2024 Software Outlook: Buying Potential for 3 Stocks

The software industry, witnessing significant expansion, is driven by technological advancements, digital transformations across diverse sectors, and the mounting focus on data-oriented solutions. Given this backdrop, quality software stocks Semrush Holdings (SEMR), Dynatrace (DT), and Progress Software (PRGS) could be solid buys now. Read on….

Investments in digitalization are significantly increasing the demand for software applications. Furthermore, the incorporation of generative artificial intelligence within these applications is predicted to fuel the sector's expansion further.

Therefore, it could be wise to buy software application stocks Semrush Holdings, Inc. (SEMR), Dynatrace, Inc. (DT), and Progress Software Corporation (PRGS), which possess solid upside potential.

The exponential impact of the software industry on global entities, whether individuals or institutions, is a testament to its influential dynamism. Predictions suggest that the industry's contributions could significantly propel the U.S. economy. The global enterprise software market is poised to expand at a CAGR of 11.5%, reaching $517.26 billion by 2030.

A shift toward the improvement of essential applications is gaining momentum across organizations, potentially leading to a substantial increase in software expenses. According to Gartner, Inc. (IT), global IT spending is anticipated to reach $5.10 trillion in 2024, suggesting an 8% year-over-year rise.

The ushering in of avant-garde technologies like generative AI is posited to be a fundamental component in bolstering software application demand. Software application firms

operating on subscription-based models are set to reap significant benefits due to the incorporation of generative AI into their suites. Goldman Sachs forecasts the total accessible market for generative AI software at an impressive $150 billion.

The market for application development software is expected to generate $167 billion in revenue in 2023. By 2028, this growth is anticipated to result in a market volume of $234.70 billion, expanding at a 7% CAGR.

In light of these encouraging trends, let’s look at the fundamentals of the three Software – Application stocks, beginning with number 3.

Stock #3: Semrush Holdings, Inc. (SEMR)

SEMR develops an online visibility management software-as-a-service platform in the U.S., the U.K., and internationally. The company enables companies to identify and reach the right audience for their content through the right channels. It serves small and midsize businesses, enterprises, and marketing agencies, encompassing consumer internet, education, financial services, healthcare, retail, software, and others.

On December 12, SEMR and UserWay, a full-service provider of digital accessibility technologies, announced their collaboration. UserWay’s web accessibility compliance technology is now available on the SEMR’s App Center, including the UserWay Accessibility Scanner and the UserWay Accessibility Widget.

The collaboration reflects a shared dedication to making the digital world more inclusive and accessible. Through this collaboration, UserWay’s AI-powered web accessibility technologies will enable SEMR’s users to create sites that are optimized for search engines and ADA compliance, facilitating a more accessible digital experience for people with disabilities.

SEMR’s trailing-12-month gross profit margin of 82.73% is 69.3% higher than the 48.88% industry average. Its asset turnover ratio of 0.98x is 59.2% higher than the industry average of 0.62x.

SEMR’s total revenues for the fiscal third quarter that ended September 30, 2023, increased 19.6% year-over-year to $78.72 million. Its non-GAAP income from operations stood at $6.95 million, compared to a non-GAAP loss from operations of $8.27 million in the year-ago quarter.

The company’s non-GAAP net income came at $8.42 million, compared to a non-GAAP net loss of $7.11 million in the year-ago quarter. In addition, its net income per share attributable to common stockholders amounted to $0.03, compared to a net loss per share attributable to common stockholders of $0.06 in the prior-year quarter.

Street expects SEMR’s revenue for the fiscal fourth quarter ending December 2023 to increase 20.9% year-over-year to $83.14 million. Its EPS for the same quarter is expected to be $0.03. It surpassed the consensus revenue and EPS estimates in three of the trailing four quarters, which is impressive.

Over the past year, the stock has gained 67.4% to close the last trading session at $13.39. It gained 59.8% over the past three months.

SEMR’s robust outlook is reflected in its POWR Ratings. The stock has an overall rating of B, translating to Buy in our proprietary rating system. The POWR Ratings are calculated by considering 118 distinct factors, with each factor weighted to an optimal degree.

SEMR has a B grade for Growth and Sentiment. Within the 131-stock Software – Application industry, it is ranked #34.

Beyond what we’ve stated above, we have also rated the stock for Value, Momentum, Stability, and Quality. Get all ratings

of SEMR here.

Stock #2: Dynatrace, Inc. (DT)

DT provides a security platform for multicloud environments. It operates a security platform which provides application and microservices monitoring, runtime application security, infrastructure monitoring, log management and analytics, digital experience monitoring, digital business analytics, and cloud automation.

