

Aspen Technology, Inc. (AZPN)

\$94.80 (As of 03/11/20)

Price Target (6-12 Months): **\$104.00**

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: D

Growth: D

Momentum: A

Summary

Aspen Technology is expected to benefit from robust adoption of its Asset Performance Management and Aspen Mtell suite. Moreover, strong pipeline for new business bookings holds promise. The company is witnessing increased demand from global economy industries (GEIs) and E&C customers. Furthermore, a diverse product portfolio and loyal customer base are significant barriers for competitors, which is a positive. The Mnubo and Sabisu acquisitions are expected to strengthen Aspen's offerings with embedded AI capabilities. However, consistent investments on product development amid stiff competition in the asset management market are expected to put pressure on margins at least in the near term. Lower term license contract renewals are a headwind. Notably, shares of the company have underperformed the industry in the past year.

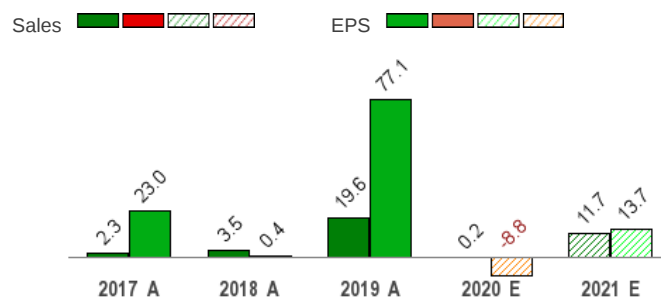
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$142.89 - \$88.00
20 Day Average Volume (sh)	842,377
Market Cap	\$6.4 B
YTD Price Change	-21.6%
Beta	1.54
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Software
Zacks Industry Rank	Top 24% (61 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-16.5%
Last Sales Surprise	-7.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/22/2020
Earnings ESP	0.0%
P/E TTM	23.7
P/E F1	25.4
PEG F1	13.0
P/S TTM	10.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	145 E	145 E	164 E	206 E	669 E
2020	134 A	125 A	149 E	191 E	599 E
2019	114 A	140 A	148 A	196 A	598 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.84 E	\$0.87 E	\$1.06 E	\$1.50 E	\$4.24 E
2020	\$0.79 A	\$0.66 A	\$0.92 E	\$1.36 E	\$3.73 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 03/11/2020. The reports text is as of 03/12/2020.

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 Mteligence 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").

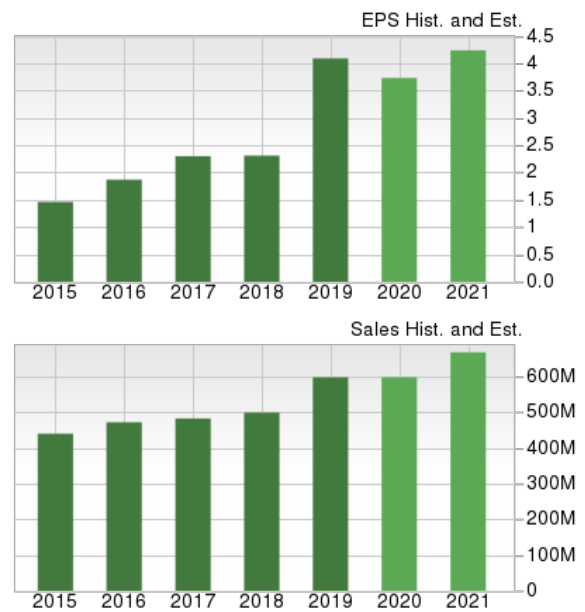
In fiscal 2019, the company generated revenues of \$598.3 million.

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. Per 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 almost 8% from fiscal 2015 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 second quarter with \$80.5 million in cash and cash equivalents. The company generated \$46.9 million cash from operations during the quarter in discussion. Free cash flow came in at \$48.1 million. Furthermore, the company repurchased approximately 418,000 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 13.4% of total assets as of Dec 31, 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 16.42. This level compares unfavorably with what the industry witnessed in the last year. 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 Q2 Earnings & Revenues Lag Estimates

Aspen Technology reported second-quarter fiscal 2020 non-GAAP earnings of 79 cents per share that missed the Zacks Consensus Estimate by 16.5% and declined 28.3% on a year-over-year basis.

