



## Why Descartes Systems Group Inc. (TSX:DSG)(NASDAQ:DSGX) Stock Fell 11% in June

### Description

When a company announces terrible earnings, you expect it to fall in price. The same is usually the case when a company issues stock to fund its business.

In June, **Descartes Systems Group** ([TSX:DSG](#))([NASDAQ:DSGX](#)) sold 6.9 million of its common stock at US\$35.50 a share. The sale included the underwriters' exercise of their 15% over-allotment option.

Descartes, which specializes in logistics-focused software-as-a-service solutions, made the share offering announcement June 5. At the time of the announcement, its stock was trading at \$39, which provided institutional investors with a 9% discount.

The company plans to use the funds to pay down some debt, to make potential acquisitions in the future, and for general corporate purposes.

Descartes' stock, up 42% year to date through July 2 and almost 25% annually over the past three years, is still trading at almost a five-year high despite the 11% decline in June. It's also higher than it's been since 2000.

Using its shares to fund future growth opportunities instead of debt is a smart capital allocation decision given how well Descartes shares have performed in recent years.

Despite the fresh capital raise in June, Haywood Capital Markets analyst Daniel Rosenberg still likes the stock. On June 5, Rosenberg maintained his "buy" rating and \$44 target price on Descartes stock.

"Descartes represents a stable, cash generating business for investors," Rosenberg stated in a note to clients. "Our investment thesis is also predicated on the Company's highly recurring revenue, high EBITDA margins, and strong management team."

Rosenberg believes that the company's sales in 2019 will be \$275.2 million with EBITDA of \$93.9 million. In 2020, the analyst forecast sales of \$324.7 million and \$119.0 million in EBITDA.

It's safe to say Descartes stock will be back at a five-year high very shortly.

## CATEGORY

1. Investing

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

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