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OTC.TO - Q1 2016 Open Text Corp Earnings Call

EVENT DATE/TIME: OCTOBER 28, 2015 / 09:00PM GMT

OVERVIEW:

OTC reported 1Q16 revenues of $435m and net income of $41m or $0.34 per diluted share.

CORPORATE PARTICIPANTS

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John Doolittle *Open Text Corporation - CFO*
Mark Barrenechea *Open Text Corporation - President & CEO*

CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the OpenText Corporation first quarter 2016 financial results conference call. As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions.

(Operator Instructions)

At this time, I would like to turn the conference over to Greg Secord, Vice President of Investor Relations. Please go ahead.

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

Thank you, and good afternoon, everyone. I would like to welcome you to today's call. With me is OpenText President and CEO, Mark J. Barrenechea, as well as our Chief Financial Officer, John Doolittle.

As with our previous calls, we'll read prepared remarks, followed by a question-and-answer session. The call will last approximately one hour, with a replay available shortly thereafter. I would like to take a moment to direct investors to the Investor Relations section of our website, where we've posted two PowerPoints that will be referred to during this call.

The first is our quarterly supplemental update on the financial results. The second PowerPoint is our annual strategic overview presentation from July, outlining our leadership positioning in the EIM marketplace, with supporting stats outlining both our historical performance, and cloud transition initiatives. I encourage all of our listeners to download both presentations. As with previous quarters, we have an updated summary table, highlighting OpenText historical trends and financial metrics. Both these PowerPoints and our financial spreadsheet are downloadable from the front page of the IR section of our website.

OpenText will be hosting an Investor Day in Las Vegas on Wednesday, November 11, during Enterprise World, our annual users conference. If you are interested in attending, or just want to find out more information, please contact our Investor Relations team. We will also be at several investor conferences in the coming months, including Cantor Fitzgerald, TD and RBC conferences in Toronto, the Credit Suisse Investor Conference in Phoenix, Arizona, as well as the Barclays Technology Conference in San Francisco. But for more information, and all of this, and all of our investor events on the IR section of our website. And with that, I will proceed to the reading of our Safe Harbor statement.

Please note that during the course of this conference call, we may make statements relating to the future performance of 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 while making a forecast or projection, as reflected in the forward-looking information. Additional information about the material factors that could cause actual results to differ materially from a conclusion, forecast, or projection in the forward-looking information, and the material factors or assumptions that were applied in drawing a conclusion while making a forecast or projection as reflected in the forward-looking information, as well as the risk factors that may project the future performance results of OpenText, are contained in OpenText Forms 10-K and 10-Q, as well as in our press release that was distributed earlier this afternoon, each of which may be found on our website.

We undertake no obligation to update those 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'll hand the call over to John.

John Doolittle *- Open Text Corporation - CFO*

Very good. Thank you, Greg. Welcome to the call, everyone. Let's go through the numbers, and my references today will all be in millions of US dollars, unless I indicate otherwise. First the impact of foreign exchange. The first quarter compared to the same period last year, our revenues were negatively impacted by $34 million, adjusted operating income negatively impacted by $9 million, and adjusted EPS by $0.06. The negative effect of $34 million by revenue type is broken down as follows: license $5 million, cloud services and subscriptions $9 million, customer support $15 million, and professional services and other $5 million. Total revenue for the quarter was $435 million, down 4% compared to $454 million for the same period last year, but up 3% on a constant currency basis. Recurring revenue for the quarter was $383 million, down 3% year-over-year compared to $396 million for the same period last year, but up 4% on a constant currency basis.

License revenue for the quarter was $51 million, down 12% compared to $58 million reported for the same period last year, down 4% in constant currency. Cloud services revenue for the quarter was $148 million, down 4% compared to $154 million in the same period last year, but up 1% in constant currency. Customer support revenue for the quarter was $186 million, up 1% compared to $184 million in the same period last year, and up 9% in constant currency. Professional services and other revenue for the quarter was $50 million, down 14% compared to $58 million in the same period last year, and down 4% in constant currency.

Now I will turn to gross margins for the quarter. License margins remain stable at approximately 95%. Cloud services and subscriptions 60% compared to 61% in the same period last year. Customer support margin was 89% compared to 88% in the same period last year. And professional services margins of 23% for the quarter, compared to 25% in the same period last year.

Now to adjusted operating income, before interest expense and stock compensation was $148 million this quarter, down 5% compared to $156 million in Q1 of last year. Adjusted net income decreased by 13% to $103.2 million this quarter, down from $119 million in Q1 of the last fiscal. The decrease is primarily due to lower operating income, higher interest expense of $8 million, and an increase in the Company's adjusted tax rate from [18%] to [20%]. We expect to continue to see an adjusted tax rate of 20% for the remainder of this fiscal year.

Adjusted earnings per share $0.84 on a diluted basis, compared to $0.97 for the same period last year, down 13%. On a GAAP basis, income from operations was $76.5 million, down 25.8% from $103 million in the first quarter of last year. This decrease is due to lower revenue of $19 million, higher OpEx of $14 million, which is primarily related to our special charges, and these negative impacts were partially offset by lower costs of sales of $7 million.

