Open Text Corp.'s Strong Q1 Earnings Highlight Why the Stock Is a Great Long-Term Buy

Description

Open Text Corp. (TSX:OTEX)(NASDAQ:OTEX) released its first-quarter results on Thursday, which showed the company posting an adjusted earnings per share of $0.54 and beating expectations of $0.52. Open Text also reported revenues of $641 million, which were up 30% from a year ago.

The company had a very strong quarter, so let's take a look at what was behind the results and if the stock is a good buy today.

Open Text saw strong growth across all of its segments

The company's recurring revenue, which is normally more than three-quarters of total sales, increased 29% year over year with customer support seeing an incredible 41% increase. Cloud srvices and subscriptions are the other source of the company's recurring revenue, and its sales saw a more modest increase of 14%.

One of the things that I really like about Open Text, and why I think it's an even better buy than **Sierra Wireless, Inc.**, is that it has a strong base of recurring revenue. This allows the company to more easily build on sales and not have to spend a fortune trying to acquire customers the way retail and telecom companies do.

However, even Open Text's non-recurring revenue saw strong growth this quarter with professional services rising 43% and licence sales growing 29%.

From a sales perspective, it's hard to see any negative, as Open Text had a terrific performance this quarter.

Previous year's bottom line inflated by tax recovery

Last year, the company benefited from an income tax recovery of $859 million (while this year, it recorded an expense of $27 million), which made up most of the $912 million in net income for the quarter. If we go a few lines up the income statement, we see that Open Text's pre-tax earnings of $64 million were actually up 20% over last year’s total of $53 million.

Cost of goods sold and operating costs took up 86% of revenue this quarter, which is slightly up from 85% a year ago. Without much change in its overall EBIT margin, Open Text was able to bank the increase in revenue down to net income.

Company continues to grow and acquire big customers

Open Text completed two acquisitions in the quarter, including Guidance Software, Inc. and Covisint Corp — both tech companies that formerly traded on the NASDAQ and that can complement Open Text’s current services.

The company also announced some big customers it got on board in the quarter, including **Nestle** and more than a dozen others across various different industries.

Is the stock a buy?

Open Text’s stock has been very volatile this year, but since hitting a new 52-week low in September, the share price has risen more than 12%.

With growing revenues and a lot of diversification in not just its products and services, but also in the customers that it serves, there are plenty of reasons to be optimistic about Open Text’s long-term performance. A great deal of diversification also gives the stock some stability, since the company won’t be heavily exposed to one customer or industry.

Although Open Text might not be as exciting as other tech stocks, its stability and strong growth should more than make up for that.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:OTEX (Open Text Corporation)
2. TSX:OTEX (Open Text Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

3. Tech Stocks

Date
2025/08/26
Date Created
2017/11/04
Author
djagielski