

Will a Partnership With Alphabet (NASDAQ:GOOGL) Ignite This Stock?

Description

Last week, **Open Text's** ([TSX:OTEX](#))([NASDAQ:OTEX](#)) artificial intelligence (AI) ambitions took another step towards becoming a reality. The team announced a deeper partnership with technology giant **Alphabet** ([NASDAQ:GOOG](#))([NASDAQ:GOOGL](#)).

According to comments from both teams in their press release, the partnership will allow Google to use Open Text's enterprise information management systems, and, in turn, Open Text can use Google's AI and cloud infrastructure in its suite of software solutions.

While analysts and industry experts were optimistic, the stock price hasn't reflected any excitement from investors. The fact that the average investor overlooked this critical piece of news creates an opportunity for savvy investors, as Open Text hits an inflection point for growth.

The perfect match

A Google-Open Text partnership makes more sense when you consider the state of the enterprise technology industry. Businesses of all sizes are migrating to the cloud. Currently, the cloud computing sector is dominated by **Amazon** and **Microsoft**. Despite its efforts and investments, Google is still a consumer company that has failed to crack the enterprise market.

Meanwhile, Open Text is an enterprise software company that punches above its weight. "I can say confidently, we're bigger in the enterprise today than Google," Open Text CEO Mark Barrenechea said at the company's Enterprise World conference last week.

The firm's clients include some of the largest companies and government institutions across the world. According to their latest report, over 120,000 corporations and over 100 million end users rely on the Open Text software suite.

This means the partnership plugs corresponding gaps for both companies. Google gets access to a content management suite used by thousands of companies, while Open Text gets to boost its platform with Google's cutting-edge translation, transcription, and G-suite solutions.

In theory, Open Text customers could soon leverage these capabilities to automate processes like legal due diligence, mortgage procession, contract monitoring, and regulatory compliance.

While it's difficult to say if the partnership will move the needle at Google, it will certainly have an impact on Open Text's bottom line and ability to attract and retain customers. Google's cloud and AI services are widely considered to be the gold standard in the technology industry.

While the company is on track to generate nearly \$3 billion in revenue this year, it says its potential market could include 10,000 major institutions and be worth over \$100 billion. With Google's support, the company could start seeing some traction on this [ambitious growth path](#).

However, investors seem to have already priced in this higher rate of growth. Even if investors assume a 25% annual earnings-growth rate, which is higher than Open Text's historical average of 14%, the stock's price-to-earnings ratio of 55.4 seems too optimistic.

I would look for chances to accumulate if the stock pulls back in the near future.

Bottom line

Google's partnership with Open Text is a clear sign of the company's intrinsic value and competitive advantage. With access to Google's cutting-edge infrastructure, the company can propel growth by attracting more customers and retaining them with better services.

However, a higher rate of growth seems to have been already priced in. Investors should probably wait for the valuation to subside before betting on this long-term wealth creator.

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