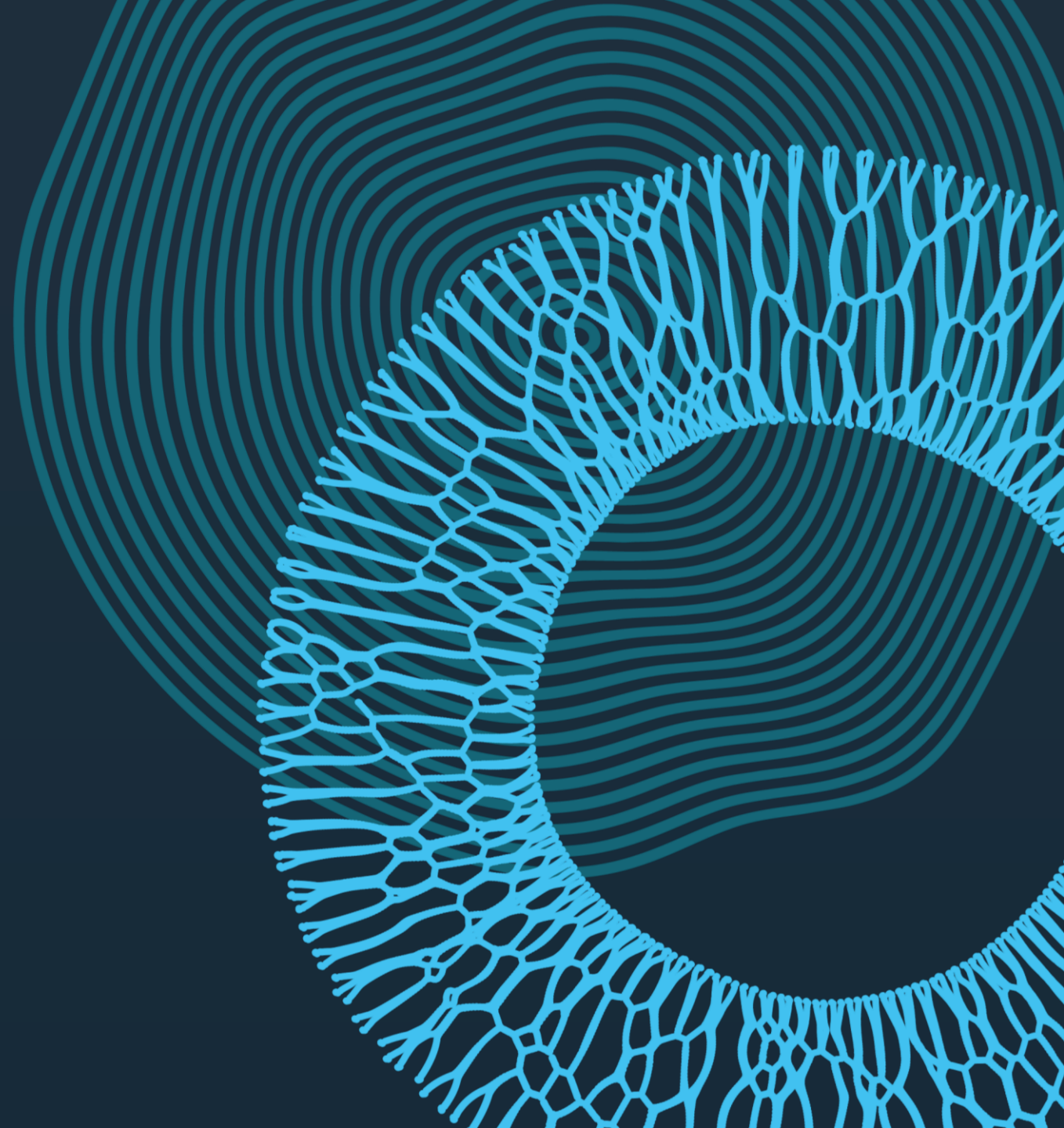




Full Year Results

Year ended 31 October 2021

8 February 2022



Micro Focus International

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Agenda

01. Highlights

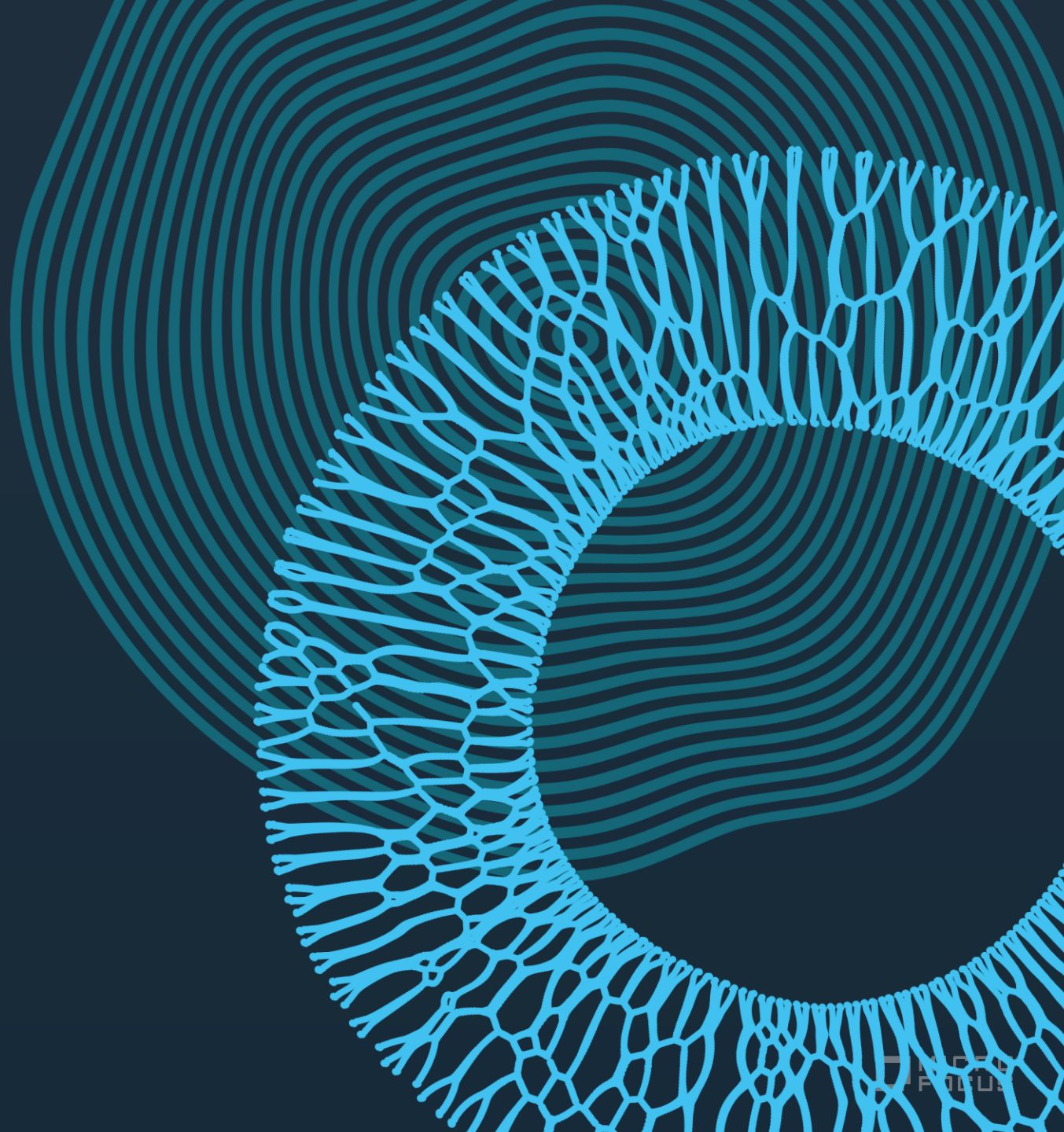
02. Financial Update

03. Operational Update

04. Business Outlook



Highlights



Highlights

- FY21 a year of clear progress in Systems, Products and Go-to-Market transformation activities.
- A material improvement in the rate of revenue decline.
- Announced sale of Digital Safe business on financial terms that demonstrate value creation opportunities within our broad portfolio.
- Strategic partnership with AWS reaches another key milestone with launch of the AWS Mainframe Modernisation preview solution at Re:Invent.
- Focused on exiting FY23 with a flat or better revenue trajectory, \$400-500m of gross cost reduction and exit run-rate of \$500m of adjusted free cash flow.




Financial Update

Highlights

- FY21 financial results are consistent with November trading update.
 - Revenue of \$2.9bn; Adjusted EBITDA of \$1.0bn; Adjusted free cash of \$0.3bn.
- Digital Safe disposal now complete and cash proceeds of \$375m received.
- We remain on track with the financial targets set by the business for FY23.
- Successful refinancing of \$1.6bn term loan taking the average maturity of our debt from 2.7 years to 3.6 years.
- Final Dividend of 20.3 cents has been proposed, taking total dividend to 29.1 cents for the year.

Financial performance

- Revenue decline of 5% year-on-year on a CCY basis for FY21.
- Total costs (included within Adjusted EBITDA) reduced by 0.9%, with cost reductions used to fund increased investment in products.
- Adjusted EBITDA margin of 35.9%, representing a decline of 2.8ppts versus FY20.
- Exceptional costs in the income statement were \$247m with a cash cost of \$236m.
- Final Dividend of 20.3 cents has been proposed, taking total dividend to 29.1 cents for the year which is consistent with 5x covered approach.

