



Paycom Software Inc. Research:

General:

Ticker: PAYC

Price: \$123.38

Market Cap: \$7.25B

Description: Paycom is a leading provider of an innovative, cloud-based, human capital management software solutions that helps organizations recruit, develop, empower and reward their employees

Performance:

- Down 18.1% so far this month
- Up 53.5% YTD
- Up 691% since its IPO on April 16th, 2014

Fundamentals vs. Workday (WDAY):

- Enterprise Value/ EBITDA: 30.2x vs. 57.8x

- EV/Sales: 12.4x vs. 7.9x
- Forward P/E: 45.7x vs. 109.5x
- Price to Earnings to Growth (PEG): 1.9x vs. 3.4x
- Forward P/S: 12.4x vs. 8.5x
- Gross Margins: 85.9% vs. 70.6%
- EBITDA Margins: 23.6% vs. -7.0%
- Net Income Margins: 18.1% vs. -13.8%
- Current Ratio: 1.1x vs. 1.9x
- Correlation between the two is 0.70
- Both are growing revs around 30%

#### Technicals:

- Heavily oversold on RSI at 7.86 (oversold is considered below 30)
- Sitting on oversold on MFI at 24.15 (oversold is considered 20)
- Williams %R is oversold at -99.20
- Bollinger Band bottom channel says next support is \$119.24

#### Commentary:

Company is killing it make no mistake. They grew revenues by 32% in 2017 and appear to be on pace to do the same this year. Their compounded annual growth rate since 2013 is a whopping 42% and the company was actually ranked #2 on Fortunes Top 100 Fastest Growing companies list.

Fundamentals look good even though they are a little on the pricier side you're paying for the growth. Focusing on the bottom line, PAYC has recorded net income of \$66.8 million, \$43.8 million and \$20.9 million for the years ended December 31, 2017, 2016 and 2015, respectively. Tripling profits over the course of two years is solid.

The cool thing about Paycom is their ability to monetize the same client multiple times. This ability to upsell other products is great because for example they can offer human resource management software and then upsell tax credit services and learning & course content.

Here is something we really like and have been very wary of from many companies. PAYC has 11,000 clients and none of them constitute more than one-half of one percent of their revenues. In other words, they are diversified! They don't need to worry about a client leaving and revenue falling off a cliff.

Some downsides, but could also be an upside depending on how you look at it, is that it's a very competitive field. We chose Workday but you can throw in Intuit, SAP, Oracle, Paychex, Paylocity, and normal in-house applications that firms use. The good news is that an investor could benefit from consolidation in this space. For instance, maybe Oracle wants to buy them out to get some growth in their portfolio.

Overall, we think the company is a buy. The only issue is that at this moment in time with the markets acting the way they are the timing is going to be everything. Do what we do and always dollar cost average. You may wind up paying more but let's face it there's a good chance you'll lower your average as it is extremely difficult to call the bottom. Keep an eye on that \$119.24 number for support