

Aspen Technology, Inc. (AZPN)

\$93.89 (As of 05/14/20)

Price Target (6-12 Months): **\$100.00**

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:F

Value: D

Growth: D

Momentum: C

Summary

Aspen's third-quarter fiscal 2020 earnings missed the Zacks Consensus Estimate and declined year over year. The company also reduced its 2020 guidance due to COVID-19 induced uncertainties prevailing in the market. Revenues were negatively impacted by supply chain disruptions caused by the pandemic. Moreover, unfavorable timing of renewals compared with year-ago quarter hurt growth. Notably, shares have underperformed the industry in the past year. However, the growing volume of professional service engagements holds promise. Moreover, the Mnubo and Sabisu acquisitions are expected to strengthen Aspen's offerings with embedded AI capabilities. Further, a diverse product portfolio and loyal customer base are significant barriers for competitors, which is a positive.

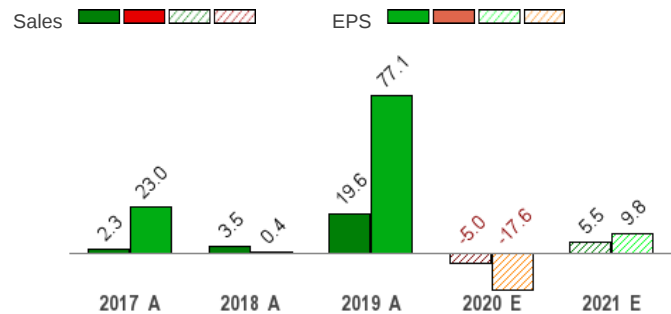
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$142.89 - \$73.07
20 Day Average Volume (sh)	573,608
Market Cap	\$6.3 B
YTD Price Change	-22.4%
Beta	1.30
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Software
Zacks Industry Rank	Top 26% (67 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-10.8%
Last Sales Surprise	-3.6%
EPS F1 Est- 4 week change	-5.1%
Expected Report Date	08/05/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	135 E	132 E	143 E	185 E	599 E
2020	134 A	125 A	132 A	177 E	568 E
2019	114 A	140 A	148 A	196 A	598 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.77 E	\$0.74 E	\$0.86 E	\$1.31 E	\$3.70 E
2020	\$0.79 A	\$0.66 A	\$0.74 A	\$1.18 E	\$3.37 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.

P/E TTM	24.8
P/E F1	27.9
PEG F1	14.2
P/S TTM	10.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/14/2020. The reports text is as of 05/15/2020.

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 Mtelintelligence 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").

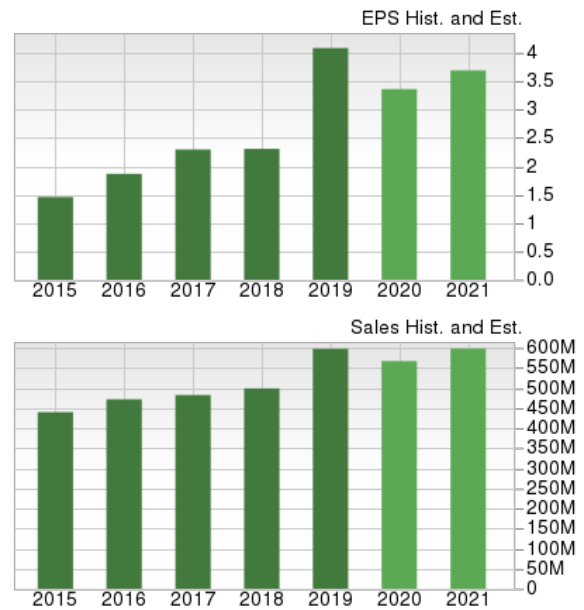
In fiscal 2019, the company generated revenues of \$598.3 million.

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 debt-free balance sheet and cash flow generation ability enables it to pursue any growth strategy that includes acquisitions and further share repurchase. As of Mar 31, 2020, cash and cash equivalents were \$192.2 million compared with \$80.5 million as of Dec 31, 2019. Also, cash from operations in the fiscal third quarter was reported at \$81.4 million, compared with \$46.9 million in the previous quarter. Free cash flow came in at \$81.2 million compared with \$48.1 million in the previous quarter. The strong cash flows help Aspen to continue shareholder friendly initiatives of share repurchase. Notably, lower number of outstanding shares favors the bottom line. The company repurchased approximately 452,000 shares for \$50 million in third-quarter fiscal 2020. The company's ability to generate solid cash flow is also expected to help it sustain share buybacks, at least in the near term.

