3 Growth Stocks That Could Thrive in the Downturn

Description

Growth stocks have been under immense pressure this year. High inflation and low growth have soured the economy, which is why investors are focused on preserving capital rather than expanding it.

This pullback is likely to impact the sales growth, profit margins, and net earnings of several companies. However, some growth stocks are better positioned than others. Here are the top three growth stocks that could show resiliency in the ongoing bear market.

Constellation Software

Enterprise software conglomerate **Constellation Software** (TSX:CSU) is in an excellent position during this bear market. The stock is down just 12% year-to-date, which is better than most other tech stocks. Meanwhile, half of the company's clients are government agencies. That means its cash flow is secure despite the downturn.

In fact, the downturn is an opportunity for Constellation. The company's growth model is based on regular acquisitions. It has acquired 48 companies, including three in the last five years. It's largest acquisition to date was Total Specific Solutions for $270 million. During bear markets, the valuation of these targets is lower, which means Constellation can snap them up for a discount.

In the first half of 2022, the team deployed more cash and completed more deals than it did in all of 2021. This momentum could continue to build for the rest of the year. Shareholders will eventually realize value from these acquisitions over the long-term.

Topicus

Topicus.com Inc. (TSXV:TOI) is a spin-off of Constellation Software, and a leading provider of vertical market software and vertical market platforms. The company's team is focused on acquisition targetsin Europe. European software companies were already cheaper than their North Americancounterparts, and this downturn probably improves the landscape for Topicus.

Just like its former parent company, Topicus is doubling down on acquisitions this year. They've accelerated the number and size of deals completed in the first half of 2022. I assume Topicus can rely on additional funding and support from its parent company if needed. This should help sustain its acquisition momentum and generate value for long-term shareholders.

Topicus stock is down 34% year-to-date, which is worse than Constellation Software, but in line with the rest of the tech sector. Keep an eye on this beaten-down stock.

WELL Health

My final stock pick is a former pandemic-growth star. **WELL Health Technologies** (TSX:WELL) was flying high during the lockdowns, but the stock has lost 60% of its value since last September. It's down another 5% today just for good measure.

However, investors seem to be overlooking the fact that healthcare technology isn't cyclical. Consumers' medical needs don't dissipate during a recession or inflationary cycle. The long-term growth story of digital healthcare remains intact, especially as health systems increase adoption and more people become comfortable using digital solutions.

In fact, this market won a vote of confidence from a tech giant recently. **Amazon's** acquisition of **One Medical** cements the fact that this sector is deeply undervalued right now. It's a green flag for rivals like WELL Health.

The stock trades at just 1.8 times forward annual recurring revenue. That should be attractive for growth investors seeking a bargain.

CATEGORY

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3. TSXV:TOI (Topicus.Com Inc.)

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