

EQUITY RESEARCH

August 3, 2023

Earnings Update

OPEN TEXT CORPORATION

FQ4 Results In Line; Micro Focus Integration Progressing Well

Our Conclusion

OTEX reported FQ4 results that were in line with consensus on headline metrics. OTEX reiterated its F24 outlook with slight tweaks: the F24 revenue growth outlook is 2%-3% lower, which management attributed to FX, and Micro Focus restructuring expenses have increased by \$30MM through F25. We calculate roughly flat FQ4 constant currency organic growth in the base Open Text business in what is typically a seasonally strong FQ4, and organic growth of 1.2% for F23. Management is forecasting organic growth of 1%-2% for F24; however, we continue to see a challenging path to driving sustained organic growth out of Micro Focus given the mix of legacy businesses. With FQ4 results, we are rolling our valuation year over to F25 and our price target goes to \$42 (from \$41). We retain our Neutral rating and continue to view OTEX as fairly valued at current levels.

Key Points

FQ4 Results Highlights: OTEX reported revenue of \$1,491MM, in line with consensus of \$1,489MM. Adjusted EBITDA of \$463MM was also in line with consensus (\$464MM), with adjusted EBITDA margin of 31%. FCF of \$91MM was above consensus of \$38MM. Cloud bookings were +12% Y/Y, with ARR of \$1,200 in line with CIBCe at \$1,236MM. FQ4 renewal rates (excluding Micro Focus) were reported at 94% for cloud and 95% for customer support.

Micro Focus Integration Continues: Micro Focus contributed \$602MM in revenue at a 28% adj. EBITDA margin in FQ4. Margins were up sequentially from ~23% in FQ3 as the integration continues. OTEX completed the Micro Focus sales integration by the end of FQ4 and is beginning to look at cross-selling, with security and AI two areas of cross-selling focus. The company is working to drive Micro Focus to organic growth exiting F24. We view the maintenance renewal rate as a key to the return to organic growth. Management did not disclose Micro Focus' maintenance renewal rate in the quarter, but noted that it is targeting a Micro Focus renewal rate in the high 80% range exiting F24. OTEX provided additional details around the MicroFocus integration, with \$260MM of the \$400MM in annualized cost savings actualized in F23 and another \$144MM expected in F24 (primarily headcount reductions/facilities reduction and vendor consolidation). The company expects to incur \$180MM to \$200MM in special charges in F24.

Announces AI Offering: OTEX provided additional details on its AI strategy with FQ4 results, including details on its Aviator product offering for both its public and private cloud solutions. OTEX's AI solutions bring together predictive AI-led analytics, AI-powered conversational search, and generative AI for Information Management. Aviator is expected to be generally available next quarter and we expect additional pricing details with general availability. The development costs related to Aviator have been included in Open Text's F24 target model of R&D of 14%-16% of revenue. We do not expect these offerings to be material to F24 (AI and Analytics represented ~5% of F23 revenue), but see upside as OTEX rolls out a full suite of AI solutions.

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Neutral

OTEX-NASDAQ, Sector: Information Technology

Current Price (8/3/23): US\$40.48

Price Target (12-18 mos.): **↑US\$42.00**

Previous: US\$41.00

CIBC Estimates and Valuation

(Jun. 30)	2022	2023	2024	2025
Adj. EPS	3.22A	3.30A	4.88E	4.86E
Prior		3.24E	5.03E	
Adj. EBITDA(mln)	1,265.0A	1,473.0A	2,153.6E	2,226.8E
Prior		1,510.6E	2,199.6E	

Adj. EPS	Q1	Q2	Q3	Q4
2024	0.97E	1.21E	1.28E	1.42E
Prior	1.06E	1.22E	1.30E	1.44E
2023	0.77A	0.89A	0.73A	0.91A
Prior				0.85E

Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2024	462.8E	535.7E	557.6E	597.5E
Prior	491.5E	540.2E	562.3E	605.6E
2023	304.1A	340.9A	365.2A	462.8A
Prior				500.4E

Valuation	2022	2023	2024	2025
P/E	12.6x	12.3x	8.3x	8.3x
EV/EBITDA	16.0x	13.7x	9.4x	9.1x

Stock Performance and Key Indicators

Enterprise Value	US\$20,245M	Shares O/S:	270.8M
Market Cap.:	US\$10,961M	Float:	256.4M
52-wk Range:	JS\$25.50 - US\$43.18	Div. / Yield:	US\$0.88/2.18%

OTEX-NASDAQ



(Source: FactSet)

All figures in US dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 5. For required regulatory disclosures please refer to "Important Disclosures" beginning on page 6.

