

ANSYS Inc.(ANSS)

\$303.45 (As of 08/07/20)

Price Target (6-12 Months): **\$330.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 09/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: F

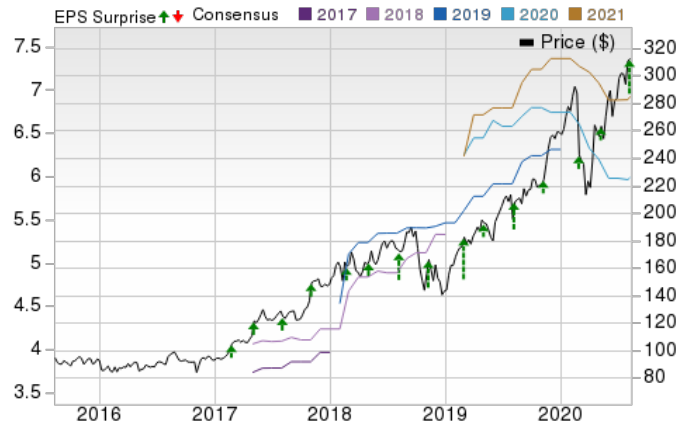
Growth: D

Momentum: D

Summary

ANSYS' second-quarter results benefited from strength in high-tech and automotive verticals across North America. Moreover, the company has also raised 2020 view buoyed by new deal wins. Increasing investments by means of acquisitions across connected solutions and 5G domains bode well. Rise in demand for simulation in repair, maintenance and other overhaul projects is strengthening ANSYS' prospects. ANSYS is expected to benefit from robust adoption of its engineering simulation software in 3D printing and additive manufacturing applications. However, softness in the industrial equipment industry across APAC region and weakness in the oil and gas industry owing to the COVID-19 outbreak are likely to dampen growth. Decline in licenses revenues is a headwind. Notably, shares of ANSYS have underperformed the industry on a year-to-date basis.

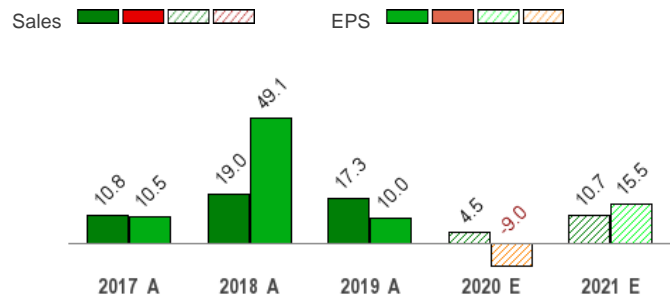
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$319.83 - \$200.07
20 Day Average Volume (sh)	410,200
Market Cap	\$26.8 B
YTD Price Change	21.4%
Beta	1.22
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Software
Zacks Industry Rank	Top 38% (95 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	41.6%
Last Sales Surprise	10.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	-15.5%
P/E TTM	51.7
P/E F1	50.7
PEG F1	NA
P/S TTM	17.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	352 E	409 E	412 E	606 E	1,766 E
2020	309 A	390 A	376 E	556 E	1,596 E
2019	320 A	371 A	346 A	492 A	1,528 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.18 E	\$1.53 E	\$1.58 E	\$2.71 E	\$6.92 E
2020	\$0.83 A	\$1.55 A	\$1.41 E	\$2.54 E	\$5.99 E
2019	\$1.29 A	\$1.61 A	\$1.42 A	\$2.24 A	\$6.58 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/07/2020. The reports text is as of 08/10/2020.

Overview

Canonsburg, PA-based ANSYS Inc. develops and globally markets engineering simulation software and services widely used by engineers, designers, researchers and students across a broad spectrum of industries and academia.

ANSYS Workbench, simulation platform is the company's key product. It also provides structural analysis product suite (Explicit Dynamics, Composites), simulation software solutions for Fluids, Electronics, Semiconductors, and Multiphysics.

AIM is a single-window application which integrates structural, fluids and electromagnetics simulation as well as includes all aspects of the simulation workflow. The company's SCADE product suite is a comprehensive solution for embedded software simulation, code production and automated certification.

ANSYS also provides simulation software for 3D modelling, Systems and academics.

Notably, ANSYS Cloud combines high-performance computing (HPC) infrastructure and Microsoft Azure platform with ANSYS software. ANSYS 2019 R1 enables engineers in designing more pervasive simulation solutions across multiple industries.

