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Conference Call Transcript

OTEX - Q1 2011 Open Text Earnings Conference Call

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Oct 27, 2010 / 09:00PM GMT, OTEX - Q1 2011 Open Text Earnings Conference Call

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Open Text - President, CEO

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Open Text Corporation first quarter fiscal 2011 financial results conference call.

(Operator Instructions).

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

Greg Secord - Open Text - VP, IR

Good afternoon, and thank you for joining us. Please note that during the course of the conference call, we may make projections or other forward-looking statements relating to the future performance of Open Text, or its subsidiaries. These are all statements that may contain forward looking-information, and actual results could differ materially from a conclusion, forecast, or projection in the forward-looking information.

Certain material factors or assumptions were applied in drawing a conclusion, or while making a forecast or projection as reflected in the forward-looking information. Additional information about the material factors or assumptions 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, are contained in Form 10-K and Form 10-Q's for Open Text, as well as in our press release that was issued earlier today.

Before we get started, I would just like to comment on some recent and upcoming investor events. As I mentioned last quarter, on September 13th Open Text held an Analyst briefing with at the Microsoft campus at Redmond, Washington. With 11 representatives of Microsoft management participating, this briefing outlined the value our ECM Suite brings to the Microsoft partnership. As a reminder, the presentation materials from the Microsoft analyst briefing are available in the Investor Relations section of our website.

In the two week -- in two weeks on Wednesday, November 10th, we will be hosting an Analyst and Investor Day at Content World, our annual users conference being held in Washington, DC. The Analysts briefing runs all day on Wednesday, and features exclusive opportunities to meet with partners like Oracle and SAP, as well as a chance to meet with various Open Text's executives. We will present a detailed overview of the product road map, and host open discussions on our product development strategies.

We integrate the Analysts Day with our regular conference program, and allow our investors, and analysts and attendees to freedom to meet and speak with customers at their leisure. If you're interested in attending, please e-mail me directly, and we will have someone from the IR team provide you with all the registration details. And with that, I'll turn the call over to Paul.

Paul McFeeters - Open Text - CFO

Thank you, Greg. I will highlight the results of our first quarter. Total revenue for the quarter was \$217 million, up 3% compared to \$211 million for the same period last year. License revenue for the quarter was \$42.6 million, down 10% compared to \$47.3 million reported for the same period last year. Maintenance revenue for the quarter was \$130 million, up 5% compared to \$124 million for the same period last year. Services and other revenue in the quarter was \$45 million, up 11%, compared to \$40 million in the same period last year.

Gross margin for the current quarter, before amortization of acquired technology, was 73%, which remained unchanged from the same period last. Gross margins for each of our revenue lines in the quarter were 92% for license, 85% for customer support, and 22% for services. Gross margins for the same quarter last year were 93% for license, 83% for customer support, and 18% for services. Pretax adjusted operating income increased 29% year-over-year from \$48 million, or 22.7% in Q1 last year to \$62.1 million or 28.6% in the first quarter this year.

Adjusted net income increased 52% year-over-year from \$32.8 million to \$50 million in the first quarter of this year. First quarter adjusted EPS was \$0.86 on a diluted basis, up from \$0.58 per share in the same period a year ago. The adjusted tax rate for the quarter is 14%. We expect the FY 2011 adjusted tax rate to be in the 12% to 14% range, and cash taxes to be in the 5% to 10% range. Net income for the first quarter in accordance with GAAP was \$21.7 million or \$0.37 per share on a diluted basis, compared to \$1.7 million or \$0.03 per share on diluted basis for the same period a year ago. There are approximately 57.9 million shares outstanding on a fully diluted basis for the quarter.

Operating cash flow in the quarter was \$48.9 million, compared to \$4.5 million in the same period last year. Absence the impact of restructuring and direct acquisition related costs incurred in the quarter, operating cash flow would have been approximately \$56 million for the quarter, versus approximately \$14 million in the same period last year. On the balance sheet as of September 30, 2010, deferred revenue was \$222 million, compared to \$230 million as of June 30, 2010. And accounts receivable was \$104 million, compared to \$132 million at the end of last year. Days sales outstanding were 43 days as of September 30th, compared to 50 days for the previous quarter, and 58 days at the end of Q1 last year.

The sequential effect of foreign currency movement was a positive \$0.03 per share. We did not make any new acquisitions during the quarter, however, we did announce today our acquisition of StreamServe, a leading provider of business communication solutions. Total consideration for this acquisition is expected be approximately \$71 million, and approximate \$62 million net cash acquired. The purchase consideration is subject to customer (inaudible) purchase price and hold back adjustments.

