Why Open Text Corporation Plunged 10%

Description

What: Shares of **Open Text Corporation** (TSX:OTC)(NASDAQ:OTEX) plunged more than 10% after the company's recent quarterly revenues fell short of analysts' expectations.

So what: Open Text's earnings results included some impressive growth figures, even though some of them won't be quite as strong as investors would have liked to have seen.

Net profits jumped 39% to US$74.3 million in the second quarter ended December 31, which was in line with analyst estimates. However, total revenues rose only 29% to US$467.8 million, falling short of the street's expectations.

Yet a deep dive into Open Text's report reveals a number of exciting trends. Revenues from the key Cloud Services segment soared more than 259% to US$151.3 million. The division now makes up nearly a third of Open Text's entire sales mix.

Revenues from recurring sources also grew 39% from last year. This shows the shift to steady profits at the expense of short-term gains from selling permanent licenses is working.

Furthermore, Open Text brought on a number of high-profile clients — including **Nestle**, **Schneider Electric**, **Monster Beverage**, **Airbus**, and **Fox Entertainment**. It's clear that management's acquisition strategy is paying off. The company is now entering 2015 with its best product line ever.

"The Open Text strategy is resonating with customers," Chief Executive Officer Mark Barrenchea bragged in the company's press release. "The acquisition of Actuate enables Open Text to significantly enter the world of business analytics, allowing customers to analyze and visualize a broad range of structured, semi-structured, and unstructured data."

So why were investors so disappointed with Open Text's results? Emerging markets. Revenues from these regions were "lower than planned," Chief Financial Officer John Doolittle admitted on the company's conference call.

Exchange rates also hampered numbers. Foreign currencies — such as the euro, the British pound, and the Canadian dollar — are responsible for nearly half of sales. Weakness in those currencies translated to less U.S. dollar-denominated revenue for Open Text.

Both of those problems could have been ignored. However, given that Open Text shares were trading north of 30 times earnings before today's release, investors wanted perfection.

Now what: Today's results were disappointing, but there was nothing in this report that really challenges the bull thesis. As new technologies make collecting data even easier, the value of organizing all of those bits and bytes into usable information continues to grow. Open Text is well-positioned to capitalize on this.

CATEGORY

1. Investing
2. Tech Stocks

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