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OTEX - Q1 2018 Open Text Corp Earnings Call

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OVERVIEW:

Co. reported 1Q18 total revenue of $641m and GAAP net income of $37m or $0.14 per diluted share.

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PRESENTATION

Operator

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

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

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

Thank you, operator, and good afternoon, everyone. On the call today is OpenText Vice Chairman, Chief Executive Officer and Chief Technology Officer, Mark J. Barrenechea; and our Chief Financial Officer, John Doolittle.

We'll have some prepared remarks, which will be followed by a question-and-answer session. This call will last approximately 60 minutes, with a replay available shortly thereafter.

I'd like to take a moment and direct investors to the front page of the Investor Relations section of our website, where we posted presentations that will be referred to during this call. And now I'll proceed with reading 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 conclusions. Additional information about the material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information as well as risk factors that may project the future performance results of OpenText are contained in OpenText's Form 10-K and recent 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 these forward-looking statements unless required to do so by law.

In addition, our conference call may include discussions of certain non-GAAP financial measures. Reconciliations of any non-GAAP financial measures to their most directly compatible GAAP measures may be found within our public filings and other materials which are available on our website.

And with that, I'll hand the call over to John.

John Marshall Doolittle - *Open Text Corporation - Executive VP & CFO*

Okay, Greg. Thank you. Welcome to the call, everyone.

Let's go through the numbers, and my references will all be rounded in millions of U.S. dollars and compared to the same period in the prior fiscal year unless I indicate otherwise.

Total revenue for the quarter of $641 million, up 30% from last year and $636 million, up 29% on a constant currency basis. Revenue was negatively impacted by $12 million due to acquisition accounting rules and positively impacted by $5 million due to foreign exchange. Total annual recurring revenue of $489 million, up 29% from last year and $487 million, up 28% on a constant currency basis. License revenue for the quarter of $78 million, up 29% from last year and $77 million, up 27% on a constant currency basis. Cloud revenue for the quarter of $194 million, up 14% from last year and $195 million, up 15% in constant currency. New MCV bookings this quarter were approximately $67 million, up 30% compared to $52 million in the same period last year.

Customer Support revenue for the quarter of $295 million, up 41% from last year and $292 million, up 39% in constant currency.

Our customer renewal rate is in the low 90s, similar to last year.

Professional services and other revenue for the quarter of $73 million, up 43% from last year, and $72 million, up 40% in constant currency.

Next, foreign exchange. For the quarter, foreign exchange positively impacted revenue by $5 million and had a positive $0.01 impact on adjusted EPS.

The effect of the positive $5 million by revenue type is broken down as follows: customer support, $3 million; professional services, $2 million; license, $1 million; and cloud was negatively impacted by $1 million.

Gross margins for the quarter were as follows: license margin of 96%, up from 94% last year, mainly from a decrease in third-party technology costs; cloud margin of 56% compared to 59% last year, down primarily due to recent acquisitions; customer support margin 89%, up slightly compared to 88% last year; and Professional services margin of 19%, stable compared to last year.

Adjusted operating income of $201 million this quarter, up 33%. And adjusted operating margin was relatively stable at approximately 31%.

Foreign exchange did not impact our adjusted operating margin materially. On a constant currency basis, adjusted operating margin was 31%. We are tracking towards our fiscal 2018 adjusted operating margin target of between 32% and 35%.

Adjusted EBITDA was $220 million this quarter, up 32% over last year. Adjusted net income of $143 million this quarter, up by 35%. On a constant currency basis, adjusted net income was $141 million, up by 34%.

We're seeing positive impact of margin improvement as a result of bringing our acquisitions onto the OpenText operating model. We expect to realize the full benefit of our recent acquisitions in fiscal 2018.

Interest expense of $33 million in the quarter, which is in line with the estimated run rate we've previously disclosed. And as a result of our additional drawing in the revolver this quarter to fund the acquisitions, we expect our interest expense to increase to approximately $34 million per quarter for the remainder of fiscal 2018.

Adjusted earnings per share for the quarter of $0.54 on a diluted basis compared to $0.43 per share for the same period last year, up 26% and up 23% on a constant currency basis at $0.53 per share on a diluted basis.

