Interim Results for the six Months Ended 30 April 2020

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Micro Focus International

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Agenda:

Introduction

CEO Update

CFO Update

Outlook and Guidance

CEO Update

Stephen Murdoch

Executive Summary

- Revenue performance consistent with the guidance given at the time of our Preliminary results on 4 February 2020, taking into account the expected disruption to new sales activity which we highlighted in our COVID-19 update of 18 March 2020.
- Revenue performance includes progress within our security product group but ITOM and ADM were below expectations.
- Mitigation of COVID-19 revenue weakness at Adjusted EBITDA level, through management of cost base.
- The Group recorded a goodwill impairment charge of $922.2m in the period, triggered by Covid-19
- Successful refinancing of $1.4bn term loan means business is fully financed with next term loan due for repayment in June 2024.
- Operating cash of $0.6bn with available liquidity of $1.1bn as at 30 April 2020.
- The Group is 5 months into 3 year turnaround plan and structural changes to business are continuing at pace.

Micro Focus response to COVID

- **Our business continuity plans have been thoroughly tested and are proving robust, with our employees responding positively and supporting our customers effectively.**
  - We have more than 90% of our people working from home and supporting our customers effectively and are proud of the commitment and determination of our teams in making this transition as seamless as possible despite the challenges.
  - Our primary focus remains the health and safety of our employees and delivering for our customers and partners.
- **Our products make a meaningful impact to our customers' operational resiliency and ability to respond.**
- **In the period we have seen a revenue impact of at least 2% as a result of COVID-19**
  - Disruption to new project pipeline and revenue impacting Licence and Consulting revenues visibility and performance with some pressure on Maintenance renewals timing and size.
  - The business has been able to largely mitigate the impact on Adjusted EBITDA. This has been achieved primarily due to the close management of variable and discretionary costs in addition to a natural reduction in certain costs as a direct result of COVID-19.

Product Group performance

	Licence Revenue (CCY %)	Maintenance Revenue (CCY %)	Commentary
Application Modernisation & Connectivity (“AMC”)	(15.20)%	(1.00)%	AMC business will trend flat over multiple periods and 6 month trends should not be inferred as long term growth rates. Mainframe workload modernization key to growth and solution capability well positioned
Application Delivery Management (“ADM”)	(25.00)%	(9.30)%	Performance driven by inconsistent execution. Corrective actions being taken as part of GTM transformation to address and deliver more focused resource deployment.
IT Operations Management (“ITOM”)	(34.90)%	(16.30)%	Underlying performance needs to improve overall. Initial corrective actions are underway with more comprehensive assessment of any additional, substantive actions required being undertaken in parallel.
Security	(4.10)%	(0.70)%	Security performance in line with expectations and on path to growth. Strategic investments and go-to-market hires progressing as planned.
Information Management & Governance (“IM&G”)	(19.20)%	0.40%	Vertica investments continuing and Digital Safe investments and re-positioning at an advanced stage.
Total before haircut	**(21.3%)**	**(7.7)%**	

Strategic and Operational review update

Strategic Initiative	Progress to date
Evolve our operating model	Key hires and organisational structure changes
Transform our go-to-market function to improve sales effectiveness	Implementation of consistent sales methodology, enablement and more targeted resource deployment
Accelerate the transition of certain portfolios to SaaS or Subscription	Development of customer offerings in Security and Big Data
Complete systems and operational simplification priorities	Good progress but now moving to our alternative cutover planning scenario of November 2020 and February 2021

CFO Update

Brian McArthur-Muscroft

Financial performance (1 of 2)

- Revenue decline of 11.3% period-on-period on a CCY basis for the six months to 30 April 2020.
- COVID-19 related impact estimated to have reduced revenue by at least 2% in the period.
- Total Costs (included within Adjusted EBITDA) reduced by 8.5% due to the close management of variable and discretionary costs in addition to a reduction in certain costs as a direct result of COVID-19.
- As a result, impact of COVID-19 fully mitigated at Adjusted EBITDA level with Adjusted EBITDA margin (after IFRS 16) of 38.0%.
- It is the Board's current intention to propose a final dividend in relation to the current financial year, if it is prudent to do so within the context of our business performance and the macro economic environment.

