



Why Did Coveo Solutions (TSX:CVO) Rise 6.5% Yesterday?

Description

Coveo Solutions ([TSX:CVO](#)), which utilizes artificial intelligence to help enterprises enhance the digital experience for their customers, had a tough beginning as a public company. In November, it had [raised](#) \$215 million by issuing 14.34 million shares at \$15 per share. The weakness in [growth stocks](#) amid the expectation of interest rate hikes by the U.S. Federal Reserve led to a 33% decline in the company's stock price.

However, the company reported an impressive [third-quarter performance](#) yesterday, driving its stock price to a high of \$11.09 before closing at \$10.70, representing an increase of 6.5% from its previous day's closing price. Despite the rise, the company is still trading at 28.7% lower than its issue price. So, let's assess whether the uptrend in Coveo Solutions can continue. Meanwhile, first, let's look at its third-quarter performance in detail.

Coveo's third-quarter performance

For the quarter, Coveo Solutions's revenue grew by 39% on a year-over-year basis to \$23.2 million amid a strong performance from its SaaS subscription segment, which rose by 50%. The company's gross margins also improved by 0.55% to 74%. However, its adjusted operating losses increased from \$3.79 million to \$8.1 million due to increased research and development investment and higher general and administrative costs.

Meanwhile, the company's net income came in at \$426.3 million compared to a net loss of \$101.7 million in the previous year's quarter. The increase in net income was primarily due to a one-time contribution of \$453.6 million from non-cash gains and income tax recovery related to converting preferred shares into multiple voting shares immediately after going public. The company also utilized net cash of \$7.9 million for its operations during the quarter. Also, its balance sheet looks healthy, with cash of \$233.7 million at the end of the third quarter.

Coveo's growth prospects

With the rising adoption of online shopping, more businesses are using multiple channels to drive growth. This transition is driving the addressable market for Coveo Solutions, which focuses on combining unified search, analytics, and machine learning to deliver a personalized digital experience for customers. Amid the expanding market, the company is adding new features to its platform to enhance customer experience.

Coveo Solutions acquired Qubit Digital in October, accelerating its expansion in the U.K. and European markets. The company earns over 90% of its revenue from subscription or recurring sources, which is encouraging. With \$233 million of cash, the company is well equipped to fund its growth initiatives.

Meanwhile, Coveo Solutions's management expects its revenue for fiscal 2022 to come in the range of \$84.5-\$85 million, with SaaS subscription revenue contributing the bulk. Also, the management is projecting its net losses for this fiscal to fall between \$29million and \$30 million.

Bottom line

Although Coveo Solutions is trading at a significant discount from its listing price, it is still trading at an expensive forward price-to-sales multiple of 8.6. However, given its high-growth potential, I believe its valuation is justified. So, I believe investors with a medium- to long-term investment horizon can accumulate the stock to earn superior returns.

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