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**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA**

_____, Individually and on behalf of all
others similarly situated,

Plaintiff,

v.

MICRO FOCUS INTERNATIONAL PLC,
CHRISTOPHER HSU, STEPHEN MURDOCH,
MIKE PHILLIPS, KEVIN LOOSEMORE,
NILS BRAUCKMANN, KAREN SLATFORD,
RICHARD ATKINS, AMANDA BROWN,
SILKE SCHEIBER, DARREN ROOS,
GISELLE MANON, AND JOHN-SCHULTZ,

Defendants.

Case No:

**CLASS ACTION COMPLAINT FOR
VIOLATIONS OF THE FEDERAL
SECURITIES LAWS**

JURY TRIAL DEMANDED

Plaintiff _____ (“Plaintiff”), individually and on behalf of all other persons similarly
situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s complaint against Defendants (defined
below), alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s own
acts, and information and belief as to all other matters, based upon, inter alia, the investigation
conducted by and through Plaintiff’s attorneys, which included, among other things, a review of
the defendants’ public documents, conference calls and announcements made by defendants,
United States Securities and Exchange Commission (“SEC”) filings, wire and press releases
published by and regarding Micro Focus International plc (“Micro Focus” or the “Company”),

1 analysts' reports and advisories about the Company, and information readily obtainable on the
2 Internet. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth
3 herein after a reasonable opportunity for discovery.

4 **NATURE OF THE ACTION**

5 1. This is a securities class action on behalf of all persons and entities who purchased or
6 acquired Micro Focus American Depositary Shares ("ADSs"), pursuant or traceable to the
7 Company's Registration Statement and Prospectus (together, the "Offering Documents") issued in
8 connection with the merger of Micro Focus with Hewlett Packard Enterprise Company ("HPE"),
9 and their subsidiaries, pursuant to which Micro Focus combined with the software business segment
10 of HPE (the "Merger").

11 2. This action asserts claims under the Securities Act of 1933 ("1933 Act") against
12 Micro Focus and certain of the Company's executive officers, directors and authorized
13 representatives.

14 **JURISDICTION AND VENUE**

15 3. The claims asserted herein arise under and pursuant to §§11 and 15 of the Securities
16 Act of 1933 (the "Securities Act") (15 U.S.C. §§77k and 77o).

17 4. This Court has jurisdiction over this action pursuant to §22 of the Securities Act (15
18 U.S.C. §77v) and 28 U.S.C. §1331.

19 5. Venue is properly laid in this District pursuant to §22 of the Securities Act and 28
20 U.S.C. §1391(b) as the Company conducts business in this judicial district.

21 6. In connection with the acts, conduct and other wrongs alleged in this complaint,
22 Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce,
23 including but not limited to, the United States mails, interstate telephone communications and the
24 facilities of the national securities exchange.
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1 **PARTIES**

2 7. Plaintiff, as set forth in the accompanying certification, acquired Micro Focus ADSs
3 in the Merger and suffered damages.

4 8. Defendant Micro Focus is a global enterprise software provider supporting the
5 technology needs and challenges of business. The Company is headquartered in the United
6 Kingdom, but conducts substantial business in the United States. Micro Focus has an office located
7 in this judicial district. Micro Focus ADSs trade on the New York Stock Exchange (“NYSE”) under
8 the ticker “MFGP.”

9 9. Defendant Christopher Hsu (“Hsu”) served as the Chief Executive Officer (“CEO”)
10 and a director of Micro Focus beginning on September 1, 2017 — the date the Merger closed —
11 and was named to these positions in the Offering Documents. Prior to becoming the CEO of Micro
12 Focus, Hsu served as the Chief Operating Officer (“COO”) of HPE and the Executive Vice
13 President and General Manager of HPE’s software business segment, HPE Software, which was
14 acquired by Micro Focus in the Merger. On March 19, 2018, Micro Focus announced that Hsu was
15 resigning in order to “spend more time with his family and pursue another opportunity” only six-
16 and-a-half months after the Merger closed.

17 10. Defendant Stephen Murdoch (“Murdoch”) served as the CEO and a director of
18 Micro Focus until he was replaced in those positions by Hsu as a result of the Merger, after which
19 Murdoch became the Company’s COO. Murdoch became CEO and a director of the Company after
20 defendant Hsu’s resignation in March 2018.

21 11. Defendant Mike Phillips (“Phillips”) served as the Chief Financial Officer (“CFO”)
22 and a director of Micro Focus at the time of the Merger. On January 8, 2018, Micro Focus
23 announced that Phillips would be leaving his CFO role to serve as the Company’s Director of
24 Mergers and Acquisitions (“M&A”).

25 12. Defendant Kevin Loosemore (“Loosemore”) served as the Executive Chairman of
26 Micro Focus at the time of the Merger.

27 13. Defendant Nils Brauckmann (“Brauckmann”) served as the CEO of Micro Focus’s
28 open-source product portfolio, termed its “SUSE Products” segment, and a director of the

1 Company's board (the "Board") at the time of the Merger, although he left the Board following the
2 Merger.

3 14. Defendant Karen Slatford ("Slatford") served as a director of the Company at the
4 time of the Merger.

5 15. Defendant Richard Atkins ("Atkins") served as a director of the Company at the time
6 of the Merger.

7 16. Defendant Amanda Brown ("Brown") served as a director of the Company at the
8 time of the Merger.

