



Results for the 12 Months Ended 31 October 2020

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Micro Focus International

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Agenda

01.

Introduction

02.

Chief Executive Officer (“CEO”) Update

03.

Chief Financial Officer (“CFO”) Update

04.

Outlook and guidance



CEO Update

Stephen Murdoch

Results Summary

- Sequential improvement across all revenue streams in the second half of FY20 with Full Year revenue decline in line with market expectations at minus 10%
- Adjusted EBITDA of \$1,174m at a margin of 39% was towards upper end of expectations due to balanced approach to investment and cost savings
- Free cash flow of \$511m, ahead of expectations due to strong cost and working capital management
- The Group recorded a non-operating charge related to goodwill impairment of \$2,799m in the period driven by changes in the Group's trading performance and overall environment when compared to the original projections produced at the time of the HPE Software acquisition
- Successful refinancing of \$1.4bn term loan means business is fully financed with next term loan due for repayment in June 2024
- Re-instating dividend, with final dividend of 15.5 cents per share proposed
- Overall, we have made solid progress in the first year of our three year turnaround plan

Product Group performance

	Total Revenue (CCY %)	Commentary
Application Modernisation & Connectivity (AMC)	(7.5%)	Strong customer demand for mainframe application modernisation solutions but timing of project initiation impacted performance.
Application Delivery Management (ADM)	(12.9%)	Performance impacted by inconsistent execution. Areas of strength not fully capitalised on with corrective actions underway.
IT Operations Management (ITOM)	(15.9%)	Performance driven by inconsistent execution. Actions taken in period have improved H2 performance. Execution plans focused on building a strong core of stable, recurring revenues.
Security	(4.5%)	Progress has been encouraging with Maintenance and SaaS returning to growth in H2 and product development plans progressing at pace.
Information Management & Governance (IM&G)	(4.3%)	Vertica investments continuing and Digital Safe investment and re-positioning at an advanced stage.
Total revenue	(10.0%)	

* CCY= constant currency decline

Strategic & Operational Review update

Evolving the Operating Model

Deliver innovation and increase targeted investment

- Major product releases with key innovation delivered in each portfolio
- Investment in Security and Big data executed as planned

Accelerate the transition of certain portfolios to SaaS or Subscription

- New offering development in Security and Big Data on track
- Remediation of historical issues in ITOM and IM&G at advanced stage
- Investment in service delivery underway

Operational Excellence

Transform our Go-To-Market function to improve productivity

- New tools, management system and methodology deployed
- Investment in training and specialists skills underway
- Comprehensive changes in leadership executed to plan

Complete systems and operational simplification priorities

- First phase of user migration complete and on plan for phase 2 in summer
- Collaboration capabilities and core infrastructure revamped significantly



Objectives for next year:

Improving operational efficiency & productivity

Simplifying the business and building the platform to deliver operational leverage

FY21

- Complete migration to common IT systems stack
- Simplify corporate and operating structure
- Define future Target Operating Model

Systems and infrastructure

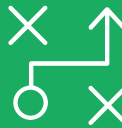


FY21 and FY22

- Restructure to deliver Target Operating Model design and cost base
- Drive capture of operational efficiencies and overall productivity

- Restructure sales coverage model and re-align compensation
- Targeted investment to close gaps and accelerate progress in key growth areas
- Deeper specialisation and dedicated teams focused on product specific opportunities or challenges

Go-To-Market approach and structure



- End to end customer coverage model aligning resource levels and product innovation to market opportunities
- Management system and leadership team delivering consistent execution

Increasing levels of recurring revenue

Growth in Subscription & SaaS and stabilisation of maintenance revenues

FY21

- Development of existing and new offerings in each portfolio
- SaaS or Subscription offering is the lead proposition in targeted areas
- Infrastructure investment to support scale and customer service levels

SaaS and Subscription



FY21 and FY22

- SaaS or Subscription offering will be the only proposition in targeted areas
- Re-align resourcing levels and compensation

- Restructure approach to customer coverage and offering development
- Investment to build Customer Success Organisation
- Targeted approach to addressing sub-portfolio hot spots

Maintenance Revenue Stabilisation



- Re-align resource levels and sales compensation
- End to end engagement model that targets resource levels, approach and innovation on delivering maximum impact

