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# EDITED TRANSCRIPT

OTC.TO - Q4 2014 OpenText Corp Earnings Call

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**OVERVIEW:**

Co. reported 4Q14 total revenue of \$494m and GAAP net income of \$88.1m or \$0.72 per diluted share.



#### CORPORATE PARTICIPANTS

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

**Paul McFeeters** *OpenText Corporation - CFO*

**Mark Barrenechea** *OpenText Corporation - President & CEO*

#### CONFERENCE CALL PARTICIPANTS

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

**Blair Abernethy** *Cantor Fitzgerald Canada - Analyst*

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

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

**Paul Steep** *Scotiabank - Analyst*

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

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

**Scott Penner** *TD Securities - Analyst*

#### PRESENTATION

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##### Operator

Good day and welcome to the OpenText Corporation fourth-quarter and FY14 financial results conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Greg Secord, Vice President, Investor Relations. Please go ahead, sir.

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

Thank you, operator, and good afternoon, everybody. I'd like to start the call with the reading of our Safe Harbor statement.

Please note that during the course of this conference call we may make statements relating to the future performance of OpenText that contain forward-looking information. While these forward-looking statements represent our current judgment, actual results could differ materially from a conclusion's forecast or projection in the forward-looking statements made today.

Certain material factors or assumptions were applied in drawing any such conclusion while making any such forecast or projection as reflected in the forward-looking information. Additional information about the material factors that could cause actual results to differ materially from the conclusion, forecast or projection in the forward-looking information, and the material factors or assumptions that were applied in drawing the conclusion while making the forecast or projection as reflected in the forward-looking information, as well as the risk factors that may project the future performance results of OpenText, are contained in OpenText's forms 10-K and 10-Q, as well as in our press release that was distributed earlier today, each of which may be found on our website. We undertake no obligation to update these forward-looking statements unless required to do so by law.



In addition, our conference call will include a discussion of certain non-GAAP financial measures. Reconciliations of all non-GAAP financial measures to their most directly comparable GAAP measures have been included in today's press release, which may be found on our website.

And with that I'd like to welcome everybody to the call. With me today is OpenText President and CEO, Mark J. Barrenechea, as well as Chief Financial Officer, Paul McFeeters.

As with our previous calls, we'll read prepared remarks, followed by question-and-answer session. The call will last approximately one hour, with a replay available shortly thereafter. I'd also like to direct investors to the Investor Relations section of our website, where we've posted updated PowerPoint that will be referred to during this call as well as summary table highlighting OpenText's historical trend and financial metrics.

In the coming months, OpenText will be presenting at several investors conferences, notably RBC Markets Technology Investor Conference in Toronto, on September 3; the Citi Global Technology Conference in New York City on September 4; and the Deutsche Bank Technology Conference in Las Vegas on September 11. More details about these and all other investor events are available in the Investor Relations section of the OpenText website.

With that, I'll hand the call over to Paul.

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**Paul McFeeters - *OpenText Corporation - CFO***

Thank you, Greg. Turning to the financial results, I'll highlight our fourth quarter and then FY14.

Total revenue for the quarter was USD494 million, up 42% compared to \$347.3 million for the same period last year. Regionally the Americas contributed 55%, EMEA 34% and Asia-Pacific 11%. Licensed revenue for the quarter was USD99.7 million, up 27%, compared to USD78.8 million reported in the same period last year.

The acquisition of GXS contributed USD1.5 million of licensed revenue. We saw license revenue broken down by vertical sector as 22% from basic materials, 16% from technology, 13% from services, 13% from financial services, 9% from public sector, 9% from industrial goods, 7% from consumer goods, 6% from healthcare and 5% from utilities.

Cloud services for the quarter USD149 million, up 255% compared to USD42 million in the same period last year. Cloud services gross margins were 62.5% in the current quarter, compared to 57.8% of the same period last year.

The acquisition of GXS contributed USD107 million of cloud services revenues this quarter. The increase in cloud services margin was primarily due to the efficiency and network operations and telecom savings. The margin was positively impacted by 90 basis points, due to the reversal of previous sales tax accruals.

Customer support revenue for the quarter was USD184 million, up 12% compared to USD165 million in the same period last year. Customer support gross margins were 86.8% in the current quarter, compared to 84.6% for the same period last year. The acquisition of GXS contributed USD7.3 million of customer support revenues. The increase in customer support margins was primarily due to a reduction in third-party technology costs and operational efficiencies.

Professional services and other revenue for the quarter was USD61.6 million, compared to USD61.7 million in the same period last year. Professional services gross margin was 17.1% in the current quarter versus 22.4% for the same period last year. Gross margin for the quarter before amortization of acquired technology and stock compensation was 72.9%, same as last year's fourth quarter. Pretax adjusted operating income before interest



expense and stock compensation was USD162.2 million this quarter, up 58.2% compared to USD102.4 million in Q4 of the last fiscal year.

Adjusted operating margin 32.8%, up 330 basis points compared to 29.5% in prior year. Adjusted net income increased 52% to USD128.7 million this quarter, up from USD84.7 million in Q4 quarter of the last fiscal year. Adjusted earnings per share was at USD1.05 per share on a diluted basis, compared to USD0.72 for the same period last year, up 46%.

There was no effect on sequential earnings per share from currency exchange rates. The adjusted tax rate for the quarter was 15%, an increase of 1% from the same period last year. I'll speak to this increase later in my remarks.