9 17. Defendant Silke Scheiber ("Scheiber") served as a director of the Company at the
10 time of the Merger.

11 18. Defendant Darren Roos ("Roos") served as a director of the Company at the time of
12 the Merger.

13 19. Defendant Giselle Manon ("Manon") served as the authorized U.S. representative of
14 the Company at the time of the Merger.

15 20. Defendant John Schultz ("Schultz"), as stated in the Offering Documents, would
16 become a director of the Company following the Merger. On December 20, 2017, Micro Focus
17 announced that Schultz would leave the Board.

18 21. The defendants referenced above in ¶¶9-20 are collectively referred to herein as the
19 "Individual Defendants." Other than Hsu and Schultz, the Individual Defendants signed the
20 Registration Statement. Furthermore, as directors and/or executive officers of the Company, the
21 Individual Defendants participated in the solicitation and sale of Micro Focus ADSs to shareholders
22 of HPE as consideration in the Merger for their own benefit and the benefit of Micro Focus.

23 22. The Company and the Individual Defendants are referred to herein, collectively, as
24 the "Defendants."

25 **SUBSTANTIVE ALLEGATIONS**

26 23. Micro Focus is a software development company that assists businesses in a variety
27 of technological tasks. The Company helps organizations leverage existing information technology
28 ("IT") investments, enterprise applications and emerging technologies to address complex and

1 evolving business requirements, including the protection of corporate information. The Company’s
2 legacy product lines, termed its “Existing Products” segment, include products in development and
3 mainframe solutions, host connectivity, identity and access security, development and IT operations
4 management tools, and collaboration and networking. The Company also has an open-source
5 product portfolio, termed its “SUSE Products” segment, which provides interoperable Linux, cloud
6 infrastructure and storage solutions.

7 24. For the six months ended October 31, 2016, the Company’s Existing Products and
8 SUSE Products reporting segments generated \$684 million in total revenue for the Company, with
9 78% of this revenue coming from Micro Focus’s Existing Products portfolio. Of the \$537.3 million
10 in Existing Products revenues for the quarter, approximately \$364.2 million came from maintenance
11 services, \$146.9 million from licensing, and \$26.2 million from consultancy.

12 25. On September 7, 2016, Micro Focus issued a press release announcing a proposed
13 merger with HPE Software, the software business segment of HPE. The transaction was valued at
14 \$8.8 billion, larger than Micro Focus’s market capitalization at the time, and was projected to triple
15 the Company’s revenues. According to the deal terms, the Company would issue newly registered
16 ADSs to shareholders of HPE as consideration in the Merger, such that immediately following the
17 completion of the Merger, HPE shareholders would own 50.1% of the fully diluted share capital of
18 the combined company. In addition, HPE would receive \$2.5 billion financed through newly
19 incurred indebtedness of HPE Software, and Micro Focus shareholders would receive a \$400
20 million return of value prior to completion.

21 26. The press release described the deal as a “[r]are opportunity to increase
22 significantly Micro Focus’ scale and breadth through the combination with a business
23 operating in adjacent and complementary product areas with similar characteristics and
24 benefitting from a high proportion of recurring revenues and strong cash conversion.” The
25 release also stated that the Merger would create “one of the world’s largest pure-play
26 infrastructure software companies” with “annual revenues of US\$4.5 billion and EBITDA of
27 US \$1.35 billion.” Defendant Loosemore, Micro Focus’s Executive Chairman at the time, was
28

1 quoted in the release as stating that the Merger “represents a compelling opportunity to create
2 significant value for both companies’ shareholders.”

3 27. A significant portion of HPE Software’s business that was to be sold to Micro Focus
4 in the Merger was acquired by a predecessor entity to HPE, Hewlett-Packard Company (“HP”), in
5 2011 from British software firm Autonomy Corporation plc (“Autonomy”) in a deal valued at \$10.3
6 billion.¹ In 2012, HP recorded an \$8.8 billion impairment charge related to the write down of
7 goodwill and intangible assets from its acquisition of Autonomy. HP subsequently accused
8 Autonomy of fraud and accounting misrepresentations, and the fallout from HP’s acquisition of
9 Autonomy resulted in fraud charges against Autonomy’s former CFO by the U.S. Department of
10 Justice, as well as other regulatory investigations into the deal and litigation between HP and former
11 officers of Autonomy.

12 28. HPE and Micro Focus represented that the past problems with Autonomy would not
13 impact the quality of the assets received by Micro Focus in the Merger. HP and HPE had sold off
14 the majority of Autonomy assets, and HPE only retained a relatively small portion of these assets at
15 the time of the Merger. In July 2017, defendant Loosemore reassured investors concerned that
16 “Autonomy could be a significant part of HPE,” that “[t]he current revenues from Autonomy
17 products in HPE Software are less than 10% of the revenues of HPE, and most of those are SaaS
18 [software as a service].” He continued in pertinent part:

19
20 Now some of you will now go and look and see what the revenues of Autonomy
21 were when it was sold to HPE, and that will raise a very interesting question as to
22 which of the 2 managements were right in their prognosis of, was it inflated
23 revenue or was it mismanaged after the event? I don’t actually care. We know
24 what we’re getting, and *it’s less than 10% of the revenues.*²

25 29. Micro Focus shareholders approved the proposal relating to the Merger on May 26,
26 2017. HPE shareholders did not vote on the deal.