In November, DT achieved the Amazon Web Services (AWS) Security Competency. By earning this competency, DT has demonstrated expertise in helping its customers proactively remediate vulnerabilities and defend against threats across their AWS environments.

This recognition reinforces DT's position as a trusted AWS partner and is a testament to its AI-powered approach to identifying, blocking, and investigating vulnerabilities in hybrid and multicloud environments. It further motivates the company to continue helping customers accelerate cloud migration and transformation with confidence.

DT's trailing-12-month net income margin of 13.06% is 456.8% higher than the 2.35% industry average. Its trailing-12-month ROTA of 6.09% is significantly higher than the industry average of 0.15%.

DT's total revenue for the fiscal second quarter that ended September 30, 2023, increased 25.9% year-over-year to $351.70 million. Its non-GAAP income for operations rose 46% year-over-year to $106.44 million. Its free cash flow for the quarter stood at $34.13 million, up 36.1% year-over-year.

The company's non-GAAP net income increased 45% year-over-year to $93.49 million. In addition, its non-GAAP net income per share rose 40.9% year-over-year to $0.31.

Street expects DT's revenue and EPS for the fiscal third quarter ending December 2023 to increase 20.3% and 11.8% year-over-year to $357.73 million and $0.28, respectively. It surpassed the consensus revenue and EPS estimates in each of the trailing four quarters.

Over the past year, the stock has gained 46.1% to close the last trading session at $55.23. Over the past nine months, it gained 43.9%.

DT's strong prospects are reflected in its POWR Ratings. It has an overall rating of B, equating to a Buy in our proprietary rating system.

It has a B grade for Growth, Sentiment, and Quality. It is ranked #32 within the same industry.

Click here to see DT's Value, Momentum, and Stability ratings.

Stock #1: Progress Software Corporation (PRGS)

PRGS develops, deploys, and manages business applications. OpenEdge, Sitefinity, Kemp LoadMaster, Developer Tools, and DataDirect Connect are some of the company's applications. It sells its products to end users, independent software vendors, original equipment manufacturers, and system integrators.

On November 2, 2023, PRGS announced the release of Progress Sitefinity 15. PRGS introduces additional generative AI (GenAI) functionality across the platform with this version, allowing marketers to produce tailored content at scale. Also, Sitefinity Integration Hub's innovative no-code data connectivity instantly integrates with top MarTech platforms, allowing for unified customer profiles.

The new GenAI support in Progress Sitefinity 15 empowers marketers to create personalized content at scale and optimize it based on real-time insights. This should bode well for the company.

Its annualized dividend rate of $0.70 per share translates to a dividend yield of 1.28% on the current share price. Its four-year average yield is 1.49%. PRGS' dividend payments have grown at CAGRs of 1.5% and 4% over the past three and five years, respectively.

PRGS' trailing-12-month net income margin of 11.65% is 396.5% higher than the 2.35% industry average. Its trailing-12-month ROCE and ROTA of 19.35% and 4.92% are significantly higher than the industry averages of 1.11% and 0.15%, respectively.

PRGS' non-GAAP revenue for the third quarter ended August 31, 2023, increased 14.8% year-over-year to $175.78 million. Its non-GAAP income from operations increased 13.8% year-over-year to $68.39 million. Its non-GAAP net income rose 10.6% year-over-year to $48.75 million. Also, its non-GAAP earnings per share came in at $1.08, representing an 8% year-over-year increase.

The consensus revenue estimate of $178.86 million for the fiscal first quarter ending February 2024 represents an 8% year-over-year increase. Analysts expect its EPS to be $1.16 for the same quarter. It surpassed EPS estimates in each of the trailing four quarters and revenue in three of the trailing four quarters.

The stock has gained 11.5% over the past year to close the last trading session at $54.98. Over the past month, it gained 2.5%.

PRGS's POWR Ratings reflect its promising outlook. The stock has an overall rating of B, which translates to a Buy in our proprietary rating system.

PRGS has a B grade for Value and Quality. It is ranked #22 within the same industry.

To access additional ratings for PRGS's Growth, Momentum, Stability, and Sentiment, click here.

What To Do Next?

43 year investment veteran, Steve Reitmeister, has just released his 2024 market outlook along with trading plan and top 11 picks for the year ahead.

2024 Stock Market Outlook >

DT shares . Year-to-date, DT has gained 44.20%, versus a 25.48% rise in the benchmark S&P 500 index during the same period.

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The stock market dynamics sparked Sristi’s interest during her school days, which led her to become a financial journalist. Investing in undervalued stocks with solid long-term growth prospects is her preferred strategy. Having earned a master’s degree in Accounting and Finance, Sristi hopes to deepen her investment research experience and better guide investors.

More…

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