to invest in organic growth.

Let me spend a moment on return on invested capital, or ROIC, which we feel is the best metric to assess the company's efficiency in allocating capital. We also think ROIC should be focused on operating elements versus non-operating elements. OpenText ROIC is calculated by taking adjusted operating income, net of tax, divided by debt plus equity minus cash minus deferred tax.

For fiscal 2018, our ROIC was 17.5%. We strive to be in the mid- to high-teens, and 17.5% is right in the range. You can see the calculation in our investor presentation today. Please note, we will only report on our annual organic growth rate in ROIC numbers during our annual call. And again, the detailed calculations for each are in our IR presentation as posted on our website.

Fiscal 2018 is a strong data point on what the OpenText business system produces. We delivered total growth, growth via acquisitions, and growth organically. We grew margin, we grew cash flow, and we have a strong balance sheet with net debt to adjusted EBITDA of 1.9x and an upper quartile ROIC of 17.5%. Again, it was a strong finish to a record year.

On Q4, let me do a few shout outs, and Madhu will go through Q4 in a little more detail. 38 customer transactions over $1 million; 15 on cloud or 23 on premises; financial services, consumer goods, technology, health care industries saw the most demand. Our key customer wins include BMW, Ness, SecureWorks, U.S. Department of Energy, U.S. Navy SPAWAR, Hydro Quebec, Salt River Project, U.S. Department of Health Agency, and the Auto Club Group out of Michigan.

We introduced OT2 at Enterprise World and highlighted Release 16 EP5 for later this calendar year. OT2 is our next-generation public SaaS platform and applications.

Americas was 57% of our book of business; EMEA was 34%; and APJ, 9%. Total revenues in Q4 was $754.3 million, up 14% year-over-year; ARR of $534.6 million, up 13% year-over-year; adjusted EBITDA margin in the quarter was 37.4%, up from 35.7% a year ago; and within the quarter operating cash flow was $205.5 million, up 100% year-over-year.

I'm extremely proud of the team, their focus, the commitment to our customers, the commitment to the OpenText business system and our long-term purpose as the information company.

Let me transition to fiscal 2019 in the exciting year ahead. We have strong software and support sales, a solid recurring revenue business, a healthy balance sheet for continued M&A and organic growth, and new products in cloud, security, business networks, content services and analytics and AI. OpenText has a world-class leadership team that is second to none. We've also doubled down on global partnerships that move our business forward with uncompromised value to customers. This is why we're winning customers and platform wins, like Nestlé, General Motors, BMW, U.S. Department of Interior, Daimler and Siemens.

Year-over-year, we've demonstrated the sustainability and scalability of our business and our steady progress. As I've always said, measure us on what we deliver.

Let me highlight a few key aspects of fiscal 2019 and the road ahead. First, and consistent with our approach, we provided annual target model that is reflected in the IR presentation on our website, as previously noted. Those targets are annual targets.

Q2 and Q4 typically outperform Q1 and Q3. Madhu will expand on this. We operate in 40 countries, transact in local currency, and report in USD. The dollar has strengthened significantly against the euro and other currencies over the last 90 days. Recognizing that FX movements like this do not reflect the long-term health of our business, but it does impact your modeling and our reporting. We expect a negative $60 million revenue effect in fiscal '19, purely based on the recent exchange rate changes. Also, ASC 606 will have a minor effect on fiscal '19 revenues, reducing revenue by $10 million.

FX and 606, combined, is expected to affect fiscal 2019 revenues, reducing revenues by about $70 million for this fiscal year. On average, that $17.5 million per quarter subject, of course, to our quarterly variances.

We expect our PS revenues year-over-year to be roughly consistent on an absolute basis. As we grow the overall business in fiscal 2019, our global partners are increasingly focused on building their consulting businesses around the OpenText intelligent and connected platform. It's a classic win-win.

We also expect adjusted EBITDA to be between 36% and 38%; operating in the mid-to high-30s is ideal performance for a large software business such as OpenText and our large software peers.

Madhu will speak to our restructuring program we announced today that will have partial benefit in 2019 and full benefit in fiscal 2020. The restructuring program is focused on hyper scaling our R&D, support, cloud operations and shared service centers of excellence in India, Philippines and Canada.