27 30. Micro Focus had an unusually long timeline to close the Merger. The Company
28 projected that the Merger would be consummated in the third quarter of 2017, nearly a year after it

¹ HP and HPE split into two separate companies in 2015.

² Bold and italics throughout is for emphasis.

1 was first announced. The Company and its representatives reassured shareholders that the time was
2 being used to ensure a successful integration and transition into the combined company. For
3 example, on July 12, 2017, Micro Focus held an earnings call to discuss its preliminary financial
4 results for the fiscal quarter and year ended April 30, 2017. On the call, defendant Murdoch, who
5 was then the CEO of the Company, stated that Micro Focus had employed significant integration
6 teams “all managed under a common governance structure, tracking more than 10,000 very specific
7 tasks through to completion” in order to lay out the operational aspects of the combined company.
8 Similarly, Loosemore gave the following update on the integration progress: “The HPE transaction
9 milestones completed, all regulatory approvals done, 99.99% shareholder approval; due to file the
10 F-4 at the end of this week; prospectus due to go out fairly shortly; and you’re seeing we’ve
11 refinanced on fairly good terms.” He stated that the Merger was expected to be completed
12 September 1, 2017, and that the new business would be “fully integrate[d]” by November 1, 2017.³

13 31. On August 4, 2017, Micro Focus filed with the SEC on Form F-4 a registration
14 statement for the ADSs to be issued in the Merger, which was amended on August 15, 2017 and
15 declared effective that same day (the “Registration Statement”). On August 22, 2017, Micro Focus
16 filed a prospectus for the ADSs to be issued in the Merger on Form 424B3, which incorporated and
17 formed a part of the Registration Statement (the “Prospectus”). The Registration Statement and
18 Prospectus are collectively referred to herein as the Offering Documents.

19 32. The Offering Documents were negligently prepared and, as a result, contained
20 untrue statements of material fact, omitted material facts necessary to make the statements
21 contained therein not misleading, and failed to make adequate disclosures required under the rules
22 and regulations governing the preparation of such documents.

23 33. For example, the Offering Documents stated that the “market value of the Micro
24 Focus ADSs to be issued” in the Merger equaled an estimated ***\$6.6 billion*** (subject to the market
25 price of Micro Focus shares as of closing), which implied an “***enterprise value for HPE Software***
26 ***of approximately \$9.1 billion.***”

27 _____
28 ³ As a result of the Merger, the fiscal year end for the Company was changed from April 30 to
October 31 of the calendar year.

1 34. The Offering Documents also provided “Micro Focus’ Reasons for Engaging” in the
2 Merger. The Offering Documents characterized the Merger as “*a rare opportunity to achieve a*
3 *significant increase in Micro Focus’ scale and breadth*, with the potential to *deliver enhanced*
4 *Total Shareholder Returns* consistent with Micro Focus’ stated objectives.” Specifically, the
5 Offering Documents stated that the Merger was expected to “*enhance Adjusted Earnings Per*
6 *Share* by April 30, 2019 and thereafter, with scope for further benefits as operational improvements
7 are realized across the Enlarged Group.” The Offering Documents also stated that “significant cost
8 benefits will arise from reducing duplicated central costs, combining corporate support functions
9 (where appropriate) and increasing efficiency across all functions.” The Offering Documents listed
10 additional purported benefits to Micro Focus as a result of the Merger, including, inter alia:

- 11 • *create significantly greater scale and breadth of product portfolio*
12 covering largely adjacent areas of the software infrastructure market,
13 thereby creating one of the world’s largest pure-play infrastructure
14 software companies;
- 15 • *add a substantial recurring revenue base to Micro Focus’ existing*
16 *product* portfolio, together with access to important new growth drivers
17 and new revenue models; and
- 18 • *accelerate operational effectiveness over the medium term*, through the
19 alignment of best practices between Micro Focus and HPE Software in
20 areas such as product development, support, product management, account
21 management, and sales force productivity, as well as achieving operational
22 efficiencies where appropriate.

23 35. The Offering Documents also claimed that the Merger would benefit the businesses
24 that Micro Focus would be acquiring from HPE, stating that a benefit of the Merger was “improved
25 operating efficiencies to enable HPE Software, combined with Micro Focus, *to accelerate*
26 *financial and operational performance*.” The Offering Documents further stated that the
27 combination would help alleviate certain “challenges” by separating HPE Software out from the
28 larger HPE entity. As stated in the Offering Documents: “The HPE Board believed that a
combination of HPE Software with Micro Focus would help address these challenges *by creating a*

1 **more focused, nimble and scalable software business**, particularly given Micro Focus’s historical
2 experience with and focus on effectively managing portfolios of mature infrastructure software
3 products.” Other “anticipated benefits” of the Merger listed in the Offering Documents included the
4 “convergence of businesses operating in adjacent and complementary product areas in order to
5 better serve customers as a global provider of infrastructure software and **the improvement of the**
6 **profitability of HPE Software through the application of Micro Focus’ operating model.**”

7 36. Despite the significantly increased levels of indebtedness that the Company would
8 incur as a result of the Merger (Micro Focus incurred \$2.9 billion of new indebtedness and
9 guaranteed \$2.6 billion of additional indebtedness in Merger transactions), the Offering Documents
10 stated that the Company’s available liquidity and working capital will be sufficient for not less than
11 the next 12 months following the date of this information statement/prospectus” and that it was
12 “targeting to reduce” its initial pro forma net debt to Facility EBITDA ratio “to **its stated target of**
13 **2.5x Facility EBITDA** within two years following Closing” from the 3.3 ratio expected at Merger
14 closing.

