Wall Street’s Top 3 Software Stocks Crushing the Competition

Robust software demand among individuals and businesses and numerous technological breakthroughs have opened lucrative growth opportunities for software providers. Thus, it could be wise to invest in Wall Street’s top software stocks, F5 (FFIV), DocuSign (DOCU), and Trend Micro (TMICY), which are crushing the competition. Continue Reading….

The growing demand for software across multiple end-use sectors, such as IT, retail, manufacturing, and healthcare, has positioned the software industry for significant growth in the long term. This surge is being fueled by the increasing global spending among enterprises and the rapid adoption of emerging technologies.

Given the industry’s solid footing, it could be wise to consider buying Wall Street’s top software stocks, F5, Inc. (FFIV), DocuSign, Inc. (DOCU), and Trend Micro Incorporated (TMICY), with massive growth potential.

The software allows computer hardware to perform essential tasks and help businesses work efficiently. They enable enterprises to streamline processes, access data accurately and quickly, and analyze information easily. Gartner forecasts worldwide software spending to total $1.03 trillion in 2024, an increase of 12.7% from the previous year.

Rapid digitalization among organizations, the growing adoption of cutting-edge technologies like cloud, AI, and IoT, the quick integration of multichannel touchpoints into a single platform, and the rising need to analyze vast amounts of business data are some of the major factors boosting the business software industry’s growth and profitability.

The business software market is expected to grow at a CAGR of 11.2% during the forecast period (2024-2029), reaching about $1.10 trillion by 2029.

Business software also offers plenty of opportunities for small, medium, and large enterprises to scale their operations widely with Software as a Service (SaaS). Various global organizations are adopting SaaS for various applications, including IT infrastructure, customer relationship management (CRM), financial management, and human resource planning (HRP).

In recent times, cybercrime rates have been surging, and the increasing number of attacks put lives at risk, costing companies millions and threatening national security. There is a rapidly growing need for effective security software with an expanding risk of data breaches or ransomware attacks.

The security software market is projected to reach a total of $51.46 billion, expanding at a CAGR of 13.9% during the forecast period.

Investors' interest in software stocks is evident from the iShares Expanded Tech-Software Sector ETF's (IGV) 53.2% returns over the past year.

Considering the industry's bright prospects, investors could consider adding fundamentally sound software stocks FFIV, DOCU, and TMICY to their portfolios.

Let's discuss the fundamentals of these stocks in detail:

F5, Inc. (FFIV)

FFIV offers multi-cloud application security and delivery solutions internationally. Its distributed cloud services enable customers to deploy, secure, and operate applications in any architecture, from on-premises to the public cloud. The company offers unified, security, networking, and application

management solutions.

On February 7, 2024, FFIV announced new capabilities that reduce the complexity of protecting and powering the exploding number of applications and APIs at the heart of modern digital experiences. The new end-to-end API security and AI capabilities make it easier for customers to protect their AI-powered applications.

With AI accelerating the growth of applications and the APIs that connect them, FFIV is bringing API code testing and telemetry analysis to F5 Distributed Cloud Services, creating the industry's most comprehensive and AI-ready API security solution.

For the fiscal 2024 first quarter ended December 31, 2023, FFIV reported total net revenues of $693 million and its net revenues from services rose 7.5% year-over-year to $386.74 million. The company's non-GAAP gross profit increased 2.1% from the year-ago value to $575 million. Its non-GAAP operating profit grew 32.9% year-over-year to $246 million.

The company's non-GAAP net income and non-GAAP EPS of $205 million and $3.43 indicate growth of 37.6% and 38.9% from the previous year's quarter, respectively. Its cash and cash equivalents were $822.57 million as of December 31, 2023, compared to $797.16 million as of September 30, 2023.

For the second quarter of the fiscal year 2024, FFIV expects its revenue to be in the range of $675 million to $695 million, while its non-GAAP earnings are expected to be in the range of $2.79 to $2.91 per share.

Analysts expect FFIV's EPS for the second quarter (ending March 2024) to increase 13.3% year-over-year to $2.87. Moreover, the company has topped consensus EPS and revenue estimates in all four trailing quarters, which is impressive.

For the fiscal year ending September 2025, FFIV's revenue and

EPS are expected to grow 4.4% and 10.1% from the prior year to $2.91 billion and $13.87, respectively.

Shares of FFIV have surged 17.3% over the past six months and 28.3% over the past year to close the last trading session at $186.61.

FFIV’s bright prospects are reflected in its POWR Ratings. The stock has an overall rating of A, which translates to a Strong Buy in our proprietary rating system. The POWR Ratings are calculated by considering 118 different factors, each weighted to an optimal degree.

FFIV has an A grade for Quality and a B for Value. It is ranked #4 out of 43 stocks in the B-rated Software – Business industry.

To check POWR Ratings of FFIV for Growth, Momentum, Stability, and Sentiment, click here.

DocuSign, Inc. (DOCU)

DOCU provides electronic signature solutions internationally. It offers DocuSign e-signature solution that enables the sending and signing of agreements; Contract Lifecycle Management (CLM), which automates workflows across the entire agreement process; and Gen for Salesforce, which allows sales representatives to generate agreements automatically.

