



Preliminary Results for the 18 Months Ended 31 October 2018

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Highlights


- **Progress made applying the Micro Focus business model – revenues stabilising and further significant cost management**
- **Revenues in the 12 months ended 31 October 2018 decreasing by 5.3% to of \$4,058.0m on pro-forma constant currency basis; ahead of revised guidance range of minus 6% to minus 9%**
 - Continuing operations (excluding SUSE) revenue decreased 7.1% by to \$3,684.3m on a pro-forma constant currency basis
- **Improvement in pro-forma Adjusted EBITDA margin from 33.1% to 37.7%; Adjusted EBITDA increased by 9.2% to \$1,529.6m on the comparable period on a pro-forma basis**
 - Continuing operations (excluding SUSE) Adjusted EBITDA margin expansion from 33.3% to 38.4%; Adjusted EBITDA increased by 8.6% to \$1,414.6m
- **Strong free cash flow of \$755.4m in 12 months to 31 October 2018**
- **Strong balance sheet; Net Debt/pro forma Adjusted EBITDA ratio of 2.8x – net debt of \$4.25bn**
 - Group would have been at the medium term target of 2.7x if the \$171m buyback in the period is excluded (de-levering to this amount within 14 months post completion, ahead of our 24 month target)
- **Proposed sale of SUSE on track for completion during the first calendar quarter 2019**
- **Final dividend of 58.33c announced today for the 18 month period, 151.26c total for 18 months**
 - Annualised dividend of 100.84 cents, up 14.5% compared to dividend for year ended 30 April 2017

Progress Update

- **Improved financial and operational performance in recent months is evidence of a robust application of the Micro Focus business model, more specifically:**
 - Operational execution is becoming faster, operations simpler and people more accountable
 - Better alignment and accountability within the sales management teams through the removal of unnecessary global structures and management layers. Disciplined sales management process has been established globally
 - Hiring engine has been re-engineered and is now functioning effectively
 - IT systems now stable and able to support the operations of the business but still require too much manual intervention; parallel project to build future, simplified systems architecture is ongoing
- **Good progress on our “customer centric innovation” strategy:**
 - Core product roadmaps are stronger and better aligned to customers with more than 500 releases delivered in the past 12 months
 - Resources re-aligned to develop compelling value propositions across four focus areas – Enterprise DevOps; Hybrid IT Management; Security, Risk & Governance; and Predictive Analytics which pull together our capabilities in these key areas of critical priorities for customers


Micro Focus Product Portfolio (continuing operations)

- Revenue before haircut decline of 6.9% year-on-year on a pro-forma CCY basis. Improving to 5.0% in second half
- Continued operational efficiencies with cost reduction of 12.8% year-on-year
- Pro forma Adjusted EBITDA margin increase of 5.1 ppt to 38.4% in 12 months ended 31 October 2018; an increase of 5.1ppts on a pro-forma basis

 Product portfolio	FY18	FY17	Δ %
Pro-forma CCY	\$m	\$m	
Licence	878.5	1,007.3	(12.8%)
Maintenance	2,235.4	2,297.0	(2.7%)
SaaS	318.1	307.9	3.3%
Consulting	287.1	380.6	(24.6%)
Revenue before haircut	3,719.1	3,992.8	(6.9%)
Deferred revenue haircut	(34.8)	(28.7)	21.3%
Revenue	3,684.3	3,964.1	(7.1%)
Pro forma @ Actual rates			
Revenue	3,684.3	3,906.5	(5.7%)
Operating cost base	2,270.7	2,605.4	(12.8%)
<i>Adjusted EBITDA</i>	1,413.6	1,301.1	8.6%
Adjusted EBITDA margin %	38.4%	33.3%	5.1ppts

Total Group (incl. SUSE) Financial Performance

- In the 12 months to 31 October 2018 cash conversion of 105.6% despite substantial system issues impacting cash collection
- Long term cash conversion target range remains 90-95%
- Free cash flow of \$755.4m which has also been impacted by the DSO
- Net debt of \$4,253.5m and period end gearing of 2.8x Adjusted EBITDA (2.7x excluding the \$171m buyback)
- A further \$229m of own shares brought since the period end; and extended today by a further \$110m