GAAP net income for the quarter of $37 million or $0.14 per share on a diluted basis, down compared to $913 million or $3.73 a share on a diluted basis. The decrease in GAAP net income for the quarter was mainly due to a significant onetime tax benefit of $876 million realized in the first quarter of fiscal 2017 that was specifically tied to the IP reorganization and did not reoccur in fiscal 2018.

We implemented a new ERP system this quarter. Since July, we transitioned from our legacy ERP systems to a new consolidated SAP HANA platform. As everyone can appreciate, an ERP conversion of this scale is a complex undertaking, and I'm very pleased with this accomplishment.

Operating cash flow for the quarter was $67 million, down 9% year-over-year. The decrease was in part due to the timing of TSA payments and the expected funding of working capital for Covisint and Guidance. DSO was relatively stable, and I expect stronger operating cash flow performance in Q2 and we're on track for the full fiscal year.

For the balance sheet. We ended the quarter with $376 million of cash, $636 million of deferred revenue.

During the quarter, OpenText acquired Covisint and Guidance for approximately $71 million and $221 million in cash consideration, respectively, net of cash acquired.

Given the timing of when these acquisitions closed during the quarter, they did not materially contribute to our top line. We expect they will be on our operating model within the next 12 months.

As a result of positive EBITDA and lower debt, we expect our debt ratios to improve through the balance of the year. Lower ratios will provide us with improved capacity to support our future M&A growth, and we see a clear path to gross leverage ratio below 3 by year end.

Tax update. Nothing new to report on our ongoing discussions with the IRS, but we will continue to keep you updated on any material new development.

We revised the disclosure of our estimated aggregate liability in the 10-Q to $590 million, up from previous disclosures, solely related to estimated interest that has accrued.

Our adjusted tax rate for the quarter was approximately 15% and is expected to be the same for the remainder of the fiscal year.

ECD update. The revenues from ECD were on plan this quarter. The integration of the business is going well, and adjusted margin performance for this business has improved by approximately 600 basis points from last quarter to approximately 25%. ECD is expected to be on OpenText adjusted operating margin model by January 2018.

Our Board of Directors declared a cash dividend of $0.132 per share for shareholders of record on December 1, 2017, payable on December 20, 2017.

This concludes my remarks, and I'll turn it over to Mark.

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

Thank you, John, and welcome, everyone.

I have 4 topics to cover on today's call. First, Q1 highlights, where we had record annual recurring revenue and positive organic growth. Second, acquisition highlights from ECD and our 2 recent acquisitions of Covisint and Guidance software. Third, I want to emphasize the long-term durability of our business and acquisition model. And lastly, speak to Q2 and our fiscal 2018 expectations. Then we'll open the call to your questions.

So let me start with Q1 highlights and year-over-year comparison. We had a strong start to the fiscal year, as John noted. All revenue lines and all geographies experienced growth.

Americas grew 27%, EMEA grew 34%, and APJ grew 38%.

Total revenue was $641 million, up 30%. And again, we had positive organic growth within Q1.

Annual recurring revenue was $489 million, up 29%. This is a record high for the company.

ARR is the key revenue metric for OpenText. ARR was $1.7 billion last fiscal year, and we have grown ARR every year for the last 5 years. And combined cloud and license renewal rates are among the best in technology. Customer satisfaction, product adoption, gaining business value and a strong product road map drives ARR.

We had 14 deals over $1 million in value: 7 in the cloud, 7 on premise.

Key customer wins included Nestlé, Intuit, Bank of New York/Mellon, AAA, Health and Human Services Agency of San Diego, Interplex and the U.S. Army.

We delivered $78 million of licenses or 29% growth and $67 million of new MCV or 30% growth.

It's important to view license and MCV together. The main difference being license and MCV is a customer deployment choice.

Professional services revenue and margin are on track. We are focused on higher-value services, such as managed services and upgrades, and will optimize for profit over faster revenue growth. We want a world-class PS organization who our customers place their trust in OpenText every day.

On our book of business, 28% originated from new customers, and 40% was influenced by a partner. We had a strong support both from our large SI partners and our global partner network.

