

Aspen Technology, Inc. (AZPN)

\$120.93 (As of 01/01/20)

Price Target (6-12 Months): **\$133.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/30/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

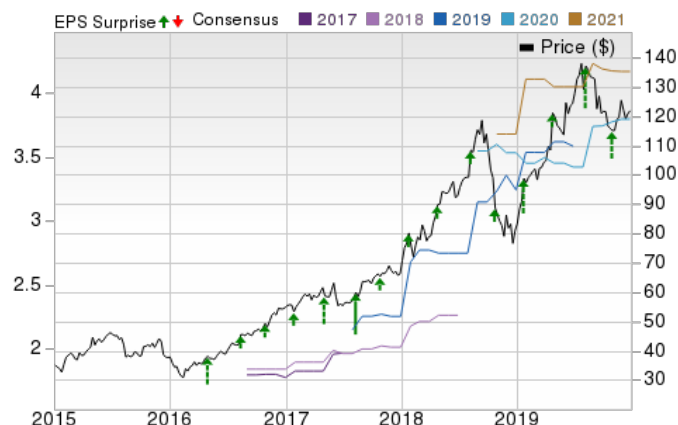
Growth: D

Momentum: A

Summary

Aspen Technology is benefiting from robust adoption of its Asset Performance Management and Aspen Mtell suite. Strong pipeline for new business bookings hold promise. The company is witnessing increased demand from global economy industries (GEIs) and E&C customers. Further, renewals of long-term contracts with high-end customers are strengthening subscription based business model. Furthermore, diversified product portfolio and sticky customer base present significant barriers to entry, which remain a positive. Mnubo and Sabisu acquisitions are expected to strengthen Aspen's offerings with embedded AI capabilities. Notably, shares of the company have outperformed the industry in the past year. However, continuing investments on product development amid stiff competition in the asset management market remains a concern.

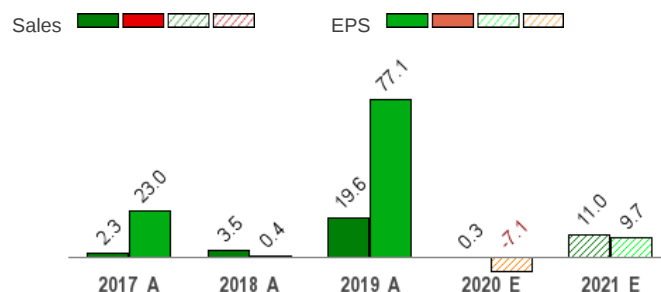
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$142.15 - \$78.76
20 Day Average Volume (sh)	289,971
Market Cap	\$8.2 B
YTD Price Change	47.2%
Beta	1.52
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Software
Zacks Industry Rank	Bottom 40% (152 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.5%
Last Sales Surprise	11.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/22/2020
Earnings ESP	0.0%
P/E TTM	28.4
P/E F1	31.8
PEG F1	16.2
P/S TTM	13.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	144 E	148 E	161 E	204 E	666 E
2020	134 A	135 E	144 E	187 E	600 E
2019	114 A	140 A	148 A	196 A	598 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.80 E	\$0.89 E	\$1.02 E	\$1.47 E	\$4.17 E
2020	\$0.79 A	\$0.79 E	\$0.88 E	\$1.34 E	\$3.80 E
2019	\$0.64 A	\$0.92 A	\$0.96 A	\$1.59 A	\$4.09 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 01/01/2020. The reports text is as of 01/02/2020.

Overview

Bedford, MA-based Aspen Technology, Inc. provides asset optimization software solutions.

The company facilitates the processes of asset management for various industries, consequently, enabling the clientele to improve the efficiency of assets.

The company provides aspenONE Asset Performance Management (APM) suite of solutions which comprise Aspen Mtell, Aspen Fidelis Reliability, Aspen ProMV, Aspen Column Analytics, and Aspen Root Cause Analytics

Aspen Mtell enables customers to augment asset utilization by providing a robust set of solutions which supervise health of the machinery, identify failure symptoms in real time, analyze the root-cause of the problem and provide valuable feedback to avoid equipment failure.

