

OPEN TEXT CORP. NDQ-OTEX

RECENT PRICE **43.82** P/E RATIO **31.3** (Trailing: 36.5 Median: 26.0) RELATIVE P/E RATIO **1.70** DIV'D YLD **1.7%** VALUE LINE

TIMELINESS 2 Raised 11/15/19	High: 9.8 10.4 12.7 18.1 15.7 23.3 30.2 30.9 33.4 35.8 40.3 44.7	Target Price Range 2022 2023 2024
SAFETY 3 New 2/1/02	Low: 5.5 7.2 9.0 11.4 11.2 13.4 22.0 18.3 21.0 30.6 31.0 31.4	
TECHNICAL 2 Raised 1/3/20	LEGENDS 22.0 x "Cash Flow" p sh ... Relative Price Strength 2-for-1 split 2/14 2-for-1 split 1/17 Options: Yes Shaded area indicates recession	
BETA .95 (1.00 = Market)		
18-Month Target Price Range		
Low-High Midpoint (% to Mid)		
\$38-\$58 \$48 (10%)		
2022-24 PROJECTIONS		
High Price Gain Ann'l Total		
Low 65 45 (+50%) 12%		
Institutional Decisions		
1Q2019 2Q2019 3Q2019	Percent 45	
to Buy 142 154 115	shares 30	
to Sell 119 116 143	traded 15	
Hld's(000) 181864 174518 175888		

Open Text was founded in 1991 at the University of Waterloo as part of a project to index and update the Oxford English Dictionary for online use. In 1995, the company shifted its focus from search engines to intranet-based collaboration tools. Open Text went public on January 23, 1996, selling 9.2 million shares at \$7.50 each (adjusted for split) through Montgomery Securities.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	© VALUE LINE PUB. LLC	22-24
Revenues per sh ^A	3.73	4.01	4.55	5.17	5.77	6.67	7.57	7.55	8.71	10.55	10.66	10.85		13.25
"Cash Flow" per sh	.33	.46	.64	.63	.73	1.04	1.17	1.41	.85	1.23	1.42	1.75		2.60
Earnings per sh ^{AB}	.27	.38	.53	.53	.63	.91	.96	1.17	.62	.91	1.06	1.40		2.20
Div'ds Decl'd per sh ^E	--	--	--	--	.08	.31	.36	.42	.48	.55	.63	.73		1.05
Cap'l Spending per sh	.06	.09	.16	.11	.10	.17	.32	.29	.30	.39	.24	.35		.35
Book Value per sh ^C	3.26	3.90	4.57	5.05	5.66	6.74	7.48	8.19	13.43	13.92	14.44	14.45		15.00
Common Shs Outst'g ^D	210.87	227.30	227.30	233.44	236.12	243.52	244.59	241.54	262.96	266.96	269.03	272.00		275.00
Avg Ann'l P/E Ratio	29.7	26.9	24.1	26.2	22.7	23.8	28.2	20.9	NMF	37.2	34.9			25.0
Relative P/E Ratio	1.98	1.71	1.51	1.67	1.28	1.25	1.42	1.10	NMF	2.01	1.97			1.40
Avg Ann'l Div'd Yield	--	--	--	--	.5%	1.4%	1.3%	1.7%	1.5%	1.6%	1.7%			1.9%
Revenues (\$mill) ^A	785.7	912.0	1033.3	1207.5	1363.3	1624.7	1851.9	1824.2	2291.1	2815.2	2868.7	2950		3650
Operating Margin	13.9%	13.7%	16.7%	14.2%	16.3%	20.7%	28.1%	31.3%	27.6%	28.6%	31.0%	30.0%		30.5%
Depreciation (\$mill)	12.0	17.4	22.1	21.6	24.5	35.2	50.9	54.9	64.3	86.9	97.7	100		115
Net Profit (\$mill)	56.9	87.6	123.2	125.2	148.5	218.1	234.3	284.5	159.3	242.2	285.6	380		605
Income Tax Rate	29.4%	1.5%	7.1%	8.9%	16.7%	21.1%	11.9%	2.2%	36.1%	37.2%	35.2%	23.0%		23.0%
Net Profit Margin	7.2%	9.6%	11.9%	10.4%	10.9%	13.4%	12.7%	15.6%	7.0%	8.6%	10.0%	12.9%		16.5%
Working Cap'l (\$mill)	116.2	116.7	99.8	312.8	189.2	155.8	475.0	1001.3	d123.5	333.0	546.6	850		1250
Long-Term Debt (\$mill)	299.2	285.0	282.0	555.0	513.8	1256.8	1580.0	2138.0	2387.1	2610.5	2604.9	2400		2350
Shr. Equity (\$mill) ^C	686.5	886.2	1039.4	1179.4	1337.2	1642.2	1829.3	1978.7	3532.4	3716.2	3883.5	3925		4125
Return on Total Cap'l	6.5%	7.9%	9.7%	7.6%	8.4%	8.0%	7.7%	7.8%	3.7%	4.9%	5.5%	7.0%		10.5%
Return on Shr. Equity	8.3%	9.9%	11.9%	10.6%	11.1%	13.3%	12.8%	14.4%	4.5%	6.5%	7.4%	9.5%		14.5%
Retained to Com Eq	8.3%	9.9%	11.9%	10.6%	9.8%	8.7%	8.0%	9.4%	1.1%	2.6%	3.0%	4.5%		7.5%
All Div'ds to Net Prof	--	--	--	--	12%	34%	37%	35%	76%	60%	59%	52%		48%

CAPITAL STRUCTURE as of 9/30/19
Total Debt \$2613.5 mill. Due in 5 Yrs. \$950.0 mill.
LT Debt \$2603.5 mill. LT Interest \$130.0 mill.
(41% of Cap'l)

Leases, Uncapitalized Annual rentals \$72.8 mill.

