



Stock Deep Dive: Enhouse Systems (TSX:ENGH)

Description

As many avid Motley Fool readers may know, I am a [big fan](#) of **Constellation Software**. I believe its business model, management, and strong history are all very attractive aspects of the company. However, it is a bit disheartening to know that the company has grown so large. This gives the impression that it may be a bit more difficult to see quick growth in the company.

Fortunately, **Enhouse Systems** ([TSX:ENGH](#)) is available to investors. The company seems a lot like a smaller version of Constellation. Is it worth considering for your portfolio?

What does the company do?

According to the [company's website](#), Enhouse provides “enterprise software solutions focusing on remote work, visual computing and communications for next generation software defined networks”. This makes the company very intriguing for investors that are looking for forward-thinking growth companies.

Enhouse has two segments within its business. Interact Management Group provides customer interaction services. Its other segment, Asset Management Group, provides tech and software solutions to different industries.

Similar to Constellation, Enhouse primarily grows through acquisitions. The company lays out its requirements for potential acquisition candidates on its website. It prefers companies that are software companies that report revenues between \$5 million and \$50 million, coming from revenue sources that are recurring, and are located within the Americas, Europe, or the Asia-Pacific region.

Where Enhouse differs from Constellation is that it does not require a company to be profitable at the time of acquisition. The two companies also become even more different in the fact that Constellation requires great management in the companies that it acquires. Conversely, Enhouse prefers companies with flexible management teams, which means the managers of the acquired company should be equally willing to stay and help the company grow or to move on to other endeavours.

Is Enghouse worth an investment?

Enghouse is certainly a great growth company. Since its IPO in 1998, Enghouse stock has returned more than 1,800% to its shareholders. The company also has a great amount of insider ownership, at 19.1% of the company. Enghouse's CEO, Stephen Sadler, is the company's largest individual shareholder with a 12.1% ownership stake in the company.

However, there are aspects of Enghouse that I am not very fond of. The first is that the companies it acquires are not profitable. I think the strategy employed by Constellation is a lot more attractive, because the companies it acquires have already reached that golden area of profitability. It could be argued that companies that are not profitable are not inherently bad if they are focused on growth. That is true, however, it is up to the investor to determine whether that is a deal breaker for them.

Foolish takeaway

Enghouse Systems is an intriguing company. Its business model is very similar to that of Constellation Software, a favourite among Canadian investors. The company certainly has plenty of room to grow, and focuses on acquiring tech companies that are in areas that will only become more important moving forward. While it's not currently on my radar as a potential addition to my portfolio, that could very well change in the future.

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