Delivering innovation

Product development prioritising customers' Digital Transformation imperatives and delivering expanded capabilities in Cloud, Artificial Intelligence, Cyber, Analytics and Application Modernisation

AIRBUS

Uses ALM Octane to adopt agile development and automated testing

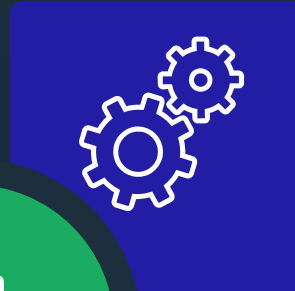
Accelerate Application Delivery

Reliably scale Agile and DevOps across all your environments, from mainframe to cloud—quickly bringing innovative ideas to life at the pace your business demands



Simplify Your IT Transformation

Simplify the complexity of hybrid IT and transform into an agile, services-driven organization



Vodafone and Micro Focus work together to digitally transform Vodafone's IT operations

Run & Transform

T Mobile

Uses Fortify as part of a comprehensive strategy to protect customer and employee data.



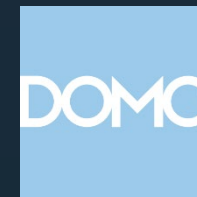
Strengthen Your Cyber Resilience

Intelligently adapt your security to respond to an over-evolving threat landscape, and protect your company's most important assets



Analyze in Time to Act

Leverage machine learning to transform unlimited volumes of data into accurate, actionable, and automated insights



Domo Leverages Vertica EON mode to derive insights on 100 trillion lines of data




CFO Update

Brian McArthur-Muscroft

Financial performance (1 of 2)

Sequential improvement in revenue trajectory in the second half


- Revenue declined 10.0% on a CCY basis for the year ended 31 October 2020.
- Sequential improvement was achieved across all revenue streams in the second half of the financial period.
- Cost programmes and discretionary spend management reduced cost base by 7.6%.
- Adjusted EBITDA margin decrease of 1.6ppt to 39.1% in the year ended 31 October 2020 after the \$76m year-on-year benefit from IFRS16.

	FY20	FY19	Change %
	Reported	CCY	
Licence	646.5	799.2	(19.1)%
Maintenance	1,921.2	2,050.0	(6.3)%
SaaS and other recurring	245.5	278.4	(11.8)%
Consulting	188.4	215.3	(12.5)%
Revenue (before haircut)	3,001.6	3,342.9	(10.2)%
Deferred revenue haircut	(0.6)	(6.8)	(91.2)%
Revenue	3,001.0	3,336.1	(10.0)%
Total costs	(1,827.3)	(1,977.4)	(7.6)%
Adjusted EBITDA	1,173.7	1,358.7	(13.6)%
Adjusted EBITDA margin %	39.1%	40.7%	(1.6)ppt

Financial performance (2 of 2)

Dividend re-instated at 15.5 cents per share

- HPE Software related actual exceptional charge of \$184.5m. First stage of IT platform migration now complete, second phase due to complete later in FY21.
- The Group recorded a goodwill impairment charge of \$2,799.2m in the year.
- Diluted adjusted Earnings per share from continuing operations of 154.4 cents
- Dividend has been re-instated, and Board proposes a final dividend of 15.5 cents per share.
- Net debt of \$4,153.5m and period end gearing of 3.5x Adjusted EBITDA. Further gearing analysis presented later in this section.

 MICRO FOCUS	FY20 Reported	FY19 Reported	Change %
Exceptional spend (at actual rates)			
System related spend (\$m)	100.6	126.3	(20.3%)
Other integration costs (\$m)	83.9	168.0	(50.1%)
Total HPE Software related exceptional spend	184.5	294.3	(37.1%)
Goodwill impairment charge (\$m)	2,799.2	0.0	100.0%
Other (\$m) (note 1)	27.9	(0.1)	n/a
Total	3,011.6	294.2	923.7%
Diluted adjusted EPS (cents) (note 2)	154.37	195.89	(21.2)%
Final Dividend per share (cents)	15.5	-	100.0%
Adjusted Net debt (\$m) (note 3)	(4,153.5)	(4,608.3)	(9.9%)
Adjusted Net debt to Adjusted EBITDA ratio (note 3)	3.5x	3.2x	

Notes:

(1) Other is net of costs and revenue.


(2) Diluted adjusted EPS from continuing operations.

