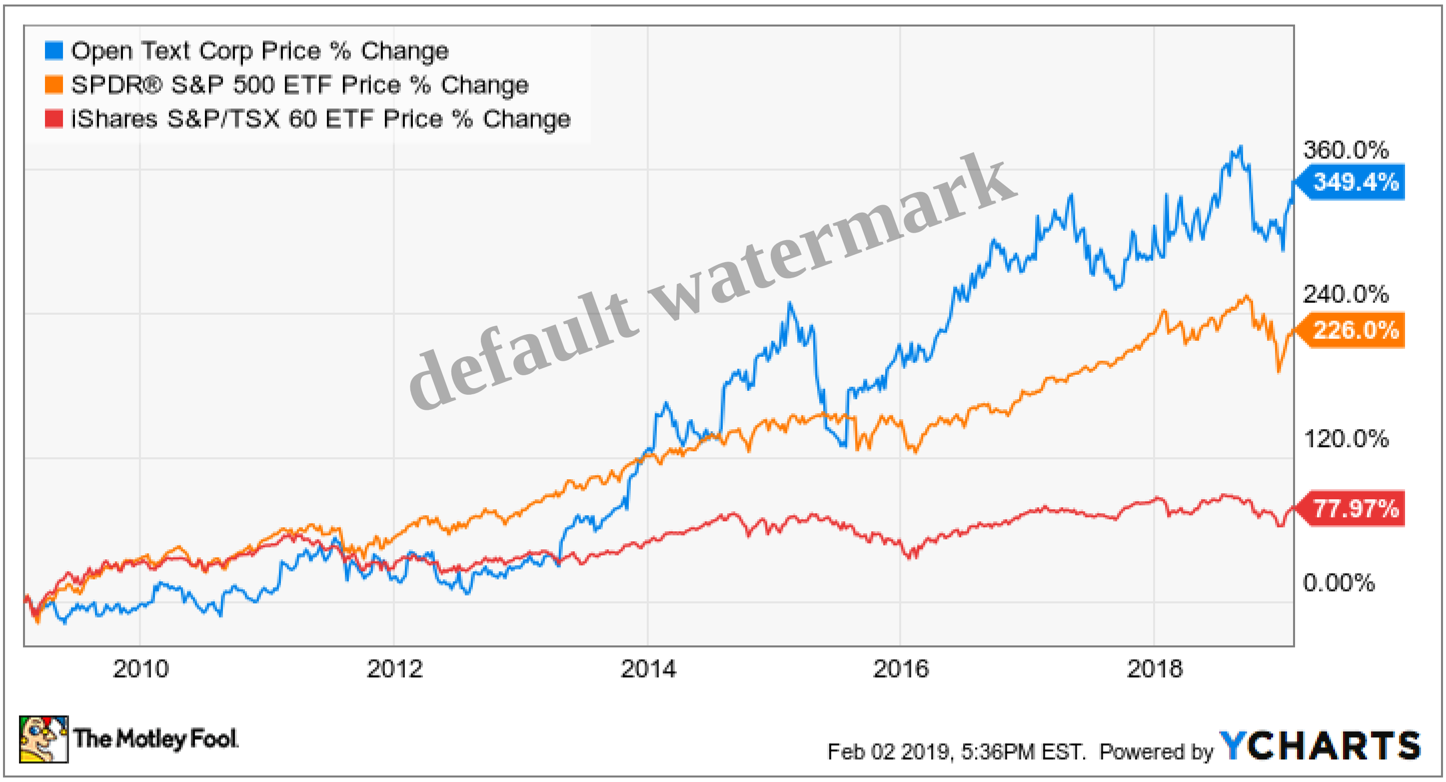
Outperform the Market With This Growth Stock

Description

OpenText (TSX:OTEX)(NASDAQ:OTEX) stock has popped more than 4% since it reported its fiscal Q2 results. On the same day, the tech firm announced that it acquired Catalyst in an all-cash $75 million transaction.

The acquisition will be an expansion of OpenText's Discovery Solutions. These solutions use artificial intelligence to help with rapid fact finding across emails and unstructured data and are applicable to the legal technology space.



OTEX data by YCharts. The 10-year price performance of TSX:OTEX, the U.S. market, and the Canadian market.

A fabulous growth story

OpenText has been a successful acquisition story. So, any acquisitions it makes is pretty much automatically taken as positive news. Here's a snippet of its track record that shows that its acquisitions support growth in its top and bottom lines.

From fiscal 2012-2018, OpenText made roughly 16 acquisitions and increased its revenue at a compound annual growth rate (CAGR) of 15%. In the same period, its adjusted earnings per share increased at a CAGR of almost 14.3% and its cash flow per share increased at a CAGR of almost 15.3%.

OpenText also focuses on generating recurring revenue (which is better than regular revenue) and enjoys organic growth. In fiscal 2018, about 73% of its total revenue was recurring, and its organic revenue growth was 5.5%.

A strong year

On one hand, it’s good to look at the performance of OpenText from quarter to quarter to keep yourself up to date. On the other hand, it may make better sense to review how OpenText performs on an annualized basis because the company is seasonally weak in certain quarters based on its enterprise clients budgeting plans.

Fiscal 2018 was a strong year for OpenText. Total revenue grew 22.9% to US$2.8 billion, annual recurring revenue increased 22.2% to more than US$2 billion, and adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) climbed 28.5% to over US$1 billion. This translated to an impressive adjusted EBITDA margin of 36.2%.

Diversified revenues

OpenText is a global company and generates revenues from the Americas, Europe, the Middle East, Africa, and the areas of Asia, Pacific, and Japan. The company generates recurring revenue from a range of industries, including financial, services, technology, consumer goods, public sector, healthcare, and more.

OpenText earns revenue from its licenses, cloud services and subscriptions, customer support, and professional services. Annual recurring revenue is expected to be solidly more than 70% of total revenue in fiscal 2019.

Management

With Mark J. Barrenechea leading as the CEO and CTO, the current management is good at generating shareholder value partly by acquiring and integrating companies. Mr. Barrenechea has been CEO since 2012 and CTO since 2016.

Investor takeaway

M&A activities are one key driver for OpenText's double-digit growth. There's always the risk of making a bad acquisition or having integration issues. However, OpenText has many years of experience with this strategy.

OpenText began paying a dividend in fiscal 2013. It only yields about 1.6% right now, but the dividend has been increasing at a very nice clip. It has doubled since fiscal 2013, and its three-year dividend growth rate is about 15%.

OpenText stock can experience meaningful dips at times. It last had a dip along with the market correction from October to December last year. Those are the times when interested investors can buy the outperforming stock at an attractive price.

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