

Micro Focus International plc

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Micro Focus to sell SUSE business to private equity firm EQTVIII for US\$2.5bn

Micro Focus International PLC (LON:MCRO) shares jumped as it agreed to sell its German software business SUSE to private equity firm EQTVIII SCSp for US\$2.535bn.

SUSE will be sold on a cash and debt free basis with some of the proceeds to be used to pay down Micro Focus debt. The proceeds may also be used for general corporate purposes and shareholder returns.

Micro Focus said it believes EQT provides a "strong long-term investor" for SUSE and allows it to focus on "delivering value to customers and shareholders through effective management of infrastructure software assets in an increasingly consolidating sector".

The deal is expected to be completed in the first quarter of calendar year 2019.

In late morning trading, shares in Micro Focus rose 4.8% to 1,387p.

"The trimming down of the business and the promise of higher capital returns has improved investor confidence, especially in light of the profit warning in March," said David Madden, market analyst at CMC Markets.

READ: Micro Focus shares crash as it cuts revenue guidance, CEO resigns

"The share price has been in recovery since March, and if the upward trend continues it could target 1,500p."

SUSE investment generates 'substantial shareholder value'

Micro Focus took on SUSE through its US\$2.35bn acquisition of The Attachmate Group in November 2014.

At the time, SUSE represented just over a fifth of the revenues of The Attachmate Group.

"In the three and a half years since that time we have invested significantly in the SUSE business," said Micro Focus chairman Kevin Loosemore.

READ: Micro Focus jumps as says new US\$40m licensing deal will help bolster first-half revenue

"Executing as a separate product portfolio has enabled Nils Brauckmann, CEO SUSE, and the team to deliver against the SUSE Business growth charter and enabled the SUSE Business to become a market leader in enterprise-grade, open source software-defined infrastructure and application delivery solutions to the benefit of customers and partners.

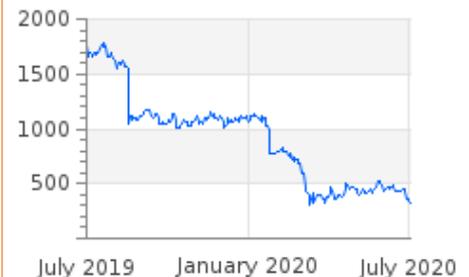
"We are therefore delighted that this investment has generated substantial shareholder value and provided further vindication of our portfolio approach to software management."

Loosemore said the deal delivers "compelling value" for Micro Focus. The enterprise valuation for SUSE is about 7.9 x

Price: 324.1

Market Cap: £1.08 billion

1 Year Share Price Graph



Share Information

Code: MCRO

Listing: LSE

52 week	High	Low
	1787	291

Sector: Software & services

Website: www.microfocus.com

Company Synopsis:

Micro Focus provides innovative software that allows companies to dramatically improve the business value of their enterprise applications. Micro Focus Enterprise Application Modernization and Management software enables customers' business applications to respond rapidly to market changes and embrace modern architectures with reduced cost and risk.

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revenue and 26.7 adjusted operating profit for the year ended 31 October 2017.

"We will evaluate how best to deploy the net proceeds of the transaction for the benefit of shareholders over the coming months," Loosemore said.

Micro Focus to return US\$1.7bn to shareholders, says Numis

Numis, which is acting as financial adviser and broker to Micro Focus on the deal, said it expects the group to return an extra US\$1.7bn to shareholders following completion of the sale.

"As previously, we model 2019 returns at a share price of 2,000p, and we raise 2020 earnings per share (EPS) to 251c from 241c. However returns at the current price of 1,324p would give 2020 EPS of c.290c."

Micro Focus has run SUSE, a company that develops and sells Linux software to business customers such as Daimler, Total and Air India, as a semi-independent division.

Last year SUSE generated revenue of US\$303mln and adjusted operating profit of \$98.7mln.

-- Adds broker comment and share price --

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