

In re Micro Focus International, plc Securities Litigation

COURT: United States District Court for the Southern District of New York
CASE NUMBER: 18-cv-06763
JUDGE: Hon. Andrew L. Carter
CLASS PERIOD: 09/01/2017 - 03/19/2018
CASE CONTACTS: James A. Harrod, Jai K. Chandrasekhar

This action asserts claims under Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and SEC Rule 10b-5 on behalf of a class of persons and entities who purchased or acquired Micro Focus International, plc (“Micro Focus” or the “Company”) securities between September 1, 2017 and March 19, 2018 (the “Class Period”). Defendants include: (i) the Company; (ii) certain of the Company’s current and former senior executives; and (iii) the Company’s board of directors.

On September 12, 2018, Iron Workers’ Local No. 25 Pension Fund was appointed as Lead Plaintiff, and BLB&G was appointed Lead Counsel. On November 9, 2018, Lead Plaintiff filed its amended complaint.

Plaintiff alleges that Micro Focus, a global enterprise software provider, made false statements and omissions concerning its merger with the software business of Hewlett Packard Enterprise (“HPE”), which was announced on September 7, 2016. In the merger, the Company issued American Depositary Shares (“ADS”) representing more than 222 million Micro Focus shares to HPE shareholders under a prospectus filed on August 22, 2017.

Leading up to the merger, Micro Focus and its senior executives touted the transaction as an opportunity to increase the Company’s scale and breadth and to enhance earnings. Defendants also told investors that the merger would yield significant cost benefits and add a substantial recurring revenue base. Defendants, however, knew or recklessly disregarded that even before the merger closed, HPE’s software business was experiencing significant difficulties, including disruptions in global customer accounts as a result of its split from the larger HPE entity. These difficulties materially decreased Micro Focus’s ability to recognize synergies from the merger. At the same time, Micro Focus was experiencing worsening revenue trends and massive employee attrition, which adversely affected the Company’s operational capabilities.

The merger ultimately closed on September 1, 2017, and in the ensuing months, Defendants assured investors that the integration of the two companies was going smoothly and that the Company was on track to meet its revenue and earnings goals. Defendants, however, knew or recklessly disregarded that there were significant problems with integration and that these integration problems were causing an acceleration in the declining of Micro Focus’s revenues.

Investors learned the truth on March 19, 2018, when the Company disclosed significant issues within HPE due to its de-merger from the larger HPE entity, the Company’s difficulty executing sales, and significant employee attrition. This news caused the price of the Company’s ADSs to drop sharply, causing investors to incur substantial losses. In total, the price of Micro Focus’s ADSs declined more than 55% over the Class Period.

Lead Plaintiff filed its amended complaint on November 9, 2018. Defendants filed a motion to dismiss on January 22, 2019. Lead Plaintiff filed its opposition to the motion to dismiss on March 8, 2019, and Defendants filed their reply in further support of the motion to dismiss on April 8, 2019.

On September 30, 2020, the Court granted Defendants’ motion to dismiss on the basis that the Second Amended Complaint does not adequately allege that Defendants made materially false statements or misleading omissions. We are

evaluating whether to recommend that Lead Plaintiff appeal this decision; the deadline for filing a notice of appeal is October 30, 2020.