				
	Notes	FY 21 Reported	FY 20 CCY	Change %
\$m				
Revenue		2,900	3,063	(5.3)%
Total costs	1	(1,860)	(1,876)	(0.9)%
Adjusted EBITDA		1,040	1,187	(12.4)%
Adj. EBITDA %		35.9%	38.7%	(2.8)ppt

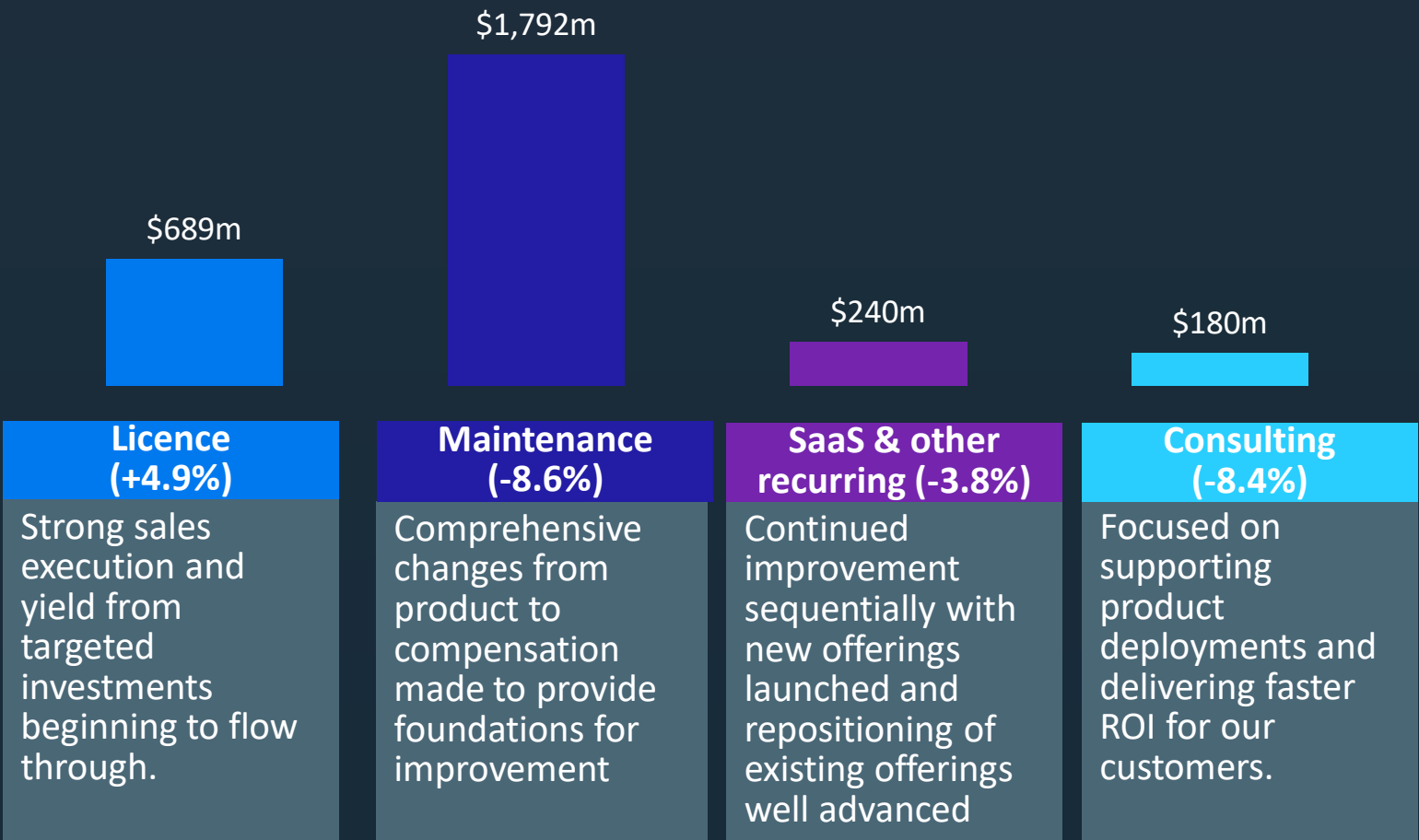
Other metrics		Reported	Reported	
Exceptional costs	2	247	3,012	91.8%
Diluted adj. EPS (cents)		145	154	9 cents
Final Div. per share (cents)		20.3	15.5	31.0%