On November 30, 2023, DOCU achieved StateRAMP authorization, which deepens DOCU’s commitment to offering state and local governments access to seamless and secure agreement experiences. StateRAMP brings state and local governments together to develop standards for cloud security, educate on best practices and offer methods for verifying cloud security.

The StateRAMP authorization assists state and local governments in prioritizing data security alongside fostering and maintaining trust among their constituents and other

government entities.

On November 14, DOCU launched WhatsApp Delivery, allowing users to close deals faster with the world’s most popular messaging platform. It will enable customers to reach signers seamlessly through their preferred communication platforms. DOCU eSignature integration of WhatsApp sends users real-time notifications that link directly to agreements and allow quick, secure signing.

The integration demonstrates DOCU’s commitment to international expansion, enabling quick, secure signing around the globe.

DOCU’s total revenue increased 8.5% year-over-year to $700.42 million during the third quarter that ended October 31, 2023. Its non-GAAP gross profit rose 8.1% year-over-year to $581.43 million. The company’s non-GAAP income from operations grew 27.4% from the year-ago value to $187.41 million.

In addition, the company’s non-GAAP net income came in at $163.80 million and $0.79 per share, up 38.7% and 38.5% from the previous year’s quarter, respectively. Its cash and cash equivalents were $1.19 billion as of October 31, 2023, compared to $721.89 million as of January 31, 2023.

As per business guidance for the fourth quarter of fiscal 2024, DOCU expects total revenue to be between $696 million and $700 million, and subscription revenue is expected to be between $679 million and $683 million.

Street expects DOCU’s revenue for the fiscal year (ended January 2024) to increase 9.2% year-over-year to $2.75 billion. Its EPS for the same period is expected to increase 41.5% year-over-year to $2.87. Also, the company topped consensus revenue and EPS estimates in each of the four trailing quarters.

DOCU’s stock gained marginally over the past month to close

the last trading session at $51.18.

DOCU’s sound fundamentals are reflected in its POWR Ratings. The stock has an overall rating of A, which translates to a Strong Buy in our proprietary rating system.

The stock has an A grade for Growth and a B grade for Value and Quality. Within the B-rated Software – SAAS industry, DOCU has topped among the 20 stocks.

Click here to access additional ratings of DOCU for Sentiment, Momentum, and Stability.

Trend Micro Incorporated (TMICY)

Headquartered in Tokyo, Japan, TMICY develops and sells security-related software for computers and related services worldwide. It offers platforms like vision one platform, attack surface management, extended detection and response (XDR), cloud security, endpoint security, network security, email security, OT/ICS security, and threat intelligence.

On November 29, 2023, TMICY achieved the Amazon Web Services (AWS) Built-in Competency in the Security and Cloud Operations category. It gave TMICY recognition as an AWS Partner, offering an AWS built-in solution designed to install, configure, and integrate with key foundational AWS services automatically using a modular code repository (MCR).

On November 28, TMICY announced the addition of cloud risk management to its flagship cybersecurity platform. The new service adds business value by allowing organizations to consolidate their cybersecurity efforts and attain a complete view of cloud security risks across hybrid IT environments.

The release includes features like agentless and cloud-native vulnerability scanning, cloud security posture management (CSPM), cloud infrastructure entitlement management (CIEM), and risk visibility.

Also, on November 27, TMICY launched its new generative AI tool, Trend Companion, designed to empower security analysts by driving streamlined workflows and enhanced productivity. Trend Companion can reduce analyst time spent on manual risk assessments and threat investigations by 50% or more through a plain language interface.

During the nine months that ended September 30, 2023, TMICY's net sales increased 13.3% year-over-year to ¥183.72 billion ($1.23 billion). Its operating income grew 14.5% from the prior period to ¥29.61 billion ($198.34 million). The company's ordinary income of ¥31.93 billion ($213.89 million) indicates growth of 5% year-over-year.

Additionally, the company's net income attributable to owners of the parent and net income per share came in at ¥12.81 billion ($85.77 million) and ¥93.26, respectively. Its total current assets were ¥352.74 billion ($2.36 billion) as of September 30, 2023, compared to ¥319.93 billion ($2.14 billion) as of December 31,2022.

Analysts expect TMICY's revenue and EPS for the second quarter (ending June 2024) to increase 4.3% and 29.4% year-over-year to $442.13 million and $0.36, respectively. For the fiscal year 2024, the company's revenue is expected to grow 9% year-over-year to $1.85 billion, while its EPS is expected to grow 46.1% from the prior year to $1.47.

Over the past six months, the stock has gained 32.1% and 15.1% over the past year to close the last trading session at $56.41.

TMICY's POWR Ratings reflect its robust outlook. The stock has an overall A rating, translating to a Strong Buy in our proprietary rating system.

TMICY has an A grade for Stability and a B for Quality and Growth. It is ranked #2 among 23 stocks within the B-rated Software – Security industry.

To see the other ratings of TMICY for Sentiment, Value, and Momentum, click here.

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FFIV shares were unchanged in premarket trading Monday. Year-to-date, FFIV has gained 4.26%, versus a 5.45% rise in the benchmark S&P 500 index during the same period.

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Mangeet’s keen interest in the stock market led her to become an investment researcher and financial journalist. Using her fundamental approach to analyzing stocks, Mangeet’s looks to help retail investors understand the underlying factors before making investment decisions.

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