Net income for the quarter was $41.3 million, with $0.34 on a diluted basis compared to $64.6 million, or $0.53 on a diluted basis in the first quarter of last year. There were approximately 122.6 million shares outstanding on a fully-diluted basis for the first quarter, and during the quarter we repurchased 1.1 million common shares. These were purchased late in the quarter under our NCIB program. And due to the timing of these repurchases, it did not have an impact on our reported EPS. Actuate had a good quarter, and they're now on our operating model.

Operating cash flow was $92.7 million for the quarter, a decrease of 33% compared to $138.5 million in the same period last year. There were a number of specific items in the quarter, both operating and other that are worth noting. Our share buyback, interest payments on high-yield notes, and restructuring payments are unique to this quarter, compared to Q1 of last year. Our DSO trade payables were stable. Driving cash flow improvements continues to be one of our top priorities.

Respect to the balance sheet, at September 30, deferred revenues were $351 million, compared to $386 million, and the decrease is the result of normal seasonality. Accounts receivable was $234 million at September 30 of 2015, compared to $284 million at June 30, 2015. Day sales were 48 at September, compared to 53 at June, and 48 in the previous year at September.

Just a couple comments on our FY16 external target model that's published on the IR website. As I said in the press release, I'm really pleased with our margin performance this quarter, but it is early days. Our target model is an annual model, as you know, with three more quarters to go to complete the year. The fact is, there's still a lot of economic uncertainty out there. The currency markets remain unstable. So, even with a strong first quarter from a margin point of view, we are maintaining our FY16 non-GAAP operating margin target of 30% to 34%.

Tax update: as previously announced and disclosed in our Form 10-K, and discussed in our current 10-Q, we received the first of two expected drop notice of proposed adjustments on July 17. And we continue to expect to receive the second one, we have not received it as yet. We recently announced our intention to acquire Daegis in an all-cash transaction for approximately $14 million, and Mark will provide details on the transaction. On October 28, 2015, the Board declared a cash dividend of $0.20 per share for shareholders a record on those November 27, 2015, payable on December 18, 2015. So, that's it for my prepared remarks. I will turn it over to Mark.

Mark Barrenechea ***- Open Text Corporation - President & CEO***

Thank you, John, and welcome, everyone, to our FY16 Q1 earnings call. Let me start by sharing with everyone that personally, I feel great, and I look forward to seeing all of you at Enterprise World in two weeks time. FY16 is teed up be a transformative year for OpenText, as we increase our focus on digital transformation, and we see more customers adopting our managed services. We are poised to deliver Project Blue Carbon, our next major EIM release, which will be unveiled at Enterprise World. Project Blue Carbon is the enabling platform for digitalization, full of new and compelling innovations for customers. Our improved margin engine will generate greater long-term cash flows, and we continue to deliver smart capital allocation through our dividend program, our buyback program, and meaningful M&A transactions.

The IT industry is going through sweeping changes. Perhaps the most change I have seen in my 30 years in the industry. The market has progressed from the adoption of internet technologies, to leveraging the flexibility efficiencies and speed of the cloud, and is now seeking full digital transformation to ensure continued successful operation and hypercompetitive and hyper-connected markets.

A great example of this is seen through the lens of analytics where requirements have progressed from reporting and visualization to analysis and predictability. It was once about a better way to complete a task, about improving pure human efficiency. Today, digital is about fundamentally impacting business. It's about prediction and analysis of inhuman amounts of data. It's about automation and disrupting markets with technology. This is inning one for digitalization.

As in all things, both in life and in business, being stagnant is usually the unsafe place to be. Because when you're stagnant, you are the target. Change is always the safest choice. Those technology firms that embrace change and are successful at it keep their customers central to that change. They must come with you on any technology shift, and they must come with you on your digital transformation.

This year, we have witnessed the Symantec split, EMC, CompuWorks, TIPCO, Dell and Infomatica going private, SolarWinds is about to join those ranks. We have HP splitting into two companies and making announcements they will be exiting the cloud infrastructure business. We have Dell and Silver Lake's proposal to purchase EMC, and you SaaS, PaaS, and IaaS firms finding their rightful place in the market. This market is advancing and consolidating.

As the largest independent provider of EIM solutions, OpenText is singularly poised to capitalize on this disruption. I see three core elements underlying these changes. First, enterprises have changed the way they consume technology. Though most enterprises are hybrid today, and we see them remaining hybrid, they're consuming more cloud-based solutions from IaaS and SaaS to manage services and subscriptions and increasingly preferring to work with venders who can seek their needs.

Enterprises also changes why they purchase. They are not interested in ITIL and [solar] interfaces and HelpDesks. They are interested in the digital, security, analytics, lightweight applications, mobility, and the cloud. With an eye toward leveraging a changing workplace, a millennial workforce, a changing way to connect with their customers, the need to move faster with more purpose. Digitalization affects every industry in profound and numerous ways. It is increasingly obvious that the options are simple, digital or die. Many predict that half of today's incumbents will not thrive in the digital world.

