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The 20 Fastest Growers in Software

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Why are investors willing to pay only 10 times earnings for some stocks, but 20, 50, even 100 times earnings for others?

The short answer: growth. Companies that can grow their earnings meaningfully could make lofty current P/E ratios look cheap in hindsight.

Of course, any company can promise a rosy, growth-rich future. Figuring out which companies can actually deliver is far trickier. In this series, I take the first step by identifying companies that have put up the best growth track records in their respective sectors.

Below, I've listed the top 20 sales growers in software and services over the last five years. Here's how to interpret each data column.

- **Five-year sales growth:** I rank each company's sales growth, to capture its pure trailing expansion without regard to the vagaries of earnings.
- **Five-year EPS growth:** Since sales growth means nothing if it doesn't ultimately fall to the bottom line, I've also included each company's five-year trailing EPS growth rate.
- **Five-year analyst estimates:** This column shows us how much EPS growth analysts expect over the next five years. Just keep in mind that analysts tend to [grossly overestimate](#) a company's prospects.
- **Five-year ROIC range:** [Return on invested capital](#) basically shows you how efficiently a company is converting its debt and equity into profits. We want companies that can do a lot with a little. By looking at the five-year range, we can start to gauge both the power and the consistency of a company's profit engine.

Company	5-Year Sales Growth	5-Year EPS Growth	5-Year Analyst Estimates	5-Year ROIC Range
Solera Holdings (NYSE: SLH)	48.4%	NM	17.2%	1.8% / 9.1%
Ebix (Nasdaq: EBIX)	43.5%	59.3%	17.1%	12.2% / 17.0%
AsiaInfo-Linkage (Nasdaq: ASIA)	38.5%	NM	14.3%	1.6% / 11.6%
salesforce.com (NYSE: CRM)	37.3%	4.9%	28.2%	0.3% / 8.2%
Nuance Communications (Nasdaq: NUAN)	31.4%	NM	13.8%	0.6% / 2.5%
Concur Technologies (Nasdaq: CNQR)	30.0%	(32.4%)	24.8%	1.5% / 6.8%
Pegasystems (Nasdaq: PEGA)	28.6%	9.5%	24.2%	(1.0%) / 11.4%
Ansys (Nasdaq: ANSS)	26.8%	47.2%	16.1%	8.3% / 14.0%

Synchronoss Technologies (Nasdaq: SNCR)	26.5%	(29.7%)	25.7%	4.2% / 16.1%
Taleo (Nasdaq: TLEO)	25.9%	NM	19.8%	(3.8%) / 0.6%
Blackboard (Nasdaq: BBBB)	25.8%	(72.2%)	21.6%	0.6% / 5.6%
JDA Software (Nasdaq: JDAS)	25.4%	63.5%	12.0%	6.0% / 8.2%
NetScout Systems (Nasdaq: NTCT)	24.0%	30.6%	15.6%	0.2% / 9.0%
Kenexa (Nasdaq: KNXA)	23.7%	NM	19.4%	(0.4%) / 7.8%
ClickSoftware Technologies (Nasdaq: CKSW)	23.5%	NM	37.7%	3.2% / 26.5%
Interactive Intelligence (Nasdaq: ININ)	22.4%	32.7%	21.4%	10.5% / 18.8%
Ultimate Software Group (Nasdaq: ULTI)	19.7%	(1.4%)	25.3%	(4.2%) / 9.4%
Informatica Corporation (Nasdaq: INFA)	19.2%	20.7%	17.8%	5.5% / 11.1%
Descartes Systems (Nasdaq: DSGX)	17.7%	19.4%	24.9%	2.9% / 5.3%
NICE Systems (Nasdaq: NICE)	15.7%	(1.6%)	20.0%	2.3% / 3.6%

Source: Capital IQ, a division of Standard & Poor's. NM = not meaningful; EPS growth that is NM results from losses during the period.

Use the table above as a first step to help you generate ideas for your own further research. Once you identify stocks worth a closer look, the following three steps will help you further assess their growth prospects:

- Carefully study the table for possible danger signs, such as high sales growth but low EPS growth, analyst growth expectations significantly trailing past growth, and low ROIC figures. Then follow the trail.
- Find out how the company achieved its prior growth: organically, or via acquisition? Can it sustain that previous growth?
- Pay attention to how management plans to implement its growth plans. Does its strategy seem prudent and plausible to you?

Remember: The more profitable, efficient, and predictable growth a company can achieve, the more we investors should be willing to pay.

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