 MICRO FOCUS \$m	18 months ended 31 Oct 18	12 months ended 30 Apr 17	12 months ended 31 Oct 18
Adjusted cash conversion	93.6%	103.9%	105.6%
Free cash flow	789.7	409.2	755.4
Diluted adjusted EPS (cents)	310.19	175.65	205.65
Dividend per share (cents)	151.26	88.06	100.84
Net debt	4,253.5	1,410.6	4,253.5
Net debt ratio	2.8x	2.2x	2.8x

Priorities

- Ongoing robust application of the Micro Focus business model to drive for continuous improvement of our business operations
- Maximise cash generation by continuing to stabilise revenue declines and maintain focus on driving cost efficiencies
- Execute SUSE transaction and return proceeds to shareholders
 - Sale will generate approximately \$2 billion in net proceeds after tax and transaction costs. This amount will be returned to shareholders following any required debt repayments.
- Ensure customers are at the centre of all we do and our execution is at pace and with accountability

Outlook and Full Year Guidance

- Constant currency revenue declines for continuing operations expected to moderate further; guiding to –4% to –6% for 12 months to 31 October 2019
 - Performance in first quarter FY19 (ended 31 January 2019) is in line with this guidance
- Unwavering focus on delivering value through effective long-term product management, coupled with operational efficiency and consistent, disciplined capital allocation
- Strategy and business model are designed to deliver sustained value and strong, consistent shareholder returns over the long term

