These 2 Software Stocks Will Benefit From the Pandemic

Description

The COVID-19 pandemic has changed the way companies do business. The pandemic-driven lockdown has led to the emergence of remote working and online transactions. The need for social distancing has made digital presence mandatory for survival. Businesses that were traditionally reluctant to transition to the cloud are now going digital. The pandemic has created a once-in-a-lifetime opportunity for cloud-based companies like **Open Text** (TSX:OTEX)(NASDAQ:OTEX) and **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX).

Open Text offers Enterprise Information Management solutions that enable companies to manage content and move critical documents securely within and outside the organization. Descartes helps companies optimize their logistics and supply chain operations. Both software solutions automate many manual processes that need physical contact, making it easier for enterprises to manage business operations remotely.

The emergence of remote working will drive the adoption of cloud-based software solutions

Time and again, companies have been seeking ways to improve efficiency by increasing revenue and reducing costs. In the 2009 financial crisis, many companies, big and small, started renting co-working space to save the cost of owning and maintaining an office. This trend of co-working created brands like WeWork and **Regus**.

The COVID-19-crisis has introduced many businesses to the benefit of remote working. Both Open Text and Descartes identified an opportunity to cut costs and improve efficiency. Open Text is permanently closing 50% of its 120 offices and shifting these operations to remote working. This restructuring will bring in annual savings of US$65-US$75 million from next year. Descartes is following suit and closing some offices permanently to save US$6-US$7 million in annual costs.

Many enterprises could walk the lines of Descartes and Open Text and permanently adopt remote working culture to save on real estate costs. This new trend will accelerate digitization efforts and speed up growth for cloud-based software companies in the next five years. Descartes will also benefit from the growing adoption of e-commerce.

Open Text and Descartes will continue to grow through acquisitions

Acquisitions are integral to Open Text's and Descartes's growth strategy. The software-as-a-service (SaaS) model is profitable when a large number of customers buy long-term subscriptions that generate recurring revenue. The cost of acquiring new customers is high. Hence, acquisitions are an effective way to broaden the customer base and reduce marketing costs. These acquisitions are immediately accretive to software companies' revenues and bring operational efficiency. Moreover, they create opportunities for the acquirer to cross-sell other products to the newly added customers and generate higher recurring revenue in the long term.

In fiscal 2019 ended June 2019, Open Text acquired Liaison Technologies and Catalyst Repository Systems to enhance its recurring cloud revenue. Its last acquisition was of data protection specialist Carbonite for US$1.45 billion. Carbonite added US$110 million to Open Text's revenue in the third quarter of fiscal 2020 and increased its leverage to over 2.2 times. The company has refinanced its debt, thereby postponing the maturity to 2024.

Descartes spent around US$300 million on several small acquisitions across the globe in fiscal 2019 ended January 2020. These acquisitions added more than US$34 million in annual revenue and US$6.4 million in annual net income. It has $55 million in cash reserves and another US$350 million in debt facility, giving it sufficient liquidity to withstand the current crisis and pursue acquisition opportunities.

Open Text or Descartes: Which is a better buy?

Stocks of Open Text and Descartes have recovered from their March sell-off and are growing steadily. The two stocks are trading above their 50-day moving average. Descartes stock is growing faster than Open Text. In the last one year, Descartes rose 16%, whereas Open Text rose only 4.5%. Hence, Descartes is a better buy than Open Text.

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2. NASDAQ:OTEX (Open Text Corporation)
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pujatayal