

The e-Commerce Industry's Timeliness rank continues to slip. We now see more untimely selections here than three months prior, as *Sabre*, *Open Text*, and *Paylocity* have fallen out of favor, joining *Endurance International Group* on the list of expected underperformers in the year ahead. Almost all of the other stocks are either unranked or pegged to mirror the broader market, with the exception of *Splunk*, the only equity receiving a favorable ranking.

The group has been active on the acquisition front lately. Last quarter's headline featuring *salesforce.com* and its purchase of *Demandware* is being followed up by Oracle's acquisition of *NetSuite*. The deal, an all-cash transaction is valued at \$9.3 billion. It will probably not be a smooth sail to the finish, however, as one large investor, so far, has voiced opposition to the buyout, citing the purchase price drastically undervalues the company. Lastly, this has been rumored for quite some time, as Larry Ellison Oracle's CEO owns more than 40% of *NetSuite*. Meanwhile, cloud operator *Rackspace Hosting* is being taken private by Apollo Global Management in a deal worth \$4.3 billion. After receiving board approval, the move is slated to be completed by the end of this year.

Looking forward, there is little to suggest that purse strings will be tightened any time soon across the industry. For the most part, fundamentals are healthy (discussed further below) and increasing competition should continue to drive growth from all angles.

**No Profits, No Problem**

There are several companies here that are struggling to attain profitability. While a number of factors can contribute to a bottom-line loss, one being high interest payments stemming from a heavily leveraged balance sheet, the main culprit among the e-Commerce space is costly operating expenses. Specifically, *Workday* allocates a massive amount of funds to research & development. In the same vein, general selling and marketing expenses, when compared to other more-mature industries, are exponentially higher, evidenced by *HubSpot* and *Endurance International*. To wit, the group is still in an early development stage, and thus, requires abundant capital investment to consistently feed operations.

Despite uninspiring earnings figures, the aforementioned companies' stock prices, with the exception of the latter, are flourishing. This is largely due to factors outlined below.

**Robust Revenue Growth**

More than outweighing the above-mentioned drought in profits, noteworthy top-line expansion, a performance metric shared by the majority of the group, is keeping investor sentiment high. Indeed, it would appear that aggressive capital spending has its rewards (as well as its caveats), mainly in the form of abundant sales growth. Double-digit expansion should be easily attainable, largely through acquisitions, organic growth, and increasing international presences. *Splunk* and *salesforce.com* are examples of companies poised for sustainable revenue gains. We reiterate our bullish stance on the industry's long-term prospects, leaning on the unavoidable global transition to cloud-computing, data

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maintenance, security solutions, and mobile-based operations, that is currently underway. On balance, we think the stage is set for top-line growth to accelerate over the pull to 2019-2021.

**Demand For Security Solutions**

No doubt, this industry is not without risk. Any operation with global reach, that, more significantly is cloud- and mobile-based is and will always be prone to cyber attacks and threats, software hacks, and network breaches. As a result of this well-known fact, businesses and large-scale entities with cloud platforms and mass amounts of sensitive data have no choice but to confront these risks head on, and thus, are focusing on strengthening security measures to protect their networks. This augurs well for providers of cloud security solutions and mobile threat protection, such as *Check Point* and *Akamai Technologies*, as prospects for this arena should be bountiful and recurring as long as the industry is operating.

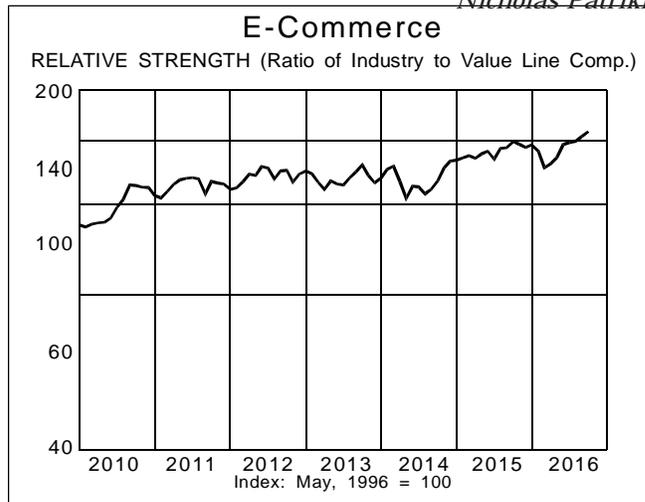
**Healthy Balance Sheets**

As opposed to inconsistent income statements, balance sheets across the group are fairly solid. Leverage ratios, specifically long-term debt-to-total capital are more than manageable, ranging from 25%-50%, on average. Moreover, readily available cash is decent, which has been supportive of the relatively active acquisition environment. On top of that, value is being returned to shareholders, mainly through stock buybacks, as dividend payouts are few and far between. All in all, we think these strong fundamentals ought to persist through late decade.

**Conclusion**

While the e-Commerce Industry is positioned in the bottom-third of our Timeliness Ranking System, we think investors can find some attractive buy-and-hold options here. *Akamai Technologies*, *Splunk*, and *Sabre* stand out at the moment, all of which boast above-average capital appreciation potential over the 2019-2021 time frame. We recommend investors peruse the reports that follow prior to committing funds.

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