On a GAAP basis, income from operations before interest and taxes for the fourth quarter was USD107.7 million, up 117.7% from USD49.5 million in the fourth quarter last year. GAAP net income before taxes was USD98 million in the current quarter, versus USD41.3 million in the same period last year. Net income attributed to OpenText for fourth quarter in accordance with GAAP was USD88.1 million, or USD0.72 per share on a diluted basis, compared to USD42.2 million or 36% -- USD0.36 per share on a diluted basis in the same period a year ago.

Operating cash flow for the quarter approximately USD135 million, compared to USD65.2 million in the same period last year. Excluding the impact of special charges, operating cash flow was approximately USD142 million, compared to USD71 million in the same period last year. Operating cash flow increased in the current quarter compared to the same quarter last year on account of favorable working capital movements of USD43 million and increased net income before the impact of non-cash items of USD27 million. There were approximately 122.5 million shares outstanding on fully diluted basis post-stock split for the fourth quarter of FY14.

Turning to our FY14 results, total revenue was USD1.625 billion, up 19.2% compared to USD1.363 billion in FY13. Regionally, the Americas contributed 54%, EMEA 36%, and Asia-Pacific 10%. Licensed revenue for the year was USD309.2 million, up 10.6% compared to USD279.6 million reported for FY13.

GXS contributed approximately USD2.6 billion of licensed revenue this fiscal year. We saw licensed revenue broken down by vertical sector, 16% from services, 16% from basic materials, 15% from financial services, 14% from public sector, 13% from technology, 8% from healthcare, 7% from consumer goods, 7% from industrial goods and 4% from utilities.

Cloud services revenue for the year was USD361 million, up 108% compared to USD174 million last year. Cloud services gross margins were 62.5% in the current quarter, compared to 58.4% for last year.

The acquisition of GXS contributed approximately USD195.5 million of cloud service revenues this year. The increase in cloud services margin was primarily due to efficiency in network operations and telecom saving. The margin was positively impacted by 80 basis points, due to reversal of previous sales tax accruals.

Customer support revenue for the year was USD707 million, up 7.4%, compared to USD658 million in FY13. Customer support gross margins were 86.4% in the current quarter, compared to 83.8% for the same period last year. GXS contributed approximately USD13.1 million of customer support revenues. The increase in customer support margins was primarily due to a reduction to third party technology costs and operational efficiencies.

Professional services and other revenue for the year was USD247 million, down slightly by 1.7% compared to USD252 million in FY13. The professional services gross margin was relatively stable at 20.4% in the current year, versus 21.8% for FY13. Gross margin for year before amortization of acquired technology and stock compensation was 72.9%, compared to 71.3% for FY13.



Pretax adjusted operating income before interest expense and stock compensation was USD502.7 million this year, up 25.8% compared to USD399.6 million for FY13. Adjusted operating margin was 30.9%, compared to 29.3% in the prior year. Adjusted net income increased by 23.6% to USD406.8 million this year, up from USD329.1 million from FY13. Adjusted earnings per share was at USD3.37 per share on a diluted basis, compared to USD2.79 for FY13.

On a GAAP basis, income from operations before interest and taxes for FY14 was USD300.5 million, up 52% from USD197.7 million in FY13. GAAP net income before taxes was USD276.5 million in the current year versus USD178.2 million in FY13. Net income attributable to OpenText for the year in accordance with GAAP was USD218.1 million, or USD1.81 per share on diluted basis, compared to USD148.5 million, or USD1.26 per share on a diluted basis for FY13.

Operating cash flow for the year was USD417 million, compared to USD319 million in FY13. Excluding the impact of special charges, operating cash flow for the year was approximately USD448 million, compared to USD339 million in FY13. Operating cash flow increased for the fiscal year compared to the same period last year on account of favorable working capital movements of USD49 million and increased net income before the impact of non-cash items of USD49 million.

During the current year we accrued USD19 million in special charges on account of the OpenText GXS restructuring plan. We expect to accrue additional USD11 million during FY15 for remaining activities under this plan, primarily related to integration costs and facility abandonment. On a cash basis, we paid USD8 million on the this plan during FY14 and expect to pay out an additional USD15 million in FY15. The balance we paid in years after 2015.

On the balance sheet as of June 30, 2014, deferred revenues of USD350 million, compared to USD294.2 million as of June 30th, 2013. Accounts receivable was USD293 million in June 30th, 2014 compared to USD175 million in June 30, 2013.

Days sales outstanding were 53 days at June 30, 2014, compared to 43 days at June 30, 2013. OpenText DSO was 49 days and GXS DSO was 69 days. At June 30, 2014, our head count was approximately 8,000, compared to 1,990, 2,000 cloud services, 700 in customer support, 1,000 in professional services, 1,400 in sales and marketing and 1,000 in G&A.

Our target operating model is posted on our website in the Investor Relations section. We have revised the model for FY15 from what we previously shown for the second half of FY14. We have increased the range for gross margins for product license, cloud services, and product maintenance, each by 100 basis points. We have also increased the range for non-GAAP operating margin, to 28% to 32%.

The Company's adjusted tax rate was 15% in the fourth quarter of the 2014 fiscal year. In FY15, we anticipate an increase to 18%, based on a current forecast of earnings to be realized in various tax jurisdictions within our existing business model and structure. This increase is largely due to the high proportion of GXS earnings expected to be earned in the group's US operations.

On July 13, 2014, the Board declared a cash dividend of USD17.25. Per share was a record on August 29, 2014, payable on September 19th, 2014. Now I will turn the call over to Mark.