Revenues of \$124.7 million lagged the consensus of \$135 million and declined 11.2% from the year-ago quarter. The decline can be attributed to lower year-over-year bookings.

Notably, total bookings for the reported quarter came in at \$112.3 million, down 27% year over year, due to decrease in the amount of term license contract renewals compared with the year-ago period.

Nonetheless, ongoing momentum in Asset Performance Management (APM) and Manufacturing & Supply Chain (MSC) suite and strength in Engineering suite benefited the company in the second quarter.

Quarter in Detail

License revenues (56.3% of revenues) declined 24.8% year over year to \$70.2 million as several transactions that the company expected to close in the second quarter were pushed to the second half of fiscal 2020.

Maintenance revenues (36.3%) increased 10.5% year over year to approximately \$45.3 million. Services and other revenues (7.4%) surged 53.3% from the year-ago quarter to \$9.2 million.

Annual spend improved 3% sequentially and 10% year over year to \$564 million.

Management is optimistic about expanding engineering & construction (E&C) and global economy industries (GEIs) 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 was a positive.

For instance, a European Oil & Chemicals company and a long-term user of AspenTech's engineering and MSC suites selected the company's supply chain management solution for deployment across its chemical assets and integration with AspenTech's existing planning solution in its refining business.

Moreover, the introduction of IMO 2020 requirements to reduce sulfur dioxide levels in bunker fuel for transportation ships is a demand catalyst for certain refiners.

Margins

Gross margin contracted 190 basis points (bps) on a year-over-year basis to approximately 87.6%.

Total operating expenses climbed 9.1% from the year-ago quarter to \$67.5 million.

Non-GAAP operating income of \$50.9 million declined 28.5% from the year-ago quarter. Non-GAAP operating margin contracted 990 bps year over year to 40.8%.

Balance Sheet & Cash Flow

As of Dec 31, 2019 cash and cash equivalents were \$80.5 million compared with \$57.9 million reported in the previous quarter.

The company generated \$46.9 million cash from operations during the quarter compared with \$15.3 million in the previous quarter. Free cash flow came in at \$48.1 million compared with \$14.3 million in the previous quarter.

Fiscal 2020 Guidance

Aspen Technology trimmed fiscal 2020 earnings guidance. Non-GAAP earnings are now projected in the range of \$3.43-\$3.84 per share compared with the prior guided range of \$3.47-\$3.89.

The company continues to expect revenues between \$575 million and \$615 million. Non-GAAP operating income is projected in the range of \$272-\$307 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. Free cash flow is now anticipated in the range of \$260 million to \$270 million compared with the prior guided range of \$250 million to \$260 million.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	-7.34%
EPS Surprise	-16.46%
Quarterly EPS	0.66
Annual EPS (TTM)	4.00

Recent News

On Mar 4, 2020, Aspen Technology announced the appointment of Adriana Karaboutis to its board of directors effective July, 2020.

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 28.1% in the past six-month period and 12.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 3.7%, while the stocks in the Zacks Computer & Technology sector are down 2.1% in the past six-month period. Over the past year, the Zacks sub-industry and sector are up 15.9% and 3.5%, respectively.

The S&P 500 index is down 7.7% in the past six-month period and 1.3% in the past year.