Notably, Aspen Technology acquired Mtelligence Corporation (also recognized as Mtell) in October 2016, with an aim to strengthen its asset performance optimization software suite with robust prescriptive and predictive maintenance capabilities.

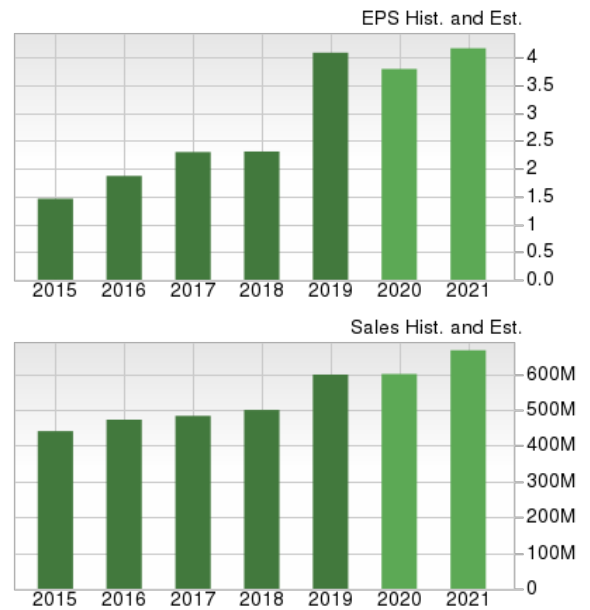
The subscription based aspenONE software is classified into three suites, namely Engineering, Manufacturing & Supply Chain, and Asset Performance Management ("APM").

In fiscal 2019, the company generated revenues of \$598.3 million, an increase of 15% from fiscal 2018.

AspenTech reports in two segments, namely subscription and software, and services.

The subscription and software segment (95.2% of total fiscal 2019 revenues) accounts for fixed-term licenses and other related support services. Meanwhile, the services segment (4.8%) comprises training and professional services.

The company has customer base of approximately 2,300 organizations. With approximately 1,600 employees as of Jun 30, 2019, the company has offices in 32 countries, across the United States, Europe, Asia-Pacific, and other locations.



Reasons To Buy:

▲ AspenTech's revenue growth continues to be driven by high demand for its asset optimization and management solutions. This can be attributed to its solution which aids in optimizing process manufacturing by supporting real-time decision making, predicting equipment failure, and providing the ability to forecast and simulate potential actions. Asset management solution not only assists manufacturers understand the operating conditions of their assets but also to take appropriate action to increase their productivity in an efficient way. These solutions help in expanding operating margins of process manufacturers. According to P&S Intelligence data, enterprise asset management market is projected to hit \$8.7 billion by 2024, witnessing a CAGR of 13.5%, between 2019 and 2024. Based on its portfolio strength, we believe that the company is well poised to gain from this robust growth prospect going forward.

Robust adoption driven by high demand for asset optimization and management solutions, sticky customer base and a strong pipeline for new business bookings are positives.

▲ AspenTech has witnessed accelerated adoption of its solutions that has driven top-line growth over the years. Its revenues witnessed CAGR of 8.9% from fiscal 2014 through fiscal 2019. The company provides end-to-end asset management and optimization solutions that are in high demand. The depth in its product portfolio has been the primary growth driver in recent times. The company's impressive top-line performance bolstered investors' confidence and the stock has outperformed the industry over the past year. Rapid adoption of cloud-based solutions, integration with big data analytics, ongoing favorable trends in penetration of IoT, and increasing investment on software are expected to be major factors driving growth.

▲ AspenTech has a strong pipeline for new business bookings, and continues to innovate & improve operations. The company's diversified product portfolio and sticky customer base impose significant barriers to entry. Subscription based model comprising long-term contracts averaging five years with high-end customers ensure that the revenues keep growing. Further, AspenTech has streamlined business to strengthen core-operations in the long run. Its continuous efforts to improve its Asset Performance Management ("APM") bode well. The APM suite continues to gain traction, with the company signing significant deals globally. The company also witnessed pipeline expansion, which is a positive.