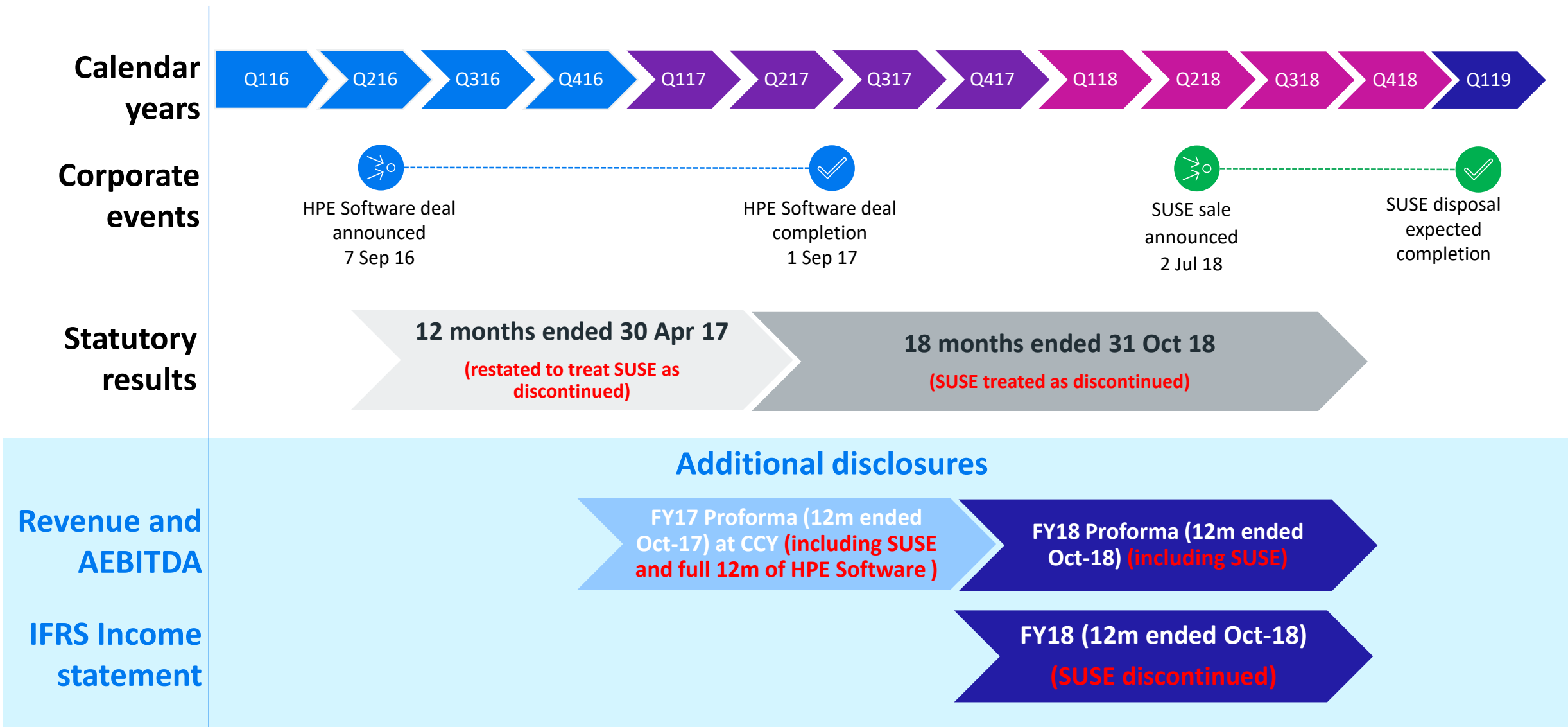


Questions and Answers



Appendix

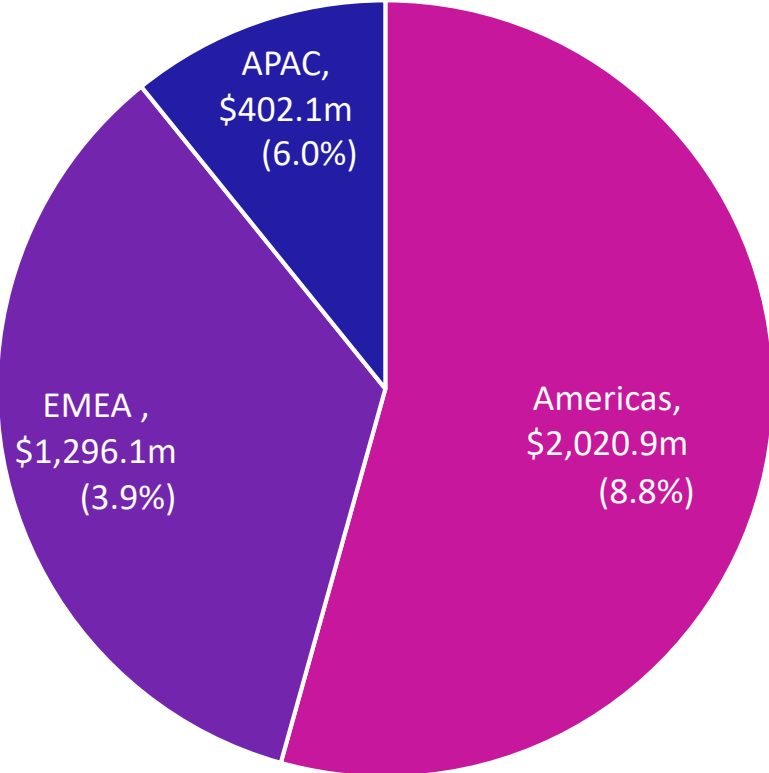
Explanation of results



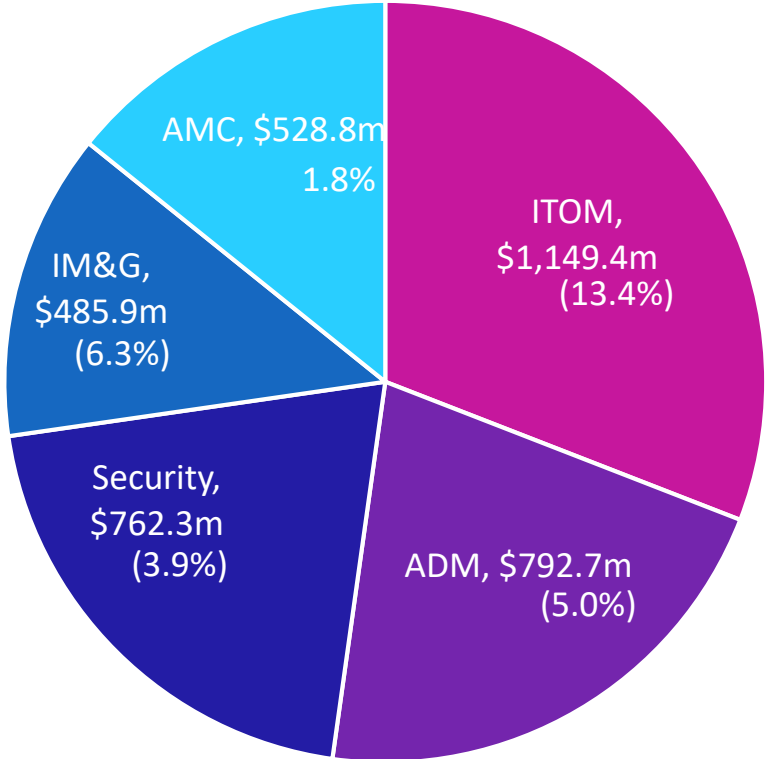
Micro Focus Product Portfolio Revenue (FY18 vs FY17)

