



# Micro Focus International PLC (MFGP)

Updated February 13<sup>th</sup>, 2022 by Nate Parsh

## Key Metrics

<b>Current Price:</b>	\$5.97	<b>5 Year CAGR Estimate:</b>	13.6%	<b>Market Cap:</b>	\$2.1 B
<b>Fair Value Price:</b>	\$7.95	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	3/9/2022
<b>% Fair Value:</b>	75%	<b>5 Year Valuation Multiple Estimate:</b>	5.9%	<b>Dividend Payment Date:</b>	4/20/2022
<b>Dividend Yield:</b>	4.9%	<b>5 Year Price Target</b>	\$10	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	20.8%

## Overview & Current Events

Micro Focus International PLC is an enterprise software corporation that primarily services corporate customers within the Forbes Global 2000. The company's products include IT infrastructure and enterprise applications. Micro Focus International's operating segments include Security, IT Operations Management, Application Delivery Management, Information Management & Governance, and Application Modernization & Connectivity. Micro Focus International is headquartered in England, but U.S. investors can initiate an ownership stake through American Depositary Receipts that trade on the New York Stock Exchange under the ticker MFGP.

Micro Focus reported its full year results for the fiscal year 2021 (a period that ended October 31, 2021) on February 8, 2022. For the year, adjusted earnings-per-share of \$1.44 compared negatively to adjusted earnings-per-share of \$1.54 in the prior year. Revenue fell 3.3% to \$2.9 billion, which continues a pattern of a deaccelerated decline from the second half of last fiscal year.

Licensing revenues were up almost 4.9% for the year as yield from targeted investments have begun to appear. All other business were lower, including by an 8.6% decline in Maintenance, a 8.4% decrease in Consulting, and a 3.8% drop in SaaS. Adjusted EBITDA fell 12.4% to \$1.04 billion while adjusted EBITDA margin was lower by 280 basis points to 35.9%. The company also proposed a dividend of \$0.201 for the upcoming April payment date, meaning that the total dividend of \$0.291 for fiscal year 2022. Analysts expect that Micro Focus will earn \$1.59 per share in fiscal year 2022.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$0.71	\$0.85	\$0.97	\$1.29	\$1.47	\$1.76	\$1.87	\$1.96	\$1.54	\$1.44	<b>\$1.59</b>	<b>\$1.93</b>
<b>DPS</b>	\$0.32	\$0.40	\$0.44	\$0.48	\$0.67	\$0.88	\$0.88	\$1.17	\$0.00	\$0.24	<b>\$0.29</b>	<b>\$0.35</b>
<b>Shares<sup>1</sup></b>	N/A	N/A	N/A	N/A	N/A	219.2	455	472	472	472	<b>472</b>	<b>550</b>

Micro Focus International's long-term growth has been highly attractive, as the company more than tripled its profits between 2010 and 2019. More recently, revenues did not showcase any growth, even before the coronavirus impact. Micro Focus International has compounded its adjusted earnings-per-share at 8.2% per year over the last decade.

We do not think that future growth will be anywhere this high, as revenue growth, which was the primary driver of profits, has not been attractive over the last four years. Going forward, we believe that Micro Focus is more likely to generate a low-single-digit earnings-per-share growth rate, through marginal revenue growth and some margin upside. We thus see profits in 2027 remaining under the levels set in 2018 – 2019, although only slightly.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg. P/E</b>	N/A	N/A	N/A	N/A	N/A	18.5	11.2	7.0	2.2	3.4	<b>3.8</b>	<b>5.0</b>
<b>Avg. Yld.</b>	N/A	N/A	N/A	N/A	N/A	2.7%	4.2%	8.5%	---	4.9%	<b>4.9%</b>	<b>3.6%</b>

<sup>1</sup> In Millions

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**Note:** ADRs have only been available since 2017, which explains the limited data in the table above.

Shares of Micro Focus International have increased 1.7% since our last report. If the company hits analysts' targets for the new fiscal year, then 2022 would mark the first year of earnings growth since 2019. The stock is volatile, but shares continue to look very inexpensive here. Based on our fair value estimate of a five times earnings multiple, which we feel is warranted given the lack of growth and erratic business performance, valuation could add 5.9% to annual returns over the next five years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	N/A	N/A	N/A	N/A	N/A	50%	47%	60%	---	17%	18%	18%