Let's consider some examples. Insurance companies need deeper analytics in direct relationships with their consumers to provide optimized services. This is done with big data analytics. Insurance agents will ultimately go away, they will be disintermediated by digital. Banks need to automate everything from personal to retail banking, to institutional investing. It's about automation, efficiency, and improved digital customer service and customer experience, not to mention security.

Construction is modelling, planning and testing in a virtual world, before a shovel hits the ground. In government, citizens are looking for immediate access to their information, services on-demand, and digital interaction with their presiding administration. Logistics is moving to one-hour delivery and maximum efficiency on warehousing, stocking patterns, and customer purchasing prediction. And on it goes. Digital changes everything.

Third, a growing percentage of the world is in a state of uncertainty, and we live in a time where 1% to 2% GDP growth is normal, particularly for the world's most developed economies. Emerging markets are slowing. China is slowing. There are deflationary concerns. The strength of the US dollar has created foreign exchange challenges.

Even the automotive ecosystem and EMEA and pharmaceutical giants have recently paused, which should be short-term. Mining, construction, and other capital-intensive markets have slowed, as well. And as predicted by industry experts, it looks like IT spending may be slowing as well. Commodities are down. Oil prices are down. In fact, even the Q3 US GDP growth index has been [arrived] downward today to 1.4%. It is our view that the amount of uncertainty was on an uptick in September.

We see these changes and uncertainties as opportunities. Firstly, we are pursuing a deep strategic focus on digitalization, which will help customers differentiate, grow, and become more efficient. Digitalization is about creating a better way to live, and a better way to work. A better way to innovate, a better way to engage customers, a better way to leverage the supply chain, a better way to scale, a better way to gain insight, and a better way to control your business. I will come back to Blue Carbon later, and how Blue Carbon will help customers create a better way to live and work.

Secondly, our cloud strategy is about capturing new spend and managed services, and hosting services, to help customers balance between OpEx and CapEx. We're not, however, interested in revenue substitution. We see our license business remaining stable on an absolute dollar basis. Cloud is now one-third of our revenue, and looking out at our FY20 aspirations, we expect cloud to ultimately be about 50% of our revenues. We also expect more than 90% of our revenues to be recurrent. And we've talked about in the past announcements we have successfully made this transition to cloud while significantly expanding margin.

The third opportunity I see is with the OpenText Intelligent Growth System, or OTIGS, as we call it. It is our operational DNA. By using OTIGS to guide our recent restructuring programs, we have created an even stronger earnings engine with OpenText. We remain confident in our 2020 aspirations of generating annual adjusted operating margins between 34% and 38%.

Fourthly, M&A is at the core of our business model. We are a platform operator. We acquire businesses within our six strategic markets, ECM, BPM, CEM, iX, discovery, and analytics. Collectively, we call these platforms EIM.

We seek value-based assets that have high recurring revenues. And we do our analysis on a cash basis, with clear ROI goals and payback timeline. Once acquired, we integrate new assets into one of our core platforms, extracting redundant costs, and leveraging our distribution channels and operational capacity. This core discipline allows us to efficiently on-board new assets to our operating model. We expect to complete multiple acquisitions this year. We have ample liquidity, cash, and capacity.

Lastly, our capital allocation strategy is working, and it's focused on shareholder return. The foundation of this strategy is a strong margin engine, and generating strong cash flows. Combined with our dividend program at 20% of trailing 12 month operating cash flow, our buyback program and M&A, the opportunity before us is strong.

To summarize, the IT industry is going through a large scale change, and uncertainty is to be expected. But OpenText is well-positioned to deliver shareholder value by capturing the opportunity in the cloud, and the need for customer digitalization. We will do this through a compelling internal product innovation, meaningful M&A, a strong earnings engine, and a compelling capital allocation strategy.

Let me spend some time on Q1. In constant currency, we grew total revenues 3%, and we grew recurring revenues 4%. As John said, we had a negative $34 million total revenue impact of the quarter due to FX, which was roughly a negative effect of 8% on revenues. Assuming currencies do not decline further, we expect to see two more quarters of these large negative foreign exchange impacts on revenues. I note a year ago, the euro was a $1.27, and the euro closed today at $1.09.

As John highlighted, license was negatively affected $5 million, cloud negatively affected $9 million, customer support negatively affected $15 million, and PS negatively affected $5 million on the revenue line. Currency is masking the strength of our business right now. We started the new fiscal year a little slower on revenue and MCV than I wanted to see, and I'm not concerned. Our Q2 pipeline is strong.

Within the quarter, partner license revenues were 38%. We also recently announced major updates to our partner program. The new program is creating a cloud-ready partner ecosystem. The more value a partner brings to OpenText and our customers, the more we will invest directly in them.

First, we have a greater focus on larger scale and global value-added partners such as SAP, AT&T, Deloitte and Accenture. Second, we will now pay a referral fee on any partner opportunities closed. Third, we will no longer pay recurring revenue fees to partners. It will take us about a year to fully make this transition. And fourth, in general, partners can no longer sell both licensed and professional services simultaneously.