Pension Assets-6/19 Nil
Oblig. \$77.5 mill.

Common Stock 270,399,250 shs.
as of 10/29/19

MARKET CAP: \$11.8 billion (Large Cap)

CURRENT POSITION	2017	2018	9/30/19
Cash Assets	443.4	682.9	999.3
Receivables	445.8	488.0	411.0
Other	114.3	156.7	133.0
Current Assets	1003.5	1327.6	1543.3
Accts Payable	342.1	302.2	260.9
Debt Due	182.8	10.0	10.0
Other	602.1	682.4	681.0
Current Liab.	1127.0	994.6	951.9

ANNUAL RATES of change (per sh)	10 Yrs.	Past 5 Yrs.	Past Est'd '17-'19
Revenues	11.5%	11.0%	6.0%
"Cash Flow"	15.5%	8.0%	17.5%
Earnings	15.5%	4.5%	20.5%
Dividends	--	34.0%	13.5%
Book Value	16.5%	19.0%	1.5%

Fiscal Year Ends	QUARTERLY REVENUES (\$ mill.) ^A					Full Fiscal Year
	Mar.30	Dec.31	Mar.31	Jun.30	Jun.30	
2016	434.5	465.4	440.5	483.8	1824.2	1824.2
2017	491.7	542.7	593.1	663.6	2291.1	2291.1
2018	640.7	734.4	685.9	754.2	2815.2	2815.2
2019	667.2	735.2	719.1	747.2	2868.7	2868.7
2020	696.9	755	735	763.1	2950	2950

Fiscal Year Ends	EARNINGS PER SHARE ^{AB}					Full Fiscal Year
	Mar.30	Dec.31	Mar.31	Jun.30	Jun.30	
2016	.17	.36	.29	.35	1.17	1.17
2017	.19	.18	.08	.17	.62	.62
2018	.14	.32	.22	.23	.91	.91
2019	.13	.39	.27	.27	1.06	1.06
2020	.27	.40	.35	.38	1.40	1.40

Calendar	QUARTERLY DIVIDENDS PAID ^E				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2016	.10	.115	.115	.115	.45
2017	.115	.132	.132	.132	.51
2018	.132	.152	.152	.152	.59
2019	.152	.175	.175	.175	.68
2020					

BUSINESS: Open Text Corporation develops, markets, licenses, and supports collaboration and enterprise information management software that stores, finds, and distributes information across intranets, extranets, and the Internet. '19 revs. by segment: licenses, 15%; customer support, 44%; cloud services, 32%; professional services, 9%. R&D: 11% of '19 revs. Acquired Global 360, 7/11;

EasyLink Services, 7/12; GSX Group, 1/14. Has about 13,100 employees. Officers & directors own 2.6% of common stock ('19 10K). Chairman: P. Thomas Jenkins. Chief Executive Officer: Mark Barnechea. Incorporated: Ontario, Canada. Address: 275 Frank Tompa Drive, Waterloo, Ontario, Canada N2L 0A1. Telephone: 519-888-7111. Internet: www.opentext.com.

Open Text completed the purchase of Carbonite, a provider of cloud-based subscription data protection and endpoint security. The company is now a wholly-owned subsidiary of Open Text following a tender offer of \$23 per share in cash for all outstanding Carbonite common stock (total value of approximately \$1.5 billion). The deal was funded through a combination of cash and debt, and is expected to be accretive within 12 to 18 months (Carbonite margins are notably healthier than Open Text).

up to \$1.5 billion in debt and equity securities during the 25-month window that the shelf is in effect. To that end, we are not overly concerned regarding its leverage profile or potential equity dilution.

The current fiscal year is off to a good start (began July 1, 2019). Open Text posted revenues of \$697 million in the September period, with the majority of growth derived from its Cloud services and subscriptions segment (+14% year over year). Meantime, Customer Support, License, and Professional Services were about flat. Share profits of \$0.27 were impressive, as well, as the company's restructuring strategy appears to be bearing fruit. **Management has insured that adequate funding is available to pursue growth initiatives.** Leadership is filing a shelf prospectus that will allow the sale of

We continue to like the long-term cloud story. Over the next several years, we expect global product demand to intensify, as enterprises continue to embrace the cloud service model. Moreover, the rollout of a new cloud platform slated for release in April, 2020, along with continued bolt-on acquisitions, ought to support double-digit cloud growth going forward.

Open Text shares have been raised one notch on our Timeliness ranking scale, to 2 (Above Average). Indeed, impressive quarterly performances through the remainder of the year could help OTEX stock maintain its recent price momentum (shares etched a fresh all-time high in late December). But total return prospects three to five years hence do not currently stand out. Thus, we suggest short-term subscribers have a look here, while the buy-and-hold crowd can find better options elsewhere.

Nicholas P. Patrikis January 10, 2020

(A) Fiscal year ends June 30th. All amounts reported in U.S. dollars. (B) Diluted earnings. Excl. nonrecurring gains/(losses): '16, \$3.42. Egs. may not sum due to rounding. Next egs. report early February. (C) Includes intangibles in 2019: \$4916.4 mill., \$18.27/share. (D) In millions, adjusted for splits. (E) Dividend payment initiated June, 2013. Quarterly payments will likely be made in late March, June, Sept., Dec.

Company's Financial Strength	B++
Stock's Price Stability	75
Price Growth Persistence	95
Earnings Predictability	50

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