

Citrix Systems Inc. (CTXS)

\$142.58 (As of 05/01/20)

Price Target (6-12 Months): **\$151.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/18/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: B

Summary

Citrix's first-quarter results benefited from solid adoption of unified workspace solutions driven by coronavirus crisis-induced demand for secure work-from-home solutions. Moreover, solid adoption of subscription-based services and hybrid cloud offerings is a key catalyst. Traction witnessed by ShareFile is also noteworthy. Moreover, the company has deployed its cloud services including XenDesktop and XenApp on Oracle Cloud Marketplace. This is likely to lead to new customer additions, which will generate incremental revenues. Notably, shares of the company have outperformed the industry in the past one year. However, decline in Professional Services revenues remains an overhang. Further, shift toward software-based solutions from traditional hardware is likely to weigh on Networking revenues in the days ahead.

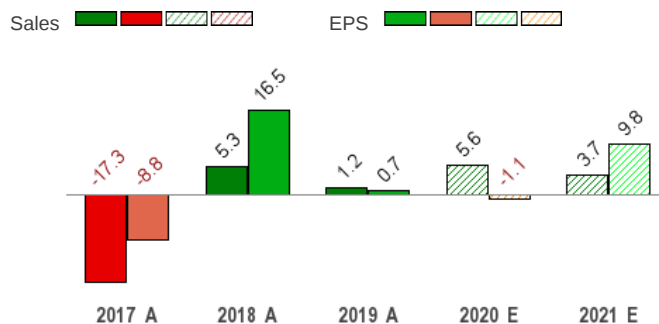
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$152.49 - \$90.28
20 Day Average Volume (sh)	2,489,522
Market Cap	\$17.6 B
YTD Price Change	28.6%
Beta	0.33
Dividend / Div Yld	\$1.40 / 1.0%
Industry	Computer - Software
Zacks Industry Rank	Top 24% (60 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	47.9%
Last Sales Surprise	17.2%
EPS F1 Est- 4 week change	6.7%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	23.1
P/E F1	25.3
PEG F1	3.1
P/S TTM	5.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	802 E	818 E	804 E	859 E	3,298 E
2020	861 A	778 E	749 E	794 E	3,179 E
2019	719 A	749 A	733 A	810 A	3,011 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.44 E	\$1.43 E	\$1.51 E	\$1.87 E	\$6.18 E
2020	\$1.73 A	\$1.23 E	\$1.21 E	\$1.47 E	\$5.63 E
2019	\$1.27 A	\$1.21 A	\$1.52 A	\$1.71 A	\$5.69 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 05/01/2020. The reports text is as of 05/04/2020.

Overview

Founded in 1989 and headquartered in Fort Lauderdale, FL, Citrix Systems is a leading provider of virtualization, networking and cloud computing solutions to more than 400,000 organizations worldwide.

Citrix offers secure digital workspace technologies which are cloud-based and can be managed across both hybrid and multi-cloud infrastructures. The cloud-based approach enables customers to avail centralized control and SaaS-style updates in a cost-effective manner and reducing complexity.

Its offerings include XenApp, XenServer, XenApp, XenDesktop, XenMobile ShareFile service and NetScaler services.

The company's vision is to offer general purpose digital workspace that empowers all users with unified, secure, and reliable access to all apps and content required to be creative - anytime, anywhere.

The company is moving towards a subscription-based business model. The company helps to simplify its solutions naming to three categories: Digital Workspace, Networking, and Analytics.

Moreover, the company's partner community comprises thousands of value added resellers, or VARs known as Citrix Solution Advisors, value-added distributors (VADs), systems integrators, (Sis), independent software vendors (ISVs), original equipment manufacturers (OEMs), and Citrix Service Providers (CSPs).

