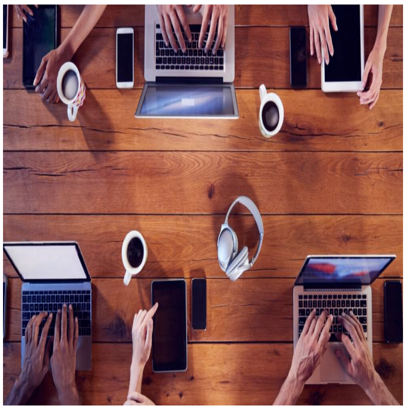

Snatch Up This Tech Stock at a Bargain Price Today

Description

When we think of tech stocks, we usually think of high growth and high valuations. **Open Text** (TSX:OTEX)(NASDAQ:OTEX) is not that kind of a tech stock.

Open Text is a $14 billion tech company that has a low organic growth profile, but the kicker here is that the company has actually grown very rapidly in the cloud business. This growth has come from well-timed and well-managed acquisitions that have propelled the company and the stock forward with great success.

Open Text's valuation is the other piece of the puzzle that is not like most tech stocks. Open Text trades at very attractive valuations that are significantly below its peers, despite the fact that the company's fundamentals remain strong.

Acquisitions bring value to this tech stock

Open Text has recently completed two cloud-based acquisitions, which have strengthened its competitive position, all while pounding out enviable levels of cash flow. Since 2014, free cash flow has grown 61%, to 2018 levels of $605 million.

These are acquisitions that have brought with them solid cloud businesses as well as solid opportunities for synergies. As the largest independent software provider of Enterprise Information Management (EIM), Open Text has benefitted greatly from its Documentum acquisition in the form of market share gains and economies of scale.

Documentum was a perfect fit to Open Text, as it complements and enhances Open Text's information management capabilities in a networked environment that is secure and cloud-based. In 2017, revenue jumped 25.6% off of this acquisition, and EBITDA margins increased to almost 40%. 2018 saw similar gains in revenue while margins also continued to rise.

Lumpy financials and stock price performance

Lumpy financial performance has resulted in lower visibility and predictability for Open Text shares, but these are qualities that investors always like more of so this has been a sore spot.

For example, in the latest quarter (Q4 fiscal 2019), organic growth was approximately -2% compared to a +4.1% organic growth rate in the fourth quarter of last year. This is one of the reasons that Open Text trades at a discount to its peer group.

Lower valuations for lower growth

Sure, organic growth is lower, but valuations are also lower. Open Text stock trades at a P/E ratio of 17 times estimated 2020 earnings, while its peer group trades in the low 20s range.

Right now, we have another opportunity to buy Open Text stock at bargain prices, as the stock has fallen almost 14% since the company reported another disappointing quarter last week.

Looking ahead, this weakness can be seen as an attractive opportunity for investors to buy into a stock and a company that has consistently outperformed. The stock has a three-year return of 23.4%, the company is churning out free cash flow per share of $3, and its balance sheet is armed with $940 million in cash, making the company ready for its next acquisition.

In fact, management stated that it is their expectation that fiscal 2020 will see acquisitions contribute to growth. Its M&A pipeline has increased, and its debt and cash flow positions are very favourable.

Another acquisition is not priced into the stock, and as such, this event would be a strong catalyst for upside. Management has a targeted hurdle rate of a mid- to high-teens return on invested capital on acquisitions, which is something I like to hear.

Foolish bottom line

In summary, Open Text provides investors with strong upside, as this stock benefits from three things: An attractive valuation, a strong cash flow profile, and a strong balance sheet that will support further acquisitions and market share gains, as the company continues to consolidate its industry.

Looking past the lumpiness and the stock price volatility, we can see a business that has strong long-term fundamentals and a company that has a strong execution history.

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