Here’s Why OpenText (TSX:OTEX) Stock Jumped 4% on Q4 Earnings

Description

Shares in Canadian information technology leader **OpenText Corp.** (TSX:OTEX)(NASDAQ:OTEX) gained 4% on Friday when the company reported its fourth quarter and full-year 2018 earnings.

The value of the Waterloo-based company has now more than doubled since 2015, including its shares, making a new all-time high earlier this week.

Let’s take a closer look at its latest earnings report and exactly what has been driving the tech leader’s recent outperformance.

OpenText CEO Mark J. Barrenechea reported record annual revenues for his company in 2018, including 23% year-over-year growth in the fourth quarter.

The company continues to drive sales in its support, cloud, business networks and security products lines as it aims to become a more trusted strategic partner of global 10,000 companies.

Beginning in 2019, the company said it plans to take steps to improve operational efficiencies that it hopes will help to drive margin expansions, which in turn will improve EBITDA (earnings-before-interest-taxes-depreciation-and-amortization) and fuel the ability to support future mergers-and-acquisition (“M&A”) activity.

In 2018, OpenText completed three key acquisitions, including the purchase of Covisint, Guidance Software and Hightail, and is planning for more of the same in 2019 and beyond as part of the company’s “Total Growth” strategy.

OpenText has been able to achieve compound annual growth (“CAGR”) of 15% annually since 2012, thanks to a careful balance of organic initiatives complemented by strategic acquisitions.

The company’s aim is to pursue companies that fit within the context of its “information company” strategy, thereby generating recurring revenues and cash flows that are managed by strong leadership teams with disciplined engineering and leading distribution models.

With returns on capital as the key metric when evaluating potential acquisition targets, OpenText then seeks to integrate those companies with the company’s existing business model and seeks to apply those technologies to exciting, revolutionary applications like the “Internet of Things” and “AI” or artificial intelligence.

Frankly speaking, the “proof is in the pudding” and the strategy is working – very well – for OpenText.

Unlike so many other companies who will almost inevitably fall victim to the perils of a “growth by acquisition” strategy, that doesn’t appear to be the case with OpenText.

At least not yet.

That's because thanks to the company's business model, it has been able to support the bulk of its M&A activity through internally generated cash flows, and as a result, it hasn't had to resort to relying on the capital market to fund its growth initiatives.

Despite spending over US$3.5 billion on acquisitions over the past five years, OpenText has done an exemplary job of managing to keep its balance sheet in check.

As of the end of the fourth quarter, the company's debt-to-equity ratio sat at just 0.70x.

This means that so long as management can continue to pursue a disciplined approach of which acquisition targets it pursues – and which it doesn't – there is no reason to believe that OpenText will need to abandon its current strategy of an organic-accretive growth strategy anytime soon.

Granted, the OpenText shares only pay investors a modest dividend yield of 1.56%.

But this is a case where Foolish investors may want to consider playing the long game – hoping the company's continued investments in technology pay off – in a big way – somewhere down the road.

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