Let me note, 7 years ago, we had approximately 1,600 employees in these centers of excellence. Today, we have over 5,500 employees in these centers and scaling at a faster rate. Our longer-term fiscal 2021 target include 38% to 40% adjusted EBITDA and exiting fiscal 2021 with $1 billion in operating cash flows.

In summary, for fiscal 2019, and assuming a healthy market, we expect to grow low single digit organically, to grow via M&A, PS remains consistent year-over-year on an absolute basis, adjusted EBITDA between 36% to 38% and growth to be offset by a negative $70 million in revenue due to FX and 606.

I'd like to also note going forward that we'll be introducing, in our investor presentation, a new section named Quarterly Factors. This section is intended to provide quarter-to-quarter visibility into general market factors and some short-term context as you think about the 90-day cycles within our annual cycles. In general, these quarterly factors have little to do with the long-term health or strategic nature of our business.

So let's highlight our Q1 factors as we see them. First, our Q1 is a seasonally light quarter. A significant number of our customers slow down in the summer. Q1 will have a tougher sequential comparison as we had a strong Q4. And Q1 margin has historically been down a few hundred basis points. Recent strength of the U.S. dollar compared to other currencies is a Q1 factor. It is also the first quarter of ASC 606 revenue impact. Again, we estimate that FX and 606 combined could have a negative revenue effect of up to $17.5 million in the first quarter, again, subject to quarterly variances.

We'll be making a continued cloud investment, which means an increase in cloud expense. These investments are focused in OT2, our public cloud; our next-generation managed services, our private cloud; and new security privacy features across all our cloud services. These investments are already factored in into our annual target model in our IR presentation.

And finally, we all read the same newspapers and we are all monitoring closely the headlines on tariffs and currency movements and elections around the world, et cetera.

Let me turn to my closing remarks. As many of you experienced firsthand at Enfuse and Enterprise World, OpenText is energized and ready to go, from sales and support and engineering, in consulting, our 12,000 colleagues believe deeply in our purpose as the information company. And they are deeply passionate in helping our customers unlock the potential -- their potential through information.

OpenText was founded only 27 years ago to solve information search. Today, we have redefined the information market and have risen to our customer challenges to assemble the market's strongest software platform and most experienced team to deliver on the promise of the intelligent and connected enterprise.

We've got a proven track record of acquiring and integrating companies. We have a meaningful capacity to execute on that strategy when the right opportunity presents itself. Our business system is focused on growing shareholder value, and is a strategy that has proven successful over the long term. I believe there are significant untapped opportunity ahead of us, and please make sure you read our quarterly factors.

I'm often asked to speak about the principles that guide us at OpenText. Let me highlight a few of those principles. One, act like owners. Two, start with the customer, work backwards, and solve their most important problem. Third, continuous innovation, and bring your customers forward with you as technology advances. Fourth, a commitment to value and operational excellence. And lastly, long-term thinking and decision making.

It is in our culture to listen, and learn, and then to lead. We are excited to have incorporated your ideas in our future framework, and I'm really looking forward to your questions today.

So for now, it's my pleasure to hand the call over to our CFO, Madhu Ranganathan. Madhu?

Madhu Ranganathan ***Open Text Corporation - Executive VP & CFO***

Mark, thank you, and thank you all for joining us today. Before discussing the details of our fourth quarter results, I want to thank all of you, on behalf of Mark, Greg and myself, for sharing your valuable feedback with us on ways that we can even further improve information we provide to you and make it easier to evaluate progress of our business.

With respect to fourth quarter and annual fiscal 2018 results, and similar to prior quarters, my references will all be rounded in millions of USD and compared to the same period in the prior fiscal year, unless I indicate otherwise.

Total revenue for the quarter was $754 million, up 14% from last year, or $730 million on a constant currency basis, up 10%. Revenue was positively impacted by $24 million due to foreign exchange and negatively impacted by $4 million due to acquisition accounting rules.

Fiscal 2018 total revenue was $2,815 million, up 23% from last year or $2,743 million on a constant currency basis, up 20%.

Annual recurring revenue was $535 million, up 13% from last year, or $517 million on a constant currency basis, up 10%. Our fiscal 2018 annual recurring revenue was $2,061 million, up 22% from last year or $2,014 million on a constant currency basis, up 19%.