15 37. Throughout the Offering Documents, the Company’s “**successful track record** of
16 executing and integrating selected strategic acquisitions” was repeatedly highlighted. For example,
17 the Offering Documents stated that the Company’s “acquisitions, in addition to delivering
18 shareholder value through cash generation, have supplemented its organic growth strategy by
19 broadening its technology proposition and extending the addressable market and customer base
20 whilst also expanding the geographic reach of the business.” In particular, the Offering Documents
21 pointed to one recent acquisition by Micro Focus’s SUSE Products segment of assets and
22 employees from HPE. The Offering Documents stated that the March 2017 acquisition “included
23 HPE naming SUSE as its preferred Open Source partner for Linux, OpenStack and Cloud Foundry
24 solutions.” The Offering Documents continued, stating that “**[i]n each case, the Micro Focus**
25 **Group’s management team has successfully integrated the new business** into the Micro Focus
26 Group’s then existing operations and executed a program of targeted cost cutting and/or
27 restructuring **in order to improve operational efficiencies and group profitability.**” While the
28 Offering Documents stated that integration efforts had occasionally experienced certain challenges,

1 “[h]istorically, the Micro Focus Group believes that it has *successfully worked through these*
2 *integration challenges and has not seen a material impact on its ability to obtain the desired*
3 *integration results or improvements in operations and profitability.*”

4 38. The Offering Documents touted the competitive and operational strengths of Micro
5 Focus due to its strategic acquisitions, such as the Merger. For example, the Offering Documents
6 stated that Micro Focus had “a clear strategy and business model” that was “focused on the way in
7 which we believe that mature infrastructure software businesses should be managed and that the
8 market for these businesses is going to consolidate.” The Offering Documents stated that Micro
9 Focus had positioned itself to be a leader in this consolidated space, as it had “set out to be an
10 effective company at managing a portfolio of mature infrastructure software assets.” The Offering
11 Documents touted Micro Focus’s “*proven ability to execute,*” because it “not only delivers
12 significant amounts of cash and consequently great flexibility, but also [delivers] a competitive
13 advantage in the acquisition of other similar assets.” The Offering Documents listed the aims ‘of
14 Micro Focus’s operational strategy as achieving “*1. Revenue growth; 2. Operational leverage; and*
15 *3. Significant cash generation.*” In addition, the Offering Documents stated that the Company’s
16 capital allocation, which included strategic acquisitions, allowed it to achieve its long term objective
17 of “*15 to 20% per annum*” “Total Shareholder Returns” over the long run, and that acquisitions
18 were “*only made*” “if the Micro Focus Board believes that they will generate risk adjusted returns
19 greater than the base case.” The Offering Documents continued in pertinent part:

21 The software products offered by Micro Focus enable organizations to
22 achieve improved functionality and performance from their enterprise
23 applications and middleware, whilst lowering their ongoing cost of IT
24 operations. *The Micro Focus Group allocates capital and HR to achieve*
25 *its core objective of delivering Total Shareholder Returns of 15 to 20%*
26 *per annum over the long term.* The Micro Focus Group executes this
27 strategy with *a strong discipline around the uses of cash and optimizes*
28 *Total Shareholder Returns with* a combination of organic execution,
financial leverage and acquisitions. The Micro Focus Group has a base
case model which estimates the returns to Micro Focus Shareholders from
organic execution and the return of excess cash. *Acquisitions are only*
made if the Micro Focus Board believes that they will generate risk
adjusted returns greater than the base case. In the absence of material

1 acquisitions, the Micro Focus Group’s practice has been to return excess
2 cash to Micro Focus Shareholders through an appropriate mechanism.

3 39. The Offering Documents further conveyed Micro Focus’s confidence in the expected
4 synergies of the deal by stating that one of the Company’s “key areas of operational focus to
5 achieve [its] core objective” was “**financial discipline in mergers and acquisitions**,” and that it had
6 already demonstrated “**strong financial discipline around the uses of cash**,” \$2.5 billion of which
7 was to be expended by the Company in the Merger. The Offering Documents stated that the
8 Company sought to “acquire businesses in the mature infrastructure software space and **improve the**
9 **operational efficiency of those businesses** by applying the Micro Focus business model.”
10 Specifically, the Offering Documents stated that acquisitions would increase Micro Focus’s ability
11 to “**help clients derive value from their existing and often highly complex IT investments**.”

12 40. In addition, the Offering Documents pointed to Micro Focus’s substantial due
13 diligence of the HPE Software business it was acquiring over the more-than-one—year period since
14 announcing the acquisition. The Offering Documents stated that, as far back as June 2016, “the
15 parties and their respective advisors engaged in mutual due diligence of Micro Focus’ business and
16 HPE Software, as applicable.” In addition, “Micro Focus and HPE and their respective legal
17 advisors also negotiated the terms of various financing arrangements for the transaction with
18 various financial institutions during this period.” As part of this process, the Offering Documents
19 stated that the HPE Board had concluded that “a combination of HPE Software with Micro Focus
20 would help address [HPE Software’s] challenges by **creating a more focused, nimble and scalable**
21 **software business, particularly given Micro Focus’s historical experience with and focus on**
22 **effectively managing portfolios of mature infrastructure software products**.” The Offering
23 Documents also stated that the HPE Board had considered “**the potential value to HPE**
24 **Stockholders of the Micro Focus ADSs** representing 50.1% of the Micro Focus Fully Diluted
25 Shares that they will own immediately following the Merger, including value resulting from: (1) **the**
26 **potential cost reductions attributable to efficiencies and synergies** to be realized by combining
27 HPE Software with Micro Focus and (2) **the benefits of separating HPE Software from HPE’s**
28 **other businesses**.”

