



## 2 Tech Stocks Are Investing in Software as a Service

### Description

Tech companies are some of the top-performing U.S. stocks. **Apple Inc.** ([NASDAQ:AAPL](#)) could hit a \$1 trillion market cap. Six consecutive months with 2% increases would do it, which would be an astonishing feat.

With U.S. valuations high, it may be better to focus on tech north of the border. **Constellation Software Inc.** ([TSX:CSU](#)) and **Kinaxis Inc.** ([TSX:KXS](#)) come to mind as software leaders. These stocks have increased 190% (Constellation) and 445% (Kinaxis) in five years.

### Constellation

Constellation was founded in 1995 and offers a broad range of software services. This is a global company focusing on vertical markets, which means the software is designed to address a specific and narrow niche in comparison to a horizontal software market that has broad application.

Fulfilling specific software needs helps to explain why two-thirds of Constellation's revenue comes from public and government contracts, with the remaining business from the private sector. It is actually difficult to get a handle on this \$15 billion market cap company, because the moving parts from acquisitions are part of the company's mantra.

Constellation acquires software businesses and makes them better. In 2017, Constellation completed the acquisition of seven software businesses. This business model has worked, but it may not be for [all](#) investors; you should not be embarrassed if you haven't heard of Constellation before, or if you still don't understand the business. It is confusing.

Since 2011, however, Constellation has increased earnings per share (EPS) by 36% (median change). You generally need to pay up for these consistent earnings, which are slightly above the market average, but not obscenely so. Looking ahead, the company has the free cash flow to continue buying smaller software businesses.

This stock has already come down 5% from its 52-week high. A more substantial pullback that takes Constellation down to within \$700 would be great starting point to invest in this diverse software brand

— one that services public sector and other stable, dependable business operations.

## Kinaxis

This company has been around since 1984, longer than Constellation, but it has a smaller market cap of \$1.8 billion. Kinaxis's software as a service business is all about supply chain: moving products, ideas, information, you name it.

This company provides software that can alert, evaluate, and analyze business operations.

In his acceptance speech for winning Entrepreneur of the Year in 2017, CEO John Sicard explained that "At Kinaxis our singular focus is to revolutionize supply chain planning for the largest and most complex manufacturers in the world". If inspiring management is criteria for you, then look no further. What I like about Sicard is that he seems quite poised on how the company should capitalize on artificial intelligence — a topic that is all the rage these [days](#).

The Q2 quarter saw operating revenue of \$44 million. Quarter over quarter, this company has increased revenue by 28%, almost without fail. By contrast, EPS is considerably more choppy. Return on equity is now respectably above 20%. This stock has dropped by as much as 30% from its high in April, within reach of a strong support level that is near \$60 per share.

A great buying opportunity may be on the horizon.

## CATEGORY

1. Investing
2. Tech Stocks

## TICKERS GLOBAL

1. NASDAQ:AAPL (Apple Inc.)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:KXS (Kinaxis Inc.)

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## Date

2025/07/06

## Date Created

2017/11/19

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