Pro forma constant currency revenue trends*

Geography (\$ and % CCY decline)




Product group (\$ and % CCY decline)



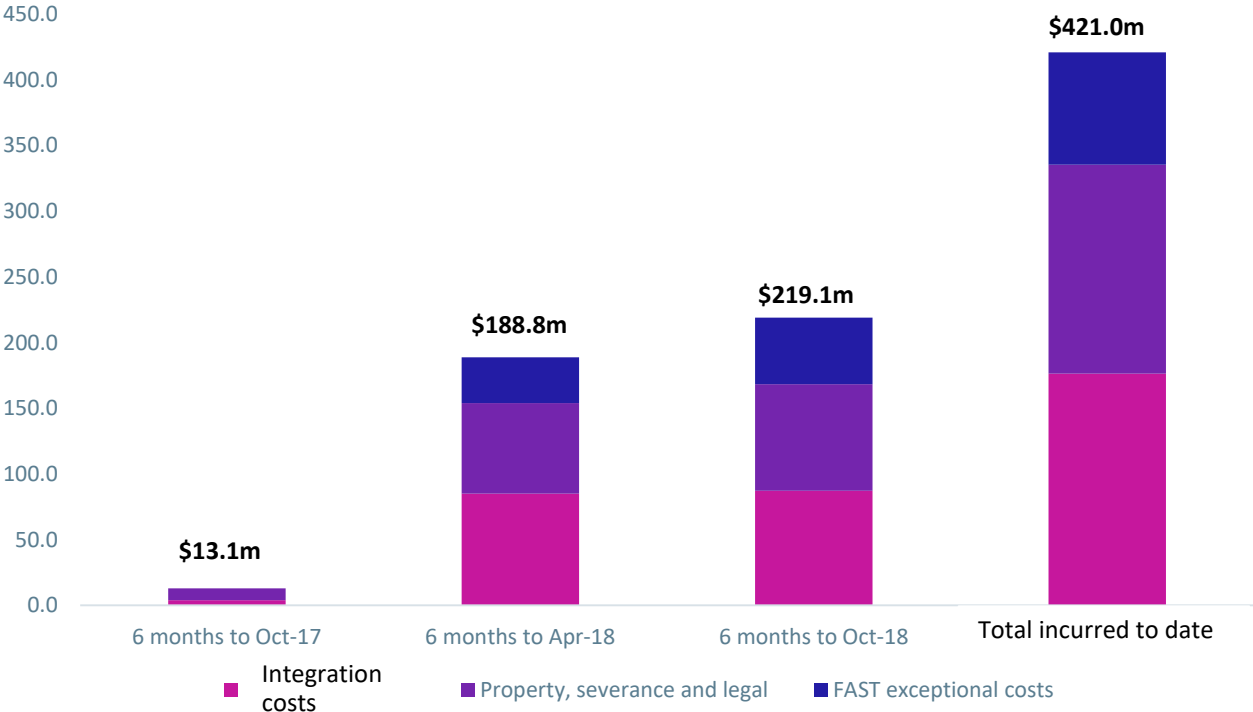
*All numbers exclude deferred revenue haircut

Highly cash generative

- Cash generated from operations before working capital movements totalled \$1,191.1m in the 12 months to 31 October 2018
- The system issues within the FAST environment resulted in a working capital outflow of \$287.0m during the 18 month period compared to an outflow of \$51.2m in prior year
- Positive working capital inflows in the six months to October 2018, despite DSOs staying at elevated levels

 \$m	18 months ended 31 Oct 2018	Restated 12 months ended 30 Apr 2017	12 months ended 31 Oct 2018
Cash generated from operations before working capital	1,711.3	616.0	1,191.1
Movement in working capital	(287.0)	(51.2)	(39.7)
Cash generated from operations	1,424.3	564.8	1,151.4
Interest paid	(301.7)	(81.2)	(219.5)
Bank loan costs	(101.2)	(6.7)	(10.8)
Tax paid	(99.5)	(24.6)	(79.0)
Capex and intangibles	(132.2)	(43.1)	(86.7)
Free cash flow	789.7	409.2	755.4
Adjusted Cash conversion ratio %	93.6%	103.9%	105.6%