▲ The company has also been active on the acquisition front. Buyouts have aided growth by expanding product portfolio and adding competence. During first-quarter fiscal 2020, the company announced acquisition of Mnubo, which offers custom AI and analytics infrastructure solutions for IoT. The company is also anticipated to gain from Sabisu buyout, which provides enterprise workflow and visualization solutions. In February 2018, AspenTech acquired Apex Optimisation, for their unique Generic Dynamic Optimisation Technology ("GDOT") to enable the company align Advanced Process Control ("APC") with Planning & Scheduling, helping unified production optimization for petrochemical companies and refineries in complex industrial environments. In December 2017, AspenTech acquired RtTech Software, in a bid to leverage its Industrial Internet of Things (IIoT) cloud and edge technology to bolster the capabilities of APM Solutions. Similarly, Mtell (October 2016), The Fidelis Group (June 2016), Hyprotech (March 2002) and Petrolsoft (June 2000) have aided the company not only to explore new avenues but also improvise the existing solutions with advanced technologies.

▲ AspenTech's strong balance sheet and cash flow generation ability enables it to pursue any growth strategy that includes acquisitions and further share repurchase. Aspen ended the fiscal first quarter with \$57.9 million in cash and cash equivalents. The company generated \$15.3 million cash from operations during the first quarter. Free cash flow came in at \$14.3 million. Furthermore, the company repurchased approximately 382,000 shares for \$50 million. The company's strong and relatively stable cash flow and continuing share repurchase activity make the stock quite attractive, in our view.

Reasons To Sell:

- ▼ Increasing competition in the market for asset optimization software could lead to pricing pressure and affect AspenTech's margins. AspenTech's offerings compete with similar solutions from SAP, IBM and Oracle, to mention a few, which is a concern. Notably, the pricing and functionalities of Maximo offering of IBM, Oracle Enterprise Asset Management solution, SAP Enterprise Asset Management (EAM) suite, among other comparable offerings are likely to have an impact on adoption rate of AspenTech's solutions. The company's market share could be challenged further by new entrants. This might compel the company resort to competitive pricing to maintain as well as capture further market share. Moreover, consolidating applications market is fuelling competition in the software sector, which is likely to limit company's growth prospects.
- ▼ AspenTech continues to acquire a large number of companies. While this improves revenue opportunities, business mix and profitability, it also adds to integration risks. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth, going forward. Notably, goodwill and net intangible assets comprised 18.4% of total assets as of Sep 30, 2019.
- ▼ Aspen Technology derives significant portion of revenues from outside the United States (63.2% of total revenues in fiscal 2019), subjecting the company to exchange rate volatility. Unfavorable movement in exchange rates of foreign currencies like euro, pound sterling, Canadian Dollar and Japanese Yen, related to the U.S. dollar can adversely impact financial performance and undermine its growth potential to some extent.
- ▼ Moreover, the company is trading at premium in terms of Price/Book (P/B). AspenTech currently has a trailing 12-month P/B ratio of 20.97. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is higher than the average level of 20.07 and is near the high end of the valuation range in this period. Consequently, the valuation looks slightly stretched from P/B perspective.

Intensifying competition in the asset management market, continuing investments to stay afloat and integration risks are major concerns.

Last Earnings Report

Aspen Technology Q1 Earnings & Revenues Top Estimates

Aspen Technology reported first-quarter fiscal 2020 non-GAAP earnings of 79 cents per share, outpacing the Zacks Consensus Estimate by 21.5% and improving 23.4% on a year-over-year basis.

Revenues of \$134.1 million surpassed the Zacks Consensus Estimate of \$120 million and improved 17.4% from the year-ago quarter. The increase can be attributed to improvement in year-over-year bookings.

Notably, total bookings for the reported quarter came in at \$135 million, up 40.4% year over year, primarily driven by higher term license contracts for renewals.

Moreover, ongoing momentum in Asset Performance Management (APM) and Manufacturing & Supply Chain (MSC) suite, and strength in Engineering suite of solutions drove year-over-year revenues.

Quarter in Detail

License revenues (60.5%) surged 27.3% year over year to \$81.2 million, primarily on higher bookings due to the timing of contract renewals.

Maintenance revenues (32.5%) inched up 1.2% year over year to approximately \$43.6 million.

