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GROWTH CHAMPIONS

Our annual list of 25 torrid tech firms, many of which are still accelerating.

BY SCOTT DECARLO AND ERIC SAVITZ

WHILE THEY MIGHT NOT realize it, growth stock investors grapple every day with the Donald Rumsfeld conundrum.

“There are known knowns, there are things we know we know,” the former Defense Secretary and inadvertent

stock market analyst once said. “We also know there are known unknowns, that is to say we know there are some things we do not know. But there are also unknown unknowns, the ones we don’t know we don’t know.”

Hey, Rummy nailed it. That’s tech

growth investing defined.

Consider, for instance, the way the stock market evaluates Apple, one of the great growth stories of all time. We know that it dominates the market for mobile computing. We know it faces challenges from the loss of Steve Jobs.

The Forbes Fast Tech 25

COMPANY	BUSINESS	SALES			EST EPS GROWTH ¹
		LATEST 12 MONTHS (\$MIL)	LATEST 12-MONTH GROWTH	3-YEAR AVERAGE GROWTH	
LINKEDIN	SOCIAL NETWORKING	\$522	115%	89%	60%
APPLE	COMPUTER HARDWARE/SOFTWARE	142,360	63	43	18
QLIK TECHNOLOGIES	BUSINESS ANALYTICS SOFTWARE	337	37	40	37
ATHENAHEALTH	CLOUD-BASED HEALTH CARE SERVICES	351	34	33	30
EQUINIX	DATA CENTER SERVICES	1,696	27	32	23
EBIX	SOFTWARE/E-COMMERCE SERVICES	169	28	32	20
ARUBA NETWORKS	WIRELESS EQUIPMENT	465	44	31	25
RIVERBED TECHNOLOGY	NETWORKING EQUIPMENT	745	24	31	20
COGNIZANT TECHNOLOGY SOLUTIONS	COMPUTER PROGRAMMING SERVICES	6,121	33	31	20
SHUTTERFLY	ONLINE DIGITAL PHOTO SERVICES	473	54	30	19
SOURCEFIRE	SECURITY SYSTEMS SERVICES	166	27	29	20
SOLARWINDS	IT MANAGEMENT SOFTWARE	215	34	29	20
SERVICESOURCE INTERNATIONAL	REVENUE MANAGEMENT SOFTWARE	206	34	28	25
SYNCHRONOSS TECHNOLOGIES	TRANSACTION MANAGEMENT SYSTEMS	229	38	27	23
ANCESTRY.COM	ONLINE GENEALOGY SERVICES	417	27	27	15
FORTINET	SECURITY SYSTEMS SERVICES	458	31	27	20
PEGASYSYSTEMS	BUSINESS MANAGEMENT SOFTWARE	417	24	26	24
RACKSPACE HOSTING	INTERNET SOFTWARE/SERVICES	1,025	31	24	39
QUALITY SYSTEMS	HEALTH CARE SOFTWARE	418	25	23	20
NIC	INFORMATION RETRIEVAL SERVICES	181	12	22	25
RED HAT	OPEN SOURCE SOFTWARE	1,133	25	20	20
GLOBAL PAYMENTS	ELECTRONIC PAYMENT SERVICES	2,127	20	17	13
COMMVault SYSTEMS	SYSTEMS SOFTWARE	382	28	17	20
CACI INTERNATIONAL	GOVERNMENT TECHNOLOGY SERVICES	3,774	13	14	13
VERISIGN	INTERNET SOFTWARE/SERVICES	796	14	11	12

¹ANNUALIZED, PROJECTED OVER NEXT THREE TO FIVE YEARS. SOURCES: FACTSET ESTIMATES, INTERACTIVE DATA AND THOMSON REUTERS FUNDAMENTALS VIA FACTSET RESEARCH SYSTEMS.

We know that it's building a giant bagel-shaped campus in Cupertino. The known unknowns are when it will introduce the next iPhone or iPad or a TV. How much of a threat is Windows 8 to the tablet business? Can Tim Cook really fill Steve's shoes?

And then we get to the juicy part. The unknown unknowns. We can't tell you what those are; that's why they're unknown unknowns. (Duh.) But the unknown unknowns are what really drive the stock. Did anyone see the iPad coming? Did you really think the App Store would change the face of the software industry? The crucial question for investors is how much weight you give to things you can't begin to imagine.

That leap of faith is what drives interest in our list of America's 25 Fastest-Growing Tech Companies. All of them have shown a remarkable ability to defy sales gravity. We combed more than 5,000 publicly traded technology companies, looking for profitable companies with a minimum revenue of \$150 million and a minimum market value of \$500 million.

We then looked for firms with sales growth of at least 10% for each of the past three fiscal years and over the latest 12 months. We also required com-

panies to have three-to-five-year estimated earnings-per-share growth rates greater than 10%. Finally, we ranked companies based on their three-year average sales growth rates.

The list is a pretty good leading indicator of market outperformance. Since 2003 our market-cap-weighted index of each year's Fast Tech members beat the Nasdaq Composite index in all but two years (2005 and 2006). Each year we measured the price performance over 12 months following the list's pricing date.

Apple comes in second on this year's list, an astonishing feat for a company of its size. Its sales growth over the last three years has averaged 43%, and the company actually appears to be accelerating. But there are a host of fascinating companies on the roster.

Based on average growth over the last three years, our current champion is the career-oriented social network LinkedIn. Its revenue rose 115% over the last 12 months and, like Apple's, is accelerating. Its shares are up 144% since its IPO a year ago.

There are a smattering of networking-hardware plays on the list, including Aruba Networks and Riverbed Technology. There are also security software firms, like Sourcefire and

Fortinet. No surprise, given the current obsession with the cloud, to find some cloud infrastructure plays, in particular Equinix and Rackspace.

A variety of enterprise software companies make the list, including Qlik, SolarWinds, ServiceSource and Red Hat. IT outsourcing shop Cognizant also turned up again in the ranking, for a record tenth-consecutive year. There are health care software firms, in particular Athenahealth, Quality Systems and Ebix, a play on insurance software. Also on the list is a stealth Apple play in Synchronoss, a provider of customer-registration software for the telecom industry.

One surprising name on the list is the online genealogy site Ancestry.com, which benefits from easy-to-access online tools to do family history research. Another eye-opening firm to find in the ranking is Shutterfly, a provider of online photo services. Already growing an average 30% a year of late, the company is going to get an extra boost via its recent agreement to buy rival Kodak Gallery via the Eastman Kodak bankruptcy proceeding.

The ultimate question for investors in tech growth stocks is how much faith you have that the growth isn't transitory. That's the biggest known unknown of them all. 

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 The logo consists of the letters 'QSi' in a bold, sans-serif font. The 'Q' is dark grey with a blue diagonal bar across its bottom right. The 'S' is dark grey. The 'i' is dark grey with a blue square dot above it.