Open Text Corporation (OTEX-NASDAQ) — Neutral

Price (8/3/23) US\$40.48 12-18 mo. Price Target US\$42.00

Sector: Information Technology

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Peer Comparison	2022	2023	2024E	2025E
P/FCF - Enterprise Information M	17.6x	-	-	-
P/FCF - Open Text	11.5x	-	-	-
Key Financial Metrics	2022	2023	2024E	2025E
Net Debt	2,526	7,651	7,045	5,971
Total Debt	4,220	8,883	8,283	7,683
Net Debt/EBITDA	2.0x	5.2x	3.3x	2.7x
Free Cash Flow	889	655	843	1,313
Sales Growth	3.2%	28.4%	31.5%	2.0%
Per Share Data	2022	2023	2024E	2025E
FCFPS	3.27	2.42	3.11	4.85
Adj. EPS Dil.	3.22	3.30	4.88	4.86
Wgt Avg # of Shares	271.3	270.3	270.9	271.1
FD Number of Shares	271.9	270.4	270.8	270.8
Ratio	2022	2023	2024E	2025E
ROIC	16.7%	9.9%	16.5%	18.1%
Income Statement	2022	2023	2024E	2025E
Revenue	3,494	4,485	5,898	6,016
Cost of Goods Sold	864	1,093	1,242	1,278
Gross Profit	2,630	3,392	4,656	4,738
Gross Margin %	75.28%	75.62%	78.95%	78.76%
Tot Operating Exp	1,104	1,104	1,104	1,104
Adj. EBITDA	1,265	1,473	2,154	2,227
Adj EBITDA Margin	36.2%	32.8%	36.5%	37.0%
D&A	(504)	(657)	(918)	(919)
Interest Expense	(158)	(329)	(463)	(428)
Pretax profit	516	221	742	850
Tax Expense	119	71	104	170
Adjusted Net Income	876	891	1,320	1,315
Adjusted Net Margin	25.1%	19.9%	22.4%	21.9%
Cash Flow Statement	2022	2023	2024E	2025E
Net CFO	982	779	939	1,409
Capex	(93)	(124)	(96)	(96)
Free Cash Flow	889	655	843	1,313
Balance Sheet	2022	2023	2024E	2025E
Cash & ST Investment	1,694	1,232	1,238	1,712
Goodwill	5,245	8,663	7,869	7,076
Total Assets	10,179	17,089	15,858	15,519
LT Int-Bearing Debt	4,220	8,883	8,283	7,683
Total Liabilities	6,148	13,068	11,535	10,725
Shareholders' Equity	4,031	4,021	4,323	4,794

Source: FactSet, Company Reports & CIBC World Markets Inc.

Company Profile

Open Text develops enterprise information management (EIM) solutions, which enable companies to control and better utilize all forms of information.

Investment Thesis

1) Largest Independent EIM vendor 2) Broad range of EIM solutions sold directly and through partnerships 3) Strong track record of Capital Allocation and Acquisition Integration.

Price Target (Base Case): US\$42.00

Our price target is calculated using 2.0% revenue growth, 37% EBITDA margins and a 8.5x EV/EBITDA multiple

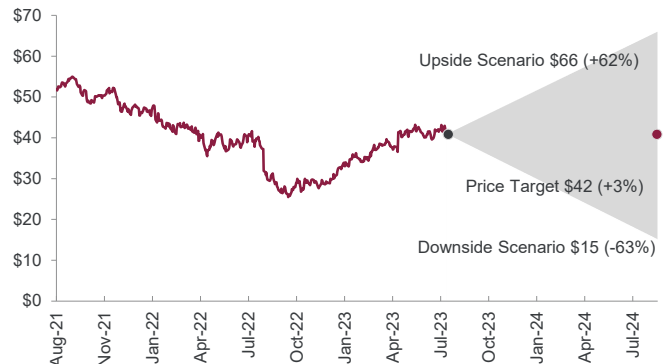
Upside Scenario: US\$66.00

Our upside scenario is calculated using 12% revenue growth, 38% EBITDA margins and a 10x EV/EBITDA multiple.

