3 Stocks Warren Buffett Wishes He Could Buy

Description

Berkshire Hathaway (NYSE:BRK.A)(NYSE:BRK.B) is currently worth more than $450 billion and literally has more than a hundred billion dollars to put to work. One downside of the company's size is that Warren Buffett can't bother looking at small businesses. The reason? They are too small to matter given Berkshire's scale.

You and I don't face the same dilemma. We are free to invest in growth stocks of any size. So which stocks would Buffett buy if he could? Here's why I think he'd love to own **HealthEquity** (NASDAQ:HQY), **Q2 Holdings** (NYSE:QTWO), and **Simulation Plus** (NASDAQ:SLP).

HealthEquity

With a market cap of just $3.5 billion, HealthEquity is probably too small for Buffett to even notice. However, this company has been a wonderful market-beater since it came public in 2014 — shares are currently up more than 170% — and I think its growth engine is just getting warmed up.

HealthEquity provides various solutions for managing healthcare accounts like health reimbursement arrangements (HRAs), flexible spending accounts (FSAs), and health savings accounts (HSAs), the latter of which is its bread and butter. Demand for these products has exploded in recent years given the huge rise in healthcare costs, which is a tidal wave that HealthEquity has ridden to record revenue and profits.

More recently, HealthEquity's stock has been sold off hard, and it's currently more than 50% below its all-time high. The reason? In February, HealthEquity's management told investors to expect revenue to land between $812 million to $820 million, but later reduced that range down to just $770 million and $790 million. Management said that the Fed's surprise cut to interest rates was going to reduce the interest that it earns on custodial cash.

Management had no way of predicting the rate cut, so I think it makes no sense for the share price to get whacked so hard. The upshot is that shares are currently trading for about 27 times next year's earnings estimates. I think that's a wonderful price for a high-quality business.

Q2 Holdings

If you are reading this, the odds are good that you bank online. Most consumers now demand that their banks allow them to check their balance, make deposits, and pay bills electronically. Providing this service is no sweat for big banks with huge budgets at their disposal, but how could a regional bank, a credit union, or small community banks afford to offer these services?

This is a problem that Q2 Holdings was created to solve. Q2 is a software-as-a-service company that provides banks with a suite of digital services that help them run themselves more efficiently and serve their customers. Interested banks can get help with services like compliance, reporting, mobile deposit, security, online bill pay, and much more.

Q2 has been in high-growth mode for many years as smaller banks realize that they need to offer these services in order to remain competitive. The company now counts more than 414 digital banking customers in its portfolio, which includes one-third of the top 100 U.S. banks. All told, Q2's products serve more than 14.6 million unique banking customers.

Q2 has come a long way over the last few years, but it is still growing like a weed. Market watchers expect the company to grow its top line by about 30% in 2020, and another 24% next year. The company just recently become profitable, too.

Despite the potential, Q2 is currently down more than 25% from its recent high, which pulled its market cap down to about $3 billion. That allows it to fly under Buffett's radar, but you shouldn't overlook this hidden gem.

Simulation Plus

With a market cap of just $650 million, Simulation Plus is way too small for Buffett (or other big money managers) to own. Yet this small-cap has been an *unbelievably* good long-term investment — shares are up more than 20-fold over the last decade.

Simulation Plus is a software company that helps biotechnology and pharmaceutical companies to make better decisions. The company has a suite of software products that aid in the drug discovery and development process by modeling how molecules will react in the body. Its flagship product — called Gastro Plus — simulates the absorption rates of drugs through all the major dosing routes.

As you can imagine, it's far cheaper and faster to perform these tests on the computer instead of in the lab. Since these products are so fast and cost-effective, it shouldn't surprise to learn that it's used by 19 of the 20 biggest pharmaceutical companies on the planet.

Despite its tiny size, Simulation Plus has dreamy financial statements. Last quarter, revenue grew 22% and the company generated a net profit margin of 21%. The company is cash-flow positive and has $12 million in cash and no long-term debt. That's a financial position that most companies would envy.

While the stock can't be called cheap — shares are trading at 67 times next year's earnings estimates — this is a very high-quality business that I'm sure Buffett would love to own if he could.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Syndicated

TICKERS GLOBAL

1. NASDAQ:HQY (HealthEquity, Inc.)
2. NASDAQ:SLP (Simulations Plus)
3. NYSE:BRK.B (Berkshire Hathaway Inc.)
4. NYSE:BRKA (Berkshire Hathaway Inc.)
5. NYSE:QTWO (Q2 Holdings)

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