HPE Software Integration related exceptional costs

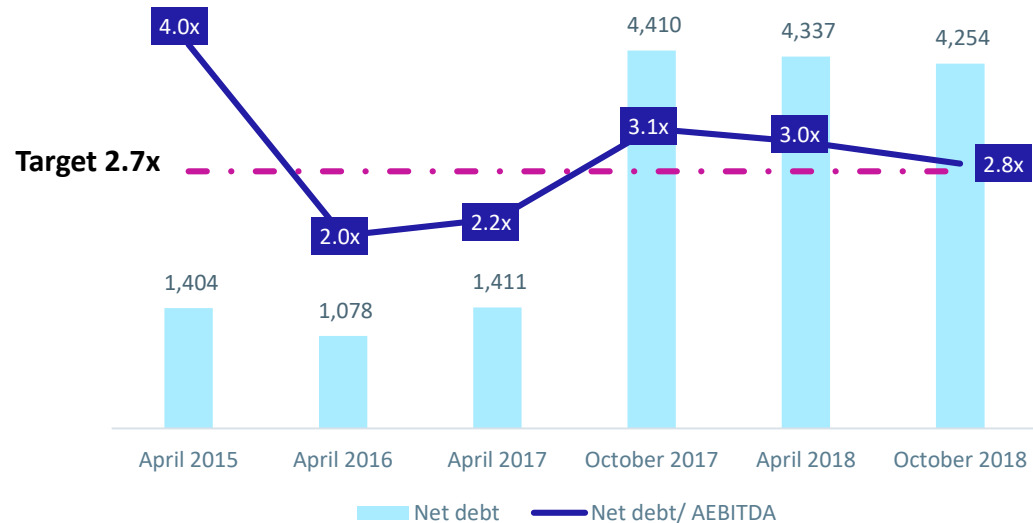


- HPE Software related exceptional costs of \$407.9m in 12 months to 31 October 2018
- Total HPE Software related exceptional costs to date total \$421.0m
- As communicated previously, we anticipate exceptional charges in relation to the HPE Software integration of \$960m
- The remaining costs will be incurred over the next two financial years (Estimated \$420m in FY19 and balance in FY20)

Note: Total exceptional in 12 months ended 31 October 2018 amounted to \$439.7m. Other exceptional costs relate to acquisition fees, integration and property costs in respect to previous acquisitions.

Capital discipline

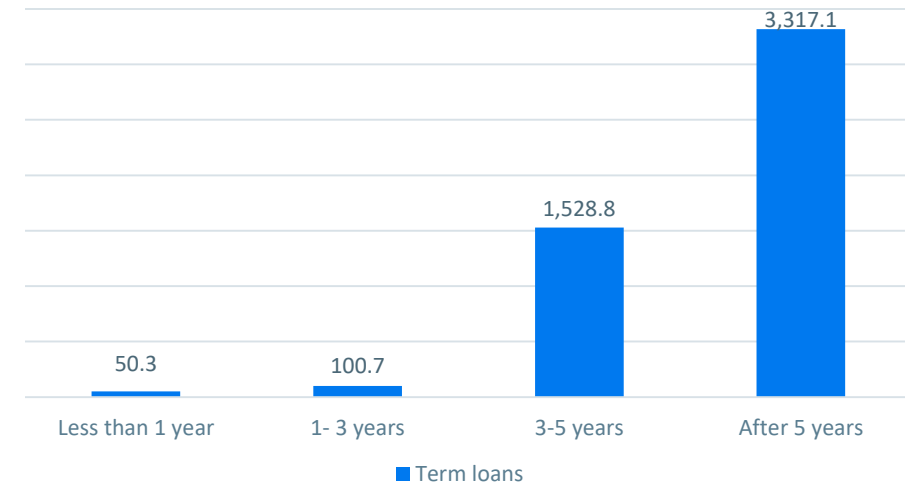
Continuing to de-lever post transaction



- Leverage would be below target of 2.7x excluding the cash spent on the share buy back
- Business has de-levered faster than after the TAG acquisition
- Medium term leverage target of 2.7x remains

