MICRO FOCUS

Interim Results

Six months ended 30 April 2022

22 June 2022

Micro Focus International

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Agenda

Highlights

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- Performance in line with our expectations.
  - Key sub-portfolios and SaaS overall delivering solid revenue growth, Maintenance improving and Licence disappointing
  - Suspended operations in Russia and working to absorb financial impact
  - Cost programmes are ahead of our plans
  - Strong Cash performance
- Product & SaaS roadmap delivery on track.
- We have made progress against our three strategic priorities for FY22 and our FY23 exit goals.

Financial Update

Summary

- H1 22 in line with our expectations and our FY22 outlook remains unchanged.
  - Revenue of $1.3bn; reflecting CCY decline of 6.8% year-on-year (excluding Digital Safe).
  - Adjusted EBITDA of $437m (excluding Digital Safe) at a margin of 35.1%.
  - Strong free cash flow generation of $190m.
- The quality of earnings is improving driven by reduction in both operating and exceptional costs year-on-year.
- Net debt has reduced by $545m from 31 October 2021, and leverage has reduced by 0.3x to 3.7x.
- Dividend of 8 cents has been proposed, which is consistent with 5x covered approach.

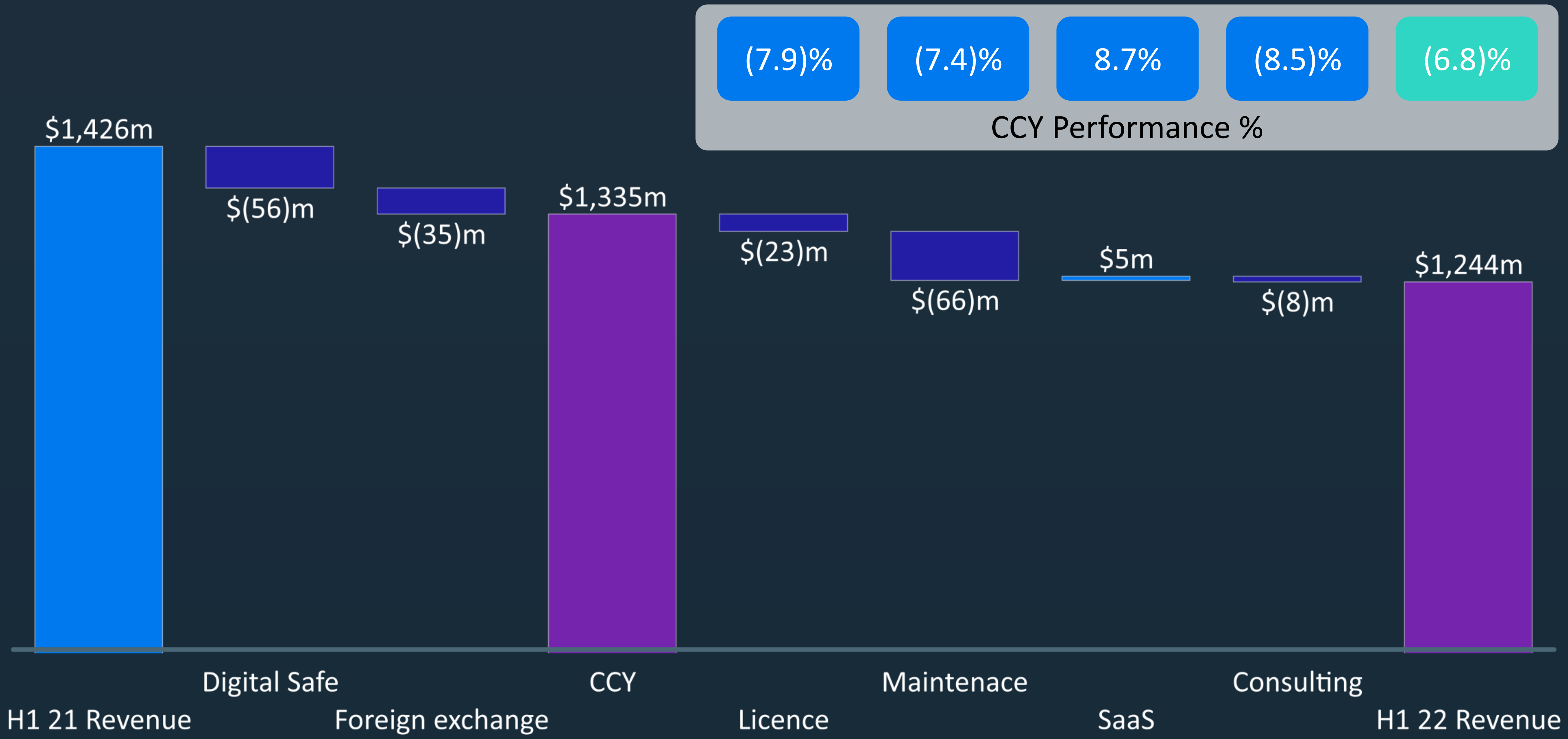
Financial performance

- Revenue decline of 6.8% period on period on a CCY basis (excluding Digital Safe) for H1 22.
- Operating costs reduced by 5.3%, underpinned by cost reduction programme.
- Adjusted EBITDA margin of 35.1%, representing a decline of 1.1ppts versus H121.
- Exceptional credit of $42m (H121: $143m charge) in the income statement.
- Dividend of 8 cents has been proposed, which is consistent with 5x covered approach.

MICRO FOCUS	Notes	H1 22 Actual FX rates	H1 21 CCY	Change %
Excluding Digital Safe				
$m				
Revenue		**1,244**	1,335	(6.8)%
Operating costs	1	**(807)**	(852)	(5.3)%
Adjusted EBITDA		**437**	483	(9.5)%
Adj. EBITDA %		**35.1%**	36.2%	(1.1)ppt
Including Digital Safe		Reported	Reported	
Exceptional credit / (charge)	2	**42.0**	(143.0)	(129.2) %
Diluted adj. EPS (cents)		**57.3**	67.2	(14.7)%
Interim div. per share (cents)		**8.0**	8.8	(9.1)%

Notes
1. Included within Adjusted EBITDA.
2. Exceptional credit reflects a profit on disposal of Digital Safe partially offset by the costs associated with delivering the FY22 / FY23 cost reduction programme

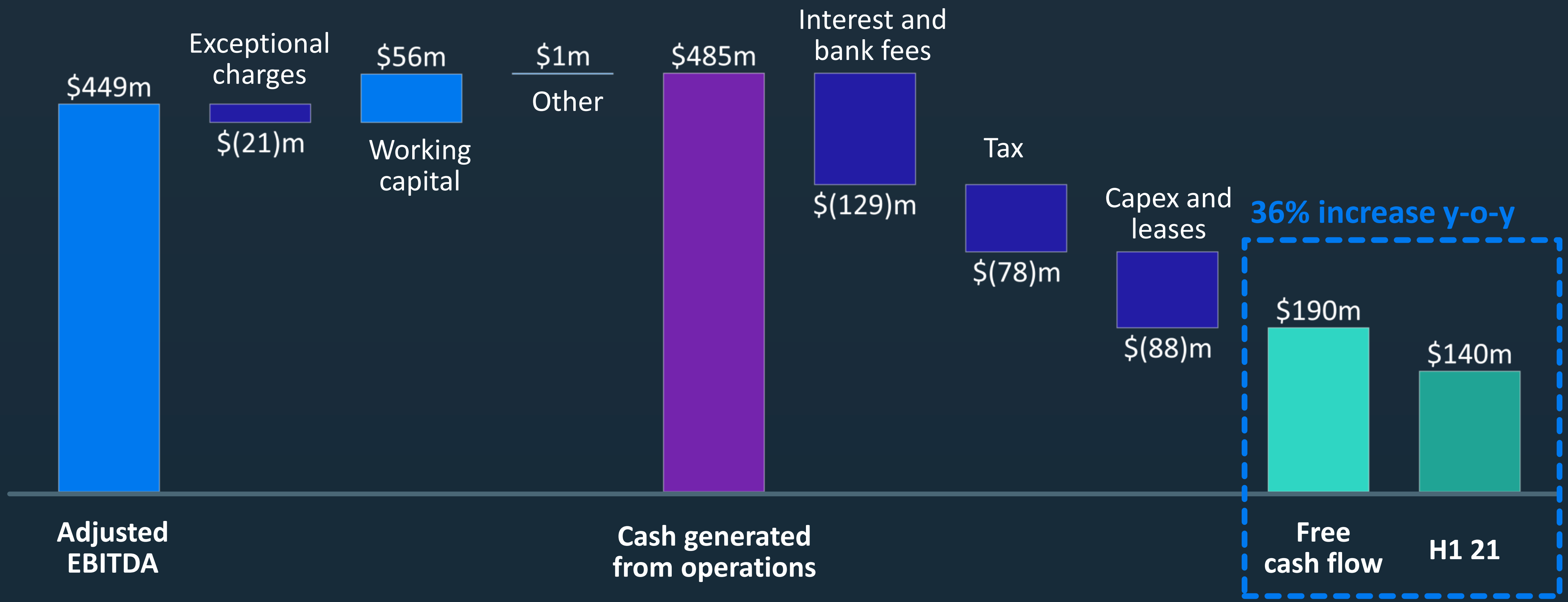
Revenue performance is in line with our expectations