And now, for the impact of foreign exchange. For the quarter, FX positively impacted revenue by $24 million and had a positive $0.04 impact in adjusted EPS. For fiscal 2018, foreign exchange positively impacted revenue by $73 million, and had a positive $0.10 impact on adjusted EPS.

And now to gross margins. For the quarter, gross margins were as follows: our license margin was 98%, up slightly from 97% last year. The cloud margin was 56%, down slightly from 57% last year. Our customer support margin was 89%, up slightly compared to 88% last year. For Professional Services, the margin was 18%, up compared to 15% last year, and the increase reflects efficiencies from post-acquisition integration activities.

For the next section, we will discuss operating income details. Having a clear and deep operating lens into all aspects of our business, it remains a key focus for us at OpenText. We are pleased with the result for the quarter.

Our adjusted EBITDA was $282 million this quarter, up 19%, and adjusted EBITDA margin was 37% compared to 36% in the prior fiscal year. For fiscal '18, adjusted EBITDA was $1,019 million, up 29%. Adjusted EBITDA margin for fiscal 2018 was 36% compared to 35% in the prior fiscal year.

For interest and other related expense was $35 million for the quarter. We are very pleased with the successful execution of our term loan B and revolver credit facility refinancing, which completed in May 2018, with a solid list of outcomes. That further strengthened our balance sheet and acquisition capacity as we continue on our total growth strategy.

The fiscal 2018 interest and other related expense was $137 million, which is slightly higher than our originally anticipated target range of $130 million to $135 million range, and primarily due to additional upfront cost of the term loan refinancing transaction. Our adjusted earnings per share for the quarter was $0.72 per share on a diluted basis compared to $0.60 per share for the same period last year, up 20% and up 13% on a constant currency basis at $0.68 per share.

For fiscal 2018, adjusted earnings per share on a diluted basis was $2.56 compared to $2.02 last year, up 27%. On a constant currency basis, adjusted earnings per share was $2.46, up 22%.

GAAP net income for the quarter was $62 million or $0.23 per share on a diluted basis, up compared to $46 million or $0.17 per share for the same period last year.

For fiscal 2018, GAAP net income was $242 million or $0.91 per share compared to $1,026 million, or $4.01 per share for last year. However, as previously mentioned, the prior year GAAP net income included a one-time tax benefit of $876 million that was recorded on account of the company's internal reorganization in Q1 fiscal 2017 to continue to enhance operational and administrative efficiencies to further consolidation of our IP in Canada.

And now turning to operating cash flows. The quarterly and the annual operating cash flows are key indicators for us as we continue to execute against our long-term 2021 target model. For the quarter, it was $205 million, up 100% year-over-year. Total operating cash flows of fiscal 2018 was $710 million, up 62% year-over-year. The quarter and the year was supported by strong collections in DSOs as well as improving leverage ratios. We ended the year with $683 million of cash and $713 million of deferred revenue. As of June 30, our consolidated net leverage ratio was 1.9x, well within our external debt covenant ratio of 4x.

Now as part of our financial results, I would like to highlight a few important topics with all of you today, some that Mark already spoke to. First, the currency impact to our business. As Mark mentioned, over the last 90 days, we have seen significant weakening of key international currencies like the euro, the British pound and Canadian dollar against the U.S. dollar, which have nothing to do with the health of our business. While we do not give revenue guidance, just doing the math on these recent global currency moves would reduce a business of our size by approximately $60 million for the next fiscal year compared to where these currencies were 90 days ago.

And second, the new accounting standards relating to ASC 606. We will be adopting this Q1 fiscal '19 and expecting to see an increase to retained earnings of approximately $35 million, net of tax, upon adoption. As I mentioned last quarter, the impact to retained earnings mostly stems from our accounting for implementation services within a cloud arrangement, for accounting for on-premise subscription offerings and capitalizing the cost of commissions. Compared to the current accounting rules upon adopting ASC 606, we expect our fiscal 2019 revenues to be adversely affected by approximately $10 million, which impacts our organic growth rate.

Third, with respect to the IRS matter. We have no new information since our last filing, but I would like to walk you through the details. As reported in our Form 8-K, filed on July 16, and our Form 10-K filed today, on July 11, 2018, we received, from the IRS, a revised draft Notice of Proposed Adjustment, or NOPA, that propose an increase to our U.S. federal taxes for fiscal 2010 and a draft NOPA proposing an increase to our U.S. federal taxes for fiscal 2012.