41. The Offering Documents provided historical financial results for Micro Focus and HPE Software. For Micro Focus, the Offering Documents provided, inter alia, the following financial information, which represented that Micro Focus had grown revenues for the past three fiscal years and achieved revenues of \$1.38 billion for the fiscal year ended April 30, 2017:

(in thousands)	As of and for the Year Ended April 30,		
	2015	2016	2017
Statement of Comprehensive Income Data:			
Revenue	\$ 834,539	\$ 1,245,049	\$ 1,380,702
Costs and expenses:			
Cost of sales	\$ 140,547	\$ 230,174	\$ 237,169
Selling and distribution costs	290,475	416,333	467,084
Research and development expenses	113,292	164,646	180,104
Administrative expenses	142,989	138,962	202,902
	687,303	950,115	1,087,259
Operating profit	147,236	294,934	293,443
Other income (expense):			
Share of results of associates	(788)	(2,190)	(1,254)
Net finance costs	(55,021)	(97,348)	(95,845)
Profit before tax	91,427	195,396	196,344
Income tax benefit (expense), net	10,024	(32,424)	(38,541)
Net income	\$ 101,451	\$ 162,972	\$ 157,803
Statement of Financial Position Data:			
Total current assets	\$ 460,967	\$ 954,361	\$ 442,193
Total noncurrent assets	\$ 3,879,634	\$ 3,681,332	\$ 4,203,764
Total assets	\$ 4,340,601	\$ 4,635,693	\$ 4,645,957
Total current liabilities	\$ 988,030	\$ 1,061,797	\$ 944,697
Total noncurrent liabilities	\$ 2,074,510	\$ 1,980,168	\$ 2,087,770
Total liabilities	\$ 3,062,540	\$ 3,041,965	\$ 3,032,467
Total equity	\$ 1,278,061	\$ 1,593,728	\$ 1,613,490
Total liabilities and equity	\$ 4,340,601	\$ 4,635,693	\$ 4,645,957

42. The Offering Documents provided additional information about Micro Focus's purportedly increasing revenues, and the historical breakdown between its operating segments. For example, the Offering Documents stated that "[r]evenues grew by \$135.7 million, or 10.9%, (\$12.0 million decrease, or 0.9% on a pro-forma constant currency basis) to \$ 1,380.7 million in the fiscal year ended April 30, 2017 as compared to \$1,245.0 million in the fiscal year ended April 30, 2016." The Offering Documents also provided the following table of the Company's financial results by operating segment:

	Fiscal year ended April 30, 2017 Actual \$m	Fiscal year ended April 30, 2016 Actual \$m	Fiscal year ended April 30, 2017 Actual (Decline)/Growth \$m	Fiscal year ended April 30, 2017 Actual (Decline)/Growth %	Fiscal year ended April 30, 2016 Pro forma Constant Currency \$m	Fiscal year ended April 30, 2016 Pro forma Constant Currency (Decline)/Growth \$m	Fiscal year ended April 30, 2016 Pro forma Constant Currency (Decline)/Growth %
Micro Focus							
Licence	308.4	304.8	3.6	1.2%	333.0	(24.6)	(7.4%)
Maintenance	720.7	644.5	76.2	11.8%	754.5	(33.8)	(4.5%)
Subscription	—	—	—	—	—	—	—
Consultancy	48.2	41.9	6.3	15.0%	54.8	(6.6)	(12.0%)
Total	1,077.3	991.2	86.1	8.7%	1,142.3	(65.0)	(5.7%)
SUSE							
Licence	—	—	—	—	—	—	—
Maintenance	—	—	—	—	—	—	—
Subscription	298.7	248.9	49.8	20.0%	245.5	53.2	21.7%
Consultancy	4.7	4.9	(0.2)	(4.1%)	4.9	(0.2)	(4.1%)
Total	303.4	253.8	49.6	19.5%	250.4	53.0	21.2%
Group							
Licence	308.4	304.8	3.6	1.2%	333.0	(24.6)	(7.4%)
Maintenance	720.7	644.5	76.2	11.8%	754.5	(33.8)	(4.5%)
Subscription	298.7	248.9	49.8	20.0%	245.5	53.2	21.7%
Consultancy	52.9	46.8	6.1	13.0%	59.7	(6.8)	(11.4%)
Total Revenue	1,380.7	1,245.0	135.7	10.9%	1,392.7	(12.0)	(0.9%)