And as for geographic breakout, Americas was 59% of our business; EMEA, 31%; and APJ, 10%.

Industries that contributed 10% or more include: services, financial services, health care, CPG/retail, basic materials and technology.

As John also noted, we fully transitioned to our new ERP platform, SAP HANA S4. It's a key part of our digital transformation as we execute our M&A strategy, growth plans and a focus on growing adjusted EBITDA.

Adjusted EBITDA was $220 million or 34%, up 32% year-over-year. We also closed 2 key acquisitions in the quarter, Covisint and Guidance Software.

And let me wrap up my Q1 highlights in speaking just briefly about AI. Gallo Winery has selected OpenText Magellan. Gallo is the largest winery in the world, employs over 6,500 people, manages over 90 brands, and delivers products in over 90 countries. Gallo looks to better understand their customers and further optimize their manufacturing and purchasing decisions, and we're honored to be their trusted partner as they deploy artificial intelligence.

We had a strong start to the fiscal year, and we're pleased with these results.

On to acquisitions. Over the last 8 months, we've completed 3 key acquisitions: the ECD business from Dell EMC, Covisint Corporation and Guidance Software. And we are on track for each of them.

Let me start with ECD. We're on target for revenues, margins, integration and customer success. The team is executing well to our internal business plans. For example, we've expanded ECD's margin profile from 13% to 25% to being effectively double since we've owned the business, demonstrating the strength of the OpenText business model.

In Q1, we had ECD customer wins with CSL, Southern Company and Tata Power, who's been a long-term -- long-time customer of OpenText.

The recent Gartner industry report highlighting OpenText as the market leader in the content services platforms is also a strong reference point for our strategic rationale for this transaction.

It is no longer content management. It's now content services, like our Managed Services.

We are also cross-pollinating our installed bases with extended ECM for SAP, CEM solutions for customer experience management, and our archiving solutions. Customers are making application and platform decisions that can span a decade or more, and we are competing in more opportunities today than we were a year ago.

Over the next 90 days, we expect to complete the vast majority of integration activities and have ECD on our target margin model. Come January, our focus and program shift from integration to performance is going to be an exciting year, too, for ECD.

On to Covisint. On July 26, we closed the acquisition. We paid approximately $71 million, net of cash, or 1x their last reported annual revenue.

Let me start off by saying we purchased the business that is strategically interesting: automotive supply chain, the Internet of Things and Identity and Access Management. Covisint customers are more confident in their purchasing decisions now that they're part of OpenText.

As you know, we purchased and onboarded a business that was not aligned to the OpenText operating model. As we talked about on our last call, Covisint will begin to be accretive to earnings in the second half of the fiscal year.

We've owned the business for just 90 days in Q1, and we have completed the majority of our restructuring. As we apply the principles of the OpenText business system to our ongoing integration, we'll have Covisint on our target model within the first 12 months of operations.

The base automotive business is strong. The upside to our internal business plans include both the Covisint Internet of Things and their new Identity and Access Management solutions. These are 2 new exciting areas for OpenText to bring to our installed base.

We had key wins with Cisco, General Motors and AAA within the quarter.

Let me provide some comments on Guidance Software. On September 14, we closed the acquisition. We paid approximately $221 million net of cash, or 2x their last reported annual trailing 12-month revenues. The acquisition strengthens our leadership position in electronic discovery and opens up a new market in information security.

Guidance runs in over 35 million endpoints today. This is the new install base for us to build on.

We've owned Guidance software for just 2 weeks in Q1 and had no significant revenue impact. We'll have Guidance Software on our target model within the first 12 months of operations.

Initial engagement with customers, employees, resellers and partners has been extremely positive, and we'll provide more updates on our next call.

Let me talk a little bit and spend a few minutes on my third topic, the long-term durability of our business and acquisition model. Our model starts with first principles of operation, operational excellence. Operational excellence drives intelligent growth, where we target new product introductions, low single-digit organic growth and customer coverage expansion. Intelligent growth drives annual recurring revenues, adjusted EBITDA and operating cash flow. We deploy our capital measured by simple metrics on a cash basis; return on invested capital, or ROIC; and clear payback periods. This is the engine that powers our strategic acquisitions.