Geographic book of business was 58% Americas, 34% EMEA, 8% APAC, our America business was up 2% year-over-year. MCV was $41 million in the quarter, cloud customer wins included Ford, Bestop, Odyssey Financial, Deloitte, and the Molson Coors Brewing Company. Key on-premise customer wins included Tata Steel Nederland, US Department of State, British Petroleum, Celgene, and Thomson Reuters.

Within the quarter, we were recognized by Gartner as a top leader in the ECM and WCM. With our announcement to acquire Daegis, we will add to our discovery platform, and we had a nice Actuate set of customer wins this quarter, including Amazon, Deloitte, Delta Airlines, Daimler, and Blue Cross/Blue Shield. I'm also pleased with our field changes for May are resonating inside and outside the Company. The new cost structure and efficiency is showing in the P&L, and our field programs are reflective in the strength of our Q2 pipeline. We have the right team, and the right solutions to win.

Let me transition to project Blue Carbon and Enterprise World a bit. We are gearing up for the largest customer event of the year, taking place between November 8 and November 13 in Las Vegas, Nevada, at the MGM Grand. We are expecting over 2,000 attendees, and over 300 partners. The conference will illuminate how digitalization is creating a better way to work.

The platform to enable this is project Blue Carbon. OpenText next generation of BIM software for on-premises and cloud customers alike. Blue Carbon is on track for beta and first customer shipments this quarter, and generally available in our fiscal Q3 for calendar Q1.

Project Blue Carbon will translate into the following release names: OpenText Suite 16, and OpenText Cloud 16. OpenText Suite 16 will feature deep integration, inter- and intra- subsuites, Content Suite, Process Suite, Experience Suite, and Analytics Suite. Newly, Discovery will be a paid for add-on option to Content Suite, and InfoFusion, our updated enterprise search platform, will be included with Content Suite for free.

Suite 16 is available on-premises, and as a managed service. Analytics integration will be available in all of the suites, and we will be providing support for a new open stack that includes the [post-graph] database, helping the customers to further lower the total cost of ownership. Suite 16 also is fully mobile, enabled via AppWorks.

OpenText Cloud 16 includes Suite 16 as a subscription and as a managed service. It also includes OpenText Core, our next-generation SaaS ECM platform, designed for enterprise use. And make no mistake, we plan on winning in this market. We will also introduce Archive Center in the cloud for SAP, Oracle, Microsoft Exchange, the OpenText Suites, and Gmail. Cloud 16 will also include analytics as a stand-alone service, analytics as a service for the supply chain, and a new state of the grid reporting solution, which illuminates important and interesting statistical data across our billions of transactions and trillions of dollars worth of completed commerce.

This solution allows customers to answer questions like are manufacturing transactions up or down month-over-month, year-over-year? Are retail transactions up or down? We will be able to report against information by geography, industry, customer, time, product, or set of other facets. Cloud 16 will also include our next-generation transportation and logistics module. And lastly, we will be on a quarterly schedule for our Cloud 16 solutions, where we update functionality every 90 days, or at the speed of the cloud.

Project Blue Carbon will be unveiled at Enterprise World as OpenText Suite 16, and OpenText Cloud 16. With Release 16, we plan to drive aggressive new customer acquisition, upgrade, and competitive replacement programs. It's time. I hope you will be able to join us at Enterprise World as we get into the potential of our next-generation platform. Our Investor and Analyst Day takes place on Wednesday, November 11, and we expect to have some fun with Mike Myers keynoting that morning. And please contact Greg or Sonja for more details on the November 11 event.

Let me summarize today's remarks. I'm pleased our restructuring actions are behind us, and that those actions have delivered an even stronger margin in earnings [engine]. Cash flow is our ultimate business objective. Our adjusted operating target model for FY16 remains unchanged, as John talked about and we are reiterating our 2020 aspiration, 50% of our revenue from cloud, 90% recurring revenue, and an annual adjusted operating margin of between 34% and 38%.

Our disciplined approach to capital allocation is focused on shareholders return. Optimizing for cash flow, dividends at 20% of TTM operating cash flow, our buyback program, and value based M&A. We expect to complete additional transactions this year, and we have plenty of capacity to put to work, smartly.

FX continues to be a challenge for us on the top-line, with a negative $34 million total revenue impact. Seeing past these FX challenges in constant currency, we grew total revenues of 3%, and recurring revenues 4%. Again, assuming today's currency rates remain stable, we expect another two quarters of these large FX movements to finally get behind us. The [uptick] and uncertainly, though it seems short-term, could affect some end-of-quarter buying decisions. However, I'm not concerned. Our Q2 pipeline is strong, and we have the right field leadership team in place to go execute against the opportunity.

Project Blue Carbon, Suite 16 and Cloud 16 is on track for beta and delivery, and focused on helping customers create a better way to work via digitalization. Our approach to cloud via managed and hosting services has added to revenues to the Company, and Cloud 16 is a significant step forward for the OpenText cloud, including quarterly updates, core, archiving, analytics, next generation transportation logistics, and the state of the grid visibility.