Downside Scenario: US\$15.00

Our downside scenario is calculated using a 1% revenue growth, 32% EBITDA margins and a 6x EV/EBITDA multiple.

Scenario Analysis:



FQ4 Results

Exhibit 1: Open Text – Financial Summary, Q4/F23 (\$MM except per share)

	Q4-F2023		Q4-F2022	Y/Y%	Q3-F2023	Q/Q%
	Actual	Cons				
Consolidated						
Revenue (\$mln)	1,491	1,489	902	65.2%	1,245	19.8%
Product License	229	223	95	141.6%	140	63.8%
Cloud	452	456	412	9.7%	435	3.7%
Services	105	108	68	54.9%	94	12.3%
Maintenance	705	687	328	114.8%	576	22.5%
Adjusted EBITDA	463	464	314	47.6%	365	26.8%
EBITDA Margin	31.0%	31.2%	34.8%	-10.7%	29.3%	5.8%
Adjusted EPS	\$0.91	\$0.88	\$0.80	13.9%	\$0.73	24.2%
Cash Flow from Operations	115	89	252	-54.2%	337	-65.8%

Source: Company reports, FactSet and CIBC World Markets Inc.

Segmented Results: All revenue segments came in relatively in line with consensus, with License revenues of \$229MM vs. consensus of \$223MM; Cloud revenues of \$452MM vs. consensus \$456MM; Services revenue of \$105MM vs. consensus of \$108MM; and Maintenance revenue of \$705MM, above consensus of \$687MM. Constant-currency Cloud revenue growth was ~10.6% Y/Y.

Dividend Increase: Open Text declared a quarterly dividend of \$0.25 per share, resulting in an annualized dividend of \$1.00 per share for F24, an increase over F23's annualized dividend of \$0.97.

Changes To Our Model: We have updated our model for FQ4 results and the revised F2024 outlook. We are expecting revenue growth of 32% in F2024, with 36.5% adjusted EBITDA margin.

Exhibit 2: Open Text – Changes To Our Model, 2023 - 2025E

	Revenues (\$MM)	EBITDA (\$MM)	Adjusted EPS	CFO
2023A	4,485	1,473	3.30	779
2024E				
CIBC est. – new	5,898	2,154	4.88	939
CIBC est. – prior	6,084	2,200	5.03	988
Consensus	5,991	2,213	4.68	981
2025E				
CIBC est. – new	6,016	2,227	4.86	1,409
CIBC est. – prior	6,132	2,240	4.89	977
Consensus	6,146	2,342	5.14	1,364

Source: Company reports, FactSet and CIBC World Markets Inc.

Environmental, Social and Governance (ESG) Metrics for OTEX-NASDAQ

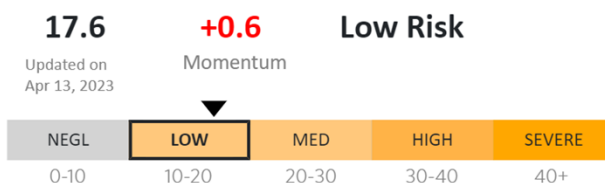
CIBC ESG Metrics

Governance Metrics	2017	2018	2019	2020	2021
Insider Ownership	2.3%	2.0%	1.8%	1.7%	1.8%
Board Gender Diversity	30.0%	27.0%	27%	33%	30%
Separation of Chair & CEO	YES	YES	YES	YES	YES
Dual-class Ownership?	NO	NO	YES	NO	NO
Disclose ESG Data?	YES	YES	YES	YES	YES
Social Metrics	2017	2018	2019	2020	2021
CEO Comp./Mkt Cap*	\$1.7	\$0.9	\$0.9	\$0.9	\$0.9
Diversity Targets	NO	NO	NO	NO	NO
Women Managers	8%	33%	21%	7%	29%
Environmental Metrics	2017	2018	2019	2020	2021
Emissions Intensity**	NA	0	0	0	0
Net-zero Targets?	NO	NO	NO	NO	NO