Acquisitions continue to be our leading growth driver. Look to the strength of our ARR and our adjusted EBITDA and its contribution in Q1. The EIM market is large, growing, strategic to enterprise customers and affords high profits.

Our acquisition activity continues, and there are no scarcity of EIM companies for us to consider for acquisition. We can learn from high-performing software companies as they deliver adjusted EBITDA margin percentages in the 40s. This is what I call peak EBITDA.

Our tax rate is efficient. For every $100 million of acquired revenues implies deploying $200 million of capital at 2x revenue multiples.

Over the long term, with expanding EBITDA and cash flows and an efficient cash tax rate, this trifecta demonstrates how our acquisitions are self-funded. This then all feeds back into operational excellence, and the cycle repeats, learns and improves.

So those are a few comments on our business and M&A model.

Now let me transition to my fourth topic, which is Q2 and fiscal 2018 expectations, and then conclude -- and then I'll conclude my prepared remarks.

Again, it was a strong start to the fiscal year, $641 million of revenue and 30% year-over-year growth. Record annual recurring revenue, or ARR, of $489 million and 29% year-over-year growth. We had positive organic growth in the quarter, adjusted EBITDA of 34%. We closed 2 key acquisitions, and ECD is on track.

My first summary point is this. We enter fiscal 2018 well aligned to market and customer demand drivers, and we're at the beginning of a new product cycle, with offerings such as Release 16 EP2 and, soon, EP3; Magellan in AI; Covisint in the Internet of Things; Guidance in information security; info archive and information life cycle management, team site in Media Manager and customer experience management as well as our Discovery solutions.

So we're very aligned to how analysts are thinking about the market, market trends and customer demand drivers.

For my second summary point, we are very focused on operations today: a strong balance sheet, operating cash flow growth, margin improvements to the base business and acquisitions, and completing the integrations of ECD, Covisint and Guidance Software. And as John highlighted, we expect strong Q2 OCF, operating cash flow, and we're on track for the full fiscal year.

And lastly, as we think about Q2, we expect it to be seasonally strong. Our internal revenue expectations, and that is all-in revenue, all revenue, including any FX impact, we expect mid- to high single-digit F '18 Q1 -- to fiscal '18 Q2 sequential revenue growth. Again, quarter-over-quarter, sequentially, we're expecting all-in-revenue growth of mid- to high single-digit. We're also confirming our annual target model for margin. And as we said on our last call, we expect stronger margin contribution in the second half of the fiscal year.

And with these remarks, we'd like to open up the call to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Paul Treiber, who's with RBC Capital Markets.

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

Just wanted to focus on the strength in ARR versus last quarter. Are there any trends that you can outline in terms of maintenance renewal rates or in terms of new cloud bookings beyond what you've already mentioned that drove the quarter-over-quarter growth?

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

Paul, this is Mark. Thanks for the question. Well, we look towards previous quarters and years MCV bookings that drive up -- that take time to deploy and customers to go live and then flow into revenue, so I would highlight that, number one. And I look to the strength of our -- and that's organic activities. I would look towards the strength of our M&A model. The businesses that we've been purchasing have high recurring revenue businesses, either in the cloud or in maintenance. And third, strong renewal rates, and the long-term stickiness and importance of EIM.

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

Okay. And just turning to sales force for a moment, when you started with the new fiscal year, how has the integration of ECD into OpenText sales force gone? Has there been any meaningful churn in that as they came over? And then, what are the key priorities for both sales forces now?

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

Well, the integration is, as we've talked, I think, last quarter, completely done and completely integrated. So it's one go-to-market team today. Our turnover has been in line with market norms, so nothing really to call out there. And as we talked -- and as I mentioned a little earlier, we had positive organic growth in the quarter. And that's reflective of stability in the field, of executing, and starting to see some of our cross-selling programs come to fruition, such as information life cycle management, which was strong within the quarter, bringing extended ECM for SAP into the Documentum base. And we have now other opportunities with solutions like Identity and Access Management to bring into our trading grid partners; and security and Guidance into the full install base. So integration, done and completed well back in late spring, early summer. Retention rate's high and right -- and internal are right in line with industry numbers, and another quarter of positive organic growth.

