



5 Reasons to Get to Know This Under-the-Radar SaaS Company

Description

I love to invest in software-as-a-service (SaaS) companies. Even more, I'm attracted to small to mid-caps that most people haven't heard of yet. **AppFolio** ([NASDAQ: APPF](#)), the [cloud small-business-management software company](#) for property managers and legal firms, checks both of those boxes.

Here are five reasons investors should get to know this under-the-radar business.

1. Posting years of 30%-plus revenue growth

The first question many investors ask when looking at a company is "what's the revenue growth?" [Growth investors](#) desire top-line growth at above-average rates (S&P 500 average revenue growth is in the low single digits). Looking at AppFolio's history, it should make most investors smile.

Metric	2016	2017	2018	Q1-2019	Q2-2019
Revenue (in millions)	\$105.6	\$143.8	\$190.1	\$57.1	\$63.6
YOY revenue growth	40.8%	36.2%	32.2%	34.8%	34.7%

Data from SEC filings, calculations by author. YOY=Year-over-year

A majority of its revenue is split between core solutions (platform subscription fees) and value plus services which are transaction-based fees like payments, tenant screening, or insurance services. The value plus services made up 61.5% of its revenue last quarter and core solutions accounted for 34%.

2. Chasing a huge market

In addition to healthy sales, growth investors prefer companies with a large addressable market and this niche platform fulfills that demand. With more than 90% of revenue coming from its property management software and services, that market is the most critical. The addressable market is estimated to be at least \$5 billion in the U.S., putting the company's market share in the low single

digits with plenty of room to run. For its legal vertical, there's also a sizable addressable market of at least \$2 billion with its current share still under 10%.

Its AppFolio Business System could be used to help small and medium businesses in other industries, making its potential market even larger.

3. Innovating for customers

Big markets attract competition. In order to fuel growth, software companies need to continually improve their products. AppFolio has a long history of investing in product enhancements since it first released AppFolio Property Manager in 2008. Over the years, features for marketing, payments, tenant screening, insurance, and much more have been added to make the platform a comprehensive all-in-one property management tool.

In the most recent earnings call, there were a number of enhancements announced including functions to help manage utilities, real estate investments, and added features to serve larger complex real estate property managers. Even though the company doesn't report customer churn or its renewal rates, it has consistently grown its customer base quarter after quarter and wouldn't be able to achieve its revenue growth by losing customers. This continuous cycle of innovation helps attract and keep customers for the long term.

4. Funding innovation and acquisitions with rock-solid financials

A company can have a great product and be innovative, but if it's burning cash or unprofitable (or both), investors may want to stay away. But that's not the case with this SaaS company, which has stellar financials. In the most recent quarter, a strong 60.5% gross margin allowed it to ramp up its investment in research and development, which accounted for 14.7% of revenue, funding its innovation pipeline. For comparison, this is on par with SaaS-giant, **Salesforce.com**'s R&D spend of 15.1% of its top-line. Even with this investment, AppFolio recorded 3.6% income from operations, marking the tenth quarter in a row of profitability. It even scores a passing grade for the ["rule of 40,"](#) a measure for SaaS companies with year-over-year revenue growth percentage plus profit margins adding to greater than 40.

The balance sheet has largely been debt-free until management borrowed \$50 million in Q4 2018 for the acquisition of Dynasty Marketplace, Inc., an artificial intelligence technology provider, in Jan. 2019. Impressively, in the earnings call, management announced that Dynasty's AI product has been integrated into the property management platform for its biggest and most complex customers. Revenue from this feature will show in future quarters under the value-plus segment. Investors shouldn't fret about this debt because the balance sheet is solid with \$38.9 million in cash and investable securities and is cash-flow positive.

5. Senior leaders have a long-term mindset

A proper analysis of this company wouldn't be complete without a look at the leadership team. Chief

Strategist Klaus Schauser and Chief Technology Officer Jon Walker co-founded AppFolio in 2006, and are still involved in the day-to-day operations. President and CEO Jason Randall also has a long history with the company. He joined in 2008 to oversee software development for its newly released property management product and led the product team for six years before taking bigger roles and moving into the President and CEO spot in 2017. These three executives combined own 19.8% of the outstanding shares, a significant stake. Investors should rest easy knowing that these leaders are fellow shareholders, have a deep understanding of its platform, and make decisions with the long-term in mind.

But wait, there's one more thing...

This niche-focused SaaS company has a lot going for it, but there's something else that savvy investors should know. This stock still hasn't caught the eye of Wall Street yet as it's only covered by two industry analysts (compared to **Shopify's** army of 26). You might just consider adding this hidden-gem to your portfolio before the market catches on.

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TICKERS GLOBAL

1. NASDAQ:APPF (AppFolio Inc.)
2. NYSE:CRM (Salesforce Inc.)
3. NYSE:SHOP (Shopify Inc.)

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