While these documents together represent a $120 million increase from the previously estimated potential aggregate liability of approximately $605 million as of March 31, 2018, the receipt of these NOPAs provides long-awaited and greater certainty to us on the maximum potential liability being sought based on the IRS finalizing the proposal.

Based on our discussions with the IRS, and the fact that these adjustments proposed in the NOPAs, they reflect the IRS' own asserted valuations of our intangible property, we do not expect the IRS to further revise the NOPAs to increase any of the proposed adjustments to our U.S. federal income taxes and subject only to the continued accrual of interest.

As previously disclosed, and noted within our Form 8-K and 10-K filings, a NOPA is an IRS position and does not impose any obligation to pay tax. We continue to strongly disagree with the IRS position and intend to vigorously contest the proposed adjustments to our taxable income.

It remains in business as usual for us, and resolution of these matters will continue to take some time to play out.

And now let me speak about the organizational restructuring. As we start fiscal 2019, we're taking steps to further improve our operational efficiency. We announced today that we will be undertaking a restructuring initiative during fiscal 2019, and expect the size of the plan to be approximately $29 million. From a GAAP perspective, we will incur majority of the charge in the quarter-ended September 2018, with the remainder to be incurred throughout fiscal 2019. We will exclude the impact of this restructuring charge from our non-GAAP results.

We only expect to realize approximately $20 million in savings during fiscal 2019, as it will take time to execute our plans. Our annualized savings from the restructuring exercise are anticipated to ramp over the course of the year, with approximately 2/3 expected to accrue during the second half of fiscal 2019. The full benefit of approximately $50 million are expected to realize in fiscal 2020 and beyond. The impact of restructuring has been considered in the fiscal 2019 target model framework that we are sharing today.

And lastly, on FY 2019 target model, and let me add to Mark's comments. In our investor presentation, you will see that we have updated our fiscal 2019 target model framework. The adjusted EBITDA has moved up 100 basis points to a 36% to 38% range. We have provided updated interest and other related expenses of fiscal '19 and reaffirmed our adjusted tax rate of 14% for the next fiscal year.

When thinking about our business in an annual basis, we encourage all of you to consider that our revenue tends to gain more momentum towards the second half of the fiscal year. On a quarterly basis, our revenue in the first and the third quarters are typically down sequentially on an organic basis. While the second and the fourth quarters are typically up in the same range sequentially, also on an organic basis.

In addition to the quarterly factors and specific to FY 2019, the currency impact and 606 together are approximately $70 million on an annual basis.

And now, turning to expenses. With respect to operating expenses, we want to emphasize that we continue to invest throughout the year. Specific to R&D, we will remain consistent with a target model for FY 2019 with continued cloud investment (inaudible) last year.

With respect to sales and marketing, certain expenses, like commissions and incentives, will follow the revenue goals and spike during the fourth quarter, based on annual attainment, as is typical for a technology business. Specific to Q1, sales and marketing tends to be at the high end of the target model range due to the first quarter sequential revenue trend, as well as hosting one of the industry's largest technology conferences, Enterprise World.

Net result is that Q1 adjusted EBITDA is typically down a few hundred basis points from Q4. As you build out your models for the remainder of the year, our historical seasonality would suggest that Q2 is a peak big margin for the year, Q3 is a low point, and Q4 is a strong margin quarter, albeit below Q2 levels.

As for fiscal 2021. As Mark mentioned during his prepared remarks, our fiscal 2021 targets will be our adjusted EBITDA margin in fiscal 2021 of 38% to 40% and operating cash flow target of $1 billion as we exit fiscal 2021.

Our Board of Directors declared a cash dividend of $0.1518 per share for shareholders of record of August 31, 2018, and payable on September 21, 2018. As I complete my first full fiscal quarter, I want to thank the OpenText team for their deep commitment and share my confidence and excitement to the OpenText business system that's founded on consistent delivery of financial results and supported by our total growth strategy and continued strengthening of our balance sheet.

We look forward to continuing our meetings with many of you in August and September, during our investor tours in Canada and in the United States.