(3) Adjusted EBITDA for FY19 is for continuing operations only. For comparability FY19 Net debt has been presented here including the impact of IFRS-16.

Free cash flow

Strong working capital management underpins free cash flow

- We continued to be a highly cash generative business in FY20.
- FY19 Free cash flow includes four months of trading performance from SUSE.
- The business has continued to improve debtor aging and reduce the trade receivables balance.
- Capex has remained low since all R&D expensed through EBITDA.
- Exceptional spend on transformation activities suppress free cash flow in the short term.
- Going forward the Group intends to report Adjusted free cash flow as this more accurately reflects the cash generating qualities of the business.

 MICRO FOCUS	FY20 Reported	FY19 Reported
Cash generated from operations before working capital	1,050	1,178
Movement in working capital	33	(121)
Cash generated from operations	1,083	1,056
Interest payments	(207)	(227)
Bank loan costs	(48)	0.0
Tax payments	(150)	(167)
Purchase of intangible assets	(61)	(29)
Purchase of property, plant and equipment	(26)	(56)
Lease related capital payments (note 1)	(80)	(13)
Free cash flow	511	563
Cash impact of exceptional costs (note 2)	149	256
Adjusted free cash flow	660	819
Adjusted cash conversion % (note 3)	113%	95%

Notes:

(1) Lease related interest and capital payments are now included as a financing cash flow following the adoption of IFRS 16.

(2) FY19 Cash impact of exceptional costs reflects management estimate.

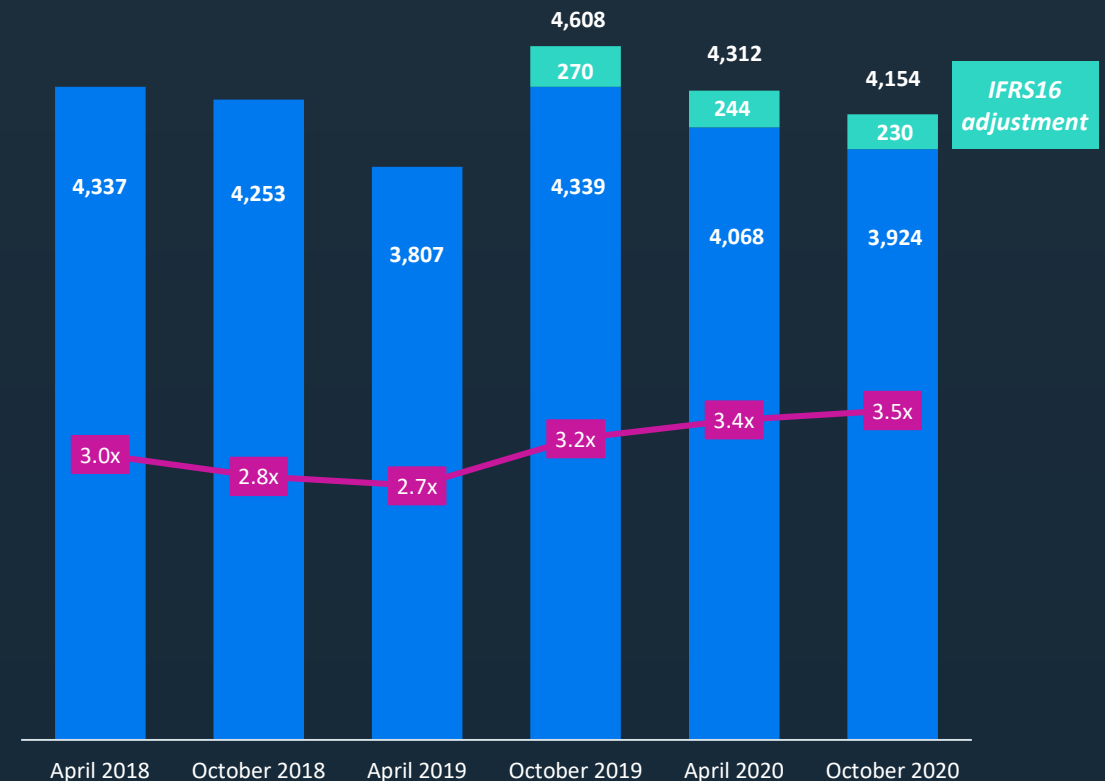
(3) Cash generated from operations divided by Adjusted EBITDA less exceptional items.