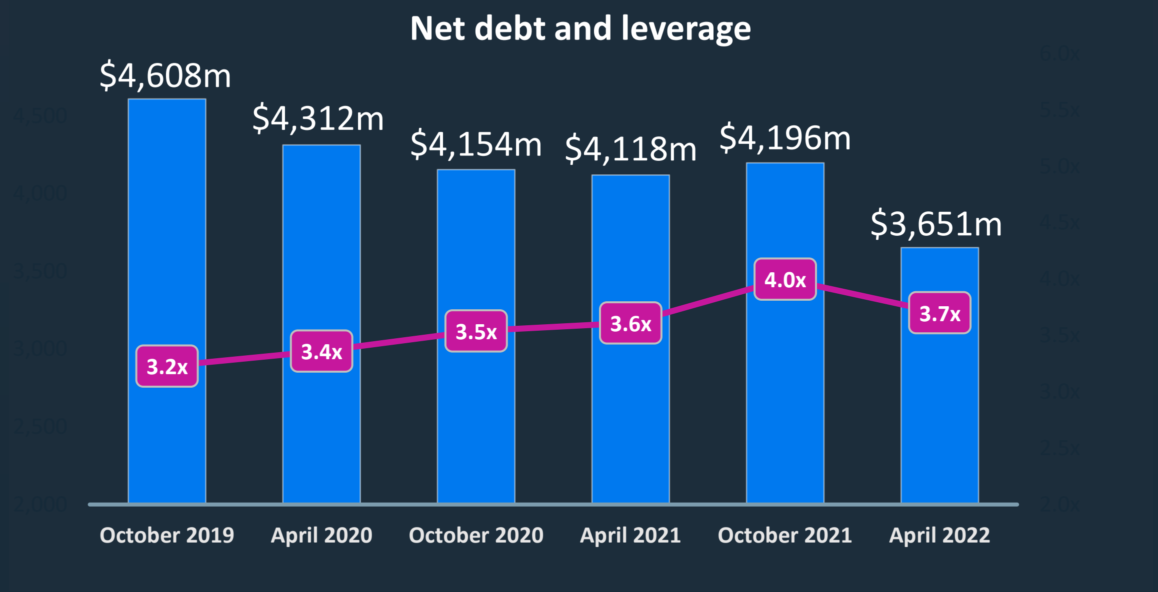
We are on-track to deliver our cost saving targets …

… And have already approximately $150m of annualised savings

Free cash flow has increased underpinned by the reduction in both operating and exceptional spend



We have reduced gross debt and leverage



- Reduced gross debt by $0.9bn since October 2019 and reduction in leverage over the medium-term remains a key priority with target of 3.0x.
- Cash generation and the disposal of Digital Safe has meant gross debt has reduced by $335m and leverage by 0.3x from the October 2021 position.