Streamserve's revenue run rate is approximately \$50 million on an annual basis, and we expect this acquisition to be slightly accretive to our operations. There were no changes to our pretax adjusted operating model for this quarter, and we expect our annual net operating net margin model to continue to be in the range of 25% to 30%. Full details of our operating model are available on our website. Now I'll turn the call over to John.

John Shackleton - Open Text - President, CEO

Thank you, Paul Hello, everyone, and thank you for joining us. While I was pleased with our earnings, I was disappointed with our license sales performance this quarter. License revenue came in lighter than planned, mainly due to a slowdown in IT spend in Europe, particularly in the UK which was impacted by the elections. As Paul said in the quarter, we generated \$42.6 million in license revenue, with North America responsible for 54% of revenue, Europe for 37%, with remaining 9% coming from Asia PAC. Of note, Latin America did well, as did Canada, and Asia PAC. Of the license revenue, approximately 34% came from new customers, and 66% from our install base. We had three transactions over \$500,000, and an additional two transactions over \$1 million. This compared to six transactions over \$500,000, and three transactions over \$1 million last year. Average transactions size was approximately \$280,000, down slightly from \$320,000 in the same quarter last year.

Despite the lightness in Q1, the pipeline is looking strong, and we are confident that we will make up this quarter shortfall in the remaining months of fiscal 2011. We continue to see strength in the government vertical, and we are still seeing large transactions on the horizon, that these transactions are typically have longer sales cycles. Some of these are in Europe, many are elsewhere, including regions like Latin America, which is recently been showing strong sales results.

An example of this, is Porto Seguro, a largest insurance provider based in Brazil. Porto Seguro purchased Open Text web management portal, social communities for their internet and extranet, these are some of our new newly released products. AGL Energy, Australia's largest renewable energy company purchased Open Text Extended ECM for SAP solutions. It also purchased e-mail archiving for Lotus Notes and Microsoft Exchange, and archiving and content lifecycle management meant for Microsoft SharePoint. In Q1, we saw license revenue broken down by vertical, as 21% from technology, 18% from services, 16% for financial services, 16% for public sector, 8% for natural resource and base materials, and 7% for healthcare. Once again, compliance based solutions were responsible for approximately 60% of our license sales.

From a sales operations standpoint, we closed the quarter with a combine sales force of over 200 -- 323 quota-carrying sales executives, slightly down from 340 last quarter. With the current number of sales reps, we have sufficient capacity to support our pipeline goals. Maintenance retention in the quarter has remained high at over 93%. On the partner front, we announced a complete set of products and services to manage large numbers of Microsoft SharePoint 2010 sites, from creation through archiving. As I mentioned last quarter, we also signed an agreement with Oracle to share technologies that leverage Oracle performance, and platform code, and to deliver a new suite of ECM solutions for archiving eDiscovery and legal risk mitigation. The Oracle agreement is progressing on plan.

Turning to new products in the quarter, we announced the release of Open Text ECM Suite 2010. This is the largest release effort in the Company's history, to create the industry's most comprehensive, fully integrated ECM solutions suite. In the quarter, we also announced the availability of a new integration between Open Text web management, formerly the Vignette content management, and Open Text media management, which is designed to help customers shorten the content creation and deployment lifecycle for their media.

As forementioned earlier this afternoon, we announced an agreement to acquire StreamServe. StreamServe will provide document output and customer communication management software to the Open Text ECM Suite. StreamServe solutions are designed for easy integration with ERP supply chain management, and applications including SAP, and Oracle, and Lawson.

StreamServe has an established reseller partnership with SAP, making a natural fit with Open Text SAP partner strategy. Based in Sweden, StreamServe will also expand our presence in northern Europe. StreamServe employees and customers will present at Content World, our annual users conference held in Washington, DC in two weeks time.

Turning to our outlook for the remainder of FY 2011, the industry analysts continue to tell us that they expect ECM license revenue to grow at an average of 6% to 8%, between now and 2013. We've taken a look at these expectations and our pipeline, and remain comfortable with our business model. So in summary, it was a very strong quarter for profits and cash flow, but light on license revenue. While we see some economies struggling in Europe, and to a lesser degree in the US, our pipeline remains strong and we will make up the Q1 shortfall throughout the rest of the fiscal year. With our ECM functionality, as well as several new products being brought to market this quarter, we are well positioned to grow market share in the coming year. And as usual, we will continue to manage to the bottom line. With that, I'd like to open the line for questions.

QUESTION AND ANSWER

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Operator

(Operator Instructions).

Your first question comes from Scott Penner with TD Newcrest. Please go ahead.

Scott Penner - TD Newcrest/Waterhouse Securities - Analyst

Thanks. Just the first of all, Paul just to clarify I think you said or implied, that there was a \$7 million impact from cash restructuring in the quarter?