Capital discipline and balance sheet strength

Refinancing successfully completed and over \$400 reduction in Net debt

- Medium term leverage target of 2.7x remains.
- Actions resulting from Strategic and Operational Review has led to increased leverage in the year but the Group intends to reduce leverage to the target in the medium term.
- Net debt reduced over \$450m on a like for like basis in the year ended 31 October 2020.
- Available liquidity of \$1.1 billion at 31 October 2020 including cash on balance sheet of \$0.7 billion and \$350m undrawn RCF.
- Following the successful refinancing initiatives, there are no maturity dates on Group facilities prior to 2024.

Leverage profile



Net debt includes the impact of the IFRS16 adjustment for the year ended 31 October 2020. Net debt is net of cash and cash equivalents and excludes the impact of the IFRS16 adjustment for the year ended 31 October 2020.



Guidance and strategic priorities

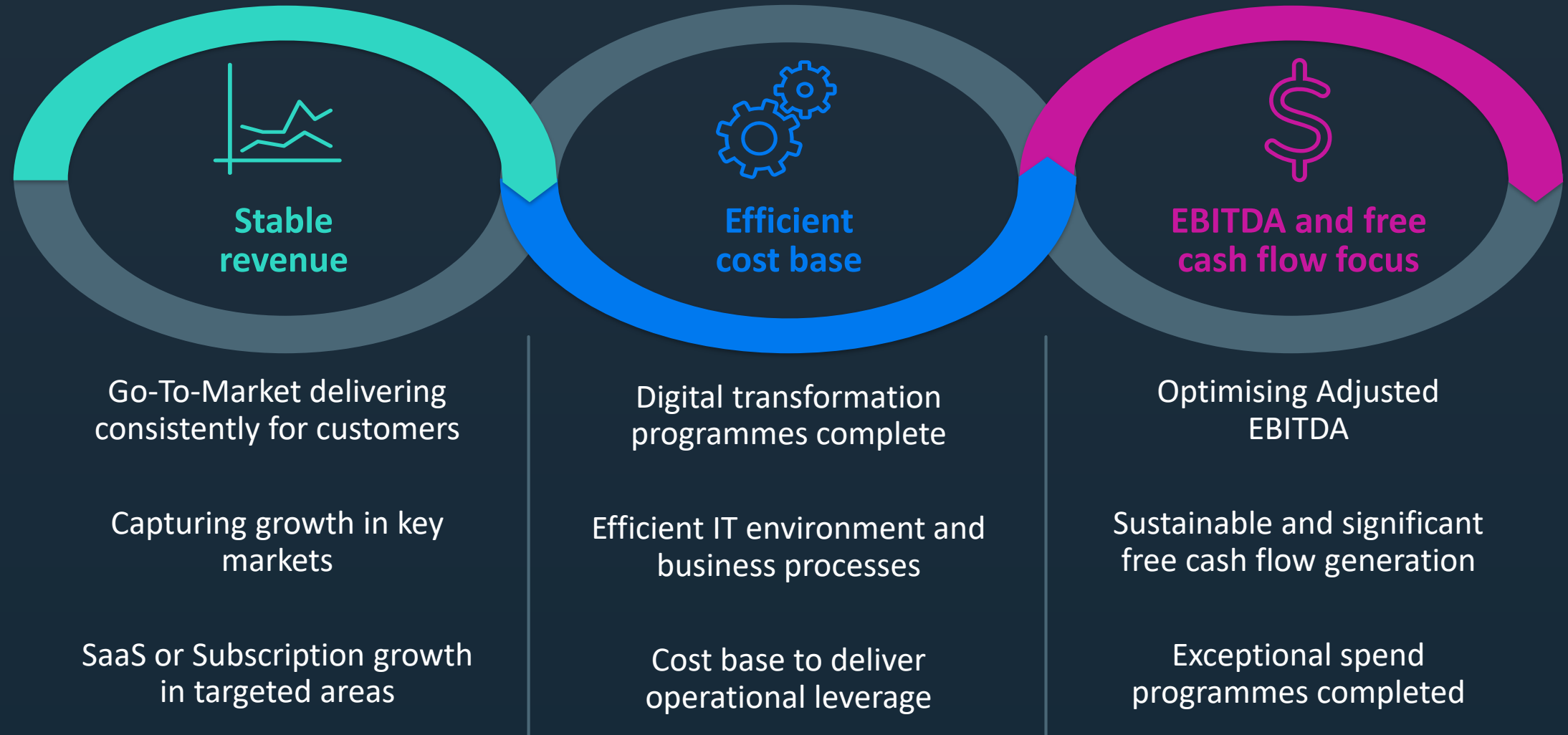
Stephen Murdoch

Outlook

- Revenue stabilisation remains the most important business objective and we are targeting incremental improvements in the trajectory annually in order to achieve this goal.
- Q1 trading performance was in line this objective
- We continue to sharpen execution of our detailed plans to deliver revenue stabilisation, margin expansion and adjusted cash flow generation in line with our 3 year plan

The delivery of our completed turnaround