Release 16 is the strongest software release in the history of the Company, and as I said earlier, we plan to drive aggressive new customer acquisition, upgrade and competitive replacement programs. With all this in mind, we expect FY16 to be a transformative year for OpenText. With that, I'd like to turn the call over to the operator for your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

First question comes from Kris Thompson of National Bank.

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

Thank you. Mark, it looks and sounds like more than $50 million of annual savings were achieved from the restructuring. Can you quantify what the savings are actually? And if they are fully reflected in Q1? Also then also, maybe for John, if we should expect anyone restructuring expenses related to this restructuring in the future quarters?

John Doolittle *- Open Text Corporation - CFO*

Yes, so Kris, when we announced the restructuring, I think we said that the total cost was expected to be around somewhere around $25 million. You'll note that the charts this quarter was around $17 million. So we got to virtually all of the people-related costs. Obviously, it didn't all happen on the first day of the quarter but they were, for the most part, front-end loaded in the quarter. The facilities will take a fair bit longer. There may have been some minor facilities that have closed during the quarter but that will take longer to realize.

Kris Thompson *- National Bank Financial - Analyst*

Okay. While I have you, John, just on the IRS last quarter, I think you mentioned the potential liabilities around $550 million. Am I hearing that it may be increasing?

John Doolittle *- Open Text Corporation - CFO*

No, not at all, Kris. We received the -- just to back up, what we announced last quarter is that we received one draft notice of proposed adjustment and we were expecting to receive the second based on the input we had from the IRS when we added both of those things up and included penalties and interest, that was the gross possible number. That hasn't changed.

Kris Thompson *- National Bank Financial - Analyst*

Okay, just my last one, Mark, for you on the Dell acquisition of EMC. Can you just maybe give us some comment on what you think that might mean for you guys opportunity-wise? Thank you.

Mark Barrenechea *- Open Text Corporation - President & CEO*

Kris, thanks for the question. Well, I'm pretty excited about what I see in Suite 16 and Cloud 16. We will be unveiling all of those details in two weeks and we will have our first customer shipment in the next few weeks. Roughly, we have put $300 million of R&D into this release. It's the largest release of -- largest investment in the EIM software. It's time.

It's time to get more aggressive in going after new customer acquisitions. More aggressive and compelling upgrade programs, including programs upgraded to the cloud, our cloud. It will be time to get more aggressive on competitive upgrade programs from FileNet, Documentum, Alfresco, Interwoven at HP and Economy. Suite 16 and Cloud 16 is a very meaningful release for the Company. I'm quite eager to show the world in the next couple of weeks.

Kris Thompson *- National Bank Financial - Analyst*

Thanks. Looking forward to learning more about it at your show. See you there.

Operator

The next question comes from Phillip Huang, Barclays Capital.

Phillip Huang - ***Barclays Capital - Analyst***

Thanks, good afternoon. Just wanted to touch on the cloud and how agile it's been for the business; certainly your goal is to grow. Cloud mainly from you from new revenue sources, including acquisitions over time. Was wondering if you might be able to give us some color around how that's going so far? Since the launch of your full cloud solutions in January, how much of the growth for cloud has been from new revenue sources from your perspective?

Mark Barrenechea - ***Open Text Corporation - President & CEO***

Well, Phillip, let me just walk through what it is and just maybe remind everyone a little bit of what it is since it's new. All right? We're not interested in substituting a license for a subscription. In fact, we disallow it, right? We don't go after that business. The field has no incentive to do it. We don't have contracts to go do it.

What we are looking to do is either for new customers or for existing customers, is to sell additional services to that licensed business, which includes hosting fees in our cloud, and complete managed services fees in our cloud, that includes we'll install the software. We will manage the software; we will operate the platform, we'll manage the data environment. We will back it up for you; we will upgrade it; we're the experts on our stack.

And with Suite 16 and Cloud 16, we'll actually take all of the database cost out of that environment for you as well with our new support of an open-source stack. Now, we kind of wrapped that up into a term we call MCV, minimal contract value. When we talk about MCV, this is the net new value, right? So if we had an existing MCV arrangement in place for $1 million and renewed it for $1 million, we would talk about MCV of zero.

But if we had an existing arrangement at $1 million and grew that to $3 million, we'd talk about MCV of $2 million, or any new MCV would be added in that as well. This quarter, we added $41 million of new MCV to the business, and I'd note that, that renewal rate is actually higher -- that renewal rate is in the mid-90%s, all blended, which is a higher renewal rate from the low 90%s of our maintenance business.

The short of it is, we're going after new spend. Customers are going to continue to buy license and maintenance. What we want to go after are the infrastructure and the managed services, which are new revenue streams.

Phillip Huang - ***Barclays Capital - Analyst***

That's very helpful. Just on the top of that, would you -- just based on your current sales strategy, would you assume maybe more pronounced seasonality on your marketing costs between the quarters going forward? Do you think -- do you expect for the fiscal Q4 is going to be the big marketing spend quarter, as you kind of see your strategy play through?

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

Well, Phillip, this John so, traditionally the second quarter is a big marketing spend quarter for us. Mark talked about Enterprise World. That is where we typically see a higher marketing spend in the second quarter.