43. Further, the Offering Documents showed increasing revenues in the Company's North America sales region, with annual revenues increasing by over 12.5% (or declining by only 3.1% on a constant currency basis) between April 30, 2016 and April 30, 2017. In addition, the Offering Documents stated that “[w]hile the Micro Focus Product Portfolio did decline 5.7% on a pro forma constant currency basis in the fiscal year ended April 30, 2017 as compared to the fiscal year ended April 30, 2016, *it delivered performance in line with management expectations.*” The Offering Documents also stated that the Company’s “[u]nderlying Adjusted EBITDA increased by *\$108.4 million, or 20.4%*, to \$640.9 million in the fiscal year ended April 30, 2017 as compared to \$532.5 million in the fiscal year ended April 30, 2016.” The Offering Documents provided the following table of regional financial results:

	Fiscal year ended April 30, 2017 Actual \$m	Fiscal year ended April 30, 2016 Actual \$m	Fiscal year ended April 30, 2017 Actual (Decline)/ Growth \$m	Fiscal year ended April 30, 2017 Actual (Decline)/ Growth %	Fiscal year ended April 30, 2016 Pro forma Constant Currency \$m	Fiscal year ended April 30, 2016 Pro forma Constant Currency (Decline)/ Growth \$m	Fiscal year ended April 30, 2016 Pro forma Constant Currency (Decline)/ Growth %
Micro Focus							
North America	591.4	525.2	66.2	12.6%	627.1	(35.7)	(5.7%)
International	389.7	377.0	12.7	3.4%	415.0	(25.3)	(6.1%)
Asia Pacific & Japan	96.2	89.0	7.2	8.1%	100.2	(4.0)	(4.0%)
Total	1,077.3	991.2	86.1	8.7%	1,142.3	(65.0)	(5.7%)
SUSE							
North America	121.8	108.6	13.2	12.2%	108.7	13.1	12.1%
International	142.8	115.6	27.2	23.5%	111.6	31.2	28.0%
Asia Pacific & Japan	38.8	29.6	9.2	31.1%	30.1	8.7	28.9%
Total	303.4	253.8	49.6	19.5%	250.4	53.0	21.2%
Group							
North America	713.2	633.8	79.4	12.5%	735.8	(22.6)	(3.1%)
International	532.5	492.6	39.9	8.1%	526.6	5.9	1.1%
Asia Pacific & Japan	135.0	118.6	16.4	13.8%	130.3	4.7	3.6%
Total revenue	1,380.7	1,245.0	135.7	10.9%	1,392.7	(12.0)	(0.9%)

44. The Offering Documents also provided the historical financial results for Seattle SpinCo, Inc. (“Seattle”), the subsidiary of HPE that held the HPE Software business assets to be acquired in the Merger. The Offering Documents provided the following table of Seattle’s historical financial results:

(in millions)	As of and for the Fiscal Years Ended October 31			As of and for the Six Months Ended April 30	
	2014	2015	2016	2016	2017
Combined Statements of Operations					
Net revenue	\$ 3,933	\$ 3,622	\$ 3,195	\$ 1,554	\$ 1,406
Earnings (loss) from operations	415	321	238	109	(48)
Net earnings (loss)	361	391	80	124	(39)
Combined Balance Sheets					
Total assets	\$ 11,634	\$ 10,979	\$ 10,647		\$ 10,460
Total capital lease obligations	21	32	36		39
Combined Statements of Cash Flows					
Net cash provided by operating activities	\$ 708	\$ 235	\$ 123	\$ 253	\$ 176
Net cash (used in) provided by investing activities	(16)	40	211	222	(17)
Net cash used in financing activities	(813)	(322)	(354)	(455)	(122)

45. In additional, the Offering Documents provided the combined historical information of Micro Focus and Seattle. The Offering Documents stated that the Company had achieved **\$4.434 billion** in combined revenues for the twelve months ended April 30, 2017, as provided in the following table:

	Historical Micro Focus for the year ended April 30, 2017	Adjusted Seattle for the twelve months ended April 30, 2017 (Note 2)	Pro forma merger adjustments (Note 3)	Note 3 references	Total pro forma combined
(In millions of U.S. dollars, except for per share data)					
Revenue	\$ 1,381	\$ 3,053	\$ —		\$ 4,434
Cost of sales comprising:					
Cost of sales (excluding amortization of capitalized development costs and acquired technology intangibles)	(146)	(823)	—		(969)
Amortization of product development costs	(22)	—	—		(22)
Amortization of acquired technology intangibles	(69)	(97)	(62)	(c)(iv)	(228)
Cost of sales	(237)	(920)	(62)		(1,219)
Gross profit	\$ 1,144	\$ 2,133	\$ (62)		\$ 3,215
Selling and distribution costs	(467)	(994)	(437)	(c)(iv)	(1,898)
Research and development expenses comprising:					
Expenditure incurred in the year	(208)	(526)	—		(734)
Capitalization of product development costs	28	—	—		28
Research and development expenses	(180)	(526)	—		(706)
Administrative expenses	(203)	(546)	321	(a)	(428)
Operating profit	\$ 294	\$ 67	\$ (178)		\$ 183
Share of results of associates and gain on dilution of investment	(1)	—	—		(1)
Finance costs	(97)	(72)	(148)	(b)	(317)
Finance income	1	13	—		14
Profit (loss) before tax	197	8	(326)		(121)
Taxation	(39)	(123)	108	(g)	(54)
Profit (loss) for the period	\$ 158	\$ (115)	\$ (218)		\$ (175)
Attributable to:					
Equity shareholders of the parent	158	(115)	(218)		(175)
Noncontrolling interests	—	—	—		—
Profit (loss) for the period	\$ 158	\$ (115)	\$ (218)		\$ (175)
Earnings (loss) per share attributable to equity shareholders of the parent (Note 4):					
Basic	\$ 0.69				\$ (0.40)
Diluted	\$ 0.67				\$ (0.40)
Weighted average shares outstanding (Note 4):					
(in millions)					
Basic	229		206		435
Diluted	237		198		435