Term loan repayment profile

5 year debt maturity profile



- Term loan amortised at 1% per annum
- First term loan not due for repayment until 2021
- Repayment / renegotiation of \$500m RCF not due until 2022 (and remains undrawn)

Micro Focus Product Portfolio Revenue

Revenue - by geography and product vs. CCY pro forma decline %

	Licence	Maintenance	SaaS	Consulting	Total
AMC	183.6	333.1	-	12.1	528.8
ADM	141.3	520.3	98.5	32.6	792.7
ITOM	248.9	732.8	12.4	155.3	1,149.4
Security	217.6	446.0	35.6	63.1	762.3
IM&G	87.1	203.2	171.6	24.0	485.9
Revenue*	878.5	2,235.4	318.1	287.1	3,719.1

	Licence	Maintenance	SaaS	Consulting	Total
	3.6%	0.7%	-	5.2%	1.8%
	(6.9%)	(3.7%)	16.6%	(43.9%)	(5.0%)
	(27.3%)	(3.7%)	(25.3%)	(25.1%)	(13.4%)
	(11.4%)	(1.2%)	23.6%	(5.8%)	(3.9%)
	(3.5%)	(4.9%)	(3.6%)	(34.8%)	(6.3%)
	(12.8%)	(2.7%)	3.3%	(24.6%)	(6.9%)

	Licence	Maintenance	SaaS	Consulting	Total
Americas	409.3	1,253.9	240.3	117.4	2,020.9
EMEA	347.5	755.9	59.9	132.8	1,296.1
Asia Pac & Japan	121.7	225.6	17.9	36.9	402.1
Revenue*	878.5	2,235.4	318.1	287.1	3,719.1

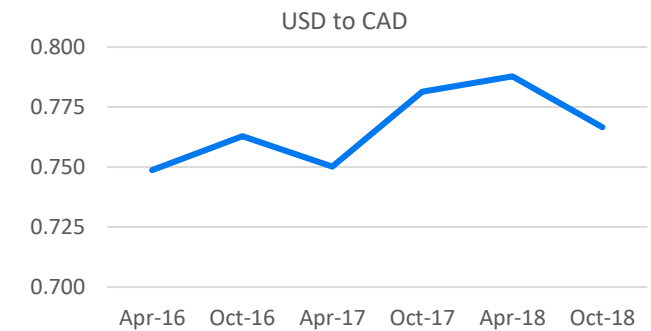
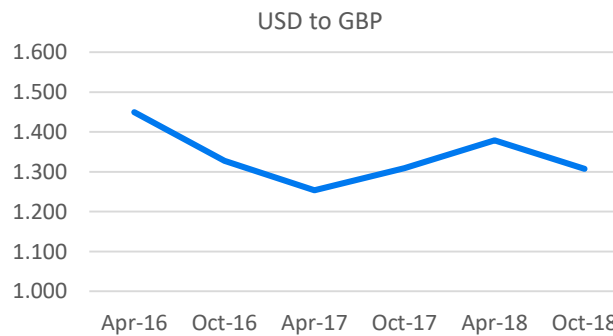
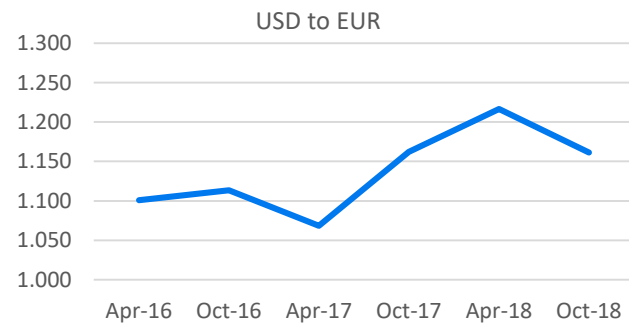
	Licence	Maintenance	SaaS	Consulting	Total
	(19.6%)	(4.2%)	4.2%	(29.7%)	(8.8%)
	(4.6%)	(0.9%)	1.0%	(18.4%)	(3.9%)
	(9.0%)	0.1%	0.0%	(27.4%)	(6.0%)
	(12.8%)	(2.7%)	3.3%	(24.6%)	(6.9%)

*Revenue in the table above is presented before the impact of the deferred revenue haircut