Phillip Huang - ***Barclays Capital - Analyst***

Got it. That's very helpful. Then the last one, just looking at your buybacks, obviously, you repurchased 13 million of shares this quarter, taking advantage of the current share valuation. Should we view your buyback any indication on the available of large acquisition opportunities at all? Or do you also see room for both acquisition and buybacks in the foreseeable future? Thanks.

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

Yes, look Phil, so as Mark pointed out, we operate the OpenText intelligence growth model, which is making sure that we think about returns for all of our stakeholders. We have plenty of liquidity available so we finished the quarter with over $700 million in cash. We've got lots of additional capacity to the extent we need it. So we can continue to repurchase shares if we decide to and fulfill our M&A strategy.

Phillip Huang - ***Barclays Capital - Analyst***

That's very helpful. Thanks very much, guys.

Mark Barrenechea - ***Open Text Corporation - President & CEO***

Thanks, Phillip.

Operator

The next question is from Richard Tse of Cormark Securities.

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

Thanks. Mark, despite the currency, the cloud growth has been, I guess, flat; and I think constant currency grew about 1.4%. Given you guys have won a number of MCV new deals this past few quarters, when do you guys actually are going to see the. cloud piece start to pick up and accelerate here? Is that later this year or maybe give us a sense of when that would be?

Mark Barrenechea - ***Open Text Corporation - President & CEO***

Richard, thanks for the question. Yes, there's no doubt that currency mask hits a bit and as you will say, in constant currency, it is up a couple of points year over year. Look, I'm looking towards Suite 16 and Cloud 16 as the next catalysts for us.

As I highlighted in the call script that Cloud 16 is a significant, significant step forward for us. We will have our Next-Generation Core Platform, which really hasn't generated -- really contributed yet on the revenue side. We will be putting Archive Center in the cloud, which is completely new and quite expanded -- SAP, Oracle, Microsoft, our own suites and Gmail.

Analytics will be a big push as well. And we recently introduced analytics as a stand-alone service in the cloud but with Cloud 16, it will be integrated into the GXS platform. That is new and additive. The state of the grid solution, I just -- I can't -- I get very excited about it, being able to do deep-packet inspection.

I had an engineer call it; it's the Splunk for B2B because we're able to do deep packet inspection of our transactions and that aggregate that information and, obviously, be able to commercialize and sell that information; to say it's manufacturing transactions up or down, it's retail up and down in Germany. Richard, I look forward to Cloud 16 and Suite 16, really, as our next catalysts to grow.

Richard Tse *- Cormark Securities - Analyst*

Okay. And for many of us who have been following for a long time, this has obviously been a largely a growth by acquisition story. I think as you sort of look forward, you talked about a number of acquisitions this year. Can you give us a sense of what you think about the contribution from acquisitions versus organically when it comes to growth? Do the acquisitions tilt more? Does that represent 70% of your growth targets, or give a sense of where that comes from?

Mark Barrenechea *- Open Text Corporation - President & CEO*

Sure thing. I'll reiterate our model, right? Our model is, we look for organic growth in the low single digits. And we look for acquired growth to get us into double digits, some years a little more than that; some years a little less than that given the market opportunity.

But our overall framework for growth, revenue growth is we try to take our internal innovation and execution, given our margin profile and smartly grow organically low-single digits and then through M&A to get us into double digits. That's the model we've operated on over the last decade. That model remains in place; some years a little better; some years is a little less.

Richard Tse *- Cormark Securities - Analyst*

Okay and one last question. You guys are obviously in different markets now. You've got ECM Analytics, a little bit EDI, but where are you seeing the most traction today? I guess this probably will change after the release 16 as it stands today. Where was that strength this quarter? That's it. Thanks.

Mark Barrenechea *- Open Text Corporation - President & CEO*

I would say where a lot of interest is coming from is really kind of in our core right now around ECM. The digitalization journey starts with consolidation of platforms and a consolidation of unstructured data. So a lot of the strength we've seen is in the core of what we do via ECM. The interest is very high in analytics.

We've come a long way as a Company without really ever having a formal analytics solution. With Actuate now on board, on our operating model, fully integrated into the business, with Cloud 16 and Suite 16 fully integrated across our suites and integrated into the cloud, there's been a lot of interest and understanding what we can offer the analytics.

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

That's great. See you in a couple of weeks.

Mark Barrenechea - ***Open Text Corporation - President & CEO***

Yes, thanks, Richard.

Operator

(Operator Instructions)

The next question comes from Paul Steep, Scotia Capital.

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

Great. Thanks. Mark, maybe you could talk just a little bit and you mentioned it in the Q that you released about increasing the rate of flexibility for customers and the fact that you're agnostic. Maybe talk about your interactions with customers and how, we from the outside, should be thinking about that rate of adoption in terms of the overall growth rate as you see clients explore and examine some of the cloud options?

Mark Barrenechea - ***Open Text Corporation - President & CEO***

I think there are, Paul, there are two things. One is we've talked about -- well, maybe three things. Our longer-term model of getting recurring revenues to 90% of total revenues. That's a very important milestone.