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**Mark Barrenechea - OpenText Corporation - President & CEO**

Thank you, Paul. Welcome, everyone, to our Q4 and full-year earnings call for FY14. We had a record Q4, a record fiscal year, and we have positive momentum as we enter FY15, a fiscal year that I expect to be driven by value, growth, and leadership. There are four main topics that I'm looking to speak to today.



First, a review of Q4 and full-year results, as well as key accomplishments throughout the fiscal year.

Second, I'd like to speak to our business model. The OpenText business model is unique, compelling, we call it the OpenText Intelligent Growth Business System, or OTIGS for short. I think it is important that you better understand how we think, how we operate and the priorities within that model.

Third, our appointment of John Doolittle as our new CFO and four, our top priorities as we enter our new FY15. These are the four topics I'm going to spend time on today before I take your questions and it's a full agenda, so let's get right into it.

We are well aligned to the strategic priorities of our customers, including our vision, our products, our services, our customer engagement model and our road map. The OpenText vision is to enable a digital first world. In the past I've spoken about our product direction in terms of four functional pillars -- our functional pillars, and many of you are familiar with these, ECM, CEM, IX, EPM discovery. We remain focussed on being number one in each of these functional pillars.

As a Company, our strength and uniqueness sit at the cross roads of information management, B-to-B integration and compliance. The more we can help our customers simplify, transform and accelerate their information needs, the more successful we will be. Collectively this is what we call information -- enterprise information management, or EIM.

We have never been more aligned to those priorities of our customers and you can see this in our Q4 and full-year results for FY14. Let me highlight a few Q4 results.

License revenue of USD99.7 million, up 26.5% year-over-year. Cloud service revenues of USD148.9 million, up 255% year-over-year and CS revenue of USD183.9 million, up 11.5% year-over-year. These results are reflective of our new suites, field leadership and execution, the GXS acquisition performing, and customer engagement and customer satisfaction. Our operations continue to get more efficient as our business model scales and you can see this in our in-quarter adjusted operating margin of 32.8%, up 330 basis points and adjusted EPS of \$1.05, up 45.8% year-over-year.

Let me further note that within the quarter, cloud margin was 62.5%, CS margin was 86.8% on a gross basis. I highlight this because we are profitable in our cloud. It is in our DNA and non-profitable models are simply not sustainable. In fact, customers seem to be very cautious of companies that do not make money. You're handing your data and your workload and your keys to your company to businesses that, if they do not turn profitable, will ultimately fail.

Americas contributed 55% of our revenues, EMEA 34%, and APJ 11%. Our partner business influenced 30% of our licensed business. Our EIM suites, formerly named Project Red Oxygen in the OpenText cloud, are resonating with new and existing customers alike, with 22% of our license revenues sourced from new customers. Our average deal size grew to USD429,000, with 16 transactions over USD1 million in the quarter, as well as 10 OpenText cloud bookings over USD1 million, and we won 50 new managed services customers.

Financials services, materials and technology industries each contributed to over 10% of our book of business. Joy Global chose our SAP solutions over Microsoft to optimize and simplify the process of creating, managing, monitoring, and routing purchase orders and invoices, all while having a single point of access to their business data and documents. [Abdee] was another great win.

We'll be automating their supply chain processes between their customers and suppliers in over 20 countries. This was a win against IBM.

Cameron International is standardizing on our EIM for their digitalization strategy. Southern California Edison selected our SharePoint product, AGA, to ensure SharePoint is compliance with their enterprise information.



FMC Technologies in North America selected Content Suite. Barclays and Standard Bank have upgraded and are live on our new suites.

Over half of our install base have upgraded or are in the process of upgrading to version 10, which is a necessary step to version 10.5. Close to 500 customers have license keys to Content Suite version 10.5 now.

BP EMEA has selected our Content Suites and will be replacing FileNet and Documentum as they create a shared services center across BP. Ralph Lauren chose Experience Suite over IBM to manage the brand and media assets. And Floor Enterprises selected our process suite, including Case Management.

We remain focussed on executing to a world class product life cycle as we introduce important offerings, like our new suites and new cloud services offerings. As I said earlier, we had 26 transactions over USD1 million, 16 in license, 10 in cloud services.

Turning to our annual results, let me highlight a few numbers. Licensed revenue of USD309 million, up 10.6%. Cloud services revenue of USD361 million, up 107.8% year-over-year. CS revenue of USD707 million, up 7.4%. And total revenue of USD1.62 billion, up 19.2%.

We grew license 10.6% year-over-year and our organic license growth rate 8% year-over-year. Cloud service revenues are up due to our GXS acquisition and improved exclusion. And CS revenues and margins are up due to great execution, leadership and more automation in the business.

License revenue for the FY14, was up across all geographies. We added USD9 million in the Americas, up 7%, we added USD11 million in EMEA, up 9%, and we added USD9 million in APJ, up 33%, all year-over-year numbers.

Total revenues were up across all geographies. We had USD138 million in Americas, USD94 million in EMEA and USD27 million in APJ. We finished the year with a 30.9% adjusted margin and we grew our adjusted EPS by 21% to USD3.37.

Needless to say I'm pleased with Q4 and full FY14 and I'd like to extend my congratulations to our 8,000 colleagues at OpenText for delivering a record year. Our solid financial performance is obvious by today's announced results. Our operations keep improving and you can see this in our margins. We also increased our dividend by 15% in the fiscal year. Intelligent growth is working and delivering.

We integrated four businesses in FY14, GXF, Cordys, RKT and ICCM. We delivered our EIM suites and transitioned from delivery to adoption. We also grew our business to a point where cloud services is a significant percentage of our business and 20% larger than our licensed business.