MICRO FOCUS	H120 Reported	H119 CCY	Change %
Licence	**267.6**	340.1	(21.3)%
Maintenance	**966.3**	1,047.2	(7.7)%
SaaS and other recurring	**124.6**	142.7	(12.7)%
Consulting	**96.1**	112.8	(14.8)%
Revenue (before haircut)	**1,454.6**	1,642.8	(11.5)%
Deferred revenue haircut	**(0.4)**	(4.2)	(90.5)%
Revenue	**1,454.2**	1,638.6	(11.3%)
Total costs (included within Adj. EBITDA)	**(902.0)**	(985.4)	(8.5%)
Adjusted EBITDA	**552.2**	653.2	(15.5%)
Adjusted EBITDA margin %	**38.0%**	39.9%	**(1.9ppt)**
Per share data presented at Actual rates			
Diluted adjusted EPS (cents)	**72.10**	85.53	(15.7%)
Dividend per share (cents)	**-**	58.33	(100%)

Financial performance (2 of 2)

- Reduction in HPE Software related exceptional spend to $126.2m with $71.5m system related.
- The Group also recorded a goodwill impairment charge of $922.2m in the period.
- In the six months to 30 April 2020 cash conversion of 131.5% (2019: 115.1%). Full year cash conversion target range remains 95-100%.
- Free cash flow of $304.9m (2019: $419.5m). Further analysis of free cash flow presented overleaf.
- Adjusted Net debt (after IFRS 16) of $4,312.0m and period end leverage of 3.4x Adjusted EBITDA.

MICRO FOCUS	H120 Reported	H119 Reported	Change %
Exceptional spend (at actual rates)			
System related spend	71.5	80.9	(11.6%)
Other integration costs	54.7	82.3	(33.5%)
Total HPE Software related exceptional spend	**126.2**	**163.2**	**(22.7%)**
Goodwill impairment charge	922.2	-	100.%
Other	0.0	(1.8)	(100.0%)
Total	**1,048.4**	**161.4**	**(549.6%)**
Adjusted cash conversion (%)	**131.5%**	**115.1%**	
Free cash flow ($m)	**304.9**	**419.5**	(27.3%)
Adjusted Net debt ($m)	**(4,312.0)**	**(3,807.5)**	13.3%
Adjusted Net debt to Adjusted EBITDA ratio	**3.4x**	**2.7x**	

Cash generation for six months ended 30 April 2020

- Free cash generation of $304.9m in six months ended 30 April 2020.
- Free cash flow comparison year-on-year impacted by SUSE disposal and IFRS 16. See Appendix for further detail.
- Strong working capital management resulted in working capital inflow of $99.0m and adjusted cash conversion of 131.5% in six months ended 30 April 2020.
- Exceptional costs reduced free cash flow by $122m in the period. Excluding these costs free cash flow would have been $426.9m.

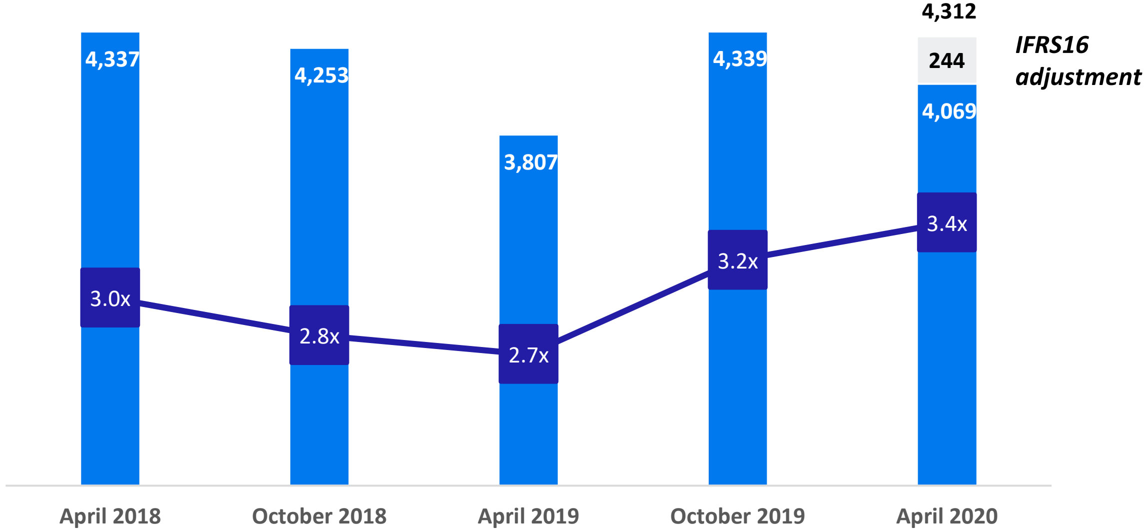
MICRO FOCUS	H120 Reported	H119 Restated*
Cash generated from operations before working capital	**461.4**	**575.3**
Movement in working capital	**99.0**	**47.3**
Cash generated from operations	**560.4**	**622.6**
Interest payments	(105.5)	(117.7)
Bank loan costs	(1.1)	-
Tax payments	(65.5)	(39.1)
Lease related interest and capital payments*	(40.8)	(10.4)
Purchase of intangible assets	(36.5)	(12.8)
Purchase of property, plant and equipment	(6.1)	(23.1)
Free cash flow	**304.9**	**419.5**
Adjusted cash conversion %	**131.5%**	**115.1%**