ANSYS unveiled CES EduPack 2019 with an aim to aid educators in teaching fundamental topics.

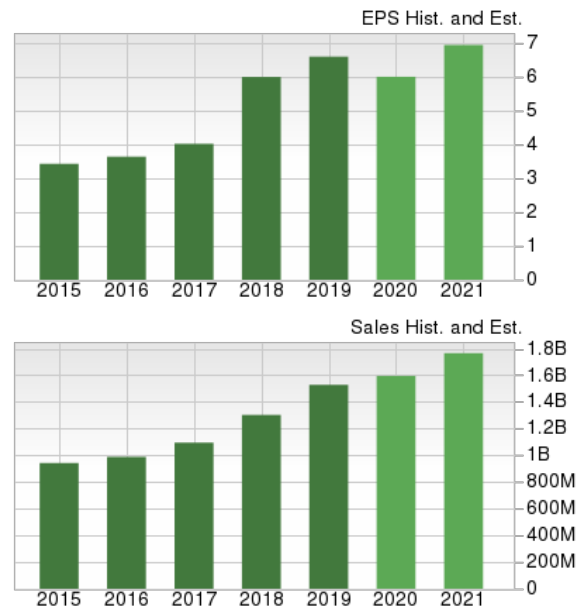
In 2019, ANSYS reported revenues of \$1.516 billion.

The company generates revenues from two sources: Software licenses (46.2% of 2019 revenues) and Maintenance and service (53.8%).

The company derived 45.3% of its revenues from Americas, while the remaining 54.7% came from its foreign operations in 2019.

Direct and indirect revenues contributed 76% and 23%, respectively, to total revenues in 2019.

ANSYS's peers in computer-aided design (CAD) market include Cadence Design Systems, Inc., Autodesk, Inc. and PTC Inc. and Synopsys, Inc.



Reasons To Buy:

- ▲ ANSYS is a dominant name in the high-end design simulation software market. The company's software solutions are used by most of the well known manufacturing companies. We note that virtual prototyping instead of physical prototyping helps these companies save considerable amount of money. We also note that its robust product portfolio and cross-domain offering will continue to drive customer base going ahead. We also note that it has a diversified customer base, which is evident from the fact that no single customer accounted for more than 5% of revenues in the last three years. Markedly, as of Jun 30, 2020, total deferred revenues and backlog came in at \$846 million, reflecting an increase of 18% on a year-over-year basis.
- ▲ We believe that ANSYS has significant growth opportunity from the rising complexity in product design due to rapid adoption of Internet of Things (IoT) in the manufacturing industry. Moreover, growing demand for energy efficient products is also a key catalyst. These are gradually expanding the company's total addressable market (TAM). We note that ANSYS's robust product portfolio is capable in addressing these needs. The company offers simulation solutions for developing next-gen 5G product designs, autonomous vehicle, thinner and more reliable mobile and IoT products as well as high-performance chips for advanced driver assistance systems (ADAS). Also, strength in ANSYS Cloud, which combines high-performance computing (HPC) infrastructure and Microsoft Azure platform with ANSYS software, holds promise. It is anticipated to enhance the company's go-to-market strategy. We believe that the new features in the product are a game changer for ANSYS in the simulation software market.
- ▲ The company's collaborations with advanced technology suppliers, hardware vendors, specialized application developers, and CAD, ECAD and PLM providers is a key catalyst in our view. ANSYS' partnership with CAD vendors – Autodesk, PTC and Siemens – enables data transfer among the CAD systems and the company's products ANSYS-Spatial relationship helps in building the geometry modelling software solutions. The company has also teamed up with BMW Group, which will utilize the company's simulation tools to design robust AV technologies. It is also collaborating with Airbus Defence and Space to develop a new solution, which facilitates AI-driven, secure flight controls to design robust autonomous drone flight control solution by 2030. ANSYS partners Amazon Web Services (AWS) in the cloud computing market. We believe that the strong partner network will help the company win customers more frequently, which will eventually drive top-line growth.
- ▲ Aggressive acquisition strategy has played a pivotal part in developing the company's business in the last few years. ANSYS has concluded acquisition of Dynardo, engaged in providing simulation-based process integration and design optimization (PIDO) technology. The buyout is expected to aid ANSYS deliver comprehensive suite of PIDO-based robust design solutions. The company has also acquired Livermore Software Technology Corporation (LSTC), in a bid to strengthen its explicit dynamics suite and finite element analysis capabilities. These along with Granta Design, SpaceClaim Corp (3D modelling technology provider), Reaction Design (chemistry simulation software provider) and Evolutionary Engineering (cloud-based composite analysis and optimization technology provider) acquisitions have enabled the company to offer new and innovative products. We anticipate ANSYS to pursue tuck-in acquisitions, which will further expand product portfolio in the long term.
- ▲ Management execution has been good in recent times. As of Jun 30, 2020, cash and short-term investments of \$745 million (the United States comprised 54%) compared with \$718 million (the United States comprised 60%) as of Mar 31, 2020. As of Jun 30, 2020, the company has an unsecured term loan with an outstanding principal balance of \$425 million. Notably, the debt agreement currently requires no principal payments until 2024. This provides them the flexibility required to pursue any growth strategy, whether by way of acquisitions or otherwise. Also, cash from operations in the second quarter was \$131.6 million. The strong cash flow balance indicates that ANSYS is making investments in the right direction. Moreover, total debt to total capital of 13.3% is lower than industry's figure of 43.7%. Further, times interest earned is 45.7X, compared with the industry's figure of 17.6X.