However, we do see customer needs as hybrids and our results reflect this. The OpenText approach is to complete the need for our customers, to provide customers with the ability to own the asset, AK, a license, deploy at their location of choice, their place, our place, or a third party place, or use our cloud based service for a monthly fee. We successfully made this transition in FY14.

Finally, we also received the SAP pinnacle award for the seventh consecutive year and will continue to partner with SAP in hopes of winning it eight years in a row.

Beyond the numbers and the accomplishments of the fiscal year, I see a leadership team, an organization, of 8,000 professionals who are motivated, focussed, and dedicating themselves to winning and driving the business further and farther than where we are today. And we are not just here to win but to take OpenText to a new level of success. And that is the most special I think of all of our accomplishments in FY14.

Let me transition to the second topic today, our business system. We operate utilizing a differentiated business system, which we call the OpenText Intelligent Growth Business System. There are five key elements to our



business system, financial performance, operational excellence, innovation, customer and partner loyalty, and employee talent management. Let me get into the OpenText Intelligent Growth Business System a little deeper by walking through each element and the metrics behind each.

On our financial performance element, we prioritized on revenue, net income and cash flow growth, capital allocation and returns, and enhancing shareholder value. On our operational excellence element, we focused on our strategic planning process, value stream mapping, AKA, how we prioritize, a lean six sigma methodology across the organization, and process digitalization. On our innovation element we focus on ideation, AKA, time to product, delivering the best platform, product adoption and competitive differentiation.

On our customer and partner loyalty element, we are building a trusted engagement model, a customer view centered on lifetime value, referenceability, and a voice of the customer partner program. On our talent development element, we focussed on values and culture, fostering a lean, learning-oriented organization, supporting retention and advancement, and embracing awards and recognition for the success of our colleagues.

For each element of metric we have an internal measurement system we use to track our progress towards excellence. We measure in tactical measurements that are straightforward to understand, measurable and are repeatable. To highlight a view of our internal metrics, we use growth rates, renewal rates, market share metrics, number of quadrants we're in, customer coverage percentages and the net promoter score, or NPS. Each metric within an element we have a measurement for.

Collectively, this is our business system. We put outcomes in motion as we did -- when we put outcomes in motion as we did in FY14, we expect outcomes such as value, growth and leadership. And I'll come back to these expected outcomes in a moment when I speak to FY15.

Today I also announced the appointment of a new CFO, John Doolittle, after an extensive market search. John a seasoned senior executive with more than 20 years of financial experience, including most recently as CFO for Mattamy Homes Limited and previously Nortel. John has the breadth of financial skills, experience and leadership to take our financial organization and our Company to the next level of scale, efficiency and growth. I'm very much looking forward to working with John and having him join my leadership team.

John will replace Paul in early September as our CFO. Paul and John will work together on a text book transition through the end of September, at which point Paul will retire.

Let me further add a very warm note of appreciation to Paul. Paul has served as our CFO for 8 years. His career spans nearly 40 years and I thank him for his extraordinary service to the Company.

Paul and I have spent almost three years on the road, with investors, at conferences, board meetings, management meetings, trains, planes and automobiles, and many a late, late yet wonderful night. Paul, I wish you and your family all the best health, happiness and friendship in your retirement. Fair winds and following seas, my friend.

Looking forward, let us look forward to FY15. As the organization focussed on further accelerating the benefits of our established business system, as I said earlier, with the OpenText Intelligent Growth Business System in action we expect value, growth and leadership. First and foremost we lead with value. This is the value for -- this is value for our shareholders through our financial results, product innovations, returns from investments and acquisitions, as well as our dividend program.

Value in creating transformative solutions and the value our customers gained through the use of our products and services. At Enterprise this year we'll unveil our next generation product platform code named Blue Carbon. Value created in our enriched distribution system which gets stronger and stronger year over year. And a value gained through strong employee engagement with talent advancement.





We've also created value through margin expansion. When you look at our adjusted operating margins over the last few years, we've expanded our margin at an incredible pace and delivered 31% in FY14. As we look into FY15, we are raising our adjusted operating margin target model range to 28% to 32%.

First and foremost, we'll lead with value and value is a fundamental foundational discussion at OpenText. Second is growth. John Hunter is doing a great job in field operations, across license, cloud services, professional services and alliances. Muhi Majzoub has our innovation teams aligned to our customer priorities and now working on project Blue Carbon. James McGourlay is driving customer service revenues, world wide support and the voice of the customer programs.

For FY15, we're also investing in growth programs. Let me walk you through some of those key growth initiatives.

First, we're in the middle of a strong product cycle with our EIM suites and B-to-B services and we'll continue to drive adoption across our install base, attracting new customers through partners, competitive replacement programs and a new global account team in focus. We have also unveiled our plans -- we'll also unveil our plans for Blue Carbon at Enterprise World in November.

Blue Carbon will be centered on cloud services, applications and analytics and will be a natural extension from our current suites. We hope to take our current strong product cycle and make it even stronger with Blue Carbon.

Two, we look to expand our B-to-B integration efforts, not just in large enterprises and on-boarding new trading partners, both new efforts going deeper into the mid-market. I'd further note that EMEA has opportunity to be of greater scale for us than B-to-B.

We are placing more emphasis on one of our existing core strengths, which is our compliant solutions, by driving more awareness, more engineering and more training and ultimately more revenue and adoption. I have seen reports that discuss over 500 new laws are passed each week globally. We can help solve larger opportunities in regulated industries. This is a fantastic opportunity for the Company by unlocking an existing strength.