Paul McFeeters - Open Text - CFO

That's correct

Scott Penner - TD Newcrest/Waterhouse Securities - Analyst

What is left to come if anything this year?

Paul McFeeters - Open Text - CFO

Another \$6 million to \$7 million of cash throughout the year

Scott Penner - TD Newcrest/Waterhouse Securities - Analyst

Okay. And then John, just your guidance or your statement on the industry analysts outlook. I just want to make sure I'm clear versus what you are saying last quarter, 6% to 8% between now and 2013, I believe last quarter you said 4% to 8%. I'm just kind of wondering whether you're actually feeling more optimistic about it, or whether you're now saying, it's now between 2013, there could be a lot of volatility in the meantime?

Paul McFeeters - Open Text - CFO

Oh no, Scott, what I was really saying is that some of the analysts have increased their outlooks. So basically we are saying average has moved up a little bit, it's more of the 6 to 8 range versus the 4 to 8 range.

Scott Penner - TD Newcrest/Waterhouse Securities - Analyst

Okay. And just -- there's been some commentary, that specifically that you are losing large customers to Microsoft SharePoint, I wondered if you could address that directly? And then just give an update on how Microsoft is affecting your SharePoint (inaudible) so far.

John Shackleton - Open Text - President, CEO

Yes, what I would say is most of our customers who use a SharePoint, they use SharePoint on a large basis, come to realize that our products can help them those instances and expanded and exceed their instances. So most of our large customers, many of them have SharePoint use our products as well. I would say that certainly over the last 18 months, revenues from Microsoft customers have increased, not declined, because of the ability to enhance and expand the SharePoint experience. So any issues of customers going away, we've seen very little customers, who in fact we've had a number of customers years ago, who went to SharePoint. And felt that they could migrate and just rely on SharePoint, who have now

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come back in full force and use the full suite of our products. So in fact we see that Microsoft is -- in partnership with Microsoft has increased our market, not decreased it.

Scott Penner - TD Newcrest/Waterhouse Securities - Analyst

And just lastly from me, on the acquisition of StreamServe -- the I guess you said slightly accretive, Paul? What should we look at the for the quarterly progression? Is it going to be dilutive in the first quarter, and how long does it take to get to the operating model?

Paul McFeeters - Open Text - CFO

It would be slightly accretive -- thanks for the clarification -- this quarter, just slightly this quarter. And operating model, I would say would be out one year for the operating model.

Scott Penner - TD Newcrest/Waterhouse Securities - Analyst

Okay, thanks guys

John Shackleton - Open Text - President, CEO

Thank you, Scott

Operator

Your next question comes from Mike Abramsky with RBC Capital Markets. Please go ahead

Michael Abramsky - RBC Capital Markets - Analyst

Yes, thanks very much. So, John, just again, on kind of macro outlook and your market (inaudible) are you --when you talk about making up for the rest of the year, does it come from a view that you will get benefit from a budget flush for next quarter? And you are seeing sort of an interim slip? Or is there more of a more fundamental slip on some larger deals or delays? And you think that that's more of the back half phenomenon, starting kind of at the beginning or in January? What is?

John Shackleton - Open Text - President, CEO

Mike what I should think -- it's a mix of what you're saying we are seeing larger deals. And in Q1 we had a number of very large deals that slipped. A number of those have since come in, three I believe of the -- there's about eight. So we are seeing there is a longer cycle. But in general I would say -- so make that slip over the next three quarters should be fairly easy to make that up. So I don't see any major changes to what has gone on this has been kind of a -- has been particularly in Europe tough, because of the elections in the UK. But in general, we see - they're delays, not budgets being shut down.

Michael Abramsky - RBC Capital Markets - Analyst

And Europe has just gone through major budget review, as I'm sure you're aware.

John Shackleton - Open Text - President, CEO

Right, yes.

Michael Abramsky - RBC Capital Markets - Analyst

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Do you see some sustained over hang from that review?

John Shackleton - Open Text - President, CEO

I think that many companies outside of government are being cautious. The government areas that we are working in still have the budgets, so that while many budgets have been cut certainly in the state and local levels, but in the military side we have not seen any cuts at this point in time

Michael Abramsky - RBC Capital Markets - Analyst

Okay. And your EBIT margins came in very strong, and towards the high end of your 25 to 30 guidance. And I think you maintain that guidance throughout the rest of the year. But could you give us a sense of what levers you've got to pull, in terms of maintaining your margins to anticipate those levels?

Paul McFeeters - Open Text - CFO

Mike, it's Paul. As you saw in the first quarter as you said, we are well within our range. We keep thinking about a range of for the year. And even though StreamServe as a percentage wasn't large, they all have a slight erosion on margin, until we get them on operating model, which as I said per StreamServe will be out kind of a year. So I think we just for now, we reiterate our range of 25 to 30 for the year.