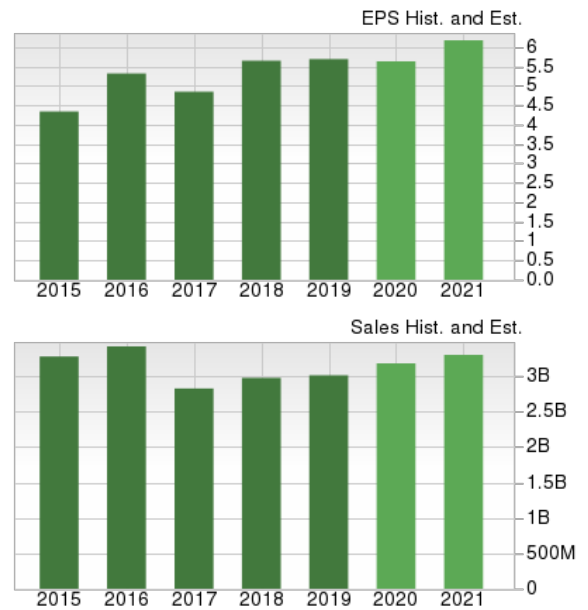
Citrix reported revenues of \$3.01 billion in fiscal 2019. Citrix has three reportable groupings:

Product and License (19% of the total revenues in fiscal 2019) comprise revenues from perpetual product offerings primarily from the sale of software solutions.

Subscription (22%) account for revenues from ratable cloud services solutions, on-premise subscriptions and Citrix Service Providers (CSPs) offerings.

Support and Services (59%) comprise revenues from perpetual product and license offerings.

Citrix is facing increased competition from with VMware's Horizon, Workspace ONE, and AirWatch offerings and Amazon Web Service's ("AWS") Amazon WorkSpaces, Microsoft (particularly post the acquisition of FSLogix), among others.



Reasons To Buy:

- ▲ The desktop virtualization market is expected to accelerate in the near future. In fact, per Mordor Intelligence data, the desktop virtualization market is projected to hit \$9.78 billion by 2024 from \$5.51 billion in 2018 at a CAGR of 10.79% from 2019 to 2024. Centralized management of employee desktops will provide greater security, control and cost savings. This augurs well for Citrix's XenDesktop solution.
- ▲ Citrix has expanded its business through partnerships with established sector players. Citrix, in collaboration with Microsoft, provides services enabling enterprises to deploy Windows 10 desktop systems and other apps, and tools directly on Azure cloud platform, consequently simplifying the implementation of new workspaces. In collaboration with Nutanix, Citrix devised a scalable hyper-converged infrastructure ("HCI") solution aimed at enhancing productivity through minimized infrastructure complexity. Nutanix's InstantOn solution complements Citrix's cloud-based XenApp and XenDesktop solutions, empowering customers with a cost-effective high-performance solution offering seamless access to desktops and applications. The company has also extended the application of ShareFile workflows and connectors to Google Drive and G-Suite, as part of its ongoing alliance with Google. Moreover, the company has deployed its Cloud services including XenDesktop and XenApp on Oracle Cloud Marketplace. This is likely to lead to new customer additions, consequently generating incremental revenues. We believe the extended collaborations augur well for the company in the long haul amid the digital transformation era, wherein enterprises seek to find a common ground between on-premise and cloud infrastructures.
- ▲ The company has been active on the acquisition front of late. Buyouts have aided growth by expanding its product portfolio and adding competence. In a customer-friendly move, the company had purchased Cedexis — a web monitoring company. Apart from widening the choices to Citrix's customers, the deal offers increased flexibility aimed at improving its operational performance and efficiencies. Citrix completed the spin-off and merger of its GoTo business with LogMeIn in 2017 aimed at improving its efficiencies. Moreover, in February 2019, the company acquired Sapho in a bid to empower the company's comprehensive Citrix Workspace suite with guided work capabilities. Reportedly, the company concluded the buyout for approximately \$200 million in cash. We believe acquisition of Sapho will enable the company to fortify its competitive position in the rapidly growing desktop virtualization market.
- ▲ We believe efforts to reward shareholders through share buybacks and dividend payments deserve a special mention. Citrix repurchased shares worth \$200 million during the first quarter. As a result of accelerated share repurchase program, the company has approximately \$714 million remaining under share repurchase authorization. The company paid out quarterly dividend of 35 cents worth \$43 million in the first quarter. Cash flow from operations was reported at \$284.2 million compared with \$206 million in the prior quarter. The increasing cash flow trend reflect that the company is making investments in the right direction, and is expected to help it sustain current dividend payout (0.30) level at least in the near term.