The stock is currently trading at 23.2X forward 12-month earnings, which compares to 24.76X for the Zacks sub-industry, 18.63X for the Zacks sector and 15.85X 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 33.06X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$104 price target reflects 25.45X 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	23.20	24.76	18.63	15.85
	5-Year High	46.4	28.74	22.04	19.34
	5-Year Low	19.07	18.59	16.87	15.18
	5-Year Median	33.06	24.55	19.32	17.42
P/S F12M	Current	9.94	6.26	3.09	2.91
	5-Year High	17.11	7.22	3.58	3.44
	5-Year Low	5.15	3.88	2.3	2.54
	5-Year Median	9.34	5.34	3.07	3
EV/Sales TTM	Current	11.10	6.48	3.62	2.76
	5-Year High	16.38	8.09	4.43	3.46
	5-Year Low	4.98	3.2	2.54	2.14
	5-Year Median	9.39	5.36	3.53	2.82

As of 03/11/2020

Industry Analysis Zacks Industry Rank: Top 24% (61 out of 253)



Top Peers

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

Industry Comparison Industry: Computer - Software				Industry Peers		
	AZPN Neutral	X Industry	S&P 500	ADSK Neutral	IBM Neutral	PTC Outperform
VGM Score	D	-	-	C	C	F
Market Cap	6.44 B	1.53 B	19.20 B	33.97 B	104.81 B	6.90 B
# of Analysts	5	4	13	10	8	7
Dividend Yield	0.00%	0.00%	2.31%	0.00%	5.49%	0.00%
Value Score	D	-	-	D	B	F
Cash/Price	0.01	0.11	0.05	0.05	0.08	0.03
EV/EBITDA	20.89	15.72	11.76	72.67	8.53	56.28
PEG Ratio	12.41	2.04	1.73	0.95	1.61	NA
Price/Book (P/B)	16.42	4.20	2.64	NA	4.98	5.53
Price/Cash Flow (P/CF)	23.72	18.71	10.55	73.50	5.97	36.98
P/E (F1)	24.33	25.40	15.66	35.44	8.83	25.14
Price/Sales (P/S)	10.68	3.64	2.06	10.38	1.36	5.19
Earnings Yield	3.93%	3.66%	6.38%	2.82%	11.32%	3.97%
Debt/Equity	0.84	0.16	0.70	-14.71	2.58	1.05
Cash Flow (\$/share)	4.00	1.20	7.01	2.10	19.75	1.61
Growth Score	D	-	-	A	D	F
Hist. EPS Growth (3-5 yrs)	22.52%	11.15%	10.85%	NA	-3.50%	-9.02%
Proj. EPS Growth (F1/F0)	-8.75%	13.38%	6.02%	56.16%	4.30%	44.77%
Curr. Cash Flow Growth	75.58%	10.55%	6.09%	280.74%	2.09%	-3.70%
Hist. Cash Flow Growth (3-5 yrs)	23.92%	8.42%	8.52%	8.91%	-3.76%	-9.76%
Current Ratio	3.00	1.50	1.24	0.83	1.02	1.17
Debt/Capital	45.62%	18.56%	42.57%	NA	72.05%	51.32%
Net Margin	41.49%	6.55%	11.69%	6.55%	12.23%	3.38%
Return on Equity	63.67%	11.82%	16.74%	-165.74%	62.27%	13.10%
Sales/Assets	0.62	0.63	0.54	0.63	0.53	0.47
Proj. Sales Growth (F1/F0)	0.05%	6.89%	3.55%	20.87%	1.89%	13.40%
Momentum Score	A	-	-	D	C	C
Daily Price Chg	-0.81%	-2.52%	-5.37%	-6.13%	-5.45%	-1.97%
1 Week Price Chg	-3.20%	-2.13%	-0.67%	-9.15%	-1.86%	-11.95%
4 Week Price Chg	-26.37%	-19.29%	-20.57%	-25.45%	-24.04%	-31.55%
12 Week Price Chg	-20.63%	-15.70%	-17.57%	-15.97%	-12.23%	-19.39%
52 Week Price Chg	-6.48%	-3.28%	-8.21%	0.67%	-14.86%	-34.58%
20 Day Average Volume	842,377	113,526	2,882,511	2,250,599	6,329,887	1,084,377
(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%	-0.23%	-1.55%	0.00%	0.00%
(F1) EPS Est 12 week change	-3.01%	0.00%	-0.60%	-1.55%	1.34%	17.76%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.52%	-13.27%	0.00%	0.00%

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	D
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.

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