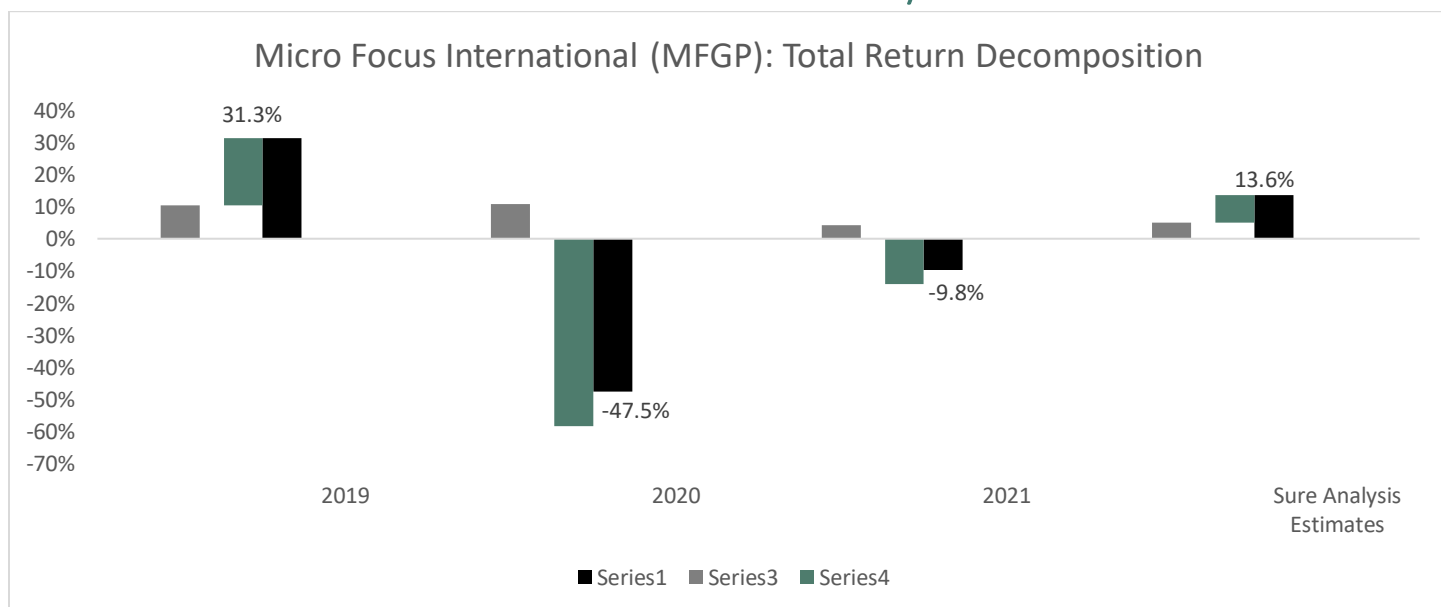
Since the company's ADRs started to trade, the dividend payout ratio has risen from around 50% to 60%. During 2020, Micro Focus decided to suspend its dividend, but the company has reinstated it during 2021. It remains to be seen how quickly the dividend returns to its pre-2020 amount, if ever. Right here, Micro Focus is more of a capital appreciation play than an income investment than it was just a few years ago.

Micro Focus International's most compelling competitive advantage is the deep and technical relationships it has with its enterprise customers. Micro Focus' management notes that 70% of the company's revenue is recurring, which provides it with substantial business stability and recurring cash flows. Micro Focus is, however, not as recession resilient as some other enterprise software peers such as Microsoft or SAP.

## Final Thoughts & Recommendation

According to our estimates, Micro Focus International could offer a quite high rate of total returns over the next five years. We expect 13.6% annual returns over the next five years, down from 15.7% previously, due to a 4% earnings growth rate, 4.9% starting dividend yield, and a mid-single-digit contribution from multiple expansion. Micro Focus International remains a very volatile stock as the company has struggled to consistently grow profitability, but that could change this year. That said, we still view the stock a buy for those investors with a high appetite for risk that do not mind the volatility and that want to hold this as a possible capital appreciation play over the coming years.

## Total Return Breakdown By Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	412	433	835	991	1,077	3,209	4,754	3,348	3,001	2,900
Gross Profit	378	403	743	1,015	861	2,508	3,452	2,559	2,298	2,124
Gross Margin	91.7%	93.1%	89.0%	102.4%	79.9%	78.2%	72.6%	76.4%	76.6%	73.2%
SG&A Exp.	166	190	433	424	511	1,471	2,394	1,846	4,446	1,867
D&A Exp.	39	42	117	215	248	629	1,039	783	793	1,063
Operating Profit	159	156	147	473	227	579	377	222	(2,661)	(266)
Operating Margin	38.7%	36.0%	17.6%	47.8%	21.1%	18.0%	7.9%	6.6%	-88.7%	-9.2%
Net Profit	122	122	102	163	158	726	784	1,469	(2,970)	(424)
Net Margin	29.5%	28.2%	12.2%	16.4%	14.7%	22.6%	16.5%	43.9%	-99.0%	-14.6%
Free Cash Flow	142	153	214	238	409	242	789	576	591	135
Income Tax	30	26	(10)	14	8	(649)	(673)	(16)	34	(83)

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	568	605	4,341	4,636	4,438		16,781	14,295	11,147	10,347
Cash & Equivalents	38	33	241	667	151		621	356	737	558
Accounts Receivable	82	96	197	244	264		1,048	836	611	886
Inventories	0	0	0	0	0		0	0	-	
Goodwill & Int. Ass.	378	401	3,554	3,403	3,918		13,434	12,614	9,218	8,057
Total Liabilities	510	621	3,063	3,042	2,824		8,989	8,019	7,932	7,526
Accounts Payable	6	5	19	21	17		46	105	72	513
Long-Term Debt	216	294	1,645	1,745	1,562	-	4,846	4,671	4,640	4,548
Shareholder's Equity	58	(16)	1,277	1,593	1,613		7,791	6,275	3,215	2,821
LTD/E Ratio	3.73	(18.08)	1.29	1.10	0.97		0.62	0.74	1.44	1.61

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	21.6%	20.8%	4.1%	3.6%	3.5%			9.5%	-23.3%	-3.9%
Return on Equity	139%	587.4%	16.1%	11.4%	9.9%		16.7%	20.9%	-62.6%	-14.1%
ROIC	45.6%	44.3%	6.4%	5.2%	4.8%			12.5%	-31.6%	-5.6%
Shares Out.	N/A	N/A	N/A	N/A	N/A	219.2	455	472	472	472
Revenue/Share	3.87	4.09	6.05	5.25	4.54	10.21	11.89	8.76	8.94	8.62
FCF/Share	1.33	1.45	1.55	1.26	1.72	0.77	1.97	1.51	1.76	0.40

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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