Citrix is gaining from increasing demand for desktop virtualization solutions, strategic partnerships and expanding customer base.

Reasons To Sell:

- ▼ Citrix is facing increased competition from all product group segments. Citrix Workspace solutions compete with VMware's Horizon, Workspace ONE, and AirWatch offerings and Amazon Web Service's ("AWS") Amazon WorkSpaces, Microsoft (particularly post the acquisition of FSLogix), among others. Considering networking solutions, the company faces competition from companies including the likes of F5 Networks, Fortinet, and AWS. Citrix's content collaboration offering, ShareFile directly competes with Box, Dropbox, Alphabet's Google and Microsoft, among other companies. Intensifying competition negatively impacts pricing power, which is likely to keep margins under pressure.
- ▼ High costs have hurt the bottom line for quite some time. Moreover, Citrix results are liable to be affected by foreign exchange movements as it continues to foray into non-U.S. markets. Notably, International revenues (sales outside Americas) contributed approximately 43.4% of net revenues for fiscal 2019.
- ▼ Moreover, Citrix has a leveraged balance sheet. As of Mar 31, 2020, the company's net debt was \$1.21 billion compared with \$197.1 million as of Dec 31, 2019. Consequently, it has to constantly generate adequate amount of operating cash flow to service its debt.

Stiff competition, high costs and significant exposure to foreign markets are major headwinds.

Last Earnings Report

Citrix Q1 Earnings and Revenues Beat Estimates

Citrix delivered first-quarter 2020 non-GAAP earnings of \$1.73 per share, beating the Zacks Consensus Estimate by 47.86%. The bottom line improved 36% on a year-over-year basis.

Revenues of \$860.95 million surpassed the Zacks Consensus Estimate by 17.24%. The figure improved 20% on a year-over-year basis.

Robust adoption of the company's offerings enabling secure remote work amid coronavirus crisis-induced work-from-home wave was a key catalyst.

Product and license revenues (20% of total revenues) improved 28% year over year to \$172.8 million.

Support and services revenues (49%) declined 5% on a year-over-year basis to \$418.9 million.

Subscription revenues (31%) surged 89% from the year-ago figure to \$268.2 million.

During the quarter under review, SaaS revenues came in at \$122 million (46% of total subscription revenues) and were up 43% year over year. Notably, SaaS revenues account for significant part of subscription transition. Other subscription revenues in the reported quarter came in at \$146 million, up 159% year over year.

Revenues as per Product Group

Workspace revenues (76% of total revenues) increased 27% year over year to \$654 million due to higher adoption of SaaS-based subscription solutions. Workspace subscription revenues contributed 34% to the figure. Approximately 61% of Workspace product bookings were subscription based. Management noted sharp increase in Workspace deployments as employees were compelled to work remotely in the wake of the coronavirus pandemic, which called for secure remote work infrastructure.

Networking revenues (21%) improved 5% from the year-ago period to \$180 million. Networking subscription revenues soared 131% from the prior-year figure. Networking software revenues contributed 44% to the figure. The company anticipates shift toward software-based solutions from traditional hardware to weigh on Networking revenues going ahead.

However, Professional Services revenues (3%) declined 18% on a year-over-year basis to \$27 million. As the business shifts toward subscription solutions, Professional services revenue are anticipated to decline over time.

Customer Wise Revenues

Revenues from SSP customers came in at \$20 million (2% of total revenues) during the reported quarter, down 10% year over year. Revenues from non-SSP customers (98% of total revenues) improved 21% year over year to \$841 million.