Michael Abramsky - RBC Capital Markets - Analyst

Okay, and --

John Shackleton - Open Text - President, CEO

But we feel comfortable with the range. There is nothing that should change it dramatically

Michael Abramsky - RBC Capital Markets - Analyst

Well, you guys always do a good job of delivering good margins, even in tough environments, and you did certainly for this quarter. And lastly on the SharePoint question. I acknowledge that you reflect that you're suggesting that clients -- there is still relevance for Open Text. At the same time SharePoint 2010 is only just starting to get to deployed. So is it possible that (inaudible) with regard to how SharePoint will impact your business or not?

John Shackleton - Open Text - President, CEO

No, most -- many of our large customers are deploying the 2010 are ready. And what we still see are the key issues around records management, the DOD certification etc. Ability to manage multiple instances of SharePoint etc., as well as our digital asset management on all the other products that surround it. Actually so what we are seeing is our release is complimenting many of our major customers, our very large customers need that whole breadth of product suite. So as many people attended the Redmond meeting, I think it was very clear that both us and Microsoft, see this as expanding our markets and opportunity to partner even further together

Michael Abramsky - RBC Capital Markets - Analyst

Okay, John, thanks.

John Shackleton - Open Text - President, CEO

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Okay, Mike

Operator

Your next question comes from Tom Liston with Versant Partners. Please go ahead

Tom Liston - Versant Partners Inc. - Analyst

Hi, thank you, good afternoon. Just on the license question when you look at your cost which is obviously well managed this quarter, certainly R&D and sales and marketing were lowest end of the range, even with a bit of a shortfall in license. So how do you look at the levers and connected to, because if you are pulling back maybe on sales and marketing resources, pulling back on development, maybe if you lever that up a bit, you could get higher license number. How do you look at the coordination between the two? Maybe more resources means deals can close on a more meaningful way. Can you help us understand, as you cut that, how does it affect potential future

John Shackleton - Open Text - President, CEO

I would say two things, Tom, one we are certainly are not pulling back on development. Our budgets are still the same. I do believe in development we can improve our productivity, some of the things we are doing on a global basis I think will improve our productivity and development. But we are certainly not reducing costs in that area. On the sales side, the slight decrease is typical of the year-end, where you look at your top performers, and kind of do some cleaning out of the lower performers. That will -- so obviously that will come back. We can -- and again I think we can do, we've got some great sales people out there who I believe can be more productive. So -- we don't really need cost increase, to hit the targets that we have. There will always be some change in the turnover, as we try to improve. But I think we can get productivity out of our sales force as well. And we can certainly have those numbers. So I don't think by adding more salespeople, you are necessarily going to increase revenues.

Tom Liston - Versant Partners Inc. - Analyst

Sure. And just on StreamServe, I apologize if mentioned, but when does a close? And can you also give us a flavor for how their license -- sorry -- how their revenue components are broken out? Growth rates, rough profitability type margin historically?

Paul McFeeters - Open Text - CFO

Yes, Tom, it's Paul. It closed today, and so that's why the announcement came today, we just closed it. It's kind of a typical software model between 25 to 30 license, 45 to 50 maintenance, 20 to 20 services.

Tom Liston - Versant Partners Inc. - Analyst

And I think you have a few OEM agreements in the channel, how are those recognized?

Paul McFeeters - Open Text - CFO

The OEM agreements are with SAP and Lawson, and a couple of others. And it's pretty much the same as ours, as the revenue is recognized and passed to us, the only differences their revenue is by text, if you will or by page, or paper. And so it's a slightly different rather than seats. They have a set number and obviously it's people bulk up by the number of documents they are outputting. They are discounted, but the revenue is clearly recognized on an annual basis.

Tom Liston - Versant Partners Inc. - Analyst

Okay, and then just rough historical growth rates and profitability margin?

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Paul McFeeters - Open Text - CFO

Growth has been well -- it hasn't been significant growth of some growth. And margins are -- in the lower end -- kind of in the lower end of the scale

Tom Liston - Versant Partners Inc. - Analyst

And do you have a handle on any restructuring charges?

John Shackleton - Open Text - President, CEO

No, too early because we just closed the transaction.

Tom Liston - Versant Partners Inc. - Analyst

Okay. Fair enough, I'll get off the line.

Operator

Your next question comes from Richard Tse with Cormark Securities. Please go ahead

Richard Tse - Cormark Securities - Analyst

Paul, just on the revenue with respect to the StreamServe, what do you expect to see I guess cut off in terms of that \$50 million run rate you typically sort of ratchet down the revenue base, would that be typical of previous transactions or?