Services and other revenues (almost 7%) surged 26.7% from the year-ago quarter to \$9.3 million.

Annual spend improved 1.3% sequentially and 10% year over year to \$548 million.

Management is optimistic on expanding E&C and GEI customer base. With the company signing significant deals globally, the APM suite and Aspen Mtell offerings continue to gain traction. The company also witnessed pipeline expansion, which remains a positive.

During the reported quarter, the company announced acquisition of Mnubo, which offers custom AI and analytics infrastructure solutions for IoT. The company is also anticipated to gain from Sabisu buyout, which provides enterprise workflow and visualization solutions. The inorganic additions are expected to strengthen Aspen Technology's offerings with embedded AI capabilities.

Margins

Gross margin expanded 30 bps on a year-over-year basis to approximately 88.7%.

Total operating expenses climbed 11.9% from the year-ago quarter to \$71.6 million.

Non-GAAP operating income of \$57.9 million surged 23.4% from the year-ago quarter. Non-GAAP operating margin expanded 210 bps year over year to 43.2%.

Balance Sheet & Cash Flow

Aspen Technology ended the first quarter with \$57.9 million in cash and cash equivalents compared with \$71.9 million reported in the previous quarter.

The company generated \$15.3 million cash from operations during the quarter compared with \$85.2 million in the previous quarter. Free cash flow came in at \$14.3 million compared with \$84.9 million in the previous quarter.

The company repurchased approximately 382,000 shares for \$50 million.

Fiscal 2020 Guidance

Aspen Technology revised non-GAAP earnings guidance on share repurchases. Non-GAAP earnings are now projected in the range of \$3.47-\$3.89 per share, compared with the prior guided range of \$3.44-\$3.85.

The remaining guided metrics remain unchanged. Aspen Technology continues to forecast revenues between \$575 million and \$615 million.

Non-GAAP operating income is projected in the range \$272-\$307 million. Free cash flow is anticipated in the range of \$250 million to \$260 million.

APM suite is projected to contribute 3% to the anticipated annual spend increase of 10-12%, while Engineering and MSC suites are projected to contribute 7% and 9%, respectively.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	11.82%
EPS Surprise	21.54%
Quarterly EPS	0.79
Annual EPS (TTM)	4.26

Recent News

On **Nov 20, 2019**, Aspen Technology announced that Messer Group GmbH, deployed Aspen DMC3 software with an aim to enhance operating efficiency and reduce carbon dioxide emissions and energy consumption.

On **Oct 2, 2019**, Aspen Technology rolled out collaborative workflow management and visualization solution, Aspen Enterprise Insights. The solution assembles data from across enterprises and analyzes it to offer actionable insights that in turn aids decision-making processes.

On **Sep 9, 2019**, Aspen Technology announced that China Petroleum Engineering's subsidiary, China HuanQiu Contracting and Engineering Corporation (HQC), has deployed Aspen HYSYS Dynamics software with an aim to enhance throughput and safety to increase profit levels with improved asset performance.

Valuation

Aspen Technology shares are down 4.9% in the past six-month period and up 56.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 7.9% and 11.9% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 51.4% and 40.1%, respectively.

The S&P 500 index is up 9.3% in the past six-month period and 33.5% in the past year.

The stock is currently trading at 30.34X forward 12-month earnings, which compares to 32.13X for the Zacks sub-industry, 23.04X for the Zacks sector and 19.07X for the S&P 500 index.

Over the past five years, the stock has traded as high as 46.4X and as low as 19.07X, with a 5-year median of 32.63X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$133 price target reflects 33.33X forward 12-month earnings.

