



## Absolute Software Making a Comeback

### Description

Back in 2007, just before the meltdown in markets began, small Canadian technology companies were richly rewarded if they had a product promising years of growth. **Absolute Software Corporation** (TSX:ABT) was one of these companies.

Absolute Software had deals with computer vendors to have its software installed on laptops, which would make them traceable in the event they were stolen. Absolute Software proclaims that it has been a leader in device security and management tracking for more than 20 years, with more than 30,000 commercial customers worldwide.

At the end of 2007, Absolute Software traded hands slightly above \$17. By 2008, its shares ended the year below \$4. What happened, and should investors consider buying the company now?

### What happened?

For one, the company's financials slipped. Cash from operating activities dropped from \$30 million in fiscal 2008 to just \$6.4 million in fiscal 2010, even though revenues were on the rise. A difference in the timing of subscription revenues against the booking of costs accounted for the divergence.

Other reasons for weak operating results included the company making acquisitions to boost its offerings, and stock-based compensation.

In addition, the macroeconomic environment was obviously poor back then. Computer sales declined as a result. This was bad news for Absolute as the company was heavily reliant on OEMs (original equipment manufacturers) as a channel for much of its revenue.

And, generally speaking, the appetite for risk dropped considerably as the financial crisis unfolded.

This combination conspired to send Absolute shares tumbling towards the mid-single digits from the mid-teens in which they had been trading. Signs are emerging however that Absolute is on its way back into the good books of investors.

### Why now?

In fiscal 2012, expansion to new markets, such as government, international, corporate, and healthcare, helped boost sales. Absolute Software generated \$88.7 million in sales contracts in fiscal 2012; 27% of its overall business comes from the data security and device management solutions. The segment grew 67% from the previous fiscal year.

Absolute Software is positioned to continue its growth, as ultra-portable devices gain in popularity, while traditional PCs, laptops, and ultrabooks still require being secured using its software.

### Broadening business

More importantly, Absolute Software now sells endpoint security solutions for smartphones. The company offers a consumer theft recovery solution for Android Smartphones, and earlier this month, [announced](#) the software availability for **Apple's** iOS system as well. iPad and iPad mini owners may now prevent loss and recover from theft for their Apple devices using Absolute's software.

### Financials

Sales are rising steadily, up 11% from fiscal 2012 to fiscal 2013 (year to date). Cash levels are also steady. Absolute Software reported cash of \$61.3 million in its latest (third-quarter) earnings report. Here's a quick overview of key financial metrics:

Key Financial Metrics	Q3 F2013	Q3 F2012	% change	YTD F2013	YTD F2012	% change
Revenue	\$20.9M	\$18.4M	+13%	\$61.2M	\$55.0M	+11%
Adjusted Operating Income	\$2.6M	\$3.2M	(19)%	\$7.5M	\$8.8M	(14)%
Net income (loss)	\$(0.5)M	\$1.4M	nm	\$1.3M	\$1.0M	+31%
Net income (loss) per share (basic and diluted)	\$(0.01)	\$0.03	nm	\$0.03	\$0.02	+50%

Source: Yahoo Finance

### My take

Software stocks (stocks in general for that matter) become risky when investors forecast too rosy an outlook. Absolute's stock fit that ticket several years ago.

But in the past few years, it's made a steady comeback by broadening its businesses. The results have followed: sales and profits are rising, which has allowed the company to invest more in sales and marketing and research and development.

I believe the outlook is bright for Absolute Software, with expansion opportunities in health-care, corporate, and government segments. The positioning in mobile is unfolding, and the convergence of devices gives Absolute Software further room to grow.

There is room in a well-diversified portfolio for companies like Absolute. However, at its core, it's wise to have your portfolio focused on a collection of rock steady businesses that can be expected to produce low-risk, market thumping, long-term returns. The Motley Fool's [Special Free Report](#) "**3 U.S. Companies That Every Canadian Should Own**" profiles three such businesses. To download a copy of this report at no charge, simply [click here](#).

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*The original version of this post was created by Fool contributor Chris Lau.*

*Fool contributor Chris Lau does not own shares of any of the companies mentioned at this time. The Motley Fool has no positions in the stocks mentioned above.*

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1. Investing

## TICKERS GLOBAL

1. TSX:ABST (Absolute Software)

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