I would now like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Phillip Huang of Barclays.

Phillip Huang ***Barclays Bank PLC, Research Division - Senior Equity Research Analyst***

Hi good afternoon and congrats to a solid finish to the fiscal year. It's great to see that you guys are providing the quarterly factors, and I have a follow-up on that. You guys have been talking about accelerating spend to drive stronger cloud sales. I was wondering if you could provide an update on the progress on that, how far along are we in that accelerated cloud spend period? And when do you expect that spend to normalize?

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Phil, yes, thank you for the question. As we highlighted in the script and we look to '19, we're looking to grow low single digit organically and to grow via M&A, albeit offset by FX and 606, as we talked about. First reactions to OT2 is very favorable, coming out of Enterprise World. And we're now into a mode of quarterly updates in OT2.2. We'll be refreshing the platform in October. We have a new set of managed service features around security and privacy for our private cloud. And I think you see in the strength of our annual recurring revenues that crossed $2 billion for fiscal '18. I think the short of it is, we still view the world as hybrid. I don't know if it ends 60-40, 40-60, 50-50, but right now, we're tapping the pedal on going a little faster in cloud. And when I think the strength of our ARR results a little bit of it -- of additional investment, baked into the '19 targets. And reception to OT2 has been very favorable and opens up new use cases for us. So more to come in this in the coming quarters.

Phillip Huang ***Barclays Bank PLC, Research Division - Senior Equity Research Analyst***

That's helpful. Maybe a follow-up question on the cross-selling on your recent acquisitions, the biggest one being Guidance, obviously. I was wondering if you could talk a bit about the lead times, your cross-selling, I would imagine that data security solutions might take a little bit longer. I was wondering if you could talk a bit about that? And I'll pass the line.

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Yes. Thanks, Phil. Yes, I would direct everyone to our investor presentation, Slide 19, specifically. We added a slide on cross-selling to the Global 10000. And we're highlighting 4 particular customers that may be familiar to most: Nestlé, General Motors, AT&T and Daimler, where we look at the OpenText content suite base. And through our own engineering and our acquisitions, where we've expanded our information platform within these 4 marquee customers for customer experience management, expanded Documentum, 3 out of the 4.

Three out of the 4, we have used cases for Covisint inside the customers. And then, Security, 2 out of the 4. So we thought this was a nice representative set to show how we're cross-selling and we're cross-pollinating via our acquisitions. So we added that to the investor material, Slide 19.

Operator

Our next question comes from Paul Treiber of RBC Capital Markets.

Paul Treiber ***RBC Capital Markets, LLC, Research Division - Associate***

Just in regards to publishing the ROIC metric, which is very helpful. Could you comment if ROIC is now an explicit measurement for management? And then, related to that, at the Analyst Day, at Enterprise World, you mentioned that you received feedback from investors that requested management to be evaluated on a per share metrics. Do you have an update on that -- those discussions around that? And if there'll be any changes on the metrics that management's evaluated on?

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Yes. Well, thanks for the question. We think the -- we have 2 basic programs. And I'll maybe just highlight myself and the management team, is consistent with myself and all our disclosed programs. 75% of my remuneration is at risk. And on an annual basis, that's tied to operating profit and total growth. And if we make an acquisition, that revenue then is then added to the annual program. Acquisitions, actually, are not free in the model. In fact, they add risk to the model, because we have to deliver to what we say and there's always a lot of unknowns. So the annual plan is very simple. It's revenue, plus income tied to the annual plan. Longer term, it's tied to share value. We're measured to a set of peers. If the stock doesn't go up, the program doesn't pay. And we think that is just a lot of simplicity. We measure deals on ROIC. I want to note that we compare ourselves, we compare ourselves, this is a really important topic, We compare ourselves to large software companies. We don't compare ourselves to consolidators. There's a lot to learn from them. We don't compare ourselves as metrics to Canadian software companies. We compare ourselves to Oracle, SAP, Symantec, Citrix, VMware, Adobe, the large software companies. And our goal is to consistently perform in the upper quartile of those companies, for total growth, ARR, adjusted EBITDA, cash flow, and of course, ROIC. I don't mean the long-winded answer, but it's important what you're compared to. And we compare to those companies. We'll measure deal on ROIC. I will note that a minority of voices have said move your metrics to per share. We don't feel that's the right way to lead right now. I will note that our dilution is -- our small dilution is in the upper quartile of our peers. If you look at burn rates from large software companies, annually, they're in a burn rate of 4% or greater. We're in a burn rate of less than 2%. So I think we can give you confidence that we'll continue in that low annual burn rate of dilution, and that we perform in the upper quartile. So thanks for the question and it's an important one because it's who do we want to be compared to? And we want to be compared to large software companies.

