

# INVESTOR'S BUSINESS DAILY

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## THE NEW AMERICA

**OPEN TEXT CORP.** Waterloo, Ontario

### Software Firm Buys Into Acquisition Strategy

BY MARILYN MUCH  
INVESTOR'S BUSINESS DAILY

Organic growth is all well and good. But sometimes there's nothing like an old-fashioned buyout to build a company's prowess.

Tom Jenkins can tell you all about it. He's chief executive of Open Text Corp., which makes enterprise content management and collaboration software designed to help big organizations manage online documents.

As the field has consolidated, Open Text has made acquisitions to expand its offerings and geographical presence. The firm has closed on four big deals since November 2002.

In October, it paid \$11 million for Germany's Gauss Interprise. Gauss is one of Europe's top developers of Web content management software.

And last month, Open Text bought a majority stake in Germany's IXOS Software AG in a tender offer valued at \$250 million. Jenkins expects his firm to own 100% of the company within the year.

"The IXOS acquisition makes Open Text the largest enterprise content management software vendor in Europe . . . and the largest pure-play ECM software vendor in the world," said analyst Bradley Whitt of Southwest Securities Inc.

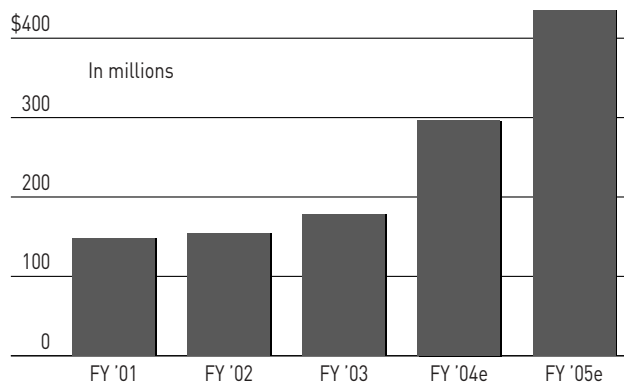
#### Gaining Clout

Software maker Open Text has used acquisitions to move its annual revenue into a much higher bracket

##### Major acquisitions

Year	Company	Price Paid
2002	Centrinity Inc.	\$20.3 mil
2003	Eloquent Inc.	6.7
2003	Gauss Interprise	11.0
2004	IXOS Software AG	250.0

##### Annual revenue



Sources: Company reports, Southwest Securities Inc.

**"In this industry, customers want to buy from the market leader, We're sending a real strong signal to customers that here's a vendor that will be around for the long haul."**

Tom Jenkins, CEO, Open Text

#### Open Text Corp. opentext.com

Ticker	OTEX
Share price	Near 30
12-month sales	\$202 mil
5-year profit growth rate	51%

#### IBD SmartSelect Corporate Ratings

Earnings Per Share	84
Relative Price Strength	86
Industry Group Relative Strength	A
Sales+Profit Margins+ROE	A
Accumulation/Distribution	B+

See investors.com for more details

His firm does not have an investment banking relationship with Open Text and he owns none of its stock.

IXOS supplies software used for document and content management and content archiving. It is also the biggest vendor of enterprise content management in Europe.

Open Text's acquisitions are expected to give it a substantial top-line boost. The company projects revenue of \$420 million to \$450 million in fiscal year 2005, which begins in July. That's more than double the \$178 million Open Text posted last fiscal year.

It pegs fiscal 2005 earnings at \$1 to \$1.20 a share vs. 68 cents in fiscal 2003.

The company earned 20 cents a share last quarter, up 25% from the prior year. Sales gained 43% to \$61.7 million.

One key benefit of the IXOS buy is that it helps Open Text bulk up in a consolidating industry.

"In this industry, customers want to buy from the market leader," Jenkins said. "(With this acquisition) we're sending a real strong signal to customers that here's a vendor that will be around for the long haul."

Another benefit is that the purchase bolsters Open Text's revenue in Europe. Overseas sales are now expected to comprise 45% of

the total vs. 35% before the buy.

In addition, IXOS has strong ties to business software giant SAP AG. IXOS' software is designed to be integrated with SAP systems for archiving purposes.

### Spreading The Word

Combined, IXOS and Open Text will serve 13,000 customers, ranging from drugmaker Abbott Laboratories to car manufacturer Audi AG.

On April 26, Open Text will hold its first combined Open Text/IXOS user conference in London, followed by others in Paris and Munich.

Users will hear presentations on how Open Text

and IXOS product lines can be integrated. In the fall, it will stage another user meeting in Phoenix.

As for integrating the buy, Jenkins says he plans to consolidate redundant operations. He will also combine duplicate regional offices.

"Larger software companies are generally more profitable because they can spread much more revenue over the same overhead (as a smaller one)," Jenkins said.

The IXOS buy should increase earnings between 30% and 40% this fiscal year, which ends in June. Analysts polled by First Call expect full-year earnings to rise 18% to 80 cents a share.

Demand for Open Text's products is mainly driven

by a need to manage online information and processes, Jenkins says. About 60% of its business is compliance-related.

"Compliance is about tracking the audit trail of words: who said what to whom and when," Jenkins said. "The record of that is based on knowledge and content management ... which makes compliance possible."

Among other things, Open Text's products help pharmaceutical firms comply with Food and Drug Administration requirements. They also help customers hold online meetings and manage the flow of information that's shared among project team members.

Its Livelink product cre-

ates a Web meeting place where dispersed work groups can share data and files. Livelink MeetingZone lets clients organize meetings online, so they can share notes and documents and use an electronic board to illustrate concepts.

Open Text probably isn't done buying, analyst Whitt says.

"Based on their good track record on executing on acquisitions, I expect down the road there will be more acquisitions," he said. "But they need to take a break for a quarter or two to absorb what they have."

Jenkins says acquisitions are always a possibility.

"The big fish are eating the little fish in this market," he said.