Geographic Revenues

Revenues in the Americas (56% of total revenues) came in at \$484 million, up 21% on a year-over-year basis. Meanwhile, revenues in Europe, Middle East and Africa or "EMEA" (34% of total revenues) advanced 24% from the year-ago quarter to \$294 million. Revenues in Asia-Pacific and Japan or "APJ" (10% of total revenues) improved 2% year over year to \$83 million.

Margin Details

Total operating expenses increased 11.3% year over year to \$543.8 million. As a percentage of revenues, the figure contracted 480 basis points (bps) to 63.2%

Non-GAAP operating margin was reported at 31%.

Balance Sheet & Cash Flow

As of Mar 31, 2020, Citrix had cash and cash equivalents of \$524.9 million compared with \$545.8 million in the previous quarter. Long-term debt at the end of the quarter came in at \$1.731 billion, compared with \$742.9 million in the prior quarter.

Cash flow from operations was reported at \$284.2 million, compared with \$206 million in the prior quarter.

Deferred and unbilled revenues of \$2.534 billion grew approximately 19% year over year.

Citrix repurchased shares worth \$200 million during the first quarter. The company has \$714 million remaining in share repurchase authorization.

The company paid out quarterly dividends worth \$43 million.

Q2 View

For second-quarter 2020, Citrix anticipates revenues between \$760 million and \$770 million.

Moreover, non-GAAP earnings are expected in the range of \$1.18-\$1.23 per share.

Revises 2020 Guidance

Quarter Ending **03/2020**

Report Date	Apr 23, 2020
Sales Surprise	17.24%
EPS Surprise	47.86%
Quarterly EPS	1.73
Annual EPS (TTM)	6.17

For full-year 2020, Citrix updated guidance on the heels of strong pipeline for secure, remote work offerings. The company now expects revenues between \$3.10 billion and \$3.16 billion, compared with the earlier guided range of \$3.10-\$3.13 billion.

Moreover, non-GAAP earnings are now expected in the range of \$5.40-\$5.60, compared with the previously guided range of \$5.35-\$5.55 per share.

Management continues to anticipate non-GAAP operating margin in the range of 28-29%.

Recent News

On Apr 23, Citrix announced quarterly dividend of 35 cents per share payable on Jun 19, to shareholders as on Jun 5.

On Mar 10, Citrix announced that IDC placed it in the leader's quadrant in virtual client computing (VCC) solutions space, in the research firm's latest report titled "IDC MarketScape: Worldwide Virtual Client Computing 2019-2020 Vendor Assessment."

On Feb 18, Citrix announced that its digital workspace solutions have been adopted by Renasant Bank to enrich user experience.

Valuation

Citrix Systems' shares are up 28.9% in the year-to-date period and 46.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 4.3%, while stocks in the Zacks Computer & Technology sector are down 4.7% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 18.1% and 4.7%, respectively.

The S&P 500 index is down 11.5% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 24.51X forward 12-month earnings, which compares to 27.97X for the Zacks sub-industry, 22.32X for the Zacks sector and 20.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.13X and as low as 15.72X, with a 5-year median of 21.58X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$151 price target reflects 25.96X forward 12-month earnings.

The table below shows summary valuation data for CTXS

Valuation Multiples - CTXS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.51	27.97	22.32	20.18
	5-Year High	39.13	28.74	22.32	20.18
	5-Year Low	15.72	18.62	16.71	15.19
	5-Year Median	21.58	24.78	19.23	17.44
P/S F12M	Current	5.47	6.93	3.41	3.19
	5-Year High	5.94	7.23	3.59	3.44
	5-Year Low	2.88	3.88	2.32	2.54
	5-Year Median	4.21	5.46	3.1	3.01
EV/Sales TTM	Current	6.02	7.27	3.8	2.81
	5-Year High	6.43	8.11	4.44	3.45
	5-Year Low	2.96	3.2	2.58	2.16
	5-Year Median	3.8	5.46	3.57	2.82