Notes

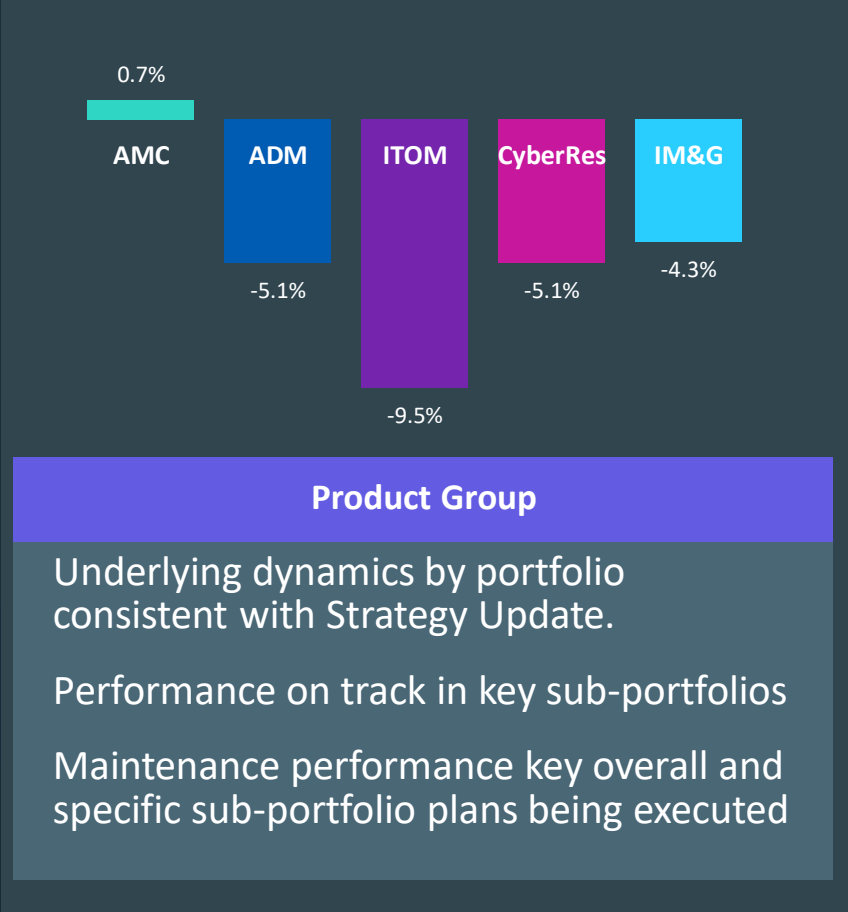
1. Included within Adjusted EBITDA.
2. FY20 exceptional costs includes impairment charge of \$2.8bn.

Revenue analysis by portfolio and stream

Revenue by stream (y-o-y CCY %)




Revenue by Product Group (y-o-y CCY %)



Excluding Digital Safe SaaS grew 0.2% and IM&G declined by 2.5%

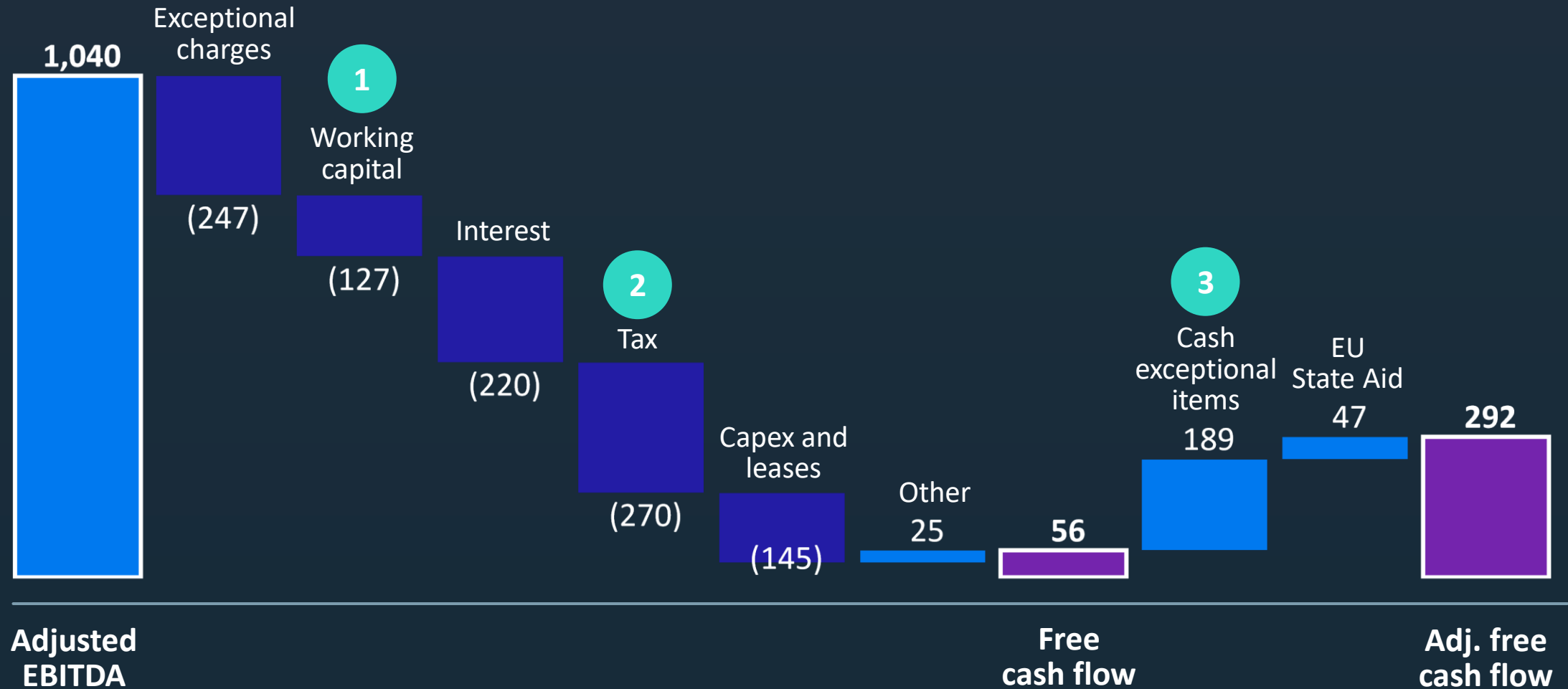
Exceptional items (included within operating profit)