What this will mean for the company





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Appendix 1 – Financial analysis

Appendix 1 – Impact of IFRS 16 on key financial metrics

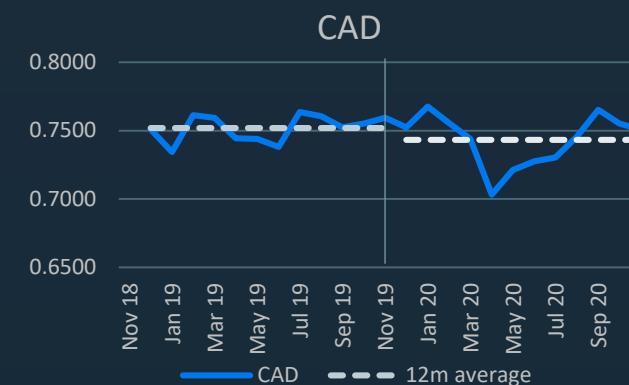
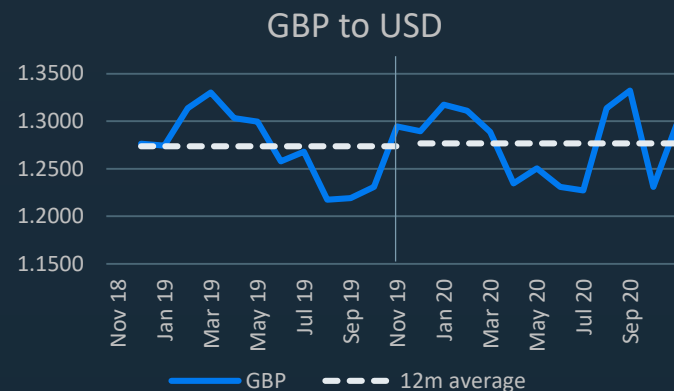
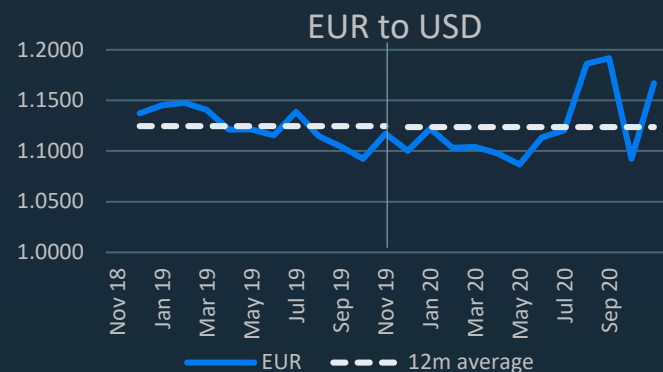
Modified retrospective basis

	Including IFRS16	Excluding IFRS16	Description of impact
Adjusted EBITDA Margin	39.1%	36.6%	The Group received a \$76m AEBITDA benefit from capitalisation of operating leases under IFRS 16, resulting from reduced operating costs
Net debt	4,154	3,924	The capitalisation of operating leases under IFRS 16 resulted in the recognition of an additional finance lease liability. At 31 October 2020 the lease liability totalled \$250m, of which \$230m resulted from IFRS 16
Leverage	3.54x	3.57x	The proforma IFRS 16 benefit to the twelve months of AEBITDA prior to 31 October 2020 relative to the IFRS 16 lease liability at that date reflected a ratio of 3.04x, therefore IFRS 16 has been beneficial to leverage
Free Cash Flow	511	511	IFRS 16 is an accounting standard that has no impact on the underlying cash flows of an operating lease, therefore free cash flow (and Adjusted FCF) is not impacted.
Adjusted Cash Conversion	112.6%	113.3%	As operating lease cash flows approximate to operating lease rental expenses across our operating lease population (i.e. cash conversion in relation to operating leases is c.100%), IFRS 16 is dilutive to cash conversion