Paul Treiber ***RBC Capital Markets, LLC, Research Division - Associate***

Just a second question is on the long-term model. The -- I think long term model is now based on EBITDA as opposed to adjusted operating margins. I think the high end is still at 40%, but because it's based on EBITDA, it implies that the high end isn't slightly reduced. Is there anything -- how should we think about that change or the potential, slight reduction there?

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Yes. Paul, thank you for that. We don't see that as a reduction, just to start with. So thank you for that. We don't see it as a reduction. We have moved the metric from AOM to adjusted EBITDA. And because that is the industry metric, and the vast majority of those who analyze the company are on adjusted EBITDA. So we're simply moving to the market metric. We're moving to our large software company compare metric, and we tightened the range, right? It used to be 36% to 40%, we tightened it to 38% to 40%. And I'll note that 38% to 40% is in the upper quartile of our large software peers, right? And it took them 50 years to get there, and we're 27 years old. So we don't see it as a reduction. We do see that as a tightening on the upper end of the range. And I think even more important, and these are great questions, and even more important, it is the upper quartile of performance for large software companies.

Operator

Our next question comes from Richard Tse of National Bank Financial.

Richard Tse ***National Bank Financial, Inc., Research Division - MD and Technology Analyst***

So Mark, thank you very much for providing those quarterly factors in the detailed disclosure. It's really helpful here.

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Thank you, Richard.

Richard Tse ***National Bank Financial, Inc., Research Division - MD and Technology Analyst***

It certainly, seems like you guys are a lot more focused over the past year or so on organic growth, probably as much as I've ever seen it. I'm kind of curious to see what triggered that in the background here? And to your sort of discussion on ROIC, do you see kind of a potentially better contribution from a ROIC standpoint to the organic?

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

So a few things in there. Maybe I'll save ROIC to the end. I think of our maturity, our maturing over the last few years. And we're at a point where we have a platform. We've been acquiring businesses. We've been integrating the products. We'll always be integrating products. But we sort of hit a threshold of where -- I see us now as an information platform, and you're seeing that in our customer wins. BMW, for electronic invoicing; Auto Club for Internet of Things; the Department of Energy, for all their content management, expanding into new countries like Ness, in Israel. So with that, we look at the large software company peers, and we don't want to outperform them on a gross basis. That means total growth, both organic and acquired. So yes, you're going to see a sort of a consistent message from us where we're looking to grow in a total way, our total growth. We'll continue to grow via M&A and grow organically from the platform that we've created. With that said, we're happy with our ROIC. I don't think you grow ROIC beyond where you are. Our mantra is to consistently perform in the upper quartile and consistently perform total growth, ARR, adjusted EBITDA, OCF and ROIC. And we think ROIC in the high teens is right in the upper quartile. So we'd like to consistently perform their over the long term as we grow.

Richard Tse ***National Bank Financial, Inc., Research Division - MD and Technology Analyst***

Okay. That's helpful. I guess, on the, sort of sticking with the organic side here, there hasn't really been as much discussion in recent years, especially back to the partner channel. And I'm kind of curious to see if you can help us size that opportunity and what you may be doing to survive their expanded channel or increasing the sort of the sell-through of the OpenText products to that channel?

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Yes. Thanks, Richard. The partner channels are real important as probably you've seen and many have seen, at Enterprise World. I harken back to when Oracle, Microsoft and SAP were in the early '20s. And for them to reach their full potential, they needed an extended sales force, and their products (inaudible) their products and platform got to a point where they started to add strategic transformative value. So we're approaching this point where the information platform is a -- there are strategic initiatives in the Global 10000. And we can't get everywhere, right? We can't get to every country. So -- Ness and our partnership in Israel. We can't get to every Global 10000, that's our growing focus on the large global system implementers to extend our reach, to connect more customers to our platform.

