The Street

Investing Opinion

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9 Application Stocks to Watch

Karvy Global

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NEW YORK (TheStreet) -- **Quest Software**(QSFT), **Progress Software**(PRGS), **Ebix**(EBIX) and **Actuate**(BIRT) are among a few companies in the $584 billion application software industry. The industry is currently trading at a P/E of 18.3 with a return on equity of 24.4% and a dividend yield of 1.6%.

These companies have reported strong quarterly results and a positive outlook going forward. Furthermore, these stocks have no sell ratings and carry significant upside potential, according to analysts' 12-month price target polled by *Bloomberg*.

Starting on the next page are the stocks ordered in terms of upside, great to greatest.

Deltek (PROJ)		
BUY RATINGS:	IMPLIED UPSIDE:	PRICE TARGET:
40%	12%	$8.17

9. **Deltek**(PROJ) is a global provider of enterprise software and information solutions for professional services firms, government contractors, and government agencies. These solutions enable customers to research, identify new opportunities, and enhance the visibility of their operations.

Net revenue for the first quarter of 2011 was reported at $80 million, up 25.4% over $63.8 million in the year-ago quarter, with growth across all its segments. Revenue also increased because of the addition of subscription and recurring revenue stream, which began in the fourth quarter of 2010. Product-related bookings were $16.9 million, a 34% increase from the first quarter of 2010, reflecting the total contract value of the company's software products, both perpetual and term licenses.

Non-GAAP net income was $1.6 million, or 2 cents per share, down from $6.9 million, or 11 cents per share, in the year-ago quarter. Higher costs and expenses impacted bottom-line performance. On the balance sheet, cash and cash equivalents stood at $69.9 million, as cash flow from operations was $20.6 million at the end of March 2011.

The company acquired FedSources and The Washington Management Group for $26 million in April in an all-cash transaction that extended its portfolio of solutions for the complete business lifecycle for government contractors. Recently, the South African governmental implementation and consulting agency Blue IQ and Norwegian consulting engineering firm Hjellnes selected Deltek's Maconomy Enterprise Solution to expand their presence in other markets..

Going forward, the company guides second quarter 2011 revenue in the range from $85 million to $87 million and non-GAAP EPS at 4 cents to 6 cents. Full year 2011 revenue is forecast at $360 million.

Of the five analysts covering the stock, 40% recommend a buy and 20% suggest a hold. On average, analysts estimate 12.3% upside to $8.17 in value from current levels.

Quest Software (QSFT)		
BUY RATINGS:	IMPLIED UPSIDE:	PRICE TARGET:
38%	19%	$26.00

8. **Quest Software**(QSFT) designs, develops, markets, distributes, and supports enterprise systems management software products. The company's portfolio of software products includes software solutions grouped into four categories: application management, database management, Windows management, and virtualization management.

Revenue in the first quarter of 2011 increased 9.9% year over year to $188.2 million from the prior year's first quarter figure of $171.2 million, driven by higher sales of Windows Migration and Identity and Access Management (IDAM) products and related services. Acquisitions contributed approximately $7.8 million towards the revenue increase. The company reported non-GAAP net income of $19 million, or 20 cents per share, versus $24.3 million, or 26 cents per share, in the first quarter of 2010.

On the balance sheet, cash and cash equivalents stood at $285.4 million compared to $356.5 million at the end of Dec. 2010. Moreover, cash flow from operating activities rose to $71.3 million, in comparison to $70.1 million in the year-ago quarter. For the quarter, the company repurchased 3.4 million shares of common stock at an average price of $26.07, totaling approximately $88.7 million. During May, Quest's board authorized a stock repurchase program of $200 million, replacing the $150 million program authorized in Feb. 2011.

The company has reaffirmed its fiscal year 2011 total revenue guidance of 16% year over year from $767.1 million in fiscal year 2010.

Of the eight analysts covering the stock, 38% recommend a buy and the rest rate a hold. There are no sell ratings on the stock. On average, analysts estimate 18.7% upside to $26 in value from current levels.

RealPage (RP)		
BUY RATINGS:	IMPLIED UPSIDE:	PRICE TARGET:
90%	20%	$33.33

7. **RealPage**(RP) is a provider of on-demand software solutions for the rental housing industry. The range of property management solutions enables owners and managers of single-family and multi-family rental properties to manage their marketing, pricing, screening, leasing, accounting, purchasing, and other operations.