*CEO Compensation is shown as per thousand dollars of market capitalization

**Emissions Intensity calculated as total emitted CO2e divided by million \$ of CAD revenue

Sustainalytics ESG Risk Rating



Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK	PERCENTILE
	(1 st = lowest risk)	(1 st = lowest risk)
Global Universe	2323/15536	16th
Software & Services INDUSTRY	129/1074	13th
Enterprise and Infrastructure Software SUBINDUSTRY	41/451	10th

Sustainalytics Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Report

Issue Name	ESG Risk Exposure	ESG Risk Management	ESG Risk Rating	Contribution to ESG Risk Rating
	Score Category	Score Category	Score Category	
Corporate Governance	9.0 High	57.7 Strong	3.8 Low	21.6%
Human Capital	8.0 High	57.6 Strong	3.6 Low	20.6%
Product Governance	2.2 Low	7.5 Weak	2.0 Low	11.6%
Resource Use	2.0 Low	11.9 Weak	1.8 Negligible	10.3%
Business Ethics	3.0 Low	63.0 Strong	1.2 Negligible	6.8%
Data Privacy and Security	7.6 Medium	70.0 Strong	3.3 Low	19.0%
Carbon -Own Operations	2.3 Low	22.4 Weak	1.8 Negligible	10.1%
Overall	34.1 Low	52.1 Strong	17.6 Low	100%

CIBC Quantitative Scorecard

Style	Within Sector		Within S&P/TSX Comp.		
	Rank	Delta	Style	Rank	Delta
Value	2	0	Value	72	+1
Momentum	3	-2	Momentum	22	-18
Quality	6	0	Quality	96	0
Market	4	0	Market	63	0
Low Volatility	3	0	Low Volatility	93	-4
Growth	9	-1	Growth	190	-32

Note: Ranking out of 11 stocks

Note: Ranking out of 227 stocks

General Notes Behind the Quantitative Scorecard

Delta refers to the change in the ranking over the past month. Number of stocks "Within Sector" is defined by the number within the GICS. In the "Within S&P/TSX" category, we use all stocks in the S&P/TSX Composite. For detail on the Quant Factors included in each style above, please contact the CIBC Portfolio Strategy Team.

The table above is based upon quantitative, statistical, and mathematical analysis and is not intended to serve as a fundamental recommendation.

CIBC Technical Scorecard

Factor	TSM Score	Factor	TSM Score
TSM	7	Momentum	B
Beta	0.97	MACD	A
Volatility	↓	Alpha (Sector)	D
Trend	↑	Alpha (Index)	B
RSI	Neutral		

General Notes Behind the Technical Scorecard

TSM: The Trendspotting Matrix uses technical factors to score uptrend durability. **Momentum and alpha** metrics compare performance over one-month, one-quarter and one-year timeframes, outputting a rating from A to D. **Trend/Volatility** metrics measure price deviations relative to underlying moving averages. **RSI** is an oscillator that provides mean-reversion estimations. **MACD** is a momentum indicator rated from A to D based off the strength of its signal.

The table above is based upon a technical methodology that examines the past trading patterns and trades and is not intended to serve as a fundamental recommendation.

Source: Sustainalytics, Compustat, FactSet, Bloomberg and CIBC World Markets Inc.

Price Target Calculation

Our price target of \$42 is calculated using 2.0% revenue growth, 37% EBITDA margins and a 8.5x EV/EBITDA multiple.

Key Risks To Price Target

The risks to our price target include, but are not limited to: the current uncertain economic climate and potential delays in and/or downsized spending on enterprise application software products; increasing competition from other enterprise application software vendors; the company's ability to meet future capital needs in order to support operations; the company's ability to introduce new or updated technology in a timely manner; the company's ability to successfully integrate and operate any current or future acquisitions; and the loss of key management or other employees.

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Outperformer	OP	Stock is expected to outperform similar stocks in the coverage universe during the next 12-18 months.
Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
Not Rated	NR	CIBC World Markets does not maintain an investment recommendation on the stock.
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Overweight	O	Sector is expected to outperform the broader market averages.
Marketweight	M	Sector is expected to equal the performance of the broader market averages.
Underweight	U	Sector is expected to underperform the broader market averages.
None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

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(as of 03 Aug 2023)	Count	Percent	Inv. Banking Relationships	Count	Percent
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Neutral	131	44%	Neutral	131	100%
Underperformer	6	2%	Underperformer	6	100%
Tender	1	0%	Tender	1	100%
Restricted	4	1%	Restricted	4	100%

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