Dominant player in the high-end simulation software market, new features of products addressing IoT needs, numerous collaborations & acquisitions expanding product line, favor growth prospects.

Reasons To Sell:

- ▼ ANSYS generates a significant portion (56% in 2019) of revenues from the International market. In 2019, fluctuations in the exchange rates of foreign currencies against the U.S. Dollar negatively impacted revenues by \$24.2 million. Adverse foreign currency exchange rates are expected to impede revenue growth in the near term owing to the strengthening of the U.S. dollar compared with the Euro and other foreign currencies, which is a significant concern.
- ▼ Moreover, Europe continues to remain a major headwind for ANSYS. The company has taken steps to improve sales execution by changing senior sales leadership. The company is focusing on sharpening its go-to-market strategy. However, uncertainty related to Brexit and overall macro-weakness in the region will continue to hurt top-line growth in the near term.
- ▼ ANSYS faces stiff competition in the computer-aided design (CAD) market from Cadence Design Systems (as it recently ventured into the market with 3D Solver offering), Autodesk, PTC and Synopsys, to mention a few. New entrants are likely to pose a threat to the company's market share. This might compel the company resort to competitive pricing to maintain and capture further market share.
- ▼ Frequent acquisitions have escalated integration risks for ANSYS. Moreover, we also note that the frequent acquisitions negatively impact the company's balance sheet in the form of high level of goodwill and intangible assets, which totaled approximately \$2.96 billion or 63.3% of total assets as of Jun 30, 2020.
- ▼ Moreover, the company is trading at premium in terms of Price/Earnings (P/E). ANSYS currently has a trailing 12-month P/E ratio of 63.88X. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is higher than the average level of 36.05X and is near the high end of the valuation range in this period. Consequently, the valuation looks slightly stretched from P/E perspective.

Declining perpetual up front revenues, uncertainty over Brexit adverse foreign currency exchange volatility, and integration risks from buyouts, are likely to weigh on ANSYS' financial performance.

Last Earnings Report

ANSYS Q2 Earnings & Revenues Beat Estimates, Ups '20 View

ANSYS reported second-quarter 2020 non-GAAP earnings of \$1.55 per share, which beat the Zacks Consensus Estimate by 33.6%. However, the bottom line declined 4% year over year.

Non-GAAP revenues of \$389.7 million surpassed the Zacks Consensus Estimate by 10.2%. The figure improved 5% (up 6% at constant currency or cc) from the year-ago quarter.

Management is elated on closure of "the largest deal in 50-year history and largest sales agreement for new business."

Deferred revenues and backlog were \$846 million, reflecting an increase of 18% on a year-over-year basis.

Quarter Ending 06/2020

Report Date	Aug 05, 2020
Sales Surprise	10.20%
EPS Surprise	41.57%
Quarterly EPS	1.55
Annual EPS (TTM)	4.89

Top-Line Details

Lease licenses revenues (29.2% of non-GAAP revenues) declined 13.7% at cc to \$113.9 million. **Perpetual licenses** revenues (14.4%) fell 20% year over year at cc to \$56.1 million.

Maintenance revenues and **Service** revenues improved 11.2% and 1.9%, year over year, at cc, to \$206.5 million and \$13.1 million, contributing 53% and 3.4% to non-GAAP revenues, respectively.

