



OpenText Corp. (TSX:OTEX): Full-Year Results Review: Buy, Hold, or Sell?

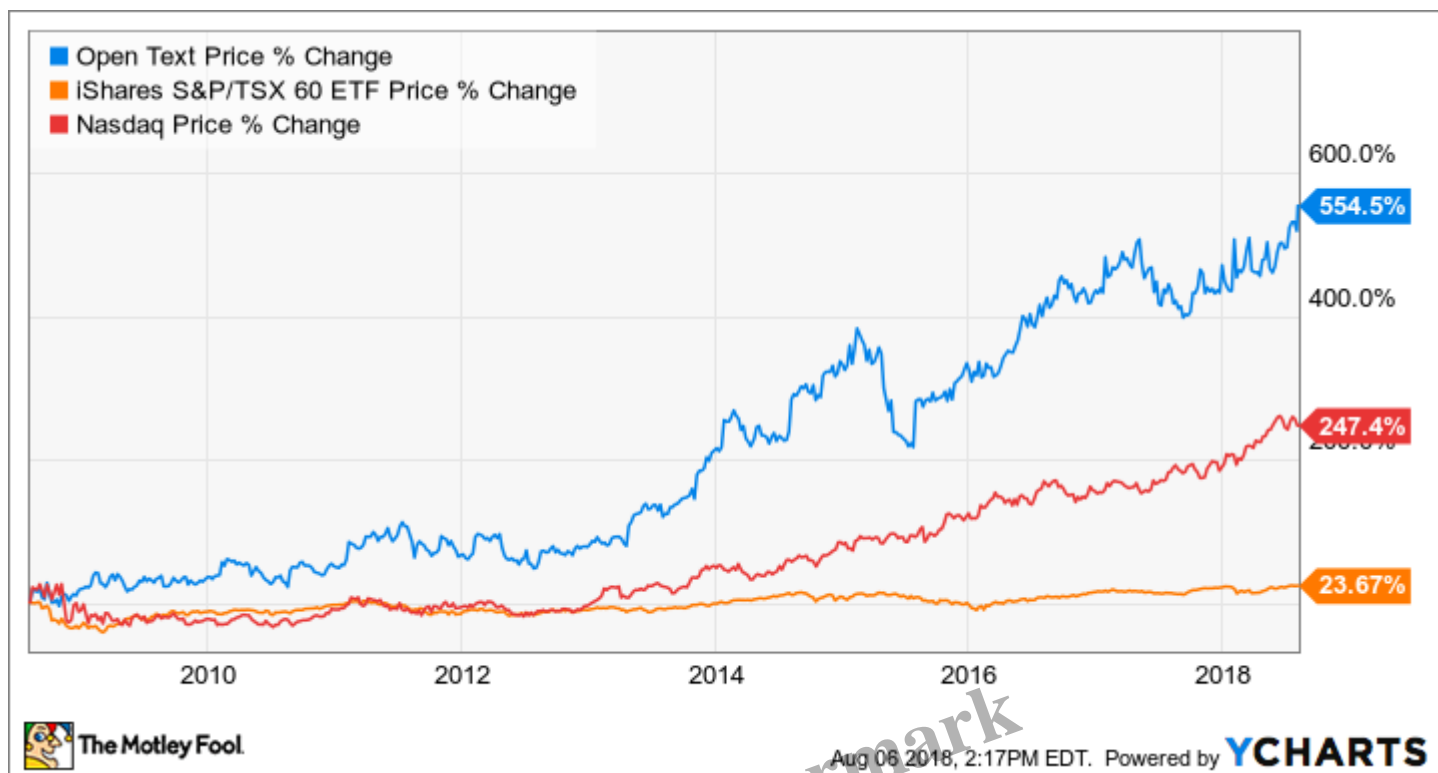
Description

Some investors ignore **OpenText** ([TSX:OTEX](#))([NASDAQ:OTEX](#)) because the company has an S&P credit rating of BB+, which is one notch below investment grade. However, the stock's long-term performance speaks for itself.

In the last five- and 10-year periods, OpenText stock has greatly outperformed the Canadian market, using **iShares S&P/TSX 60 Index Fund** ([TSX:XIU](#)) as a proxy, and outperformed the **NASDAQ**.



OTEX data by YCharts – Five-year chart



OTEX data by YCharts – 10-year chart

OpenText's recent quarterly and full-year results pushed the stock higher. Let's review the results.

OpenText's fiscal Q4 results

Here are some key metrics compared to the same period in 2017:

	Q4 fiscal 2017	Q4 fiscal 2018	Change
Total revenues	US\$663.6 million	US\$754.3 million	13.7%
Annual recurring revenues	US\$471.4 million	US\$534.6 million	13.4%
Diluted earnings per share	US\$0.60	US\$0.72	20%
Adjusted EBITDA	US\$237 million	US\$281.8 million	18.9%
Operating cash flows	US\$102.5 million	US\$205.5 million	100.5%

OpenText experiences stronger growth in certain quarters. Thus, it's better to look at its full-year results for the bigger picture. How did its fiscal 2018 results fare?

OpenText's fiscal 2018 results

Here are some key metrics compared to the same period in 2017:

	Fiscal 2017	Fiscal 2018	Change
Total revenues	US\$2,291.1 million	US\$2,815.2 million	22.9%
Annual recurring revenues	US\$1,686.6 million	US\$2,061.5 million	22.2%

Diluted earnings per share	US\$2.02	US\$2.56	26.7%
Adjusted EBITDA	US\$792.5 million	US\$1,019.1 million	28.6%
Operating cash flows	US\$439.3 million	US\$709.9 million	61.6%

In fiscal 2018, OpenText reached record total revenues and annual recurring revenue of about US\$2.8 billion and US\$2 billion, respectively.

Its recurring revenue consists of cloud services, subscriptions revenue, and customer support revenue. It is a high-quality form of revenue because of its recurring nature. Another positive note is that OpenText expanded its adjusted EBITDA margin from 34.6% to 36.2%.



Is OpenText a buy, hold, or sell today?

Management aims to expand the adjusted EBITDA margin to 38-40% by fiscal 2021 through a number of efforts, including but not limited to improving efficiency across the company via the use of artificial intelligence and automation and improving cloud margin via optimization, offshore, and platform consolidation.

OpenText will continue to grow through margin expansion, acquisitions, and organic growth as it has in the past. However, the stock isn't cheap based on its long-term normal multiple.

Moreover, it's not uncommon for the stock to [experience volatility](#) when it comes earnings report time. So, interested investors should look to buy the stock when it experiences meaningful dips.

The stock may be a hold for participation in the long-term [growth runway](#) of global enterprise information management, which is the space that OpenText is in.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:OTEX (Open Text Corporation)

2. TSX:OTEX (Open Text Corporation)
3. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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