Second is having our licensed business remain consistent on an absolute basis. And watching the MCV number, which is new minimal contract value, new contract value that will ultimately turn in to revenue via the cloud.

Those are the three markers that we are certainly watching, which translates into the flexibility, which is getting our business to 90% or greater recurring. We've held our licensed business consistent on an absolute basis for the last three years. We expect that to continue. The MCV number is new for us.

We put that metric out there this year. The renewal rates are more impressive than our already impressive maintenance business, and watching the growth of that MCV number.

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

Fair enough. The other question that popped in was you touched on briefly in the script; as you drive towards being a $2 billion Company, hopefully, sometime soon, how are you feeling about spans and layers control? Obviously, there was a senior sales change towards the end of middle of last year, middle of the year. Where are we had in terms of your thinking about the need to maybe broaden out the team even more? Are you satisfied at this point?

Mark Barrenechea ***- Open Text Corporation - President & CEO***

Satisfied at this point. I truly feel that we have the -- part of the last restructuring that we did, we looked at spans and layers. And wanted to make sure that we were aligned without being this bureaucratic, large organization. We wanted to remain very lean and nimble. We got those changes done quickly, as you have seen reflected. I'm quite pleased with Ted and George who lead the bulk of the field.

George focused on the IX world and Ted is already focused on the EIM platform. I like the structure. It feels good inside and I like the organization. It feels good inside and outside the Company. I'm not looking to make any additional changes at all to that org structure.

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

Fantastic, thanks. Look forward to seeing more.

Mark Barrenechea ***- Open Text Corporation - President & CEO***

Thanks, Paul.

Operator

Next question will be Eyal Ofir of Dundee Capital Markets. Please go ahead.

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

Great, thanks for taking my question. Just first off on your commentary on Blue Carbon, obviously, you guys are pretty excited about that and it's going to beta this quarter.

Traditionally, the December quarter has been pretty strong from a seasonality standpoint over the first fiscal quarter. Should we be assuming that, that could -- some of that could be deferred into Q3? How should we think about the license revenue here into Q2 and Q3?

Mark Barrenechea ***- Open Text Corporation - President & CEO***

Eyal, thanks for the question. No, historically, we haven't seen a delay due to an upcoming release. Customers have immediate needs and they want to get going. If they are in maintenance, they get the next version of the software. I'm certainly just had the Red Oxygen transition.

We didn't see a pause. I'm not anticipating a pause here as we unveil Blue Carbon. We will actually also talk about the next release post-Blue Carbon. Customers appreciate being able to do multi-year planning with us now. Historically, we haven't -- my last four years, we haven't seen a pause as we've transitioned between releases. I will add, I talked about a strong Q2. Now let me -- excuse me, a strong Q2 pipeline.

Let me offer up maybe a little bit more insight into that. The reason I feel strong -- I feel good about that strong pipeline is really due to mix. It's about mix in geography. It's about mix in deal sizes. It's about mix in industries. And also a mix of on-premise and cloud/MCV deals. That's why -- that's a little more of the underlying detail behind the strength of the Q2 pipeline.

Eyal Ofir *- Dundee Capital Markets - Analyst*

Good and just on the -- your commentary on MCV, do you guys have a -- is there like an average period of this MCV? Is there like a -- this revenue is recognized over a three-year timeline? Or is it -- it's like an average term contract length you can talk to? It would be easier for (multiple speakers) --

Mark Barrenechea *- Open Text Corporation - President & CEO*

Yes, we typically do three- to five-year deals on MCV. We'll book a deal, a guaranteed contract. And then we have to work to get the customer live. Then we start the monthly billing from that go-live part.

Eyal Ofir *- Dundee Capital Markets - Analyst*

Okay, perfect. And then before I pass the line, last question for me. Actuate, do you guys have a number of how much revenue recognized on the Actuate side? And then, it seems like also you guys have integrated with this restructuring have already integrated, potentially to your OpEx target margins? How has that gone? Where are you guys at there and then I'll pass the line. Thank you.

John Doolittle *- Open Text Corporation - CFO*

Thanks for the question. We haven't put out a number for Actuate revenues this quarter. But it is reasonably consistent with the numbers we put out when we announced the acquisition. I did say in my script that Actuate did have a good quarter and is now on our operating model, and so the integration of that has gone very well and we are on or ahead of schedule.

Eyal Ofir *- Dundee Capital Markets - Analyst*

Okay, great. Thanks. I will pass the line. Thank you.

Operator

Next question comes from Paul Treiber of RBC Capital Markets.

Paul Treiber *- RBC Capital Markets - Analyst*

Thanks very much and good afternoon. I just want to follow up on one of Richard's questions on cloud growth. Could you quantify either the revenue or MCV mix between the business network, like the GXS EasyLink versus SaaS or software subscription revenue? Or could you speak to the general growth rates from those two segments?

Mark Barrenechea *- Open Text Corporation - President & CEO*

So, Paul, let me take a crack at it first and then I will hand it to John. We're not getting below that number right now to say which segment or pillar it's coming from but the majority of this is MCV, not SaaS revenue. SaaS hasn't really kicked in for us, if you will. Most of these -- most of that MCV number is multi-year managed services right now.