Currency impact

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

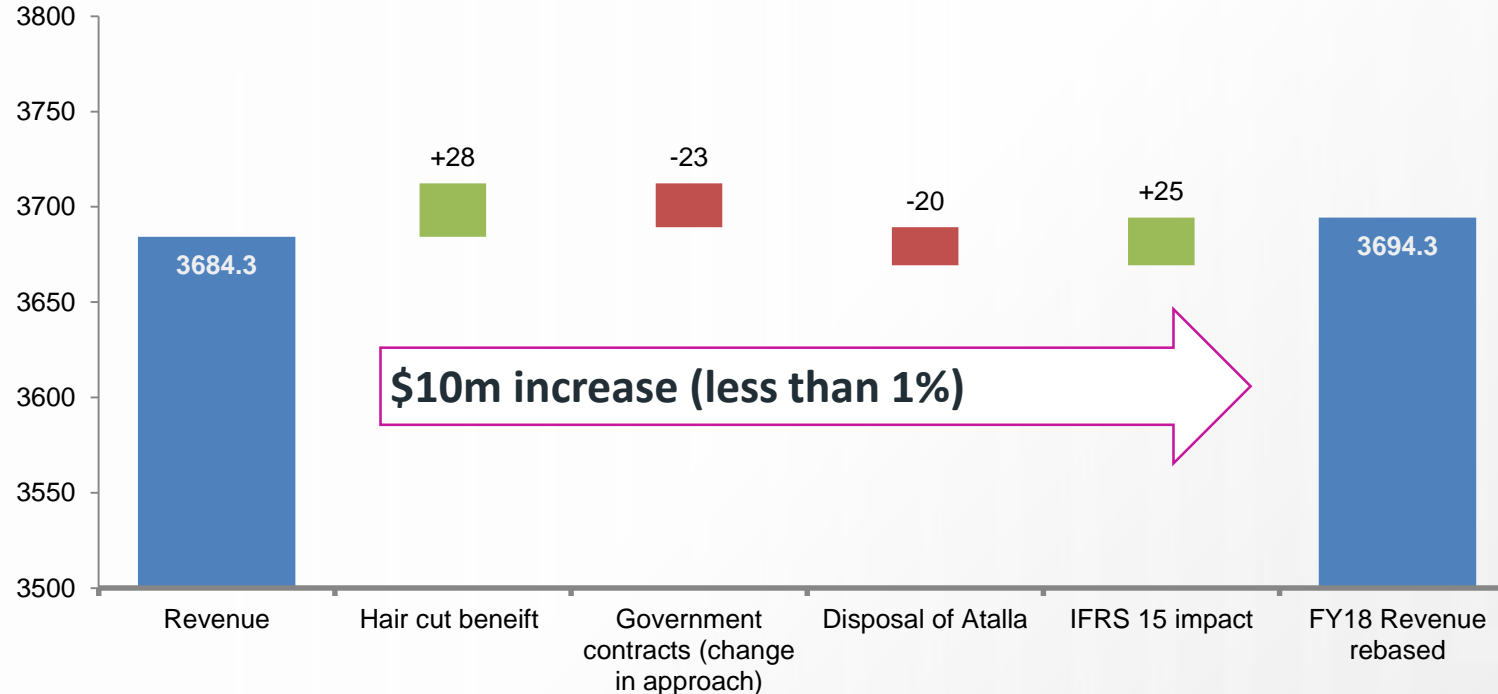
	12 Months to 31 October 2018		12 Months to 31 October 2017 As Reported	
	Revenue	Cost	Revenue	Cost
USD	60.1%	47.4%	62.1%	50.8%
EUR	20.4%	16.0%	20.7%	17.5%
GBP	5.0%	10.7%	4.4%	10.1%
CAD	3.1%	1.8%	{ JPY 3.1% }	{ JPY 1.5% }



Average exchange rate movements for the above currencies in the 12 months to October 18 vs the 12 months to October 17 show the following:

- EUR:USD. EUR is stronger by 6.6%
- GBP:USD. GBP is stronger by 4.8%
- CAD:USD. CAD is stronger by 1.5%

Revenue guidance (one- off impacts in \$m)



- The analysis opposite estimates the revenue impact of the deferred revenue haircut, IFRS 15, the change in approach to a certain element of our US federal government business and the disposal of Atalla
- Constant currency Guidance of -4% to -6% for continuing operations is therefore given after taking account for these items



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