

Aspen Technology, Inc. (AZPN)

\$119.09 (As of 08/14/20)

Price Target (6-12 Months): **\$129.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/21/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

Summary

Aspen Technology's fiscal fourth quarter results reflect the indispensability of the company's product portfolio and its business resilience amid COVID-19 induced macroeconomic weakness. Also, upbeat guidance for fiscal 2021 driven by strong pipeline of its Asset Performance Management and Aspen Mtell suite, is encouraging. Moreover, the Mnubo and Sabisu acquisitions are anticipated to strengthen offerings with embedded AI capabilities and enhance customer experience. The growing volume of professional service engagements holds promise. Aspen Technology will resume share buybacks, which bodes well for the bottom line. However, COVID-19-induced supply chain disruptions and major oil industry downturn amid steep drop in oil prices, remains an overhang. Notably, shares of the company have underperformed the industry on a year-to-date basis.

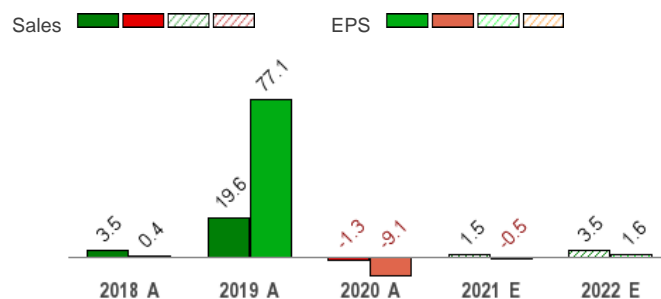
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$142.89 - \$73.07
20 Day Average Volume (sh)	475,970
Market Cap	\$8.5 B
YTD Price Change	4.3%
Beta	1.25
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Software
Zacks Industry Rank	Top 31% (78 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	30.5%
Last Sales Surprise	12.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	11/04/2020
Earnings ESP	7.4%
P/E TTM	33.8
P/E F1	32.2
PEG F1	16.4
P/S TTM	14.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	139 E	139 E	140 E	185 E	620 E
2021	135 E	132 E	143 E	185 E	599 E
2020	134 A	125 A	132 A	199 A	590 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.83 E	\$0.83 E	\$0.84 E	\$1.24 E	\$3.76 E
2021	\$0.78 E	\$0.74 E	\$0.86 E	\$1.31 E	\$3.70 E
2020	\$0.79 A	\$0.66 A	\$0.74 A	\$1.54 A	\$3.72 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 08/14/2020. The reports text is as of 08/14/2020.

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's solutions aid 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 solutions 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.

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.

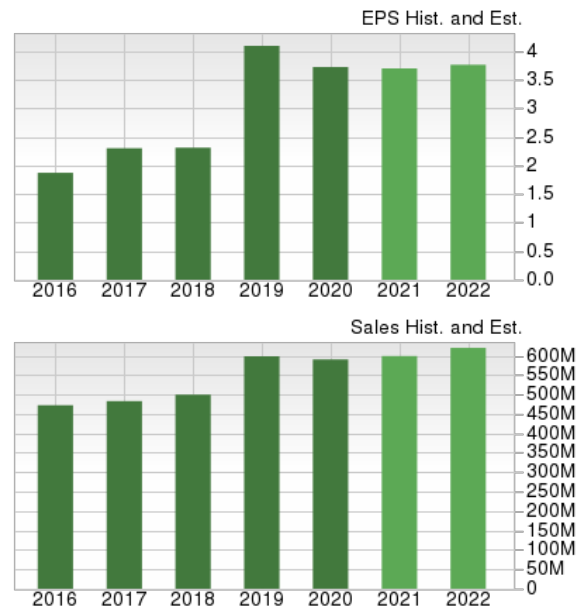
Notably, Aspen Technology acquired Mtelligence Corporation (also recognized as Mtell) in October 2016, with an aim to strengthen its asset performance optimization software suite with robust prescriptive and predictive maintenance capabilities.

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

In fiscal 2020, the company generated revenues of \$590.2 million. Aspen Technology reports in three segments, namely License, Maintenance and Services and other.

License revenue (63.9% of fiscal 2020 revenues) represents the portion of a term license agreement allocated to the initial license. Maintenance revenues (30.5%) represent the portion of the term license agreement related to on-going support and the right to future product enhancements. Meanwhile, Services and other revenues (5.6%) comprises training and professional services.

As of Jun 30, 2020, the total contract value or TCV amounted to \$2.76 billion, compared with \$2.57 billion as of Jun 30, 2019.



Reasons To Buy:

- ▲ Aspen Technology'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.
- ▲ Aspen Technology 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 2020. 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. 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.
- ▲ Aspen Technology 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. As of Jun 30, 2020, the total contract value or TCV amounted to \$2.76 billion, compared with \$2.57 billion as of Jun 30, 2019.
- ▲ 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, Aspen Technology 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, Aspen Technology 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.

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.