John Doolittle *- Open Text Corporation - CFO*

Okay, that's good to understand. Is there any -- I know you mentioned there won't be cannibalistic but additive spend but can we see some license shift out of the license number and into the MCV number?

Mark Barrenechea *- Open Text Corporation - President & CEO*

Well, let me approach that via our model, all right? And I think the answer is plainly in our model, which is our aspiration here is to get to 90% or greater recurring. The other part is license. Right?

So that's a good modeling exercise, right, to say what does that look like, right? I mean, our margin aspirations are 34% to 38%. I'll just remind everyone that the thing that's not recurring as we defined in our model as license. Do I think some license business will migrate to a managed service? Sure thing, and that's okay. Because we go after additive spend. You hold on to the asset; you pay your maintenance for the asset.

What you are coming to us to either manage it on site, which we do today for the government of Alberta, which we do today for the European Central Bank. Or you will ask us to let that license and maintenance up, move it into our cloud but pay for infrastructure and managed services.

So yes, I do think we can see some of the license business moved to the cloud services line which is okay because there will be additional revenues. And I, again, will re-highlight our goal of getting to 90% or greater recurring revenues.

Paul Treiber *- RBC Capital Markets - Analyst*

Thanks. I just wanted to shift to your capital structure just in light of comments on M&A and then also the recent share repurchases. How do you think about your capital structure -- you completed a successful high-yield offering earlier this year. Would you continue to use high-yield to augment existing liquidity that you have?

John Doolittle *- Open Text Corporation - CFO*

Paul, it's John. So as we talked about before, we did do the high-yield issue about a year ago, just under a year ago. That was an opportunistic financing. We took advantage of a very frothy high-yield market, which was great. We did it for a few reasons.

One is to balance out our fixed floating ratios and so we'll continue to look at that as we move along. We're pretty happy with our capital structure right now. As I mentioned, we're pretty happy with our liquidity position. We'll continue to look at the capital structure as we move forward. High-yield is just one of many tools that we might use.

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

Thank you. I will pass the line.

Operator

(Operator Instructions)

The next question is from Vernon Choya of CIBC World Markets.

Vernon Choya - ***CIBC World Markets - Analyst***

Good afternoon, gentlemen. Just two quick ones for me. Going back to the MCV, you noted -- you mentioned that most of it, it's from the multi-year managed services deals. Do you have like any growth targets for like how the MCV is going to grow over time on a year-over-year basis?

Mark Barrenechea - ***Open Text Corporation - President & CEO***

Yes, we have a target model goal this year of MCV between $280 million and $320 million.

Vernon Choya - ***CIBC World Markets - Analyst***

And that is pretty much the managed service. DO you have any --

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Mark Barrenechea - ***Open Text Corporation - President & CEO***

I think, if I'm recalling the FY15 number was $211 million. So FY15, $211 million; FY16, $280 million, just $320 million.

Vernon Choya - ***CIBC World Markets - Analyst***

I know you said you haven't really touched on the SaaS from a contract value perspective but is it safe to say that once you start seeing a lot of these SaaS deals, would it be like multiples of the existing managed service, MCV?

Mark Barrenechea - ***Open Text Corporation - President & CEO***

No, I think managed services is going to remain the bulk of -- the lead of what we do for some time but our Next-Generation Core, OpenText Core, we're going to unveil and the demo main stage in two weeks. And that will be our first real SaaS opportunity to generate revenue but managed services is going to remain the lead for quite some time.

Vernon Choya - ***CIBC World Markets - Analyst***

Great. And switching gears to the M&A front, what sort of targets look attractive to you in any specific vertical in your business? Is it more on the analytics side? Is it more on the program and the content side? Do you feel you have a good mix of functionality in your offerings?

Mark Barrenechea - ***Open Text Corporation - President & CEO***

I typically don't get into -- typically, I never get into any details, not just typically, as to where we're looking at M&A. At the top of our pipeline, we usually lead with trying to fill whitespaces. I'm happy with the pillars we're in. I'm not looking to get outside of the EIM at this point. There was plenty of whitespace within EIM. So top of our funnel is just filling whitespaces in the current markets we're in.

Vernon Choya - ***CIBC World Markets - Analyst***

Great, that's all I've got. I will pass the line. Thanks.

Operator

This concludes time allocated for questions on today's call. I will now hand the call back over to Mr. Barrenechea for closing remarks.

Mark Barrenechea - ***Open Text Corporation - President & CEO***

All right. Thanks, everyone, for joining us today. I am very optimistic about FY16 and look at it to be a transformative year for us. Our strong earnings engine got even stronger. Our ultimate financial goal is cash flow. Our capital allocation approach, I think, is market-leading with our view on dividend buybacks and how we generate return from M&A.

We have a catalyst release coming up for us with Suite 16 and Cloud 16, and we are looking forward to drive aggressive new customer acquisition upgrade and competitive replacement programs and our customers will get their first shipments of Suite 16 and Cloud 16 this quarter. I hope you're there to join us at Enterprise World. I look forward to seeing you all there. Thanks for your time today.

Operator

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

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