1 46. Furthermore, the Offering Documents highlighted the importance to Micro Focus’s
2 business of maintaining “high customer satisfaction levels in order to retain and grow its customer
3 base.” The Offering Documents touted the fact that Micro Focus had “**over 20,000 customers,**
4 **including 91 of the Fortune 100 companies,**” and that HPE Software had “**over 30,000 customers**
5 **worldwide, including 98 of the Fortune 100 companies.**” While the Offering Documents
6 acknowledged the material importance of retaining customers and the risks that “**may**” occur to the
7 Company’s business “if” it failed to retain and grow its customer base, it failed to disclose the
8 significant disruption to customer accounts and loss of customers that had already occurred as a
9 result of HPE Software’s separation from HPE and HP. The Offering Documents continued in
10 pertinent part:

11 The Group’s ability to maintain customer satisfaction depends in part on
12 the quality of its professional service organization and technical and other
13 support services, including the quality of the support provided on its
14 behalf by certain partners. Once products are deployed within the IT
15 environments of the Group’s customers, these customers depend on the
16 Group’s ongoing technical and other support services, as well as the
17 support of the Group’s channel partners, to resolve any issues relating to
18 the implementation and maintenance of the Group’s products. ***If the***
19 ***Group or its channel partners do not effectively assist its customers in***
20 ***deploying its products, succeed in helping its customers quickly resolve***
21 ***post-deployment issues, or provide effective ongoing support, the Group***
22 ***may be unable to sell additional products to existing customers and its***
23 ***reputation with potential customers could be damaged As a result, the***
24 ***failure by the Group to maintain high-quality customer support could***
25 ***have a material adverse effect on the business, financial condition,***
26 ***results of operation and prospects of the Group.***

27 47. In addition, the Offering Documents highlighted the importance of employee
28 retention and, in particular, of its sales force, on the Company’s continued success. For example, the
Offering Documents stated that “***Micro Focus believes the Group’s success is dependent upon its***
ability to attract and retain senior management as well as other key employees, such as sales
management, product management and development personnel that provide expertise and
experience critical to the implementation of the Group’s strategy.” The Offering Documents also
stated that the Company is “***dependent on the success of its sales force,*** and its failure to develop

1 the skill sets of its sales personnel may lead to poor sales performance.” The Offering Documents
2 stated that Micro Focus had “*more than 4,800 employees in over 90 global locations.*” Similarly,
3 the Offering Documents stated that HPE Software had “*approximately 16,900 employees as of*
4 *October 31, 2016,*” including certain employees from HPE’s global marketing team and central
5 corporate function. While the Offering Documents acknowledged the material importance of
6 keeping sales employees and the risks that “may” occur to the Company’s business “if” it failed to
7 retain key personnel and sales employees, it failed to disclose that a greater number of sales
8 employees had already been laid off, quit or switched roles than had been disclosed and that the
9 diminished sales capabilities as a result of these changes was already hurting sales and revenues.

10 48. The statements in ¶¶33-47 were materially false and misleading when made because
11 they failed to disclose:

12 a. that HPE Software was experiencing significant disruptions in global
13 customer accounts as a result of its de-merger from HP, which had materially impacted HPE
14 Software’s ability to retain customers and for Micro Focus to recognize claimed synergies from the
15 Merger;

16 b. that HPE Software and Micro Focus were experiencing massive employee
17 attrition, including the loss of key sales personnel, and that this loss had adversely impacted the
18 Company’s operational capabilities and revenue trends;

19 c. that Micro Focus was suffering worsening revenue trends and was on pace to
20 significantly miss market expectations for its interim results in its core legacy business for the six
21 months ended October 31, 2017 – with revenues for the Company’s Existing Products portfolio
22 ultimately declining 7% during the period and its licensing revenues in this segment declining 17%
23 during this time – and that these worsening revenue trends were accelerating;

24 d. that Micro Focus was experiencing significant sales execution problems in its
25 North America region;

26 e. that HPE Software did not have the operational capabilities, loyal customer
27 base, products or key personnel to justify its purchase price or to reverse worsening revenue trends;

28

1 f. that Micro Focus had failed to put in place the operations, procedures and
2 personnel necessary to integrate successfully with HPE Software, or conduct sufficient due
3 diligence, so as to provide a reasonable likelihood that the purported synergies from the Merger
4 would be realized;

5 g. that the total enterprise value for the Merger was artificially inflated by more
6 than \$3.4 billion; and

7 h. that, as a result of (a)-(g), the Company's ability to service the increased debt
8 load it had incurred as a result of the Merger had been materially impaired.