John Shackleton - Open Text - President, CEO

This is John, Richard. It might be slightly less than the traditional 20% to 30%, there is no product overlap whatsoever.

Richard Tse - Cormark Securities - Analyst

As well as with the strong relationship with SAP and Oracle and others, we think we can integrate it fairly quickly. So while there might be an initial dip with the integration is going on, we are anticipating it won't be as large as usual. Okay, and I guess getting back to the SharePoint question. Have you guys lost any sort of core ECM platform LiveLink customers to SharePoint?

John Shackleton - Open Text - President, CEO

Not in our -- well years ago we might have lost them, but most of them have come back. Recently, we have not seen any. At least most customers take a long time to move all their content etc. Our maintenance results reflect if there were any major migration away. And as I said, we've seen most of our companies, we co-exist. They use SharePoint at the front end for their Outlook and documents, and they use us at the back end for managing a lot of those systems, as well as things like digital asset management, web content management, etc., which SharePoint doesn't

Richard Tse - Cormark Securities - Analyst

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Right, and I guess -- you seem confident that you're going to pickup some of the losses after the next quarter? Can you sort of get into specific as to why that's the case, like if you had some sort of commitments that you could maybe give us some specificity on why you have that confidence you do?

John Shackleton - Open Text - President, CEO

One of the interesting things -- the main slowdown was in Europe, where we were forecasting to hit pretty much the targets. And this was centered around the \$500,000 to \$1 million plus deals, and we haven't lost any of them, they have just simply been delayed. Of which three of them, have come in are ready.

Richard Tse - Cormark Securities - Analyst

Okay, but you can't say anything more specific than that I guess?

John Shackleton - Open Text - President, CEO

No, it was a surprise to us because they were forecasting, and they have been very accurate in their forecasting in the past. And if you look at what we obviously have looked at what the delays were, it was mainly these larger deals that have just a laid. We had a little bit, particularly in Europe, a little bit in the US, where we saw the same big deals that were taking longer the cycles were taking longer to close. If we look at the pipeline there are very large deals continuing in there. One of them has come in. We've been able to chunk it this quarter, so it will help us in other years. But some of these deals are being different. We tried to chunk them, so it makes it more predictable. But they are too big to be chunked.

Richard Tse - Cormark Securities - Analyst

What would be the largest deal in that pipe lines?

John Shackleton - Open Text - President, CEO

It certainly double-digit, millions.

Richard Tse - Cormark Securities - Analyst

All right

John Shackleton - Open Text - President, CEO

The one we disclose was in the single digit, but quite a sizable deal.

Richard Tse - Cormark Securities - Analyst

Okay, thank you

Operator

Your next question comes with Chris Thompson with National Bank Financial. Please go ahead.

Chris Thompson - National Bank Financial - Analyst

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Great, thanks. John, maybe just touch on the Oracle relationship here, you mentioned it's progressing as planned. Can you just update us on kind of what the plan is over the next two to three quarters?

John Shackleton - Open Text - President, CEO

So the plan is really is to both train ourselves, train their sales force, support the existing customer base around this product, and get them up and making sure that they are comfortable. So that's really over the next two quarters. But we are actually seeing in the pipeline, in that area building faster than expected. So we didn't expect to see much revenue this quarter, now we do.

Chris Thompson - National Bank Financial - Analyst

So if you wanted to kind of align our expectations here, is it maybe two years to get to the 10% level? What your internal budget?

John Shackleton - Open Text - President, CEO

That is probably my guess, that's our internal goal is to get there within two years, say two and a half years now.

Chris Thompson - National Bank Financial - Analyst

Did you mentioned the SAP contribution to license this quarter is a 10% or more?

John Shackleton - Open Text - President, CEO

It's in that 10% range, yes, pretty much standard for the year

Chris Thompson - National Bank Financial - Analyst

Okay and just back to your peer, I don't want to beat a dead horse here. But all the commentary out of pretty well every other vendor that has reported this quarter, said that Europe is really strong. SAP, even pointed out Germany as a really strong region this morning. Is it just a couple large deals that are getting pushed? Or do we have to start worrying that maybe you're getting customers share, and maybe not seeing it?

John Shackleton - Open Text - President, CEO

It was mainly larger deals that were pushed out, particularly in the UK. Germany, we are while they were having a tough time, we are seeing it come back. We are seeing leading indicators that is picking up, but in general, it was more, as Paul said, it was UK in particular, had a tough time

Chris Thompson - National Bank Financial - Analyst

Okay. And, Paul, maybe on the CapEx, can you outline how much of that CapEx is for the Waterloo expansion this quarter? And how we should model that for the rest of the year? I think it's going to tick up.

Paul McFeeters - Open Text - CFO

Yes that's right about \$2 million this quarter, so model it for the year around probably \$22 million through the fiscal year, probably fairly evenly now for the next three quarters, four to five range.