Appendix 2 – Currency impact

The weighting of revenue and costs across key currencies are shown below

	12 Months to 31 October 2020		12 Months to 31 October 2019	
	Revenue	Cost	Revenue	Cost
USD	59.6%	48.9%	60.9%	48.8%
EUR	20.3%	13.3%	19.0%	13.5%
GBP	4.7%	11.5%	5.2%	10.4%
CAD	3.1%	1.9%	3.0%	1.8%



Average exchange rate movements for the above currencies in the 12 months to October 20 vs the 12 months to October 19 show the following:

EUR:USD. EUR is **stronger by 0.1%**

GBP:USD. GBP is **stronger by 0.3%**

CAD:USD. USD is **stronger by 1.2%**

Appendix 3 – Working Capital Movements

Cash flow impact of working capital

MICRO FOCUS	Working Capital Movements		Change	
	\$m	FY19		FY20
Inventories		0.0	0.1	0.1
Trade and other receivables		183.0	262.0	79.0
Increase in contract-related costs		(36.7)	(26.5)	10.2
Payables and other liabilities		(114.8)	(69.8)	45.0
Provision utilisation		(58.6)	(37.5)	21.1
Contract liabilities – deferred incomes		(98.5)	(103.1)	(4.6)
Pension funding difference to operating profit charge		4.4	7.4	3.0
Total movement in working capital		(121.2)	32.6	153.8

Appendix 4 – Supplementary revenue analysis

Constant currency (CCY) – revenue performance by product group and region

MICRO FOCUS	FY20					CCY % change to FY19					
	\$m	Licence	Maintenance	SaaS and other recurring	Consulting	Total	Licence	Maintenance	SaaS and other recurring	Consulting	Total
AMC	138.6	321.6	-	10.1	470.3	(18.9%)	(1.3%)	-	(13.7%)	(7.5%)	
ADM	102.0	439.2	73.9	15.9	631.0	(21.4%)	(10.3%)	(15.3%)	(11.7%)	(12.9%)	
ITOM	175.1	559.4	4.6	113.9	853.0	(26.2%)	(12.7%)	(55.3%)	(9.6%)	(15.9%)	
Security	162.6	416.8	33.6	33.1	646.1	(12.3%)	1.0%	(4.0%)	(23.4%)	(4.5%)	
IM&G	68.2	184.2	133.4	15.4	401.2	(9.8%)	1.5%	(8.6%)	(6.1%)	(4.3%)	
Revenue before haircut	646.5	1,921.2	245.5	188.4	3,001.6	(19.1%)	(6.3%)	(11.8%)	(12.5%)	(10.2%)	
Haircut	-	(0.4)	(0.2)	-	(0.6)	-	(93.3%)	(75.0%)	-	(91.2%)	
Revenue	646.5	1,920.8	245.3	188.4	3,001.0	(19.1%)	(6.0%)	(11.6%)	(12.5%)	(10.0%)	
Region											
North America	276.4	974.1	187.0	65.8	1,503.3	(28.3%)	(9.3%)	(9.3%)	(13.6%)	(13.7%)	
International	264.7	735.5	46.2	98.8	1,145.2	(10.1%)	(3.3%)	(21.4%)	(11.3%)	(6.6%)	
Asia Pac & Japan	105.4	211.6	12.3	23.8	353.1	(11.5%)	(1.8%)	(8.2%)	(14.1%)	(6.0%)	
Revenue before haircut	646.5	1,921.2	245.5	188.4	3,001.6	(19.1%)	(6.3%)	(11.8%)	(12.5%)	(10.2%)	
Haircut	-	(0.4)	(0.2)	-	(0.6)	-	(93.3%)	(75.0%)	-	(91.2%)	
Revenue	646.5	1,920.8	245.3	188.4	3,001.0	(19.1%)	(6.0%)	(11.6%)	(12.5%)	(10.0%)	



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