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 16.48. 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 Misses Q3 Earnings Estimates, Lowers View

Aspen Technology reported third-quarter fiscal 2020 non-GAAP earnings of 74 cents per share that missed the Zacks Consensus Estimate by 10.8% and declined 22.9% on a year-over-year basis.

Revenues of \$132 million declined 10.8% from the year-ago quarter's figure. The decline was caused by lower year-over-year bookings.

Total bookings for the reported quarter came in at \$126.7 million, down 20.8% year over year. The company has attributed the decline to unfavorable timing of renewals compared with year-ago quarter.

Moreover, due to uncertainties prevailing in the market due to COVID-19, the company witnessed a decline in demand and slowdown in customer payments in the last few weeks of the fiscal third quarter.

Quarter in Detail

License revenues (59.5% of revenues) declined 20.2% year over year to \$78.6 million due to decline in bookings related to unfavorable timing of renewals.

Maintenance revenues (34.2%) increased 7.9% year over year to approximately \$45.2 million. The company attributed the upside to growth of its base of arrangements, which include maintenance, being recognized on a ratable basis.

Services and other revenues (6.3%) improved 7.9% from the year-ago quarter's figure to \$8.2 million due to growing volume of professional service engagements.

Annual spend increased 9.3% year over year to \$575 million.

Margins

Gross margin contracted 220 basis points (bps) on a year-over-year basis to approximately 88.1%.

Total operating expenses climbed 11.7% from the year-ago quarter's figure to \$70.1 million due to increase in research & development and general & administrative expenses.

Non-GAAP operating income of \$55.3 million declined 29.3% from the year-ago quarter's figure. Non-GAAP operating margin was 41.9% compared with 52.9% in the year-ago quarter.

Balance Sheet & Cash Flow

As of Mar 31, 2020, cash and cash equivalents were \$192.2 million compared with \$80.5 million as of Dec 31, 2019.

The company generated \$81.4 million cash from operations during the quarter compared with \$46.9 million in the previous quarter. Free cash flow came in at \$81.2 million compared with \$48.1 million in the previous quarter.

The company repurchased approximately 452,000 shares for \$50 million in third-quarter fiscal 2020.

Fiscal 2020 Guidance

Due to COVID-19 induced uncertainties, the company has lowered its guidance for fiscal 2020.

Aspen Technology expects revenues in the range of \$550-\$582 million compared with the previous range of \$575-\$615 million.

Non-GAAP net income is anticipated in the range of \$3.16-\$3.48 per share compared with previous guidance of \$3.43-\$3.84

Non-GAAP operating income is projected in the range of \$249-\$277 million compared with the previous guidance of \$272-\$307 million.

Free cash flow is now anticipated in the range of \$230-\$260 million compared with the prior range of \$260-\$270 million.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	-3.57%
EPS Surprise	-10.84%
Quarterly EPS	0.74
Annual EPS (TTM)	3.78

Recent News

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

Valuation

Aspen Technology shares are down 22.3% in the year-to-date period and 19.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 7.1%, while the stocks in the Zacks Computer & Technology sector are down 2.2% in the year to date period. Over the past year, the Zacks sub-industry and sector are up 19.9% and 9.4%, respectively.

The S&P 500 index is down 12.4% in the year-to-date period and 2.3% in the past year.

The stock is currently trading at 24.98X forward 12-month earnings, which compares to 28.66X for the Zacks sub-industry, 22.99X for the Zacks sector and 20.42X 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 33.05X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$100 price target reflects 26.61X 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	24.98	28.66	22.99	20.42
	5-Year High	46.4	28.79	23.01	20.79
	5-Year Low	19.07	18.62	16.71	15.19
	5-Year Median	33.05	24.85	19.26	17.45
P/S F12M	Current	10.58	7.1	3.49	3.18
	5-Year High	17.11	7.23	3.59	3.44
	5-Year Low	5.15	3.88	2.32	2.54
	5-Year Median	9.47	5.51	3.1	3.02
EV/Sales TTM	Current	11.05	7.17	3.81	2.69
	5-Year High	16.38	8.11	4.43	3.45
	5-Year Low	4.98	3.19	2.58	2.15
	5-Year Median	9.52	5.63	3.57	2.8

