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TRADER EXTRA

Qlik's Waning Value

The market thinks software developer Qlik Technologies is growing fast. We don't buy it. Eventually, investors won't either.

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The market thinks software developer Qlik Technologies is growing fast. We don't buy it. Eventually, investors won't either.

After falling a third from their highs, Qlik's shares (ticker: QLIK), at \$27.26, still trade at nosebleed valuations that more reflect strong prior revenue growth than a less-rosy future. The market believes Qlik can regain its salad days, but industry dynamics and the company's track record suggest otherwise.

Radnor, Pa.-based Qlik develops business intelligence software, a sweet spot of investor interest. It combines enterprise analytics and search functionality into a single platform that can be used by information technology professionals and non-pros. For example, a pharmaceutical company representative can use Qlik software on a mobile device to call up drug industry trends and a doctor's prescription history on a sales call visit to a physician.

Qlik has had a nice niche in a growing business, but its sales growth has slowed steadily and significantly for nearly four years. In 2011, sales rose a rip-snorting 41%—net income was \$9 million, or 11 cents per share—but fell to a mellower 11% gain in 2014 and then 9% in the first nine months of 2015. Granted, the rise in the U.S. dollar has been painful for Qlik, which gets more than two-thirds of revenue overseas. But competitors face the same head wind.

The company missed third-quarter expectations last year, and there could be more investor dissatisfaction to come. Profits have eluded the company since 2012, before the greenback's rise. In the first nine months of 2015, the net loss widened to \$59.4 million, or 65 cents per share, from \$50.5 million, or 56 cents per share, in the year-ago period. Blame that on fast-rising costs, an average 30% in recent years, and high executive compensation—7% of revenue.

"Profits are negative, sales growth declining, it's a super crowded space, and the competition from bigger and better funded rivals is intensifying," points out a skeptical David Trainer, president of New Constructs, an independent forensic accounting research outfit. Qlik hasn't lacked for new products, but they haven't done the trick.

Investors are ignoring the declining fundamentals and the red flags, he adds. Qlik's profitability doesn't measure up to software rivals, including giants like Microsoft (MSFT) and Oracle (ORCL), and smaller competitors like Tableau Software (DATA), among others, he says.

If Qlik wants to keep up, it will have to pour more money into research and development, stretching already high costs, he says. Qlik has 37,000 customers as of the third quarter, while Tableau, which started 10 years after Qlik, has 35,000. Though Tableau stock has an even higher valuation, it is growing six times faster than Qlik.

Qlik bulls point out that a big chunk of its costs come from noncash items, like stock compensation, which is common at young technology firms. Like many overvalued software firms, Qlik quarterly earnings releases include results using non-Generally Accepted Accounting Principles (non-GAAP), which make the financial picture look better than GAAP numbers. Yet even if you back out compensation and other adjustments, there still would have been a non-GAAP loss of \$7.9 million, or 9 cents, in the first nine months of 2015, flat with the previous year period.

Stock compensation needs to be taken into account in the multiple. When it is, the picture appears much less attractive. And Trainer says investors should be wary when executives are being paid on non-GAAP performance measures, as Qlik managers are.

Then there's the valuation: Qlik shares trade at a rich 56 times analysts' non-GAAP consensus estimate of 49 cents per share. On expected GAAP earnings of 5 cents a share, the P/E is 580 times. Trainer values the stock at \$21, 25% below Friday's price.

A Qlik spokeswoman declined to respond to *Barron's* questions about profitability and growth, citing an upcoming earnings report. On intensifying competition, she says, Qlik has strong competitive positions.

Fourth-quarter results come out Feb. 11. A stock this highly valued in a weak broad market will see more pressure unless Qlik can muster stronger sales growth.

(See Trader ["Dow, S&P 500 End Week Down 2.2%"](#))