Direct and indirect channels contributed 77.9% and 22.1%, respectively, to non-GAAP revenues. ACV improved 5.6% year over year (up 5.9% at cc) to \$344.4 million.

On a geographic basis, non-GAAP revenues from Americas, EMEA (comprising Germany, the UK and other EMEA) and the Asia-Pacific (Japan and Other Asia-Pacific) accounted for 49.6%, 22.6% and 27.8% of non-GAAP revenues, respectively.

Notably, at cc, revenues from Americas improved 33.1% to \$193.3 million, while revenues from EMEA and the Asia-Pacific declined 4.6% and 17.5% year over year to \$88 million and \$108.5 million, respectively.

New deal wins in high-tech and automotive verticals across North America aided growth. Despite strength in high-tech and automotive sectors with growing clout of digital twins and process optimization solutions, softness in the industrial equipment industry led to decline in revenues from the APAC region. Meanwhile, performance across EMEA was impacted by coronavirus crisis-induced weakness in the oil and gas industry despite strength in defense segment and improvement in semiconductor end-market.

Operating Details

Non-GAAP gross margin contracted 140 basis points (bps) on a year-over-year basis to 89.6%.

Total operating expenses increased 9.8% year over year to \$219 million.

Non-GAAP operating margin expanded 600 bps on a year-over-year basis to 42.9%.

Balance Sheet & Cash Flow

As of Jun 30, 2020, cash and short-term investments of \$745 million (the United States comprised 54%) compared with \$718 million (the United States comprised 60%) as of Mar 31, 2020.

As of Jun 30, 2020, the company has an unsecured term loan with an outstanding principal balance of \$425 million. Notably, the debt agreement currently requires no principal payments through the next 12 months.

The company generated cash from operations of \$131.6 million compared with \$147.4 million in the prior quarter. Negative business impacts across China owing to COVID-19 outbreak, led to delay in payments, affecting cash flows.

The company did not repurchase shares in the second quarter. As of Jun 30, 2020, it had 2.8 million shares remaining under the share buyback program.

Guidance

ANSYS expects non-GAAP earnings in the range of \$1.10-\$1.34 per share for third-quarter 2020.

Non-GAAP revenues are anticipated between \$347 million and \$377 million.

Management projects non-GAAP operating margin in the range of 34.5-38.5%.

For 2020, ANSYS has raised guidance. The company now expects non-GAAP revenues of \$1.57-\$1.645 billion compared with the prior range of \$1.555-\$1.63 billion.

Non-GAAP earnings are now envisioned in the range of \$5.75-\$6.35 per share compared with the prior range of \$5.61-\$6.23 per share.

ACV is now anticipated between \$1.52 billion and \$1.585 billion compared with the prior range of \$1.5-\$1.575 billion.

Management continues to expect non-GAAP operating margin in the range of 40-42%.

The company now anticipates operating cash flow for 2020 between \$435 million and \$475 million compared with the previous range of \$425-\$470 million.

Recent News

On Jul 7, ANSYS announced that its simulation solutions will aid engineers in enhancing design development of advanced all-electric race planes competing in the 2021 Air Race E World Championship and delivering more sustainable aviation technologies.

On Jun 11, Ansys announced partnership with Electro Magnetic Applications, Inc. (EMA), in a bid to develop design-to-validation workflow, designed to certify cable harness models used in automobiles and aircraft.

On May 19, ANSYS announced that it is joining forces with Microsoft, Dell and Lendlease to accelerate and simplify the development and implementation of digital twin technologies across multiple industries.

On May 6, ANSYS announced that it has attained certification for its RedHawk system-on-chip (SoC) power noise signoff platform for all Taiwan Semiconductor Manufacturing Company or TSMC's advanced process nodes technologies.

Valuation

ANSYS' shares are up 21.4% in the year-to-date period and 50.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 28.2% and 20.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 43% and 37.7%, respectively.

The S&P 500 index is up 4.1% in the year-to-date period and 16.6% in the past year.

The stock is currently trading at 47.66X forward 12-month earnings compared with 32.8X for the Zacks sub-industry, 26.31X for the Zacks sector and 22.77X for the S&P 500 index.

Over the past five years, the stock has traded as high as 59.16X and as low as 23.39X, with a 5-year median of 34.88X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$330 price target reflects 50.35X forward 12-month earnings.