As of 05/14/2020

Industry Analysis Zacks Industry Rank: Top 26% (67 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Bottomline Technologies, Inc. (EPAY)	Outperform	3
Avid Technology, Inc. (AVID)	Neutral	4
Cornerstone OnDemand, Inc. (CSOD)	Neutral	3
CommVault Systems, Inc. (CVLT)	Neutral	3
Manhattan Associates, Inc. (MANH)	Neutral	2
Magic Software Enterprises Ltd. (MGIC)	Neutral	3
MicroStrategy Incorporated (MSTR)	Neutral	4
Progress Software Corporation (PRGS)	Neutral	3

Industry Comparison Industry: Computer - Software				Industry Peers		
	AZPN	X Industry	S&P 500	CSOD	CVLT	MANH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	F	-	-	A	C	D
Market Cap	6.35 B	1.43 B	18.95 B	2.15 B	1.66 B	4.53 B
# of Analysts	5	4	14	4	4	4
Dividend Yield	0.00%	0.00%	2.2%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	D	D
Cash/Price	0.03	0.09	0.06	0.18	0.16	0.02
EV/EBITDA	20.26	17.64	11.58	31.75	33.34	36.19
PEG Ratio	13.98	2.37	2.60	0.60	2.29	NA
Price/Book (P/B)	16.48	4.80	2.59	11.89	4.04	36.03
Price/Cash Flow (P/CF)	23.50	20.58	10.20	16.70	30.01	48.59
P/E (F1)	27.39	28.09	19.00	24.05	22.89	46.30
Price/Sales (P/S)	10.82	4.13	1.93	3.67	2.48	7.27
Earnings Yield	3.59%	3.26%	5.05%	4.14%	4.37%	2.16%
Debt/Equity	0.85	0.16	0.75	1.98	0.02	0.24
Cash Flow (\$/share)	4.00	1.18	7.01	2.02	1.19	1.47
Growth Score	D	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	22.22%	10.66%	10.82%	NA	34.83%	-0.06%
Proj. EPS Growth (F1/F0)	-17.70%	-1.64%	-10.48%	20.09%	7.59%	-11.35%
Curr. Cash Flow Growth	75.58%	10.44%	5.68%	297.95%	-4.90%	-17.20%
Hist. Cash Flow Growth (3-5 yrs)	23.92%	8.91%	8.52%	44.91%	-4.05%	1.20%
Current Ratio	2.29	1.47	1.27	1.61	1.56	1.23
Debt/Capital	46.08%	27.51%	44.25%	66.42%	2.09%	19.30%
Net Margin	39.54%	6.84%	10.54%	-2.45%	-0.84%	14.01%
Return on Equity	60.82%	11.18%	16.29%	40.09%	5.00%	58.45%
Sales/Assets	0.57	0.63	0.54	0.65	0.81	1.69
Proj. Sales Growth (F1/F0)	-5.14%	3.45%	-2.55%	6.94%	-0.94%	-10.44%
Momentum Score	C	-	-	C	A	C
Daily Price Chg	0.40%	0.00%	1.17%	0.10%	0.85%	2.41%
1 Week Price Chg	5.78%	4.04%	3.23%	13.18%	8.39%	11.42%
4 Week Price Chg	-3.61%	2.35%	1.06%	16.24%	-10.61%	27.85%
12 Week Price Chg	-25.15%	-14.24%	-22.80%	-42.24%	-29.59%	-9.38%
52 Week Price Chg	-19.80%	0.34%	-12.40%	-39.90%	-28.58%	7.40%
20 Day Average Volume	573,608	120,356	2,553,422	1,150,045	584,441	834,554
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-30.33%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.10%	-1.49%	-5.57%	-30.33%	0.00%	16.50%
(F1) EPS Est 12 week change	-7.45%	-8.68%	-16.22%	-38.12%	-34.19%	3.45%
(Q1) EPS Est Mthly Chg	-0.91%	-0.91%	-11.63%	4.39%	0.00%	11.59%

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	D
Momentum Score	C
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.

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