- HPE integration-related costs totalled \$136m with the majority relating to the IT platform. No more exceptional costs are expected in relation to this programme.
- Other exceptional spend of \$111m, include the cost of settling the Wapp patent infringement case.
- We announced the objective to remove a further c.\$400m to c.\$500m of gross annualised operating costs during FY22 and FY23.
- As a result, exceptional spend in relation to delivering these plans is expected to total \$200m over the next two financial periods.

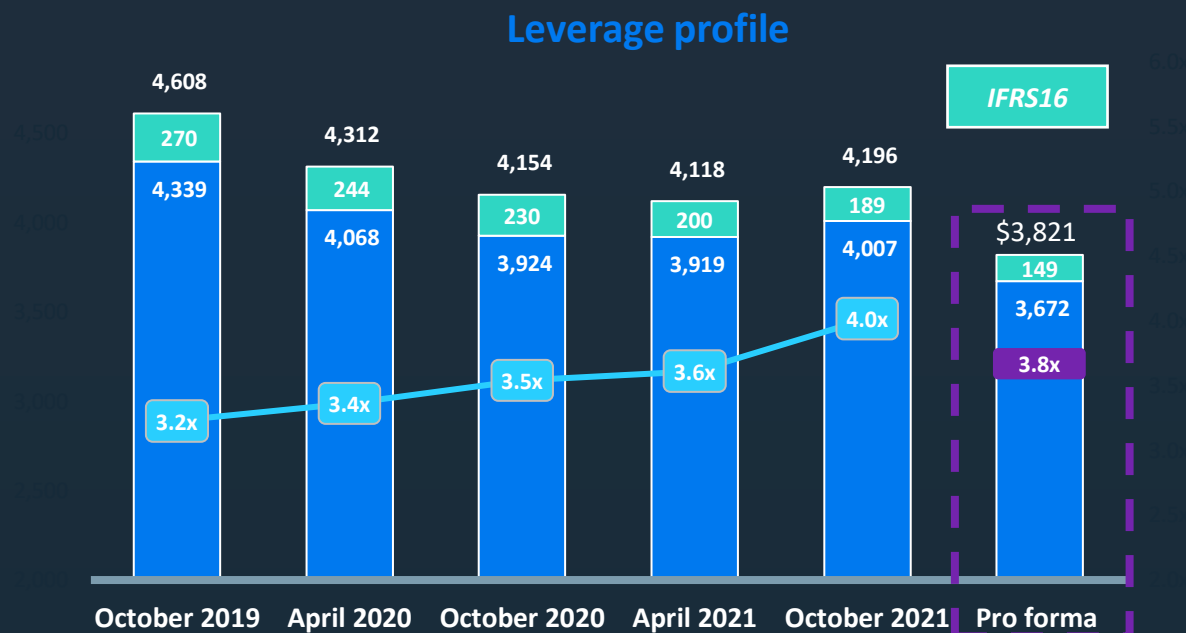
 \$m	FY 21	FY 20
System and IT infrastructure costs	98	101
Integration, severance and property costs	38	84
MF/HPE integration-related costs	136	185
Legal settlement and associated costs	75	–
Other restructuring property costs, severance and legal, acquisition and divesture costs	36	28
Impairment charge	–	2,799
Total exceptional costs	247	3,012