The table below shows summary valuation data for AZPN

Valuation Multiples - AZPN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	30.34	32.13	23.04	19.07
	5-Year High	46.4	32.13	23.04	19.34
	5-Year Low	19.07	17.61	16.86	15.17
	5-Year Median	32.63	23.86	19.11	17.44
P/S F12M	Current	13.02	7.1	3.55	3.46
	5-Year High	17.11	7.1	3.55	3.46
	5-Year Low	5.15	3.88	2.29	2.54
	5-Year Median	9.03	5.25	2.99	3
EV/Sales TTM	Current	13.29	7.37	4.17	3.22
	5-Year High	16.14	7.43	4.19	3.3
	5-Year Low	4.98	3.19	2.54	2.14
	5-Year Median	9.23	5.22	3.42	2.79

As of 12/31/2019

Industry Analysis Zacks Industry Rank: Bottom 40% (152 out of 253)



Top Peers

Autodesk, Inc. (ADSK)	Neutral
ANSYS, Inc. (ANSS)	Neutral
Cadence Design Systems, Inc. (CDNS)	Neutral
International Business Machines Corporation (IBM)	Neutral
MongoDB, Inc. (MDB)	Neutral
Proofpoint, Inc. (PFPT)	Neutral
PTC Inc. (PTC)	Neutral
Synopsys, Inc. (SNPS)	Neutral

Industry Comparison Industry: Computer - Software				Industry Peers		
	AZPN Neutral	X Industry	S&P 500	ADSK Neutral	IBM Neutral	PTC Neutral
VGM Score	D	-	-	C	B	C
Market Cap	8.25 B	1.86 B	23.93 B	40.37 B	118.71 B	8.65 B
# of Analysts	5	3	13	10	8	7
Dividend Yield	0.00%	0.00%	1.78%	0.00%	4.83%	0.00%
Value Score	F	-	-	F	A	F
Cash/Price	0.01	0.11	0.04	0.03	0.09	0.03
EV/EBITDA	25.68	22.73	13.95	582.23	10.24	63.90
PEG Ratio	16.52	2.33	2.12	1.74	2.09	NA
Price/Book (P/B)	20.97	5.12	3.33	NA	6.56	7.18
Price/Cash Flow (P/CF)	30.26	25.54	13.67	330.98	7.11	46.39
P/E (F1)	32.38	31.77	19.66	66.16	10.47	34.63
Price/Sales (P/S)	13.34	4.43	2.69	12.97	1.54	6.61
Earnings Yield	3.14%	2.89%	5.08%	1.51%	9.55%	2.88%
Debt/Equity	0.07	0.17	0.72	-8.92	3.40	0.56
Cash Flow (\$/share)	4.00	1.01	6.94	0.55	18.86	1.61
Growth Score	D	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	22.11%	9.51%	10.56%	NA	-3.75%	-13.84%
Proj. EPS Growth (F1/F0)	-7.19%	0.00%	0.00%	174.55%	-7.13%	31.88%
Curr. Cash Flow Growth	75.58%	7.45%	14.83%	-149.98%	-1.93%	-3.70%
Hist. Cash Flow Growth (3-5 yrs)	23.92%	8.09%	9.00%	-21.89%	-5.41%	-9.76%
Current Ratio	0.98	1.49	1.23	0.60	1.09	1.23
Debt/Capital	6.82%	18.61%	42.92%	NA	77.29%	35.76%
Net Margin	43.83%	6.97%	11.08%	4.74%	10.00%	2.33%
Return on Equity	67.12%	12.33%	17.10%	-113.06%	67.12%	12.23%
Sales/Assets	0.65	0.64	0.55	0.64	0.55	0.49
Proj. Sales Growth (F1/F0)	0.29%	0.00%	0.00%	27.03%	0.00%	11.06%
Momentum Score	A	-	-	C	A	D
Daily Price Chg	0.02%	0.06%	0.33%	0.09%	0.93%	-0.53%
1 Week Price Chg	0.86%	0.00%	0.13%	1.39%	-0.24%	2.21%
4 Week Price Chg	-1.29%	0.66%	3.67%	4.60%	1.45%	-1.15%
12 Week Price Chg	0.54%	7.47%	10.64%	25.96%	-3.14%	19.42%
52 Week Price Chg	47.15%	30.84%	27.46%	42.65%	17.92%	-9.66%
20 Day Average Volume	289,971	73,223	1,693,267	1,099,908	3,258,095	546,833
(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%	0.00%	0.00%	0.03%	0.00%
(F1) EPS Est 12 week change	7.79%	0.00%	0.14%	-2.83%	-0.01%	-17.51%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.13%	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	A
VGM Score	D

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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