Operator

Our next question comes from Stephanie Price of CIBC World Markets.

Stephanie Doris Price ***CIBC Capital Markets, Research Division - Director of Institutional Equity Research & Software and Business Services Research Analyst***

I just wanted to focus on that 2.5% constant currency organic growth in fiscal '18. I wonder if you could talk to the products that are driving it? And how you see that organic growth unfolding as you head towards the 2021 aspirational targets?

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Yes. Thanks for the question. I'd point to -- I call it -- sort of call them the big 5 internally. It's cloud, security, content services or business network, and Analytics/AI. And those are the 5 sort of key products and service initiatives that are driving that organic growth. And these are long-term trends, so we are seeing more interest in both the private cloud and the public side. Security, as we've seen from Enfuse and Enterprise World, where we're viewing it as what we do as the immune system for business, if you will. Content services has been reinvented recently with GDPR and privacy. And I don't need to add to AI and Analytics. So I think, Steph, these are not short-terms kind of secular trends. These have a lot of staying power to them and will contribute to organic growth in '19 and beyond.

Stephanie Doris Price ***CIBC Capital Markets, Research Division - Director of Institutional Equity Research & Software and Business Services Research Analyst***

Great. And then, the slide deck mentions competitive replacements as one of the drivers for organic growth. Can you talk a bit about the competitive environment at the moment and where you see the opportunity to gain some share?

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Yes. For sure. And we remain very focused at the kind of top of the house competitor, and that being IBM. And looking at strategic wins against FileNet and their other platforms. So IBM remains our big focus right now for competitive replacement.

Operator

Our next question comes from Paul Steep of Scotia Capital.

Paul Steep ***Scotiabank Global Banking and Markets, Research Division - Analyst***

Mark, could you talk a little bit about the cloud services momentum? We've seen, I guess, now consistently for 4 good quarters of positive constant currency growth there? What you see that driving that into the next fiscal year and maybe beyond? And then, I've got one quick follow-up.

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Yes. Paul, thank you for that. Again, our strategy is a very differentiated than others. One, is our sort of VAN, our value-added network services. Now I'd like to win -- to a win at BMW, where we're going to be doing electronic invoicing across dozens of countries. And I talked about it at Enterprise World, where we now understand how to do electronic invoicing, like I don't remember the country count off the top of my head, but I think it was close to 60 countries around the world, where we understand local law, local invoicing requirements -- local settlement for electronic invoicing and doing this digitally. So that's all a cloud service for us. That's an important driver for us. Second, is in the Global 10000, private cloud is very important. We have clients who are not interested in being in public instances where they may be in banking, like the ECB or proprietary IP and pharmaceuticals, or nuclear power plant designs and other things, very confidential IP. So private cloud is a second aspect to our growth. And then, third, we're opening up a new swim lane for public -- for our public cloud and SaaS and the application layer on top of that. So we feel very good about our trifecta there, which is our value-added network, our private cloud and our public -- our new OT2 public cloud.

Paul Steep ***Scotiabank Global Banking and Markets, Research Division - Analyst***

Great. And then, just, I guess, thinking again about '19, you would have gone through sales kickoff already. With the full transition to an ARR model, is there any change to the sales force, sales comp, anything like that, that we should be thinking about? Or is it -- we're in a nice stable environment and business as usual?

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Yes. Thanks, Paul. Nice, stable environment. In fact, one of the advantages to being an acquirer is we're studying -- I'll just pause on myself here, let's say we study a company a week, and we get to see every comp model that's out there in the marketplace. So we get to develop best practices. And a few years back, we put a method in place where we are -- we incent our field, we don't give them product-specific quotas. We give an annual number and they need to retire that either through license or through the annual contract value. So we had studied this, see what Oracle and SAP and others were doing. We learn from them. We see a lot of companies through our due diligence. We put those plans -- that method in place a few years ago. I think the stability of that plan showed us results in '18. So coming into '19, there are zero changes to that plan. And we put those changes in place a long time ago, so we have great stability in the structure of the organization. And there are -- I can't think of actually, a single change in the comp plan coming into '19 for the field.

Operator

Our next question comes from Thanos Moschopoulos of BMO Capital Markets.