9 49. Moreover, Item 303 of SEC Regulation S-K, 17 C.F.R. §229.303 (a)(3)(ii), requires
10 defendants to "[d]escribe any known trends or uncertainties that have had or that the registrant
11 reasonably expects will have a material favorable or unfavorable impact on the sales or revenues or
12 income from continuing operations." Similarly, Item 503 of SEC Regulation S-K, 17 C.F.R.
13 §229.503, requires, in the "Risk Factor" section of registration statements and prospectuses, "a
14 discussion of the most significant factors that make the offering speculative or risky" and requires
15 each risk factor to "adequately describe[] the risk." "The failure of the Registration Statement to
16 disclose the facts listed in 1145 violated 17 C.F.R. §229.303(a)(3)(ii), because these undisclosed
17 facts would (and did) have an unfavorable impact on the Company's sales, revenues and income
18 from continuing operations. This failure also violated 17 C.F.R. §229.503 because these specific
19 risks were not adequately disclosed, or disclosed at all, even though they were some of the most
20 significant factors that made an investment in Micro Focus ADSs speculative or risky.

21 50. The Merger was completed on September 1, 2017. As a result of the Merger, Micro
22 Focus issued ADSs representing more than 222 million consideration shares to HPE shareholders.
23 On the first trading day, the ADSs issued in the Merger closed at \$28.81 per ADS, representing over
24 \$6.4 billion in total market value.

25 51. On September 6, 2017, Micro Focus filed its third quarter financial results and an
26 update for the period ending October 31, 2017 for HPE Software on Form 6-K. The Form 6-K
27 stated that HPE Software generated revenues of \$718 million for the quarter ended July 31, 2017,
28 which represented a 3% revenue decline compared to the same period in 2016. The Form 6-K also

1 provided guidance for HPE Software for the year ended October 31, 2017 in the range of \$2.89
2 billion to \$2.96 billion “driven by the active reduction of less profitable professional services in
3 sub-scale service lines and geographies together with lower license revenue offset by increasing
4 SaaS revenue and support revenue being broadly flat.” This guidance range implied fourth quarter
5 2017 revenues down 13% at the midpoint.

6 52. On January 8, 2018, Micro Focus provided its financial and operating results for the
7 six months ended October 31, 2017 on Form 6-K (the “January Interim Update”). The Company
8 reported revenue of only \$1.235 billion for the period and an adjusted EBITDA of only \$530
9 million. The HPE Software revenue for the year ended October 31, 2017 came in at the very bottom
10 of the prior reported guidance at \$2.891 billion, and \$34 million below the mid-point. In addition,
11 the Company stated that it had suffered sales execution issues in its North America region stemming
12 from the loss of key sales personnel. Micro Focus’s legacy businesses revenue came in 2.7% lower
13 and Adjusted EBITDA came in 4.1% lower for the period as Micro Focus stated it had “put
14 operational improvement plans on hold while working on the completion of the HPE Software
15 transaction.” In addition, Micro Focus reported revenues of only \$500.3 million for the six months
16 ended October 31, 2017 in its Existing Products segment, reflecting a 7% year-over-year decline.
17 The Company’s licensing services in its Existing Products segment declined 17% and its
18 consultancy services in the segment declined 11.7% during this same time. The Company also
19 revealed that defendant Phillips would change positions from CFO to the Company’s Director of
20 M&A.

21 53. Then, on March 19, 2018, Micro Focus filed a trading update on Form 6-K. The
22 trading update stated that the Company’s revenue declines had significantly accelerated.
23 Specifically, Micro Focus lowered its constant currency revenue guidance for the twelve months
24 ended October 31, 2018 to minus 6% to minus 9% compared to the prior year. This more than
25 doubled the rate of revenue decline provided in the January Interim Update. The trading update also
26 stated that the worsening revenue trends stemmed from disruption of former HP global customer
27 accounts as a result of the de-merger of HP and HPE – an event that occurred in November 2015 –
28 and that the Company had suffered ongoing sales execution issues, particularly in North America,

1 as well as significant employee attrition. In addition, the trading update revealed that defendant Hsu
2 had abruptly resigned from the Company, despite taking the helm as CEO only six-and-a-half
3 months previously and overseeing the Merger.

4 54. On March 22, 2018, the price of Micro Focus ADS closed at \$12.99 per ADS,
5 representing a decline of more than 54% from the closing price of the ADS on the date of the
6 Merger's close.⁴

7 **CLASS ACTION ALLEGATIONS**

8 55. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil
9 Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons or entities who purchased or
10 acquired Micro Focus ADSs pursuant or traceable to the Company's Registration Statement and
11 Prospectus (Registration No. 333-219678) issued in connection with the Merger (the "Class").
12 Excluded from the Class are defendants and their families, the officers, directors and affiliates of the
13 defendants, at all relevant times, members of their immediate families and their legal
14 representatives, heirs, successors or assigns and any entity in which defendants have or had a
15 controlling interest.

16 56. The members of the Class are so numerous that joinder of all members is
17 impracticable. Micro Focus ADSs are actively traded on the NYSE under the ticker symbol
18 "MFGP" and millions of shares were sold in the Merger. While the exact number of Class members
19 is unknown to plaintiff at this time and can only be ascertained through appropriate discovery,
20 plaintiff believes that there are hundreds of members in the proposed Class. Record owners and
21 other members of the Class may be identified from records maintained by Micro Focus of its
22 transfer agent and may be notified of the pendency of this action by mail, using the form of notice
23 similar to that customarily used in securities class actions.

24 57. Plaintiff's claims are typical of the claims of the members of the Class, as all
25 members of the Class are similarly affected by defendants' wrongful conduct in violation of federal
26 law that is complained of herein.

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28 _____
⁴ The amount is unadjusted for dividends.

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