The table below shows summary valuation data for ANSS

Valuation Multiples - ANSS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	47.66	32.8	26.31	22.77
	5-Year High	59.16	32.8	26.31	22.77
	5-Year Low	23.39	18.62	16.72	15.25
	5-Year Median	34.88	25.13	19.61	17.58
P/S F12M	Current	15.74	7.55	4.07	3.66
	5-Year High	15.91	8	4.07	3.66
	5-Year Low	6.87	3.88	2.32	2.53
	5-Year Median	10.05	5.63	3.14	3.05
EV/Sales TTM	Current	17.44	8.41	4.68	3.25
	5-Year High	17.6	8.56	4.68	3.46
	5-Year Low	6.65	3.19	2.58	2.14
	5-Year Median	10.5	5.95	3.65	2.86

As of 08/07/2020

Industry Analysis Zacks Industry Rank: Top 38% (95 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Blackbaud, Inc. (BLKB)	Outperform	1
Cadence Design Systems, Inc. (CDNS)	Neutral	2
Nuance Communications, Inc. (NUAN)	Neutral	3
Pegasystems Inc. (PEGA)	Neutral	3
PTC Inc. (PTC)	Neutral	3
Synopsys, Inc. (SNPS)	Neutral	3
Verint Systems Inc. (VRNT)	Neutral	3
Autodesk, Inc. (ADSK)	Underperform	3

Industry Comparison Industry: Computer - Software

	ANSS	X Industry	S&P 500	ADSK	CDNS	SNPS
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	2	3
VGM Score	F	-	-	B	C	B
Market Cap	26.80 B	1.61 B	23.30 B	51.78 B	30.26 B	29.92 B
# of Analysts	7	4	14	10	6	6
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.00%	0.00%
Value Score	F	-	-	D	D	C
Cash/Price	0.03	0.07	0.07	0.03	0.04	0.03
EV/EBITDA	43.98	18.54	13.32	111.32	47.32	36.60
PEG Ratio	NA	2.57	2.94	1.57	3.10	2.48
Price/Book (P/B)	7.79	5.95	3.19	NA	13.41	6.99
Price/Cash Flow (P/CF)	47.63	23.00	12.51	112.46	27.29	37.49
P/E (F1)	50.55	33.24	22.02	62.14	42.62	37.71
Price/Sales (P/S)	17.62	4.65	2.53	15.12	12.42	8.80
Earnings Yield	1.92%	2.71%	4.37%	1.61%	2.35%	2.65%
Debt/Equity	0.15	0.15	0.77	-14.65	0.15	0.13
Cash Flow (\$/share)	6.56	1.18	6.94	2.10	3.98	5.30
Growth Score	D	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	14.49%	9.26%	10.46%	NA	33.78%	18.01%
Proj. EPS Growth (F1/F0)	-69.21%	9.91%	-6.80%	36.27%	-27.86%	1,852.48%
Curr. Cash Flow Growth	8.84%	7.44%	5.39%	280.74%	138.95%	24.16%
Hist. Cash Flow Growth (3-5 yrs)	7.79%	9.27%	8.55%	8.91%	24.55%	8.09%
Current Ratio	2.38	1.59	1.33	0.79	1.42	0.95
Debt/Capital	13.30%	26.43%	44.50%	NA	13.31%	11.87%
Net Margin	26.17%	5.84%	10.13%	8.91%	41.74%	13.96%
Return on Equity	12.91%	10.57%	14.39%	-230.16%	50.84%	11.53%
Sales/Assets	0.35	0.63	0.51	0.63	0.71	0.50
Proj. Sales Growth (F1/F0)	4.40%	2.10%	-1.51%	14.29%	11.49%	7.93%
Momentum Score	D	-	-	A	C	D
Daily Price Chg	-0.91%	0.00%	0.90%	-3.01%	-1.80%	-1.72%
1 Week Price Chg	5.82%	0.42%	0.14%	1.52%	6.49%	3.03%
4 Week Price Chg	2.52%	2.28%	8.95%	-4.82%	6.89%	-2.82%
12 Week Price Chg	23.88%	22.32%	18.90%	32.82%	32.60%	25.95%
52 Week Price Chg	47.81%	21.02%	1.18%	55.33%	52.02%	50.63%
20 Day Average Volume	410,200	142,557	2,057,775	1,079,618	1,746,961	694,579
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	1.36%	0.00%	16.77%	0.00%
(F1) EPS Est 12 week change	0.21%	0.00%	1.57%	-18.05%	16.77%	-1.06%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.54%	0.00%	28.57%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	D
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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