Thanos Moschopoulos ***BMO Capital Markets Equity Research - VP & Analyst***

Mark it seems like the license revenues becoming more seasonal on a quarterly basis and we've seen historically, and your point that we should look at the business on an annual basis is well taken. But is there any specific reason you can point to as for why we're getting this bigger peaks and valleys on licenses in Q2 and Q4?

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

No. Thanos, I can't really point to something specific, except to say that our Q4 is the end of a calendar year. So it's the end of many individual's budgeting cycle. Second, as our government business has grown as well, I think May is the end of a budget cycle in the U.S. as our business has grown in Japan. Japan has its end of the year, so I think if I look at our seasonality, it's not a precise answer, but it feels like we're going to trend more to market norms over time, given the scale -- the scaling of the business. And you have back to school, which is now or summer, which is now. You have end of year budget spends and you have other cycles, like U.S. federal government and other things. It feels like it's trending more towards a norm over time than anything else. Madhu, I don't know if you have any observations there?

Madhu Ranganathan ***Open Text Corporation - Executive VP & CFO***

Sure. I mean, we talked about the summer factors in Q1, right? That's very, very normal. In Q2 our Q2 being the calendar December quarter, as Mark said...

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Everybody else is Q4.

Madhu Ranganathan ***Open Text Corporation - Executive VP & CFO***

Is everybody else's Q4, and certainly budgets open up. And I think you all know this, because budgets open up at December, the budgets slow down in March, and then, they open back up again in the June quarter, right?

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

And everyone else's Q2 is our Q4. So we have reps, in just natural behavior pushing to exceed plan.

Madhu Ranganathan ***Open Text Corporation - Executive VP & CFO***

Right. Right. I mean, again, as Mark said, I think it converges to what the sort of the enterprises and the business norms there.

Thanos Moschopoulos ***BMO Capital Markets Equity Research - VP & Analyst***

Fair enough. And on the professional services revenue, PS headcount has been flat on a quarterly basis throughout the course of 2018, and you mentioned that you expect PS revenue to be flat overall '19. Just to clarify, is that a conscious effort on your part to leave more money on the table for your partners? Or is there some other dynamic underlying that?

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

No. We -- I think you said it fine, Thanos, which is we think it's a classic win-win. We're looking to hold our PS revenues consistent year-over-year on an absolute basis. And we're hoping our partners are going to grow the other revenue lines for us as we grow ARR. So it's very -- it's a conscious effort of growing our partner distribution and expanding ARR.

Operator

Our next question comes from Matthew Wells of Citi Research.

Matthew Wells ***Citi Research - Associate***

As you look at margins across the cloud business, how long does ongoing investment pose a headwind to margin expansion?

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Yes. It's a great question. I'll just start with, we've always viewed our business in a blended margin. So we look at our '19 target for adjusted EBITDA of 36% to 38%, it's factoring all the revenue lines in license, cloud, customer support, professional services. So we're expanding the company (inaudible) margin by 100 bps -- the range by 100 bps year-over-year. Look, we have an opportunity to tap the gas pedal right now on attracting more customers into our cloud. And that's going to take a bit of an investment, already factored into the 36% to 38% for securities, for OT2, for next-gen managed services. So when we look at the target for the year of 57% -- I think 57% it's to 59%, Madhu?

Madhu Ranganathan ***Open Text Corporation - Executive VP & CFO***

Yes. That's correct.

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

Yes. We've -- factored that into the whole year. So is it this year and next year? Look, I think we're going to get more efficient as we scale. But we have factored it all into the 38% -- 36% to 38% for the year.

Operator

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

Mark J. Barrenechea ***Open Text Corporation - Vice Chairman, CEO & CTO***

All right. Well let me thank everyone for joining the call today. And as I noted in my prepared summary remarks, we've listened, we've learned, and now it's time for us to lead. And we had a strong Q4 ,which contributed to a record 2018. And we're excited as we look to 2019 to grow low single digit organically, to grow via M&A, adjusted EBITDA between 36% to 38%, and that growth offset by a negative $70 million due to FX and 606.

So thank you for your time today, and Madhu and I look forward to seeing you at our upcoming conferences and one-on-ones. Thank you so much.

Madhu Ranganathan ***Open Text Corporation - Executive VP & CFO***

Yes. Thank you, all.

Operator

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