Reasons To Sell:

- ▼ Increasing competition in the market for asset optimization software could lead to pricing pressure and affect Aspen Technology'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 Aspen Technology'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. Additionally, major oil industry downturn and steep drop in oil prices, is likely to dampen growth at least in the near term.
- ▼ Aspen Technology 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 14.6% of total assets as of Jun 30, 2020.
- ▼ Aspen Technology has a leveraged balance sheet, which adds to the risk of investing in the company. The company had cash and cash equivalents of \$287.8 million and total borrowings, net of debt issuance costs, of \$427.5 million as of Jun 30, 2020. The cash crunch can not only jeopardize its ability to sustain share buybacks but also pursue accretive acquisitions. Markedly, Aspen Technology had paused share buybacks and drawn down \$100 million from revolving credit facility, to maintain near-term liquidity and financial flexibility amid the COVID-19 crisis. The company did not repurchase any shares in fourth-quarter fiscal 2020. However, the company will resume stock repurchase program. Recently, the company's board of directors authorized share repurchase of up to \$200 million for fiscal year 2021. Consequently, the company is under consistent pressure to generate adequate amount of operating cash flow to service its debt and resume share buybacks.
- ▼ Moreover, the company is trading at premium in terms of Price/Book (P/B). Aspen Technology currently has a trailing 12-month P/B ratio of 22.14X. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is higher than the average level of 20.09X 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 Q4 Earnings & Revenues Beat Estimates

Aspen Technology reported fourth-quarter fiscal 2020 non-GAAP earnings of \$1.54 per share that surpassed the Zacks Consensus Estimate by 30.5% but declined 3.1% on a year-over-year basis.

Revenues of \$199.3 million beat the Zacks Consensus Estimate by 12.8% and improved 1.8% from the year-ago quarter's figure. Uptick in contract renewals, as economies reopened, drove year-over-year growth.

As of Jun 30, 2020, the total contract value or TCV amounted to \$2.76 billion, compared with \$2.57 billion as of Jun 30, 2019.

Total bookings were \$236.2 million, down 2% year over year.

The fiscal fourth-quarter performance highlights the indispensability of the company's product portfolio and its business resilience amid the COVID-19 induced macroeconomic weakness.

Quarter in Detail

License revenues (73.9% of revenues) declined 0.9% year over year to \$147.2 million.

Maintenance revenues (22.9%) increased 15.8% year over year to \$45.7 million.

Services and other revenues (3.2%) declined 17.9% from the year-ago quarter's figure to \$6.4 million.

Annual spend increased 9.6% year over year to \$593 million.

Margins

Gross profit increased 2.2% year over year to \$184.2 million. As a percentage of total revenues, the figure expanded 30 basis points (bps) on a year-over-year basis to 92.4%.

Total operating expenses climbed 2.1% from the year-ago quarter's figure to \$70.5 million due to increase in research & development and general & administrative expenses.

Non-GAAP operating income of \$122.9 million improved 2.5% year over year. Non-GAAP operating margin was 61.7%, which expanded 40 bps on a year-over-year basis.

Balance Sheet & Cash Flow

As of Jun 30, 2020, cash and cash equivalents were \$287.8 million compared with \$192.2 million as of Mar 31, 2020.

The company generated \$99.7 million cash from operations during the quarter under review compared with \$81.4 million in the previous quarter. Free cash flow was \$99.5 million compared with \$81.2 million in the prior quarter.

The company did not repurchase any shares in fourth-quarter fiscal 2020. However, the company will resume stock repurchase program. Recently, the company's board of directors authorized share repurchase of up to \$200 million for fiscal year 2021.

Fiscal 2021 View

For fiscal 2021, Aspen Technology expects revenues in the range of \$704-\$754 million. The Zacks Consensus Estimate for revenues is pegged at \$598.94 million.

Non-GAAP net income is anticipated in the range of \$4.78-\$4.83 per share. The consensus mark for earnings stands at \$3.20.

Management projects non-GAAP operating income in the range of \$374-\$420 million. Free cash flow is anticipated between \$260 million and \$270 million.

Quarter Ending	06/2020
Report Date	Aug 12, 2020
Sales Surprise	12.78%
EPS Surprise	30.51%
Quarterly EPS	1.54
Annual EPS (TTM)	3.73

Recent News

On Aug 12, Aspen Technology unveiled a new AIoT Hub, a product of the integration of its recent investments in Industry 4.0 functionalities. The new offering facilitates flexible data exchange and integration across the enterprise from sensors to the edge and cloud. This aids enterprises to reduce the risks and accelerate time to market for introducing AI to simplify the complexity in operations.

On Jun 3, Aspen Technology announced partnership with Hargrove, provider of automation services in a bid to offer engineering services for a "Digital Twin" to aid plant owners and operators to enhance uptime in a secure manner and boost operating margins.

On May 11, Aspen Technology announced that its Mtell and ProMV asset performance management ("APM") solutions have been selected by the chemical company China National BlueStar to accelerate digital transformation.

