

## 5 Reasons You Should Buy Descartes Systems Group Inc. Today

### Description

**Descartes Systems Group Inc.** ([TSX:DSG](#))([NASDAQ:DSGX](#)) is a tech company that provides logistics solutions that help its customers manage resources and shipments across the globe. The company has customers in a variety of different industries, most of which are ground carriers and freight forwarders. However, the products and services are widely applicable, and even **Air Canada** is a customer of Descartes.

The company may not be well known, but there are five great reasons you should consider investing in Descartes today.

### The company's operations and customers are diverse

In addition to serving customers in many types of industries, Descartes also has customers around the globe. In its most recent fiscal year, U.S. sales made up more than half of total revenue, Europe accounted for 37%, while Canadian customers made up only 6% of sales and ranked only higher than the Asia Pacific region.

### Sales are mainly service oriented

Nearly 97% of the company's sales for the year came from services, which include subscription fees, consulting, and maintenance-related revenues. This type of revenue, as opposed to licence sales, which made up just 3% of the top line, is easier to retain and grow as customers continue to pay for subscriptions or require assistance in day-to-day operations. Service revenues increased 12% in the past year and have grown 24% in just two years.

### The company has a strong balance sheet

In its most recent quarter, the company had a tiny debt-to-equity ratio of 0.09. By having a low amount of debt and lots of liquidity, the company puts itself in a good position to take on opportunities with ease and not be bogged down with the burden of interest costs. In the past four months, Descartes acquired two companies for a total of US\$121 million, which was mainly paid for with cash; no debt was required to finance the transactions.

### Growing free cash flow

In the trailing 12 months, the company has seen free cash flow reach \$70 million, which is up from \$68 million in the last fiscal year. The company has seen free cash flow grow in each of the past four years, and as it continues to grow, this will open more opportunities for the company to take on larger acquisitions in the future.

### High gross margins

One thing I always like to see is how high a company's gross margins are, and generally avoid

companies with low margins, unless growth is phenomenal. In the past four years, Descartes has averaged a gross margin of 70%, but, unfortunately, more than half of the company's revenue has been absorbed by depreciation, research and development, and selling, general, and administrative expenses. However, selling and administrative expenses have more opportunities for cost savings than cost of goods sold normally would, so there is potential for the company to improve on its profit margins, which are still strong at ~10%.

### **Bottom line**

Descartes has strong financials, and with good diversification in its customer base, there is lots of room for growth. The stock has a lot of upside and would make a great long-term investment.

### **CATEGORY**

1. Investing
2. Tech Stocks

### **TICKERS GLOBAL**

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:DSG (The Descartes Systems Group Inc)

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