Non-GAAP net income for the first quarter of 2011 came in at $5.2 million, or 7 cents per share, on sales of $57.6 million. This compares to $2 million, or 4 cents per share, on sales of $41.4 million in the year-ago quarter. Revenue increased due to growth in on-demand and professional and other revenue, partially offset by a decline in on-premise revenue. On-demand units increased 25.4% to 6.2 million units, while on-demand revenue per average on-demand unit rose 10.1% to $34.64.

Cash and cash equivalents stood at $124.2 million compared to $118 million in the prior quarter. Moreover, cash flow from operations surged to $9.3 million from $7.2 million in the first quarter of 2010. Current ratio improved to 1.90 from 1.81 at the end of December 2010.

The company recently announced that its wholly owned subsidiary acquired the assets and selected liabilities of Compliance Depot, a provider of vendor risk management and compliance services to the multi-family housing industry.

Going forward, the company expects to achieve second-quarter revenue of $61 million-$62 million, and non-GAAP net income in the range of $5.5 million to $5.8 million, or 8 cents per share. Full-year revenue is forecast at $254 million to $259 million, while non-GAAP net income is expected between $24.5 million and $26.6 million, or 34 cents to 36 cents per share.

Of the nine analysts covering the stock, 90% recommend a buy and the rest rate a hold. There are no sell ratings on the stock. On average, analysts estimate 19.9% upside to $33.33 in value from current levels.

InterXion Holding (INXN)		
BUY RATINGS:	IMPLIED UPSIDE:	PRICE TARGET:

6. **InterXion Holding NV**(INXN) is a provider of carrier-neutral collocation data centre services in Europe, serving over 1,200 customers through

100%	25%	$17.57

28 data centers in 11 European countries. These data centers offer customers extensive security and uptime for their mission-critical applications.

Net revenue for the first quarter of 2011 was reported at $83.4 million, 21% higher than the prior year's first quarter figure of $68.8 million. Recurring revenue was 94% of total revenue. Adjusted EBITDA increased 27% to $32 million from $25.1 million. As a result, the company swung to a net income of $4 million, or 7 cents per share, from a loss of $6.8 million, or 14 cents per share, in the first quarter of 2010.

On the balance sheet, cash and cash equivalents surged to $330.1 million as of March 2011, from $142.7 million at the end of December 2010. Cash flow from operations stood at $29.8 million at the end of Mar. 2011.

The company recently announced a transatlantic, cloud computing focused data center alliance with CoreSite Realty Corp. The alliance addresses dual-continent demand from cloud companies looking for data center space in the U.S. and Europe, as well as cloud customers of both companies looking to expand internationally.

Going forward, fiscal 2011 revenue is forecast to range from $344.2 million to $353 million. Adjusted EBITDA is projected at $131 million to $137 million.

All the nine analysts covering the stock recommend buying it. There are no sell ratings on the stock. On average, analysts estimate 25.2% upside to $17.57 in value from current levels.

Progress Software (PRGS)		
BUY RATINGS:	IMPLIED UPSIDE:	PRICE TARGET:
100%	28%	$34.25

5. **Progress Software**(PRGS) is a global enterprise software company offering a portfolio of real-time software solutions. A key offering is the Progress Responsive Process Management (Progress RPM) suite that enables enterprises to achieve business performance. The company will report its second- quarter results on June 28.

Progress Software recently announced that it expects preliminary revenue and earnings per share for the second quarter 2011 to fall below the guidance range. Revenue is expected to come in at approximately $134 million, while GAAP income is pegged at 25 cents to 26 cents per share and non-GAAP earnings are seen coming at 37 cents to 38 cents per share.

Net income for the second quarter of 2011 is forecast at $27.1 million on sales of $135 million. This compares to net income of $19.1 million on $127.7 million sales recorded during the second quarter of 2010, according to a *Bloomberg* poll. Earnings per share are pegged at 39 cents, up from 29 cents per share from a year ago.