Cash cost of exceptional spend above	243	191
Tax deductions in relation to this spend	(54)	(42)
EU State Aid	47	–
Total cash cost of exceptional spend	236	149

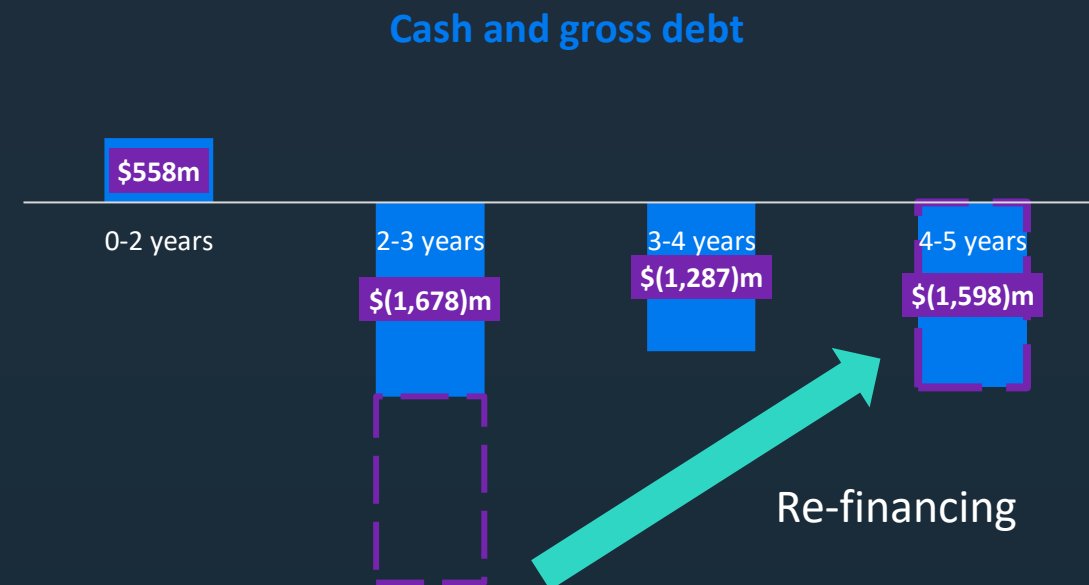
Adjusted free cash flow impacted by 3 material items



Gearing and net debt



- Reduction in leverage over the medium-term remains a key priority with target of 3.0x.
- Proceeds from disposal of Digital Safe are expected to reduce leverage. On a pro-forma basis, leverage at 31 October 2021 would have been 3.8x excluding Digital Safe.



- On 17 January 2022, we announced the refinancing of \$1.6bn of our term loans.
- As a result, the average maturity of Micro Focus' debt has been extended from 2.7 years to 3.6 years.

Financial guidance

Revenue / CCY	On track to exit FY23 with flat or better revenues. No change in assumptions on FY22, with progress not expected to be linear.
Costs included within Adj. EBITDA	On track to exit FY23 with a c.\$300m reduction in the cost base net of inflation.
Exceptional spend	\$100m per annum in FY22 and FY23.
Working capital	Adjusted cash conversion of 95-100% for FY22.
Capex and leases	Approximately \$200m.
Taxation and Interest	Cash tax of approximately \$130m. Cash interest of c.\$230m (including upfront cost of refinancing).
Digital Safe	Disposal completed on 31 January 2022, so 3 months trading which is c.\$25m revenue and Adjusted EBITDA of c.\$13m. Net proceeds of \$335m plus reduction in lease obligations of c.\$40m.
Other	EBT purchase of 12m shares at estimated cost of approximately \$70m.



Operational Update

Progress against our transformation objectives

The foundations are now in place, and we are at an inflection point

Progress so far ...

1

One single enterprise-wide platform

2

Improved product positions across portfolio

3

One single Go-to-Market organisation

Strategic priorities for next two years

Transition to product group operating model

Improve agility and competitive positioning in target markets

Continued focus on installed base

Enable Customers to consume the innovation we deliver more comprehensively and consistently

Utilise the enterprise-wide platform

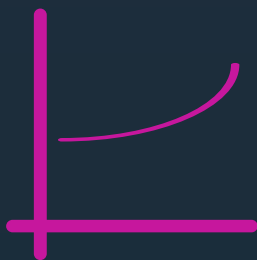
Improve operational flexibility and capture efficiencies

Product Group summary

Objectives

Cyber Resilience (CyberRes)	Sustain the growth momentum we have in applications, data and identity management and complete the re-positioning of ArcSight
Application Modernisation & Connectivity (AMC)	Continue to deliver for our existing customers and strengthen our leadership position in Application Modernisation both directly and through strategic partnerships such as AWS
Application Delivery Management (ADM)	Build on core strengths in modern quality and agile development solutions and drive new innovation in support of the move to Value Stream Management underpinned by acceleration in SaaS
IT Operations Management (ITOM)	Ensure our customer base can leverage the innovation already delivered, especially in Service Management, and accelerate the re-positioning of Service Assurance to AIOps and SaaS
Information Management & Governance (IM&G)	Keep executing the plan in Information Management and accelerate growth in Big Data driven by subscription and cloud revenues