Chris Thompson - National Bank Financial - Analyst

Okay, thanks for taking my questions. All the best.

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John Shackleton - Open Text - President, CEO

Thank you.

Operator

Your next question comes from to Dushan Batrovic with Dundee Securities. Please go ahead.

Dushan Batrovic - Dundee Securities Corporation - Analyst

Hi, thank you. John, there has been a time in the past when you would comment on First Call consensus for the next quarter. This time, I don't think you made a comment, anything to read into that?

John Shackleton - Open Text - President, CEO

No, I think we are couple with the plan.

Dushan Batrovic - Dundee Securities Corporation - Analyst

And full-year and quarterly?

John Shackleton - Open Text - President, CEO

Full-year, certainly full-year

Paul McFeeters - Open Text - CFO

So, Dushan, we are not commenting on First Call, we didn't last quarter either. We're just talking about focusing on our own plan, achieving results for our own plan, which we have identified, license numbers do not, other numbers accretive of course. So I would say, just be clear, no, we are not commenting, as of the beginning of this fiscal year on First Call.

Dushan Batrovic - Dundee Securities Corporation - Analyst

Okay, and given that you've had a couple of deals that have already been signed this quarter, would we too, assume that maybe that the seasonality for Q2 might be a bit higher than typical?

John Shackleton - Open Text - President, CEO

If you looked at last year -- we are seeing it -- we are trying to smooth out obviously the seasonality, it does look more like last year.

Dushan Batrovic - Dundee Securities Corporation - Analyst

Okay. The deals that slipped -- is there -- did those deals grow in size, I mean is that one of the things that contribute to them slipping? Is the scope and the magnitude grew?

John Shackleton - Open Text - President, CEO

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No, not really. The scope is larger in size to begin, with so obviously because of that is a particularly in this economy, it takes higher levels of approval. Many times executives are flying around the world and getting that approval it takes time. So a couple were literally the final guys that had to sign were not there. And those have since come in. But we are also seeing I think because of the economy, they are trying to negotiate much stronger. And using the end of quarter, to put additional pressure on that we've -- significant pressure that we don't feel is worth doing that. The value of our products, obviously they close a month late, and we get the products -- the price that we feel is appropriate.

Dushan Batrovic - Dundee Securities Corporation - Analyst

Question on your OpEx. It was down quite a bit sequentially. Is it fair to assume that you are pretty comfortable with ballpark as to where your OpEx is right now? Or would you expect even more sequential declines going forward?

Paul McFeeters - Open Text - CFO

No, I think that's probably a low water mark. We would be managing within our margin range, as we reiterate that. But I don't think you'd be looking for any sequential significant decrease in the operating expenses

Dushan Batrovic - Dundee Securities Corporation - Analyst

And I guess another way to ask the question, is your operating margins will the growth be more based on revenue growth or further cost cutting?

John Shackleton - Open Text - President, CEO

I think the cost cutting is R&D in place for the year, and it will be revenue growth to head up into the range.

Dushan Batrovic - Dundee Securities Corporation - Analyst

Okay, last question from me, and we'll probably hear this at Analyst Day.. But any new updates on your mobile offerings, as far as uptake -- any pilots out there, and how things are going?

John Shackleton - Open Text - President, CEO

Yes, we have our first customer in the US, and our first customer in Europe on this. And you will get in good update, as well as see some of the stuff that's going on. We have about six products coming out in this area, so we are seeing that as part of the growth as well. But, yes, the initial perception has been very positive.

Dushan Batrovic - Dundee Securities Corporation - Analyst

Okay, I will leave it there. Thank you

Operator

Your next question comes from Eyal Ofir with Canaccord Genuity. Please go ahead.

Eyal Ofir - Canaccord Genuity - Analyst

Thank you very much. Just to clarify, some of the -- you were talking about the deal slippage, are you going to see that made up in the rest of the fiscal year or next, just wondering?

John Shackleton - Open Text - President, CEO

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To be conservative, we are looking at it throughout the fiscal year. So I think, two things, one is the slippage that happened in Q1, we will see in Q2. But some of the concerns we have is there is quite a few large deals in the pipeline, so we are anticipating that there will be some delays in those as well. While we feel comfortable hitting the annual guidelines that we've got or annual targets that we've got, on a quarter-to-quarter basis it's much more difficult.

Eyal Ofir - Canaccord Genuity - Analyst

Okay so when we look at seasonality, in terms of the previous question, it shouldn't be quite the same sequential growth rate that we saw last year in the second quarter then?

Paul McFeeters - Open Text - CFO

So usually, I certainly believe Q2 will pick up significantly, as it usually does. I think Q3 should be better than last year, Q4, the usual.