- On 17 January 2022, we announced the refinancing of $1.6bn of our term loans.
- Our guidance for cash interest is $230m for FY22 and assumes an element of rate increases
- We have provided an overview of the impact of interest rates within Appendix 3. A 1% increase in interest rates increases interest costs c. $27m p.a.

FY22 Financial Guidance

Revenue / CCY	No change to expectations, working to mitigate impact of Russia.
Costs included within Adj. EBITDA	Expect annualised FY22 gross cost savings of approximately $200m
Exceptional spend	Reduced from $100m to $50m.
Working capital	Adjusted cash conversion of 95-100% for FY22.
Capex and leases	Approximately $200m.
Taxation	Cash tax of approximately $130m.
Interest	Cash interest of c.$230m (including upfront cost of refinancing) and current interest rate curves. See Appendix 3.

Operational Update

Product Group performance

	Revenue $m	CCY %	Drivers of exit FY23 growth rates
AMC	$212m	(3.5)%	Continued double digit growth in Mainframe modernisation to scale until visible at PG level.
ADM	$279m	(6.4)%	SaaS transition continues to scale to moderate rate of decline.
ITOM	$310m	(9.9)%	Maintenance decline moderates underpinned by improvements to product roadmaps.
CyberRes	$270m	(2.9)%	Double digit growth in Fortify and Voltage, stabilise ArcSight, Stable IAM.
IM&G	$173m	(11.4)%	Continued growth in Vertica ARR.

Note: all figures exclude Digital Safe

Mainframe modernisation is a growth driver for the group

The market is growing and we are well positioned to participate in this growth.

Double digit

H1 revenue growth

We have strategic relationships with all the hyper-scalers and a range of integrators.

We have helped over 1,000 customers carry out this journey already which is orders of magnitude more than alternative providers.

Priorities for FY22 and into FY23 unchanged

Customer Centric Execution

- Priority focus on installed base
- Targeted delivery of innovation in each portfolio
- SaaS delivery infrastructure investments

Operational Effectiveness

- Capture cost efficiencies
- Reengineer processes to drive productivity
- Simplify structure to enable operational agility

Transition to Product Group Operating Model

- Tailored approach for each Product Group
- Alignment from market opportunity to customer project
- Create foundations for strategic flexibility

Focused on delivering on our goals

Outlook for FY22 unchanged

Operational and financial discipline through macro economic headwinds

Strategic priorities for FY23 exit trajectory unchanged

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Appendix

Appendix 1 – Revenue by product group and region (excl. Digital Safe)

$m	HY 22					CCY % change to HY 21				
	Licence	Maintenance	SaaS and other recurring	Consulting	Total	Licence	Maintenance	SaaS and other recurring	Consulting	Total
AMC	53.1	152.9	-	5.7	211.7	(11.1)%	(1.1)%	-	14.0%	(3.5)%
ADM	42.0	188.5	40.5	7.7	278.7	(13.4)%	(7.9)%	13.1%	(12.5)%	(6.4)%
ITOM	63.6	195.9	2.3	48.4	310.2	(16.9)%	(8.5)%	15.0%	(6.4)%	(9.9)%
CyberRes	67.1	168.7	20.5	13.8	270.1	1.1%	(5.8)%	10.8%	(3.5)%	(2.9)%
IM&G	43.4	119.9	4.5	5.2	173.0	5.3%	(14.0)%	(26.2)%	(38.8)%	(11.4)%
Revenue	**269.2**	**825.9**	**67.8**	**80.8**	**1,243.7**	**(7.9)%**	**(7.4)%**	**8.7%**	**(8.5)%**	**(6.8)%**
Digital Safe	-	-	25.9	-	25.9	-	-	(54.2)%	-	(54.2)%
Revenue	**269.2**	**825.9**	**93.7**	**80.8**	**1,269.6**	**(7.9)%**	**(7.4)%**	**(21.2)%**	**(8.5)%**	**(8.7)%**
North America	105.9	404.4	69.7	23.2	603.2	(7.4)%	(8.8)%	(23.6)%	(23.7)%	(11.2)%
International	114.6	324.5	18.9	44.2	502.2	(10.2)%	(6.5)%	(15.2)%	(3.3)%	(7.5)%
Asia Pac & Japan	48.7	97.0	5.1	13.4	164.2	(3.2)%	(4.3)%	(5.6)%	(9.8)%	(3.0)%
Revenue	**269.2**	**825.9**	**93.7**	**80.8**	**1,269.6**	**(7.9)%**	**(7.4)%**	**(21.2)%**	**(8.5)%**	**(8.7)%**