We'll continue to transition customers to our cloud based managed services, this is item 4, as I spoke earlier. We won 50 new customers in Q4 and have close to 800 customers running in our managed services. Our cloud is global, enterprise ready and highly secure with local data zones for data sovereignty.

And our fifth element in our growth agenda is we have made progress with our partners, yet there is still more we can do. Our alliance organization is more closely aligned to our field organization in FY15 and is focussed on strengthening our managed partner program, increasing the quality of our VARs, and going deeper, deeper with our core as signed. We are focussed on both transactions as well as long as long term partnerships and opportunity development.

Number six, in our established markets, our first priority is to improve our yield, that is, get more productive, through training and education. In our fast growth markets, our first priority is more account coverage. For inside sales, we are expanding operations from North America now into Western Europe. We've also established a new global account team as we entered FY15.

Further, we'll continue to acquire. I look to put \$3 billion of capital to work over the next few years. We are clearly ahead of schedule with the on-boarding of GXS to the OpenText operating model. With that, the organization is now looking forward and ready to on-board other potential assets as and when appropriate.

These are our key growth initiatives as we enter FY15, product innovation adoption, B-to-B growth, EMEA and mid-market, compliance and regulated industries, accelerated transition to managed services, alliances, direct



distribution in fast growth markets, established markets, inside sales, and new global account teams, potential acquisitions.

Let me transition to leadership. Leadership is most fundamentally about change and your ability to elevate and take advantage of new opportunities.

We'll continue to drive awareness and brand behind our vision of enabling a digital first world. We are looking to deliver leadership with our expertise in information management, B-to-B integration and compliance, employee leadership programs and advancing our client, products in the upper weight waves or quadrants, leadership in our strategic planning process and high impact outcome. Leadership from the results of our customers, results that our customers achieve for the use of our products and services and leadership in our business systems.

I expect FY15 to be a year of value, growth and leadership, and building on a momentum from a record 2014. With that, I'd like to open up the call to your questions.

## QUESTION AND ANSWER

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### Operator

Kris Thompson, National Bank Financial.

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

Great, thanks. Congratulations again, guys, on a great end to the fiscal year.

Paul, for you, on the target operating margin should we hop into that range right out of the gate in Q1 or are you going to work on that towards the end of the year?

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### **Paul McFeeters - OpenText Corporation - CFO**

Well, it's an annual model, so as you know we still have seasonality in our quarters, so I won't make the quarterly -- I won't respond to your question quarterly but as you can see how we ended our fiscal year, it was reasonably clear that we're pushing the upper (technical difficulty) range already.

But I'll just make the comment for the year and not for the quarters.

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

Good stuff.

Mark, for you, on the average deal size this quarter, I think that is a record, and the number of license generated from your install base, again, is another record. Can you just tell us, is there is any unusually large transactions in there? And should we start thinking about licensed revenue from new customers as a major driver looking forward the next few quarters when you get more traction with your recently introduced product suites? Thanks, guys.



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**Mark Barrenechea - *OpenText Corporation - President & CEO***

Kris, thanks for the question.

So we had 16 transactions over \$1 million in license and 10 transactions over \$1 million for cloud services. No asterisk on the \$100 million of license. It was a good blend of deals in those 16 and we're not calling anyone -- any one out of those 16.

And look, what drove the solid license performance was we're in the middle of a very strong product cycle with our EIM suites. The field is very focused, great leadership, executing well, and, you know, we talked last quarter, we're executing on 9 out of 10 cylinders and we executed on 10 out of 10 cylinders in the quarter.

We also have some momentum as we come here in 2015, but I'll hold on to that for a moment.

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

Thanks, I'll pass the line.

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**Mark Barrenechea - *OpenText Corporation - President & CEO***

Thanks, Kris.

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**Operator**

Blair Abernethy, Cantor Fitzgerald.

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**Blair Abernethy - *Cantor Fitzgerald Canada - Analyst***

Thanks very much. Nice quarter, guys.

I guess just two questions for you, Mark, on the license side. First off, was there -- could you call out some strengths in any one of your pillars, ie, discovery versus business process management or ECM, any one of those that might have been driving your business more than the others?

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**Mark Barrenechea - *OpenText Corporation - President & CEO***

You know, Blair, we had -- we had a good quarter across our pillars. I mean, we had some strong competitive replacements in the ECM stack. We had some nice wins in CEM, such as Ralph Lauren.

We -- Process Suite, which is really the coming together of many acquisitions for us; Cordys, ICCM, Assure, Global, Meta, coming together in a unified product platform. We had some nice case management wins. Our strategy of integrating deeper into ERP continues to work well for us, as well as opening the platform up to developers.



So, no, it was -- we had strength and good wins in each of our pillars. ECM, CEM, BPM. I'd call those three out.

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**Blair Abernethy - Cantor Fitzgerald Canada - Analyst**

Okay. Great.

And then if I look at your new target model for FY15, and if we sort of reverse engineer the cloud services and maintenance businesses which are fairly stable, and professional services which really hasn't changed that much in the last few years, you kind of come up with a range on your license that if it's going to be 15% to 20% of total revenue, kind of kicks out, you know, \$275 million to \$380 million. That's a pretty broad range. That's like negative 10% to plus 20%-odd.

Do you have a sense of where you think or where you expect your license to fall next year that might be a little bit narrower than that range?

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**Mark Barrenechea - OpenText Corporation - President & CEO**

Appreciate the question.

We look at the full year for 2014, we ended the year just around 11%. Organically for the year, we delivered 8% year-over-year growth. And the market is growing between 10% and 11%.