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Top 24% (60 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Akamai Technologies, Inc. (AKAM)	Neutral	3
Broadcom Inc. (AVGO)	Neutral	3
Box, Inc. (BOX)	Neutral	4
Dropbox, Inc. (DBX)	Neutral	3
F5 Networks, Inc. (FFIV)	Neutral	3
Fortinet, Inc. (FTNT)	Neutral	3
MobileIron, Inc. (MOBL)	Neutral	2
VMware, Inc. (VMW)	Neutral	4

Industry Comparison Industry: Computer - Software				Industry Peers		
	CTXS	X Industry	S&P 500	BOX	DBX	VMW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	4	3	4
VGM Score	C	-	-	D	B	D
Market Cap	17.60 B	1.66 B	20.61 B	2.31 B	8.21 B	52.39 B
# of Analysts	10	4	14	7	6	11
Dividend Yield	0.98%	0.00%	2.11%	0.00%	0.00%	0.00%
Value Score	C	-	-	F	D	D
Cash/Price	0.03	0.09	0.06	0.08	0.14	0.05
EV/EBITDA	24.10	16.99	11.87	-46.45	67.16	22.69
PEG Ratio	3.15	2.74	2.47	NA	NA	1.27
Price/Book (P/B)	NA	4.76	2.67	103.14	10.11	7.47
Price/Cash Flow (P/CF)	23.64	20.85	10.66	NA	45.74	19.69
P/E (F1)	25.58	29.51	19.01	41.22	28.20	20.77
Price/Sales (P/S)	5.58	4.36	2.10	3.31	4.94	5.12
Earnings Yield	3.95%	3.25%	5.05%	2.42%	3.52%	4.81%
Debt/Equity	-8.83	0.15	0.72	14.74	1.05	0.53
Cash Flow (\$/share)	6.14	1.22	7.01	-0.37	0.46	6.68
Growth Score	B	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	4.84%	10.66%	10.88%	NA	NA	14.59%
Proj. EPS Growth (F1/F0)	-1.00%	7.75%	-7.32%	1,138.10%	39.00%	-3.29%
Curr. Cash Flow Growth	-6.41%	10.55%	5.92%	-23.00%	-165.61%	0.87%
Hist. Cash Flow Growth (3-5 yrs)	-0.25%	8.91%	8.55%	8.89%	NA	13.69%
Current Ratio	0.78	1.46	1.23	0.79	1.23	0.65
Debt/Capital	53.20%	19.73%	43.84%	93.65%	51.26%	34.84%
Net Margin	23.88%	7.18%	11.08%	-20.73%	-3.17%	62.27%
Return on Equity	132.00%	11.18%	16.44%	-590.16%	-3.58%	40.10%
Sales/Assets	0.76	0.64	0.54	0.81	0.69	0.49
Proj. Sales Growth (F1/F0)	5.59%	3.45%	-1.42%	8.92%	12.76%	12.37%
Momentum Score	B	-	-	A	A	B
Daily Price Chg	3.59%	-0.96%	-2.39%	-1.28%	0.19%	-2.56%
1 Week Price Chg	-2.91%	0.00%	-1.74%	2.52%	5.34%	-6.09%
4 Week Price Chg	1.75%	19.35%	17.07%	9.72%	15.30%	11.27%
12 Week Price Chg	18.64%	-11.19%	-18.53%	2.41%	15.11%	-16.50%
52 Week Price Chg	46.11%	0.68%	-9.82%	-20.65%	-12.31%	-34.24%
20 Day Average Volume	2,489,522	95,459	2,641,413	1,737,543	4,142,363	1,317,672
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	6.67%	-1.49%	-6.62%	0.45%	0.00%	-5.38%
(F1) EPS Est 12 week change	5.14%	-7.59%	-13.28%	-12.64%	135.71%	-28.23%
(Q1) EPS Est Mthly Chg	5.67%	-2.57%	-11.97%	0.00%	0.00%	-2.57%

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	C
Growth Score	B
Momentum Score	B
VGM Score	C

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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