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

And just lastly, for me, you mentioned the seasonality going into Q2. Is there anything unusual versus the normal track record that you see there, perhaps with the ECD in any way? And then related to that, the Release 16 product cycle sounds like you're quite upbeat on it. Would that play into some of the strength you may see in the December quarter?

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

No. I kind of take the question, Paul, this way. With our recent acquisitions, does it kind of change the rhythm of the business as we get into the last quarter of the calendar year or our Q2. No, I don't see that at all. I think it's kind of that typical ICT last quarter to the year. And again, I'll take it as an opportunity to go back to my prepared remarks that sequentially, Q1 -- fiscal -- last quarter to this quarter, our internal expectations are to see mid- to high single-digit, all-in-revenue growth. So typical seasonality. The rhythm of the business hasn't changed with the acquisitions.

Operator

The next question comes from Thanos Moschopoulos from BMO Capital Markets.

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

Mark, you typically don't provide guidance, so just curious as to what prompted you to do it this time around. It's certainly appreciated. We're just curious as to what prompted you to provide the guidance.

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

We just wanted to ensure that clarity given 3 acquisitions in a year. So just very simple. We wanted to make sure that everyone had the clarity given Covisint, Guidance and ECD. Real simple.

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

Fair enough. Seems like license revenues had a larger-than-typical sequential decline, and I'm wondering -- I think you alluded to it in your remarks, would you say that's because of maybe more customers opting for a cloud deployment as a opposed to an on-premise deployment?

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

Yes, Thanos, fair question. Of course, total revenue, it was a strong quarter. But yes, I really feel you need to look at license and MCV together because a customer is just going to make -- we want to win the customer, as we've always said. We're agnostic onto what revenue line it falls as long as we win the customer. And in Q1, we had more customers choose cloud over on-premise. It wasn't quite so in Q4, right?

John Marshall Doolittle - *Open Text Corporation - Executive VP & CFO*

Yes.

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

So with license, I think $78 million versus $87 million year-over-year. But MCV was up strongly, $67 million versus $52 million year-over-year. All in, kind of stable. So it's really the customer's choice.

John Marshall Doolittle - *Open Text Corporation - Executive VP & CFO*

I would agree, Mark. It ebbs and flows, Thanos, and I think it's very tough to call one quarter a trend. As Mark said, last quarter, it was the opposite. So look at them together, I think.

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

But all in, we couldn't be more pleased with ARR. It was a record quarter for ARR.

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

Fair enough. And just one last one for me. John, could you tell us what the ECD margins would have been if not for the acquisition accounting impact? I mean, based on my math, I'm coming up with 31%. But I don't know if I'm doing the math correctly or not.

John Marshall Doolittle - *Open Text Corporation - Executive VP & CFO*

Yes. I don't have that off the top of my head, Thanos, but it was 25% on a reported basis, as I've said. And I think we've given you the PPA waterfall, so you can probably back into it or get pretty close.

Operator

The next question comes from Paul Steep with Scotia Capital.

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

Mark, could you maybe talk a little bit about with the new SAP -- the transition of the product over to SAP's latest product set, what you see the potential looking like there, and maybe how that played into the quarter or how it's playing into the next couple of quarters?

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

Paul, thanks for the question. The partnership has never been stronger. And as I like to say, products will come and go, but the relationship endures. And the relationship between OpenText and SAP is a very special relationship. And it really has never been stronger. And with the SAP prioritization of cloud in HANA, and as they go out and excite their installed base, we're right there next to them, exciting their installed base. And we now -- as we had -- we've had a 15-year relationship on prem and we have that full relationship now on cloud. And we're learning to sell with them in the cloud over the last few quarters. And I think we're starting to see wins turn into revenue there as well. So how does it affect our road map, to your question? We're fully supportive of HANA and all those initiatives, and we're fully enabled. We'll continue to remain fully compliant and fully exploitive of all their latest technologies.