So as I've said previously our -- this train, the next stop is growing at the market rate. Our internal target is still to try to drive to the market rate of growth. I'm not here to give guidance or to narrow the range, you'll need to do that work as you see fit.

But we had 11% blended in the year, organically it was 8%. I'll note the markets growing between 10% and 11% and we continue to think of that as our next big milestone.

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**Blair Abernethy - Cantor Fitzgerald Canada - Analyst**

Okay. Great. Thanks, guys.

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**Operator**

Thank you. The next question comes from Richard Tse from Cormark Securities. Please go ahead.

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**Richard Tse - Cormark Securities - Analyst**

Mark, you addressed some notable wins here against some competitors. Could you maybe give us a feel of what your win rates would be across all of those silos that you point to?

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**Mark Barrenechea - OpenText Corporation - President & CEO**



Richard, we don't kind of get down to that level externally against win rates. We win more than we lose. I'd like to compete in more RFPs.

We're still a relatively young company striving for more coverage, both in established markets and fast-growth markets. We don't have as, given our youngness -- IBM has perfect account covers. There's not an account IBM does not cover. We just don't have that scale, yet. We try to make up for that and augment that with partners and alliances.

We win more than we lose. I'd like to compete in more RFPs because we win more than we lose. Actually, our partner efforts will get us in more opportunities. But we don't get pillar by pillar by win or loss rate.

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**Richard Tse - Cormark Securities - Analyst**

I guess related to that question, has the competitive environment changed any over the past 6 to 12 months here? Obviously IBM is in the mix, but maybe a comment about what EMC is doing and some of the upstarts in the market?

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**Mark Barrenechea - OpenText Corporation - President & CEO**

Fair enough.

So we're competing effectively against Documentum in EMC. We're actually looking to do more focus on competitive replacement programs here in 2015. So we're competing effectively against some of the incumbents in ECM, Documentum and FileNet. Our latest release of ECM with a full HML5 java stack, CCS stack, a very modern technology stack, is competing well against Adobe. So we -- I feel what we're on a positive uptick competitively on the license side.

On the cloud side, I would probably point out Sterling Commerce as our top competitor over on the B-to-B integration, and we, too, feel like we are on a competitive uptick against that, as well.

So I would say of the large enterprise providers, I'm feeling -- the teams are feeling that we're competing fairly well at this point against Documentum, FileNet, Adobe Marketing Cloud, PEGA, as well as IBM Sterling Commerce. (Multiple speakers) And when we can bring it all together in a suite deal or unified information platform, we become even more differentiated.

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**Richard Tse - Cormark Securities - Analyst**

Okay. And then just one last question on GXS, have you come up with a plan to sort of drive that product set into your existing base? And where are you at there and what would that opportunity be for you guys?

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**Mark Barrenechea - OpenText Corporation - President & CEO**

It's certainly one of the things we're focussed on is being able to bring GXS into the OpenText install base. So we have programs and incentives in place to do that this year, Richard. It is still very early days, probably one of our kind of top Greenfield opportunities.



We've already won some accounts that are kind of cross-over accounts. Companies like [Todd FDL], Schneider Electric are a couple of customers I'd call out that have some portion of core EIM products that are now GXS customers, as well.

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**Richard Tse - Cormark Securities - Analyst**

That's great. Thank you, Mark.

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**Mark Barrenechea - OpenText Corporation - President & CEO**

Thank you, Richard.

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**Operator**

Michael Nemeroff from Credit Suisse.

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**Michael Nemeroff - Credit Suisse - Analyst**

Mark, for you, on the license front this quarter, could you give us maybe a sense of the split of term license versus perpetual licenses? I know with the bundles things change a little bit. Hello?

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**Mark Barrenechea - OpenText Corporation - President & CEO**

Yes, Paul, maybe you have a closer metric on that?

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**Paul McFeeters - OpenText Corporation - CFO**

Yes, we had about between 5 and 7 term licenses, Mike, in the quarter.

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**Michael Nemeroff - Credit Suisse - Analyst**

Were those 5 to 7 greater than \$1 million?

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**Paul McFeeters - OpenText Corporation - CFO**

Not all of them, but they were sizeable.

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**Michael Nemeroff - Credit Suisse - Analyst**



Okay. And then, Paul, for you, I guess, first, it has been a pleasure working with you and congratulations on your retirement.

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**Paul McFeeters - OpenText Corporation - CFO**

Thanks.

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**Michael Nemeroff - Credit Suisse - Analyst**

On the tax line you, called out 18%, I think, for FY15. Is that sustainable going forward? Should we model that in for 2016 and the out years?

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**Paul McFeeters - OpenText Corporation - CFO**

The best information I have today. Things will change, obviously, in out years, so I can't give you a better number to model than the 18%, but I would never want to commit beyond what I see in the short term, which is the 18% number.

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**Michael Nemeroff - Credit Suisse - Analyst**

And will you adjust any of the expenses to try and offset the 300 basis point improvement or will you just bite the bullet, so to speak, on the tax.

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**Paul McFeeters - OpenText Corporation - CFO**

I think as you know, Mike, and certainly under Mark's leadership here, we're very focused on the bottom line and the value proposition and we've increased our margins quite significantly, so we'll continue -- I know the Company will continue to be focused that way.

But it's hard to -- the taxes kind of what it is, and we've done a pretty effective job over time of optimizing our tax position, I think as you know, and I think we'll continue to do that even at the rate that we've stated.

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**Michael Nemeroff - Credit Suisse - Analyst**

And lastly for Mark, on the number of sales people you have currently, any changes, or what kind of an increase should we expect in the number of sales capacity that you plan to add through FY15?