Eyal Ofir - Canaccord Genuity - Analyst

Okay, that's good. And not to beat a dead horse again on Europe, outside of the UK and Germany as you talked earlier, was there any other countries that were relatively weak for you this quarter, and are you seeing some competitive pressures, maybe not from a specific competitors, maybe more from a pricing standpoint?

John Shackleton - Open Text - President, CEO

What we saw last -- the only thing I would add, is that southern Europe last year came on very strong. And so we expected to grow again this year. Q1 did not grow as fast as we expected. My supposition is mainly because they are all on vacation. But we do see southern Europe growing this coming year But it was fairly flat from last year But the key one was really the UK, and Germany to some extent.

Eyal Ofir - Canaccord Genuity - Analyst

Okay, and then I guess most of the slippage was also related to government contracts.

John Shackleton - Open Text - President, CEO

Yes.

Eyal Ofir - Canaccord Genuity - Analyst

Okay, perfect, I think that's it for me. Thanks

John Shackleton - Open Text - President, CEO

Thank you.

Operator

Your next question comes from Blair Abernethy from Stifel. Please go ahead.

Blair Abernethy - Stifel Nicolaus & Company, Inc. - Analyst

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Thank you. John, just a couple of questions just in terms of the new customer wins this quarter. I am wondering if you can just give us a little more color on what you see them buying, what are the new customers being attracted to you for? And who's driving that, is a your direct sales force or more partner driven?

John Shackleton - Open Text - President, CEO

It's -- it depends, is the short answer. So interestingly enough, what we have seen declining for the past 18 months or so, things like web content management, and social media, some of the things like that. We are now seeing beginning to pick up. And for example the new customers like in Brazil, the insurance company, were buying around this whole internet, extranet social media for customers. et cetera. We are also seeing that in governments, around particularly for military et cetera, where they are looking at government in a box, social media type to their corporate systems. So the integration of structured and unstructured data is playing very well.

And so, and I would say, it's probably 50-50 if you're looking at places like China, where we don't have much of a presence, we are working very closely with our partners there like SAP. But there are places like Brazil, particularly in their -- we are seeing a lot of interest in the media space, so television broadcasting, that kind of thing. We have our expertise in that area, so we're doing quite a bit of that on our own. But I would say 50-50 -- on the new customer base, I would say 50-50 between working with partners and working direct

Blair Abernethy - Stifel Nicolaus & Company, Inc. - Analyst

Okay, great. And John in terms of the government vertical in the US specifically, I wonder if you can do is give us a little more color on how that performed this quarter?

John Shackleton - Open Text - President, CEO

Again probably, that was caused the delays in the US, whereas Canada did very well.

Blair Abernethy - Stifel Nicolaus & Company, Inc. - Analyst

Okay

John Shackleton - Open Text - President, CEO

The interesting thing, a lot of the things we are doing with the Canadian government is of interest to the US government

Blair Abernethy - Stifel Nicolaus & Company, Inc. - Analyst

Okay. And finally, just maintenance pricing, what's your what are your plans this year for maintenance ? I think usually you do in January, a price increase, is that still in the works this

Paul McFeeters - Open Text - CFO

This is Paul. We renew, no, we continue to renew contracts as they come due. We do have a large percentage that come due in December. But on every renewal, our team looks to increase the price slightly due to cost increased costs.

John Shackleton - Open Text - President, CEO

1% or 2%.

Blair Abernethy - Stifel Nicolaus & Company, Inc. - Analyst

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Okay, great. Thanks, guys.

John Shackleton - Open Text - President, CEO

Thank you, Blair.

Operator

Your next question comes from Gabriel Leung with Paradigm Capital. Please go ahead

Gabriel Leung - Paradigm Capital Inc. - Analyst

Thanks question for you, Paul, interest expense was there anything unusual in the number the figure little bit higher than the previous quarter run rates?

Paul McFeeters - Open Text - CFO

Yes, there was a \$1.8 million non-cash charge, I'll call it, for setting up -- for really a reversal of FIN 48. FIN 48, being a tax reserves, if you will, for potential future outcomes. Most of this is set up as a result of the acquisitions that we have done, and uncertainty around the tax positions. We will set of different positions. We do disclose this in our notes in our 10-Q, which you will see tomorrow. So therefore as a result of that, there was additional \$1.8 million charged. They may never turn into cash, and ultimately it could be reversed, but we have to accrue as though it might, from they get paid out.

Gabriel Leung - Paradigm Capital Inc. - Analyst

And that was in the interest expense, and that won't show up next order?

