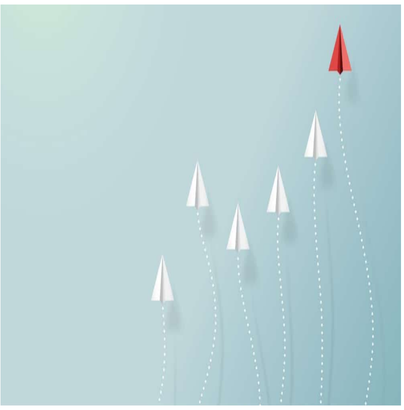

Attention: Open Text (TSX:OTEX) Is Ready to Soar!

Description

One of Canada's most successful technology companies, **Open Text** (TSX:OTEX)(NASDAQ:OTEX) has built a reputation for being an astute consolidator. In fact, the company can be categorized as a serial acquirer. These are companies that have a history of making multiple acquisitions a year.

Since 2014, the company has successfully completed 13 acquisitions for a total of $4.8 billion. It has been the primary growth driver at the company.

In recent years, however, the pace of acquisitions has slowed, and along with it, so too have earnings and revenue. Over the past two years, it has only closed on two acquisitions. Although the company has maintained strong mid- to high-single-digit organic growth, this is a company that was known to produce double-digit returns.

In some cases, analysts were getting impatient. Of late, management was grilled on the lack of M&A activity on their quarterly conference calls. The company, however, was steadfast in its disciplined approach, preaching patience.

On Monday, that patience finally paid off. After building a pretty significant war chest (over $1 billion in cash on hand), Open Text announced the US$1.42 billion acquisition of cloud-based security firm **Carbonite** (NASDAQ:CARB). The deal will be financed with cash and its line of credit, which means there will be no shareholder dilution. These are my favourite type of deals.

The deal is the second largest in company history, eclipsed only by the US$1.62 billion deal to acquire Dell's Enterprise Content division in 2016. It also represents Open Text's ninth cloud-based acquisition.

A highly accretive acquisition

In an environment where prices are near all-time highs, finding companies at attractive valuations has been difficult. It is why Open Text's pace of acquisitions has slowed. The good news is that the Carbonite deal is consistent with management's disciplined approach and is expected to deliver a return on invested capital (ROIC) in the high teens.

Approximately 90% of Carbonite's revenue is annual recurring revenue, which will lead to a significant expansion of stable and reliable cloud revenue at the company. The acquisition is expected to increase cloud margins and be highly accretive to adjusted EBITDA and cash flows as early as 2021.

To finance the deal, Open Text's net leverage ratio will rise to 2.5 times before dropping below two times net leverage four to six months post closing. This is a testament to the company's ability to deliver strong cash flows. In 2019, Open Text generated $876 million in operating cash flows.

Foolish takeaway

Open Text has delivered again. The company is one of the industry's best consolidators and has a successful history of making accretive acquisitions. The company looks to have made another strong addition to its portfolio.

The deal values Carbonite at a 22% discount to where it was trading this past February, and thus far, analysts have come out in full support of the deal. Carbonite brings with it 300,000 small- and medium-sized businesses and eight million professional users.

As of writing, analysts were only expecting annual earnings growth in the mid-single digits. Expect these estimates to be revised upwards over the next few months. In the meantime, you can pick up Open Text on the cheap, as it is trading at only 14 times next year's earnings. Earnings are due for a big revision upwards.

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