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**Mark Barrenechea - OpenText Corporation - President & CEO**

Yeas, Mike, thanks for the question.

I'll talk about the areas, I would say they are a priority for us to add, all funded within our margin and our targets, but not get down to kind of an absolute number. You know, some of our larger opportunities include our



fast-growth markets where we're looking for more coverage. We see a B-to-B opportunity in our -- a mid-market opportunity in our B-to-B business, as well as inside sales expansion into EMEA and a new global account team that's going to be quite laser-focused on some of our top customers. And as well as additional capacity in our established markets.

I would say that's probably the rank order of where we're looking to put quota-carrying sales professionals in FY15.

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**Michael Nemeroff - Credit Suisse - Analyst**

Could you give me a percentage increase instead of -- 10%, 15% increase, in that neighborhood?

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**Mark Barrenechea - OpenText Corporation - President & CEO**

No.

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**Michael Nemeroff - Credit Suisse - Analyst**

Okay. Thanks. Again, Paul, pleasure, thanks very much.

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**Paul McFeeters - OpenText Corporation - CFO**

Thanks, Mike.

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**Operator**

Paul Steep from Scotia Capital.

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**Paul Steep - Scotiabank - Analyst**

Mark, maybe you could talk to, in the cloud area, the trends that drove those large transactions? And then I guess secondly, where in terms of managed services the long-term target might be?

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**Mark Barrenechea - OpenText Corporation - President & CEO**

So first question sort of trends. I'd say platform consolidation, global nature of supply chain, security and compliance.

Those would be the sort of the top themes that I saw of getting to a provider that has a kind of a trusted network, global, ability to on-board many thousands of trading partners and provide service level agreements necessary to run supply chains that can push commerce or transactions in the many hundreds of millions of dollars. So I would say those would be the trends that I saw on how we differentiated.





I'm sorry, what was the second part of the question?

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**Paul Steep - Scotiabank - Analyst**

The second part just related to managed services. I think before to deal with GXS they were around 45%, I believe, of their revenues. What is the target to lift that percentage higher over time here, aspirationally?

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**Mark Barrenechea - OpenText Corporation - President & CEO**

I'm not so much focused on a percent of revenue, because I think we -- we have opportunities in the band business, which is getting just more traffic on the network with or without managed services. But if I look at over the last, oh, what, two quarters, between kind of core OpenText and core GXS, we've added close to 100 new managed service customers in our first six months. So we want -- and we're up to about 800 in total. 800 companies running either their information management or B-to-B integration or compliance platform in the OpenText cloud, managed by OpenText professionals.

We obviously want to keep growing that. We're going to add upgrade cycles. It's a good juncture to say, upgrade and upgrade to our cloud, upgrade to our managed services. So we're keeping this as a top priority.

I'm not focused on whether it is 45% of the mix with band services. I'd like to grow them both.

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**Paul Steep - Scotiabank - Analyst**

Fair enough. Paul, congratulations on the retirement. Thanks a lot.

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**Paul McFeeters - OpenText Corporation - CFO**

Thanks, Paul.

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**Operator**

Stephanie Price, CIBC.

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

Good afternoon.

In terms of cross selling between the different EIM pillars, can you give us a sense of what inning we are in there and how much more there is, much more possibility with cross-selling and how you see that opportunity?

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**Mark Barrenechea - OpenText Corporation - President & CEO**



Thanks for the question.

It is still early days. I mean, when we -- the suites, this is our second full quarter, I think now, of having the suites in the market and the suites make for that cross-selling, makes the enablement of the deployment much more easy and straight forward.

So we're still in the early innings of customers fully adopting either our information platform or fully adopting our B-to-B solutions. Still early days and a good opportunity for us.

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

Great. And then in terms of acquisitions, can you give us a bit more sense of what verticals are looking interesting to you at the moment and how we should be thinking about acquisitions?

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**Mark Barrenechea - OpenText Corporation - President & CEO**

Fair enough. I typically don't get into too much detail here so I won't get into GOs or verticals, but I think there is a piece of information that I wanted to provide today is that with kind of the on-boarding of GXS store operating model, sooner than expected, the organization is ready now to be back to sort of business as usual, if you will, in how we operate in corporate development, and ready to on-board any potential acquisition as and when appropriate.

So we're sort of back to our normal USDence in corporate development now that we're tracking ahead of schedule on the on-boarding of GXS. I won't get into any verticals or industries.

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

Great. Thank you very much.

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**Mark Barrenechea - OpenText Corporation - President & CEO**

Thank you.

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**Operator**

Thank you. The next question comes from Eyal Ofir from Clarus Securities.

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**Eyal Ofir - Clarus Securities - Analyst**

Congratulations, guys, on a great quarter.

I wanted to touch base -- you talked, I think, in the opening remarks that about half the client base now is upgraded to version 10. (Inaudible) very important data points. You said upgrade are in process.



Is there any way to split what percentage has been upgraded and what percentage is currently in process? I guess in terms of the outlook as well, in terms of the upgrade cycle to version 10.5 here, how long you think this upgrade cycle you think will last?

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**Mark Barrenechea - OpenText Corporation - President & CEO**

I'm not going to split out kind of there or in process. If you're in process, I expect to get there. (Laughter) That's right.

Customers have either gotten there or in the process of getting to version 10, which is an important data point. Thanks for highlighting it. It is sort of that platform where folks then move on to 10.5, which is project Red Oxygen, or EIM suites.

Upgrade cycles can range from, if there has been less customizations and it's out of the box, it could be a 30 day process. If it's heavily customized and deep integrated, it can be a 2 to 3 quarter exercise. Always outliers on both sides of that.