Paul McFeeters - Open Text - CFO

That's correct, that won't show up again next quarter

Gabriel Leung - Paradigm Capital Inc. - Analyst

Okay, and then, John, just in terms of your commentary on your growth potential, I guess sort of a 6% to 8% figure, you were talking to. In the past you've in terms of guidance, you have always alluded to sort of annual growth rates. The last quarter it was 4% to 8% on an annual basis. Just to be clear, when you talked about 6% to 8% you mean that on an annual basis right?

John Shackleton - Open Text - President, CEO

That's right.

Gabriel Leung - Paradigm Capital Inc. - Analyst

Without acquisitions.

John Shackleton - Open Text - President, CEO

Without acquisitions.

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Gabriel Leung - *Paradigm Capital Inc. - Analyst*

That's great, thank you.

John Shackleton - *Open Text - President, CEO*

Thank you.

Operator

Your next question comes from Stephanie Price with CIBC. Please go ahead.

Stephanie Price - *CIBC World Markets - Analyst*

Hi, I'm wondering you talk about compliance as a growth driver. Could you talk about what parts of your business are seeing declines? You mentioned web content management, and I'm wondering about the Hummingbird business as well, and whether these declines are impacting the license declines you saw in the quarter?

John Shackleton - *Open Text - President, CEO*

Very good question. Up until recently -- if we look at our pipeline and the web content management and the digital asset management, look very strong, are coming up, and couple of the big ones were around that. But year-over-year, we did see a decline, particularly around the small medium-size companies for products like Red Dot. And so, that is an area we will be focusing on in the coming months to build that up. So on the smaller medium, particular in Europe we did see the economy effect that, more so than the larger gaps. But again, it would be in the web content management, digital asset management areas for the smaller companies.

Stephanie Price - *CIBC World Markets - Analyst*

Okay, and in terms of the acquisition environment, could you talk a bit about the environment in which you are seeing there?

John Shackleton - *Open Text - President, CEO*

Well, at the macro level we are seeing some ridiculous values being brought in front. But we are still being obviously, very conservative, very cautious. And we do see quite a lot of pipeline in this area. So things like StreamServe, a \$50 million in revenue, we see quite a few of that size. And we also see a smaller number in the 100 million and to 200 million range. And so over the coming year, you will see us begin to be more active again.

Stephanie Price - *CIBC World Markets - Analyst*

All right, thank you.

John Shackleton - *Open Text - President, CEO*

Thanks, Stephanie.

Operator

Your next question comes from Chris Lee with GMP Securities. Please go ahead

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Chris Lee - GMP Securities - Analyst

Hi, guys. This is Chris Lee here for Sera Kim. Just quickly, did you say StreamServe was \$15 million or \$50 million, five zero?

John Shackleton - Open Text - President, CEO

Five zero.

Chris Lee - GMP Securities - Analyst

Okay, good. And last quarter, you said a number of customers were waiting for you to release your new ECM suite. Can you talk about what kind of interest you've been seeing on that so far?

John Shackleton - Open Text - President, CEO

We've seen quite a lot of interest for our existing customers. The real -- where there will be -- should be after the user conference which is in two weeks, that's really when it -- when we expect it to pick up and start with migrations early in January, February time frame.

Chris Lee - GMP Securities - Analyst

Okay, and you said that from current customers, not new customers?

John Shackleton - Open Text - President, CEO

Yes, that's right.

Chris Lee - GMP Securities - Analyst

Thanks, guys.

Operator

Your next question comes from Richard Tse with Cormark Securities. Please go ahead.

Richard Tse - Cormark Securities - Analyst

Just a couple of quick follow-up questions. Is it true that StreamServe was also resold by Adobe? And I guess what sort of the nature of that relationship, after Adobe acquired (inaudible).

John Shackleton - Open Text - President, CEO

From my -- you might be right, Richard, but I don't believe so. It's certainly sold by SAP.

Richard Tse - Cormark Securities - Analyst

Okay, alright

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John Shackleton - Open Text - President, CEO

But if it were, I would think it may continue for a while.

Richard Tse - Cormark Securities - Analyst

Right.

John Shackleton - Open Text - President, CEO

I'll -- get back to you on that, Richard -- nothing in any briefing that I got. (Multiple speakers).

Richard Tse - Cormark Securities - Analyst

How much did you acquire in terms of tax pools?

John Shackleton - Open Text - President, CEO

Sorry, Richard, I don't have that information right now either

Richard Tse - Cormark Securities - Analyst

All right, thank you.

Operator

(Operator Instructions).

There are no further questions. Please continue.

John Shackleton - Open Text - President, CEO

Okay. Thank you, everyone. Just to summarize, we remain focused on margin and profitability. We have a strong pipeline, and we will continue to focus on customer base. Positive outlook for the rest of 2011, and so we thank you for your questions, and look forward to seeing many of you at the user conference in the next two weeks. Thank you.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your lines.

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