The company recently announced that Betfair, the international sports exchange, has signed a deal to deploy the Progress SonicMQ messaging platform for high availability and fault tolerant enterprise messaging. Prior to that, Ativa Corretora, a Brazilian brokerage firm, deployed Progress' Apama Capital Markets platform.

All the six analysts covering the stock recommend a buy. There are no sell ratings on the stock. On average, analysts estimate 27.6% upside to $34.25 in value from current levels.

Compuware (CPWR)		
BUY RATINGS:	IMPLIED UPSIDE:	PRICE TARGET:
83%	34%	$13.90

4. **Compuware**(CPWR) develops, markets and supports systems software products designed to improve the performance of information technology (IT) organizations. Its software products consist of four major families: Mainframe, Vantage, Changepoint and Uniface.

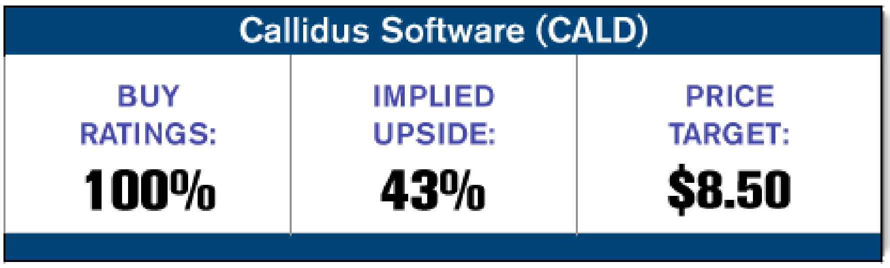
Revenue for 2011 fourth quarter was reported at $249.6 million, 8.5% higher than the $230 million reported in the year-ago quarter. The jump was largely attributable to improved revenue across all its business segments. However, net income declined 6.8% to $34.8 million from $37.4 million in the year-ago quarter. Earnings per share remained flat at 16 cents.

Full year 2011 revenue grew 4.1% to $928.9 million from $892.2 million in the prior year. However, higher costs and lower other income dragged bottom line 23.7% lower to $107.4 million, or 48 cents per share, from $140.8 million, or 60 cents per share, in 2010. At the end of March 2011, cash and cash equivalents stood at $180.2 million, up 20.2% from $150 million at the end of March 2010.

The company recently partnered HTC Global Services to provide application performance management solutions to customers worldwide. Further, together with Gigamon, a leading global provider of intelligent data access networking, Compuware has announced a strategic partnership to help IT organizations ease network data access and improve application performance.

Going forward, the company expects first-quarter 2012 earnings to range from 5 cents to 7 cents per share. Full year 2012 revenue is forecast at approximately $1.02 billion, with GAAP earnings per share ranging from of 53 cents to 57 cents.

Of the six analysts covering the stock, 83% recommend a buy and the rest rate a hold. There are no sell ratings on the stock. On average, analysts estimate 33.8% upside to $13.90 in value from current levels.



3. **Callidus Software**(CALD) is a provider of sales performance management (SPM) software and services. Its software consulting service offers customers a range of SPM solution implementations, system upgrades, compensation plan enhancements, migration assistance, reporting, and integration consulting and solution architecture services.

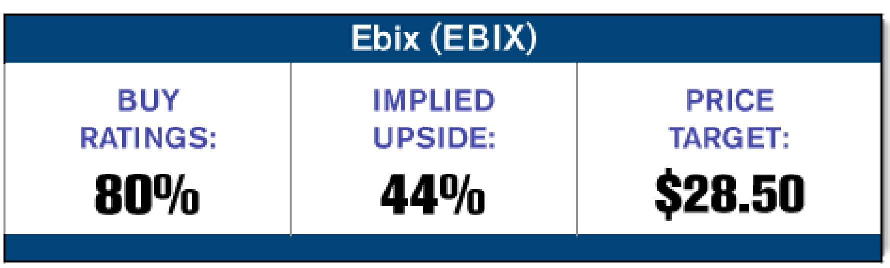
The company reported first-quarter 2011 net revenue of $19.7 million, up 22% compared to $16.2 million in the year-ago quarter. On-demand subscription and term-based license revenue grew $2.7 million to $10.0 million, representing a 38% increase over the first quarter of 2010. Recurring revenue improved 20% to a record $14.7 million. The company expects recurring revenue to run at approximately 75% of total revenue through 2011.