Valuation

Aspen Technology shares are up 4.3% in the year-to-date period but down 5.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 26.3% and 20.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 43.4% and 38.9%, respectively.

The S&P 500 index is up 4.8% in the year-to-date period and 18.8% in the past year.

The stock is currently trading at 34.05X forward 12-month earnings compared with 32.43X for the Zacks sub-industry, 26.34X for the Zacks sector and 22.87X 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 33.17X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$129 price target reflects 34.83X 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	34.05	32.43	26.34	22.87
	5-Year High	46.4	32.43	26.34	22.87
	5-Year Low	19.07	18.62	16.72	15.25
	5-Year Median	33.17	25.13	19.61	17.58
P/S F12M	Current	14.17	7.51	4.08	3.7
	5-Year High	17.11	8	4.08	3.7
	5-Year Low	5.15	3.88	2.32	2.53
	5-Year Median	9.97	5.63	3.14	3.05
EV/Sales TTM	Current	14.77	8.28	4.69	3.27
	5-Year High	16.38	8.56	4.69	3.46
	5-Year Low	4.98	3.19	2.58	2.14
	5-Year Median	10.7	5.97	3.65	2.86

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Top 31% (78 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Avid Technology, Inc. (AVID)	Neutral	1
Cornerstone OnDemand, Inc. (CSOD)	Neutral	4
CommVault Systems, Inc. (CVLT)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	4
MicroStrategy Incorporated (MSTR)	Neutral	3
Oracle Corporation (ORCL)	Neutral	3
Progress Software Corporation (PRGS)	Neutral	3
SAP SE (SAP)	Neutral	2

Industry Comparison Industry: Computer - Software				Industry Peers		
	AZPN	X Industry	S&P 500	IBM	ORCL	SAP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	2
VGM Score	D	-	-	A	C	F
Market Cap	8.53 B	1.66 B	23.58 B	111.35 B	165.77 B	191.99 B
# of Analysts	5	4	14	6	12	5
Dividend Yield	0.00%	0.00%	1.68%	5.21%	1.78%	0.77%
Value Score	D	-	-	A	B	D
Cash/Price	0.03	0.07	0.07	0.13	0.25	0.04
EV/EBITDA	27.07	18.20	13.34	8.68	11.27	25.25
PEG Ratio	16.42	2.50	2.99	3.44	1.22	3.38
Price/Book (P/B)	22.14	6.00	3.20	5.38	13.03	6.00
Price/Cash Flow (P/CF)	31.56	22.40	12.83	6.33	11.55	27.83
P/E (F1)	32.19	35.41	21.99	11.29	13.38	27.08
Price/Sales (P/S)	14.45	4.81	2.53	1.47	4.24	6.18
Earnings Yield	2.93%	2.73%	4.35%	8.85%	7.48%	3.69%
Debt/Equity	0.85	0.15	0.77	2.68	5.44	0.50
Cash Flow (\$/share)	4.00	1.17	6.94	19.75	4.68	5.78
Growth Score	C	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	22.22%	9.26%	10.41%	-3.28%	9.05%	8.37%
Proj. EPS Growth (F1/F0)	-0.65%	10.00%	-6.32%	-13.54%	4.87%	3.85%
Curr. Cash Flow Growth	75.58%	6.56%	5.20%	2.09%	-2.42%	-1.75%
Hist. Cash Flow Growth (3-5 yrs)	23.92%	8.91%	8.55%	-3.76%	-0.39%	3.01%
Current Ratio	2.29	1.56	1.33	1.04	3.03	1.05
Debt/Capital	46.08%	22.84%	44.59%	72.83%	84.48%	33.28%
Net Margin	38.24%	5.84%	10.13%	10.44%	25.94%	16.30%
Return on Equity	59.19%	10.54%	14.51%	51.06%	72.76%	16.31%
Sales/Assets	0.55	0.60	0.51	0.50	0.37	0.46
Proj. Sales Growth (F1/F0)	1.48%	2.07%	-1.43%	-4.43%	0.22%	6.29%
Momentum Score	D	-	-	B	C	F
Daily Price Chg	29.08%	0.00%	-0.44%	-1.32%	-0.28%	-1.08%
1 Week Price Chg	5.74%	0.84%	2.30%	1.64%	-0.40%	1.22%
4 Week Price Chg	32.73%	4.60%	4.38%	0.82%	-3.22%	3.69%
12 Week Price Chg	33.70%	15.16%	13.59%	4.96%	3.45%	38.44%
52 Week Price Chg	-5.60%	25.45%	5.75%	-5.22%	2.72%	37.29%
20 Day Average Volume	475,970	116,233	1,984,154	4,930,312	9,758,926	565,729
(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%	2.08%	-1.66%	0.00%	2.20%
(F1) EPS Est 12 week change	0.00%	0.47%	2.66%	-1.88%	-2.23%	5.59%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.94%	-6.63%	0.00%	7.94%

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	D
Growth Score	C
Momentum Score	D
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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