Business Outlook



**Revenue
stabilisation**

A flat or better year-on-year revenue trajectory as we exit FY23



Cost reduction

c.\$400m – c.\$500m gross annualised cost reduction
c.\$300m net of inflation



**Free cash flow
generation**

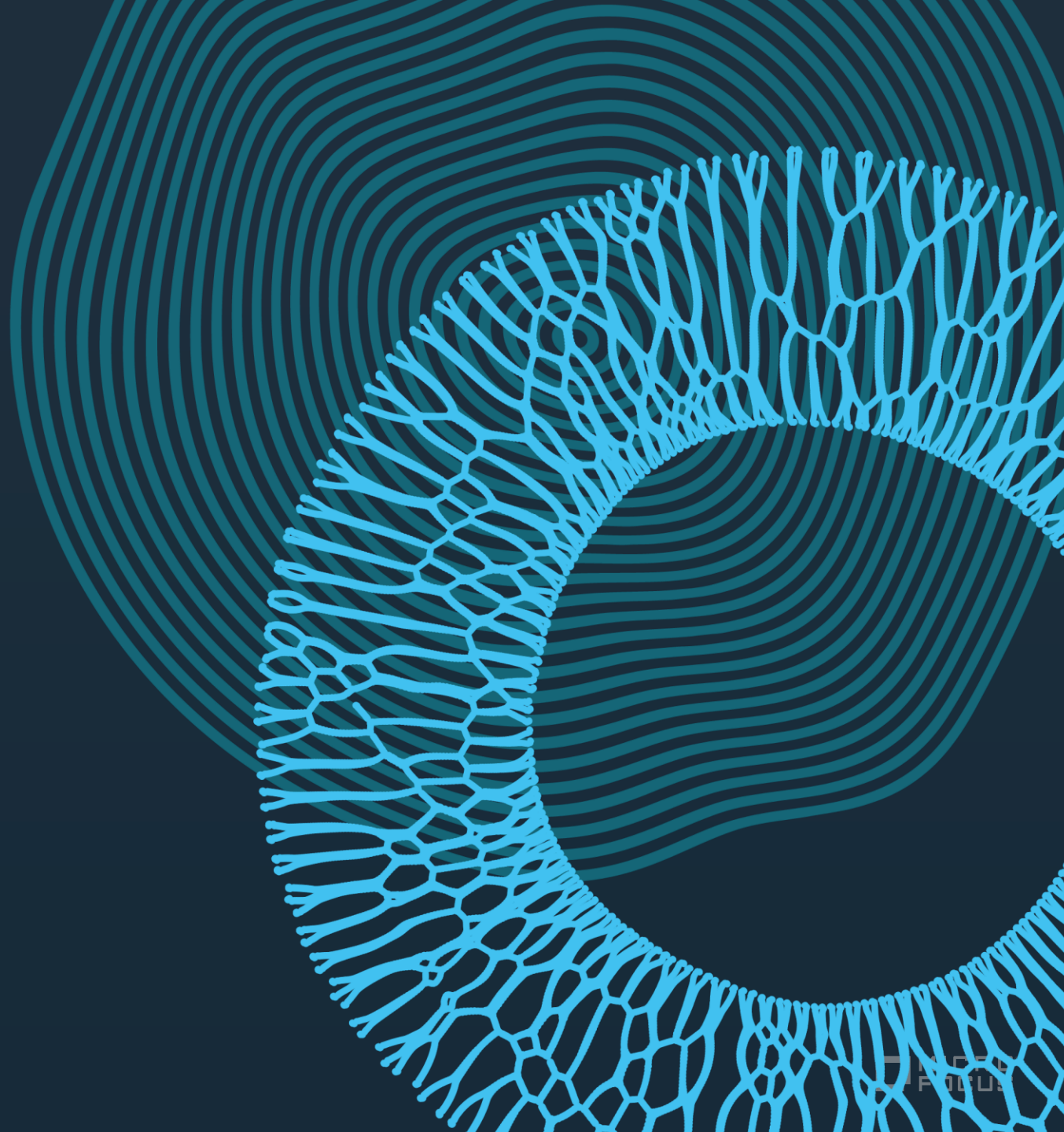
Equity Adjusted free cash flow run rate of c.\$500m by the end of FY23