Non-GAAP net income stood at $90,000, or breakeven on a per-share basis. This compares to a net loss of $3.7 million, or 11 cents per share, in the same period last year. On the balance sheet front, cash and cash equivalents stood at $14 million, up 9.3% sequentially, while cash flow from operations was $0.8 million.

During the quarter, Callidus signed a definitive agreement to acquire the assets of ForceLogix Inc., a leading SaaS provider of sales coaching and talent optimization solutions. This acquisition will open new opportunities in the breakout market for sales and call center coaching. Further, Callidus acquired all the assets of leading sales assessment provider Salesforce Assessments Ltd.

Going forward, the company pegs second quarter 2011 revenue between $19 million and $20 million.

All the three analysts covering the stock recommend a buy. There are no sell ratings on the stock. On average, analysts estimate 43.1% upside to $8.50 in value from current levels.



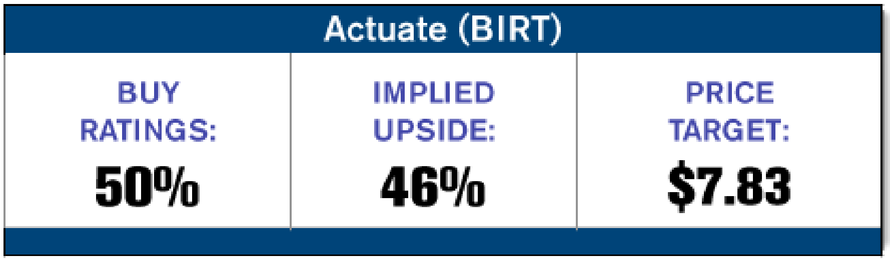
2. **Ebix**(EBIX) is an international supplier of software and e-commerce solutions to the insurance industry. The company provides a series of application software products for the insurance industry ranging from carrier systems, agency systems, and exchanges to custom software development for all entities in the insurance and financial sectors.

For the first quarter of 2011, revenue increased 27% to $40.1 million from $31.6 million in the year-ago quarter, driven by higher revenue from the Exchanges, BPO and Broker Systems segments. The increase also includes revenue from the ADAM acquisition, as of Feb. 7, 2011. Net income stood at $15.2 million, or 37 cents per share, versus $12.4 million or 32 cents per share in the first quarter of 2010.

On its balance sheet, cash and cash equivalents stood at $35.6 million compared to $23.4 million at the end of December 2010. Moreover, cash flow from operating activities increased to $10.3 million from $7.8 million in the corresponding quarter of the prior year.

During the quarter, the company repurchased 106,483 shares of its common stock at an average price of $22.49 per share for an aggregate amount of $2.4 million. Year to date, the company has repurchased 377,573 shares for a total consideration of $8.5 million, representing an average price of $22.50 per share.

Of the five analysts covering the stock, 80% recommend a buy. On average, analysts estimate 43.9% upside to $28.50 in value from current levels.



1. **Actuate**(BIRT) provides software and services to develop and deploy Rich Information Applications, which deliver interactive content. These applications provide stakeholders including employees, customers, and partners, business intelligence to improve a range of functions, including financial management, sales, and customer service to create a competitive advantage and enable users to make informed decisions.

Net revenue for the first quarter of 2011 was reported at $32.1 million vs. $29.1 million in the year-ago quarter, primarily on a 22% increase in license revenue coupled with a 5% increase in service revenue. Revenue included three transactions with a license component in excess of $1 million. Net income stood at $1.7 million, or 4 cents per share, compared to $1.6 million, or 3 cents per share, in the first quarter of 2010.

First quarter 2011 BIRT license business revenue stood at $6.1 million, up 404% year over year. The quarter marks the sixth consecutive period of year-over-year license revenue growth and the fifth consecutive quarter of year-over-year double-digit license revenue growth.

During the quarter, the company closed 46 BIRT license transactions, up 18% year over year. Total cash, cash equivalents, and investments stood at $82.9 million, representing a 22% increase over the prior year's quarter.

Of the six analysts covering the stock, 50% recommend a buy, while the remaining rate a hold. There are no sell ratings on the stock. On average, analysts estimate 46.4% upside to $7.83 in value from current levels.