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

Great. I guess, my last one for tonight would just be on, if we think about Guidance, you've talked about obviously bringing it onto the model. I was thinking more about the opportunity, and you could talk to the opportunity that Guidance gives you while it's small, in bringing it back into the base on -- or Content Server, how we should actually think about what that opportunity looks like long term.

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

Yes, fair enough. Thanks, Paul. And look, we -- there is our zone of businesses we really like on acquisitions, and then there's a very special place within those zones when you can find a business that you can protect the base, as we can here in Discovery, but we can unlock upside through new initiatives. I think that Guidance Software really fits into that kind of unique zone within our zone that we like to play in. And so strong path on electronic discovery, great complement with Recommind. But the upside for us is to really unlock the information forensics and information security. They operate on approximately 35 million endpoints today. And what we're working on in our road map is to get those 35 million endpoints speaking to our Content Services platform. That will unlock some value. Get those 35 million endpoints talking to Magellan so we can analyze those behaviors and other interesting things on the endpoints. So we'll report along here as we go quarter by quarter, but we really like the base business, clear path to getting it to our operating model. And I'm looking at those 2 ways, integration to content services, and having these endpoints talk to Magellan to unlock some upside for information security and forensic.

Operator

Our next question comes from Phillip Huang of Barclays.

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

Wanted to go back to the ECD margins. A question maybe for longer term, just given the overlap with your existing business, I'd imagine that contribution -- margin contribution can be quite significant once you've fully optimized the business over time. So I'm not sure if you guys necessarily look at it this way, but what do you think ECD's theoretical margin contribution could be in the longer term, not just within the 12 months of closing the transaction? You've obviously given us the cost synergies number, but I was just wondering if there's any upside to that, if any, at all.

John Marshall Doolittle - *Open Text Corporation - Executive VP & CFO*

Yes. I mean, it's a good question, Phillip, and we -- I'm not going to give you a specific answer in terms of where we think ECD's theoretical margin might go to. But look, we've made a lot of progress so far. I think our first quarter was somewhere around 13%. This quarter, it was 25%. We're committed to get on our operating model by the end of the next quarter. And it's all part and parcel of us getting to our 2020 aspirational model of 34% to 38%, which is driving improvements across the board, including in ECD.

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

Right. That's helpful. So I guess, directionally, you guys look at it as certainly above sort of where OpenText's current margin would be achievable. Just given the nature of the transaction, it strikes me as it certainly would be higher than where OpenText currently is.

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

Well, let me take -- just one example, maintenance and renewals. That is a business that gets more efficiencies with scale. And as we look -- as we brought on board the recurring revenues from ECD, that is a business that systems scale for support, they scale for customer self-service; renewal agents scale, given the business models are completely identical. So that's a good example, where 1 plus 1 can equal a little more than 2.

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

Right. No, that's very helpful. Maybe last one for me, just wanted to ask you for an update on the runoffs of the lower-margin professional services contract, where we are on that. And where do you see the remainder falling off? Are we almost done there?

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

Yes. Fair enough. Thanks, Phillip. I mean, in the quarter, we had 19%, I think, for the -- 18.8%?

John Marshall Doolittle - *Open Text Corporation - Executive VP & CFO*

Yes. 19%, yes.

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

19% for PS margins, up from roughly 15% last quarter. So certainly, real good progress, and really strong PS growth year-over-year, -- $73 million versus $51 million or 43% year-over-year. I do want to -- I want to temper that just by saying we're going after high-value dollars in PS. So we're more focused on the margin versus those type of revenue growth numbers. But we're happy when they come along as it did. So I'd say, another 1 to 2 quarters on that low-margin business. You saw good progress in this quarter with the margin profile, up from 15% to 19%.

Operator

(Operator Instructions) There are no more questions at this time. I'll now hand the call back over to Mr. Barrenechea for any closing remarks.

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

All right. Well, thank you, everyone, and thanks for joining today.

This quarter, members of the team will be attending the RBC Conference in Toronto, and the Barclays conference in San Francisco, and we hope to see you there. And that concludes today's call.

John Marshall Doolittle - *Open Text Corporation - Executive VP & CFO*

Thank you.

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

Thanks, everyone.

Operator

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