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Appendix



Appendix 1 -Improving transparency in our KPIs

Closer alignment to statutory measures

	Updated approach
Revenue / CCY	Remains Constant Currency and adjusted for material acquisitions/disposals
Exceptional spend	Only related to incremental M&A and cost reduction programme such as severance No additional HPE integration costs
Adjusted EBITDA	No longer adjusted to reverse out capitalised product development costs More consistent with Bank Credit Agreements
Net Debt	Remains the same
Free cash flow	Remains the same
Leverage ratio	Net debt / Adjusted EBITDA

Appendix 2 – Currency impact

Revenue and Cost weighting across key currencies:

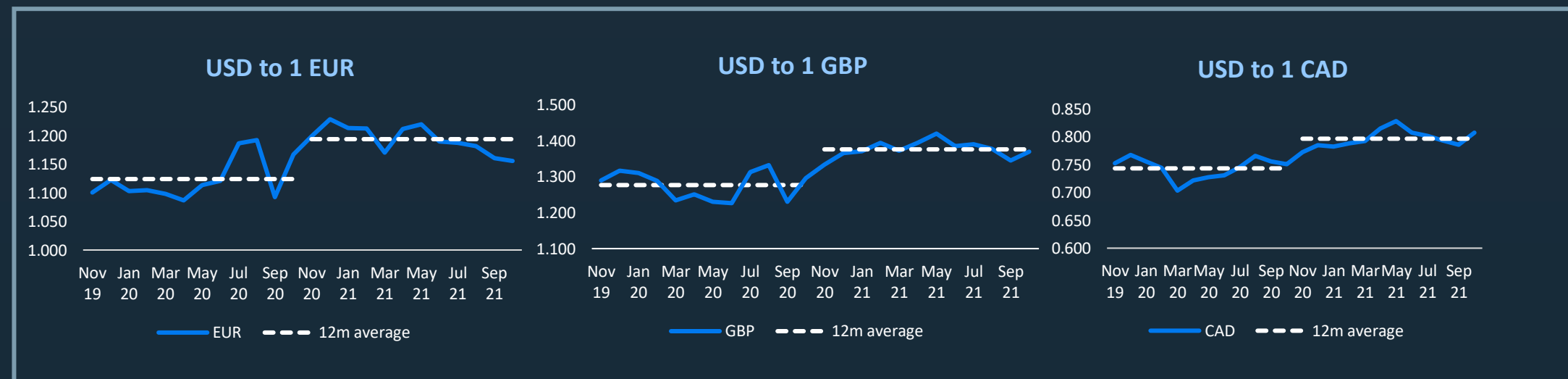
	FY 21		FY 20	
	Revenue	Cost	Revenue	Cost
USD	58.1%	49.4%	59.6%	48.9%
EUR	20.6%	12.1%	20.3%	13.3%
GBP	4.5%	11.3%	4.7%	11.5%
CAD	3.1%	1.7%	3.1%	1.9%

Average exchange rate movements
in the 12 months to October 21
vs the 12 months to October 20:

USD to 1 EUR: USD is weaker by 6.0%

USD to 1 GBP: USD is weaker by 7.5%

USD to 1 CAD: USD is weaker by 7.0%



Appendix 3 – Revenue by product group and region

MICRO FOCUS	FY21				
	Licence	Maintenance	SaaS and other recurring	Consulting	Total
\$m					
AMC	155.3	315.9	-	10.3	481.5
ADM	106.1	408.5	78.9	18.6	612.1
ITOM	172.7	507.8	4.3	106.3	791.1
CyberRes	174.5	383.9	36.3	29.1	623.8
IM&G	80.0	175.6	120.3	15.5	391.4
Revenue*	688.6	1,791.7	239.8	179.8	2,899.9
North America	303.7	870.0	182.3	58.9	1,414.9
International	272.7	713.9	46.0	94.2	1,126.8
Asia Pac & Japan	112.2	207.8	11.5	26.7	358.2
Revenue*	688.6	1,791.7	239.8	179.8	2,899.9

CCY % change to FY20				
Licence	Maintenance	SaaS and other recurring	Consulting	Total
9.8%	(3.2)%		(1.0)%	0.7%
2.1%	(8.9)%	3.3%	13.4%	(5.1)%
(2.7)%	(11.3)%	(17.3)%	(10.8)%	(9.5)%
5.9%	(9.5)%	6.5%	(14.7)%	(5.1)%
15.8%	(7.6)%	(10.2)%	(4.3)%	(4.3)%
4.9%	(8.6)%	(3.8)%	(8.4)%	(5.3)%
9.5%	(11.2)%	(2.8)%	(11.3)%	(6.3)%
0.0%	(6.6)%	(5.9)%	(9.3)%	(5.3)%
5.1%	(4.6)%	(12.2)%	2.7%	(1.5)%
4.9%	(8.6)%	(3.8)%	(8.4)%	(5.3)%

*FY21 revenue includes \$0.6m deferred revenue haircut



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