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

Capital discipline and balance sheet strength

- Successful refinancing of $1.4bn term loan means next term loan due for repayment in June 2024.
- Available liquidity of $1.1bn with Operating cash of $0.6bn at 30 April 2020.
- Reduction in net debt of $270m in the six months ended 30 April 2020 on a like-for-like basis.
- Leverage of 3.4x in line with expectations given planned investment programme following Strategic & Operational review.
- Medium term leverage target of 2.7x remains.

Leverage profile



Guidance and strategic priorities

Stephen Murdoch

Outlook and Full Year Guidance

- **It is not possible to provide reliable forward guidance in the current environment and we have already withdrawn formal revenue guidance for the current financial year.**
- **The ultimate impact of COVID-19 on the global economy remains unknown. It is unlikely that we will see an improvement to the global economy in the second half of the financial year.**
  - We anticipate disruption to new project pipeline and revenue impacting **Licence** and **Consulting** revenues visibility and performance
  - Our **Maintenance** and **SaaS** revenue streams account for approximately 70% of our revenues and these are contractual and recurring.
- **We have options available to partially mitigate a revenue shortfall at an Adjusted EBITDA and cash level**
- **It is the Board’s intention to propose a final dividend in relation to the current financial year, if it is prudent to do so within the context of our business performance and the macro economic environment.**
- **Over the longer term, Micro Focus delivers mission-critical enterprise software which as such is essential for to our customers businesses.**
  - Strategic focus of enabling customers to “bridge existing and emerging capabilities” is an effective response to the challenges customers face in rebuilding/refocusing their businesses post COVID.

Strategic Initiatives & Immediate Priorities

Strategic initiatives

Complete
Our core systems and simplification work

Transform
Our go-to-market organization and approach

Evolve
Our business model to establish stronger positons in growth areas

Accelerate
A targeted transition to subscription and SaaS

Immediate priorities

- **Stabilisation of revenues**
  - Execute strategic initiatives, adjusting as required to changes in the overall macro environment
  - Improve ITOM & ADM performance
- **Maximise free cash flow management of cost base and working capital**
- **Delivery of core systems transition**

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Appendix

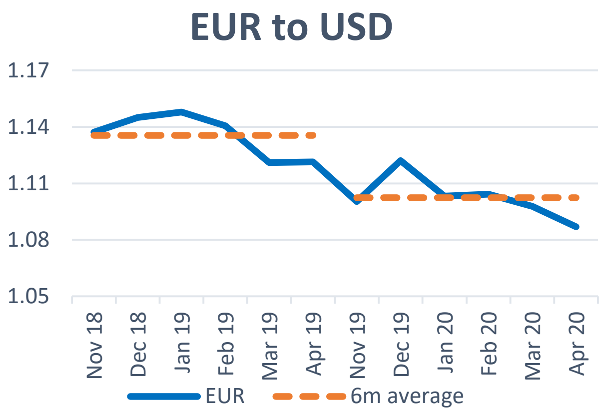
Appendix 1 -Impact of IFRS 16 on key financial metrics in H1 20

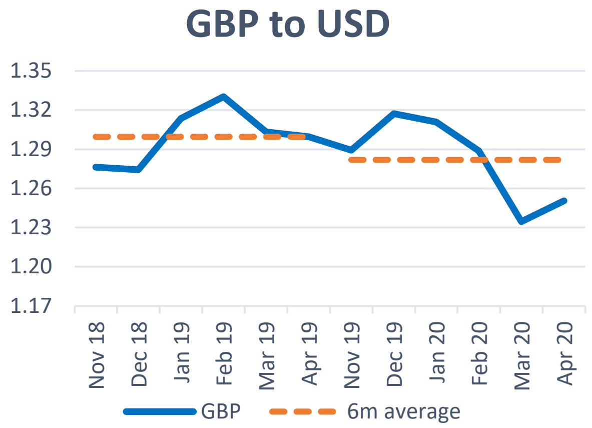
	Including IFRS16	Excluding IFRS16	Description of impact
Adjusted EBITDA *Margin*	\$552m *38.0%*	\$517m *35.6%*	The Group received a \$35m AEBITDA benefit from capitalisation of operating leases under IFRS 16, resulting from reduced operating costs
Net debt	\$4,312m	\$4,068m	The capitalisation of operating leases under IFRS 16 resulted in the recognition of an additional finance lease liability. At 30 April 2020 the finance lease liability totalled \$265m, of which \$244m related to IFRS 16
Leverage	3.4x	3.3x	The proforma IFRS 16 benefit to the twelve months of AEBITDA prior to 30 April 2020 relative to the IFRS 16 lease liability at that date reflected a ratio of 3.7x, therefore IFRS 16 has been dilutive to leverage
Free Cash Flow	\$305m	\$305m	IFRS 16 is an accounting standard that has no impact on the underlying cash flows of an operating lease, therefore free cash flow is not impacted
Adjusted Cash Conversion	131.5%	132.9%	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