So we have -- to be clear, our suites are the default shipping product now. So as we bring new customers on board and win new customers and new logos, they're seeing our EIM suites. That is what they see in a new sales cycle.

And we then have an opportunity in our install basis to get them upgraded and adopting new modules. And I feel pretty confident that this product cycle will keep us going all the way through Blue Carbon and we'll kind of unveil the details of that in November.

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**Eyal Ofir - Clarus Securities - Analyst**

That sounds great. I just want to ask about this, as well.

The transition here, in the quarter itself, do you see more of the licensed revenue growth due to the upgrade to version 10? Or are you seeing some bigger transition here to 10.5, or is that still coming?

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**Mark Barrenechea - OpenText Corporation - President & CEO**

We're -- again, our default sale is on our suites, so we have new customers. There is certainly always folks always buying capacity, right, so you get capacity sales. But it's our new suites that -- it is our new suites, leadership and field execution that I think drove the strong license performance.

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**Eyal Ofir - Clarus Securities - Analyst**

One more question before I pass the line.

In terms of going out into new markets, obviously you talked about additional channels you can open up here, especially with this upgrade cycle coming, you're also penetrating that new accounts. Where do you think you can add more from a channel standpoint? I mean, more regionally? Is it specific to a large global organization? What should we look for from you guys to do over the next call it 6 to 12 months in terms of partnerships?

And I'll pass the line after that. Thanks.



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**Mark Barrenechea - *OpenText Corporation - President & CEO***

You know, I think there are three key opportunities in partners and alliances. First, I -- consistent with what I said in the past, I think the VAR business, value added resellers, is an incredible opportunity for us. Being able to get the right VARs and the right countries, getting multiple VARs in the right countries to adopt our solution is just an incredible distribution opportunity for us.

Second is deeper with select system implementers. I think we're in a very strong position now where we have an integrated suite for information management, B-to-B integration, and a more highlighting our strength in compliance that we can go out -- we can attract some of the larger practices in the global SIs, and bring our offerings to their practice to drive transformation for customers.

And the third is continue to seek other large strategies and working together in the marketplace, like SAP. So to me those are the three areas that I think can be a catalyst for our business, not just in a quarter, but in the years to come, is strong alliances with SIs, building the world's best VAR program outside of G8, kind of outside of the G8, and working to find a few larger strategic transformative partnerships.

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

Okay. Perfect. I'll pass the line.

I just want to say also to Paul, congrats on the retirement. Great working with you for the last eight years.

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**Paul McFeeters - *OpenText Corporation - CFO***

Thanks.

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**Operator**

Thank you. Scott Penner from TD Securities.

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**Scott Penner - *TD Securities - Analyst***

Mark, can you give an update on the AppWorks initiative, just in terms of, I don't know, what kind of metrics you track internally there, but it always seems like a nice growth adjunct to me in terms of new licenses to the core. Wondering what you can provide.

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**Mark Barrenechea - *OpenText Corporation - President & CEO***

Scott, thanks for the question.

I actually don't have the AppWorks metrics handy today, of all things. But part of the strength of our ECM pillar within the quarter, we've made a couple of strategic choices here that are -- that are resonating. The first is that we decided to take ECM and deeply integrate it to ERP. Differentiates us.



Second is opening up the platform for developers. We saw a few wins in the quarter that was directly related to AppWorks, the ability to embed, extend, expand, our content suite and experience suite, because of AppWorks, and that services layer. So I'll follow up and see if we have some metrics on the subscriber growth. I don't have that handy today, Scott.

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**Scott Penner - TD Securities - Analyst**

Okay. The cloud services business picked up what look like more than just the extra piece of GXS in the quarter. Is that a function of some growth in the EasyLink business or is that more of a function of the growth in the managed services side?

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**Mark Barrenechea - OpenText Corporation - President & CEO**

I would probably say more directed at managed services.

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**Scott Penner - TD Securities - Analyst**

And lastly just so I understand here, you said half of the installed base has version 10.4, was that right?

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**Mark Barrenechea - OpenText Corporation - President & CEO**

About half of the install base is either upgraded to or in process of upgrading to version 10.

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**Scott Penner - TD Securities - Analyst**

Okay.

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**Mark Barrenechea - OpenText Corporation - President & CEO**

And 10.5, when we say project red oxygen, that equals version 10.5. So to get to 10.5, we want people to go through version 10.

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**Scott Penner - TD Securities - Analyst**

Okay. No, that's clear. Thank you.

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**Operator**

Thank you. I would now like to go back to Mr. Barrenechea.



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**Mark Barrenechea - *OpenText Corporation - President & CEO***

Operator, thank you. Thank you for joining the call today.

I couldn't be more pleased with our record Q4 in FY14 performance. You guys now have the numbers. You can also see some of the larger, more transformative, transactions with 26 deals over \$1 million. I'd like to leave you with the thought that as we enter FY15, we have some momentum.

We're aligned to our customer priorities. We have field leadership and focus, and we've added to our leadership ranks of John Doolittle today.

We're in a strong product cycle. And we've laid out a practical, achievable, growth agenda, as well, in FY15, leveraging our product cycle, new B-to-B markets, compliance, continuing to transition customers to managed services, partners and alliances and leveraging everything from established markets to our new global account teams, and we're ready to consider more acquisitions.

Thank you for joining today. I look forward to seeing you at our upcoming investor conferences.

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**Operator**

Thank you. Ladies and gentlemen, this concludes the conference call for today. We thank you for your participation. You may now disconnect your line and have a great day.

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