Appendix 2 – Currency impact

Revenue and Cost weighting across key currencies:

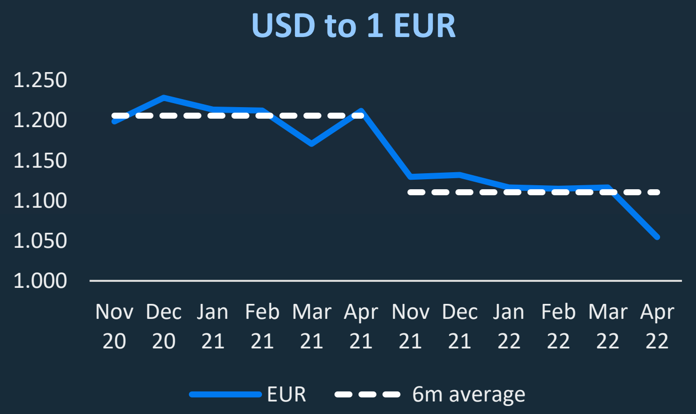
	HY 22		HY 21	
	Revenue	Cost	Revenue	Cost
USD	58.0%	41.3%	57.3%	45.1%
EUR	20.6%	12.3%	21.3%	13.3%
GBP	4.8%	15.0%	4.5%	12.7%
CAD	2.9%	2.4%	3.2%	2.1%

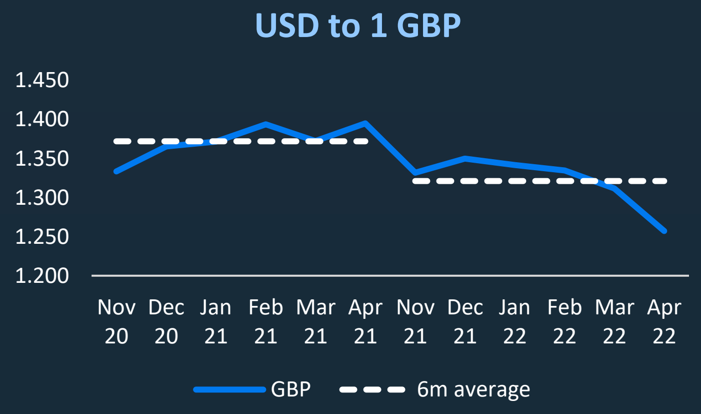
Average exchange rate movements
in the 6 months to April 22
vs the 6 months to April 21:

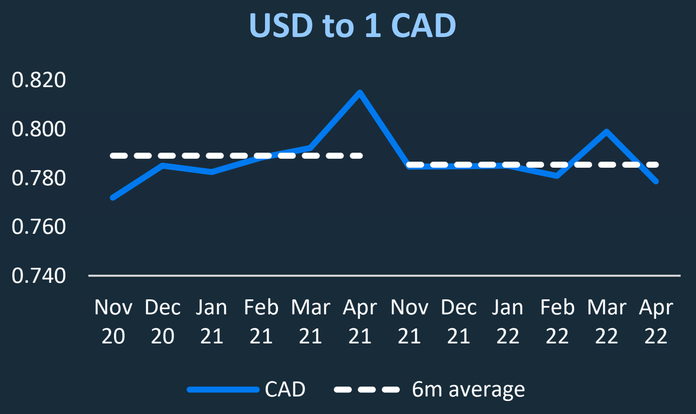
USD to 1 EUR: EUR is weaker by 7.0%

USD to 1 GBP: GBP is weaker by 2.6%

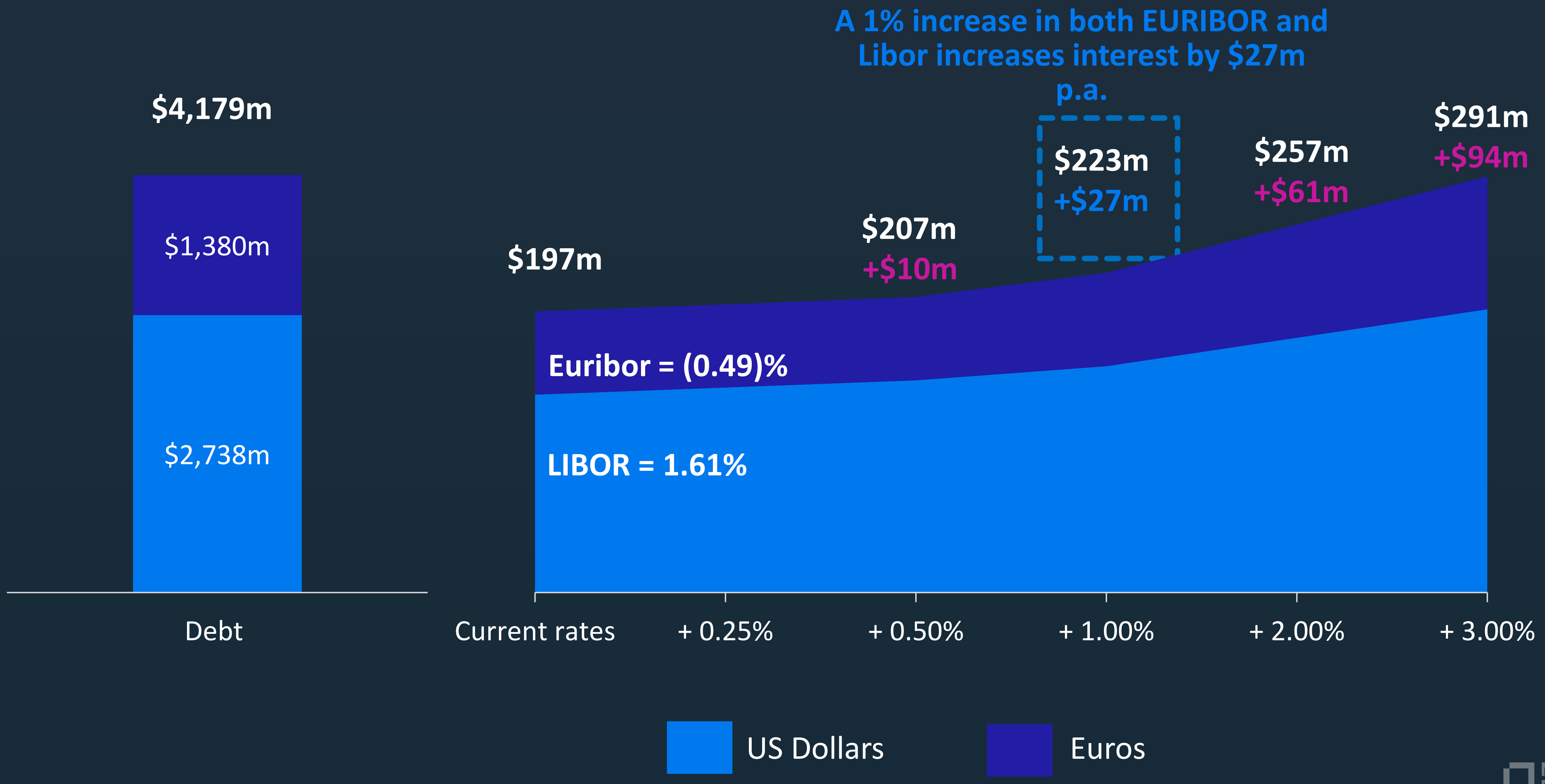
USD to 1 CAD: CAD is stronger by 0.3%







Appendix 3 – Impact of rising interests rates



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