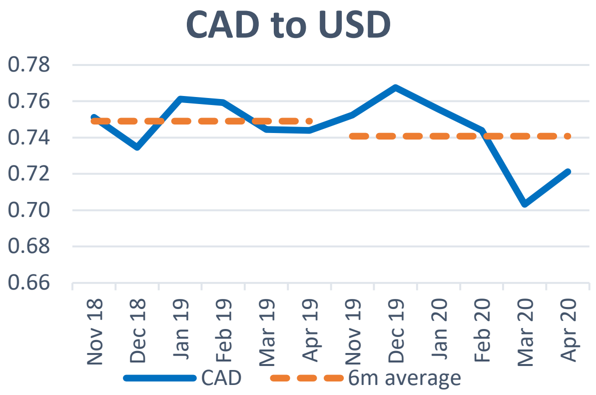
Appendix 2- Currency impact

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

	6 Months to 30 April 2020		6 Months to 30 April 2019	
	Revenue	**Cost**	**Revenue**	**Cost**
USD	59.9%	44.3%	61.2%	48.0%
EUR	19.1%	14.4%	18.8%	14.4%
GBP	5.1%	13.1%	5.4%	10.8%
CAD	3.3%	1.9%	3.0%	1.6%







Average exchange rate movements for the above currencies in the 6 months to April 20 vs the 6 months to April 19 show the following:

EUR:USD. USD is **stronger by 2.9%**

GBP:USD. USD is **stronger by 1.1%**

CAD:USD. USD is **stronger by 0.9%**

Appendix 3- Revenue by product portfolio and region

$m	H120					CCY % change to H119				
	Licence	Maintenance	SaaS and other recurring	Consulting	Total	Licence	Maintenance	SaaS and other recurring	Consulting	Total
AMC	60.4	160.5	-	5.2	226.1	(15.2%)	(1.0%)	-	(3.7%)	(5.3%)
ADM	46.7	223.2	38.4	7.7	316.0	(25.0%)	(9.3%)	(8.4%)	(23.8%)	(12.3%)
ITOM	69.7	284.0	1.4	56.7	411.8	(34.9%)	(16.3%)	(77.4%)	(12.9%)	(20.5%)
Security	65.6	206.2	16.7	17.7	306.2	(4.1%)	(0.7%)	(11.2%)	(25.3%)	(3.9%)
IM&G	25.2	92.4	68.1	8.8	194.5	(19.2%)	0.4%	(10.2%)	3.5%	(6.3%)
Revenue before haircut	**267.6**	**966.3**	**124.6**	**96.1**	**1,454.6**	**(21.3%)**	**(7.7%)**	**(12.7%)**	**(14.8%)**	**(11.5%)**
Haircut	-	(0.3)	(0.1)	-	(0.4)	-	(91.9%)	(80.0%)	-	(90.5%)
Revenue	267.6	966.0	124.5	96.1	1,454.2	(21.3%)	(7.4%)	(12.4%)	(14.8%)	(11.3%)
North America	101.9	493.3	94.3	32.7	722.2	(33.4%)	(11.5%)	(10.4%)	(23.1%)	(15.9%)
International	118.0	366.9	23.6	51.5	560.0	(12.9%)	(3.7%)	(22.4%)	(9.2%)	(7.2%)
Asia Pac & Japan	47.7	106.1	6.7	11.9	172.4	(7.4%)	(2.7%)	(4.3%)	(12.5%)	(4.8%)
Revenue before haircut	**267.6**	**966.3**	**124.6**	**96.1**	**1,454.6**	**(21.3%)**	**(7.7%)**	**(12.7%)**	**(14.8%)**	**(11.5%)**
Haircut	-	(0.3)	(0.1)	-	(0.4)	-	(91.9%)	(80.0%)	-	(90.5%)
Revenue	**267.6**	**966.0**	**124.5**	**96.1**	**1,454.2**	**(21.3%)**	**(7.4%)**	**(12.4%)**	**(14.8%)**	**(11.3%)**

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