

Citrix Systems Inc. (CTXS)

\$123.51 (As of 02/18/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/18/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: A

Summary

Citrix is benefiting from robust adoption of Subscription based services. Solid adoption of unified workspace solutions and hybrid cloud offerings remains a key catalyst. Traction witnessed by ShareFile is also noteworthy. The company is expected to strengthen competitive position in the rapidly growing desktop virtualization market with Sapho buyout. Notably, shares of Citrix Systems have outperformed the industry in the past six-month period. 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. However, transition to subscription model is weighing on margins. Further, decline in Professional Services revenues remains an overhang.

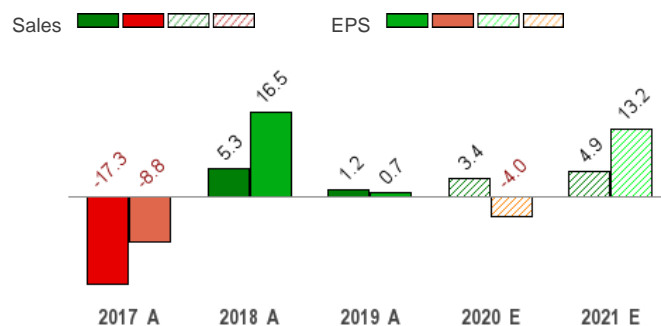
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$130.55 - \$90.28
20 Day Average Volume (sh)	1,582,072
Market Cap	\$15.1 B
YTD Price Change	11.4%
Beta	1.00
Dividend / Div Yld	\$1.40 / 1.1%
Industry	Computer - Software
Zacks Industry Rank	Top 20% (52 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.0%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	04/22/2020
Earnings ESP	0.0%
P/E TTM	21.6
P/E F1	22.6
PEG F1	2.8
P/S TTM	5.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	774 E	810 E	807 E	871 E	3,268 E
2020	736 E	772 E	763 E	843 E	3,114 E
2019	719 A	749 A	733 A	810 A	3,011 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.37 E	\$1.39 E	\$1.54 E	\$1.93 E	\$6.18 E
2020	\$1.18 E	\$1.20 E	\$1.34 E	\$1.74 E	\$5.46 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 02/18/2020. The reports text is as of 02/19/2020.

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.

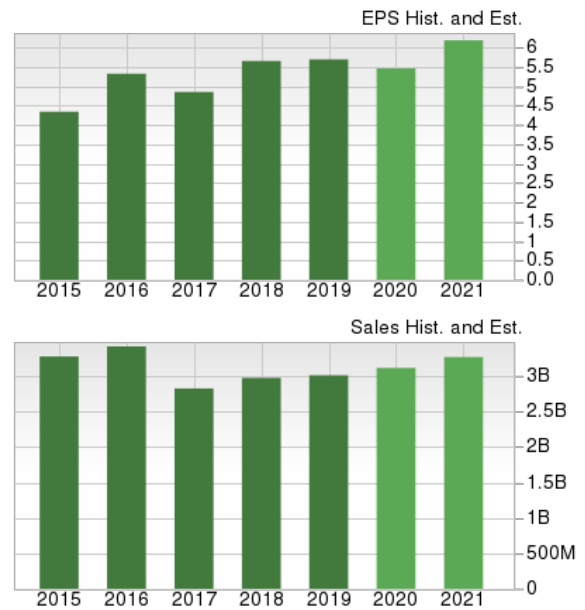
The company is moving towards a subscription-based business model. The company helps to simplify its solutions naming to three categories: Digital Workspace, Networking, and Analytics.

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. Beginning first-quarter fiscal 2018, Citrix has realigned its operations into three reportable groupings as follows:

- **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 deserves a special mention. Citrix repurchased 1 million shares during the fourth quarter. On Jan 31, 2020, Citrix Systems declared that it has entered into accelerated share repurchase program to repurchase an aggregate of \$1 billion of its common stock. As a result of this program, the company has approximately \$750 million remaining under share repurchase authorization. The company paid out quarterly dividend of 35 cents worth \$46 million in the fourth quarter.

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.
- ▼ In July 2017, the company made a change at its helm, replacing Kirill Tatarinov with David J. Henshall as its chief executive officer (CEO). The appointment of Henshall implies that Citrix has had four CEOs in less than two years. The frequent changes at the helm generally do not go down well with investors, shaking their confidence in the stock.
- ▼ We note that Citrix currently has a trailing 12 month P/B ratio of 22.56, which compares unfavorably to some extent with what the industry saw over the last year. Hence, valuation looks slightly stretched from P/B perspective.

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

Last Earnings Report

Citrix Q4 Earnings and Revenues Beat Estimates

Citrix Systems delivered fourth-quarter 2019 non-GAAP earnings of \$1.71 per share, beating the Zacks Consensus Estimate by 3%. The figure improved 2.4% on a year-over-year basis.

Revenues of \$809.8 million surpassed the Zacks Consensus Estimate by 1%. The figure improved 1% on a year-over-year basis.

Product and license (21.8% of total revenues) decreased 16.2% year over year to \$176.7 million.

Support and services (54.3%) revenues declined 4.7% on a year-over-year basis to \$439.6 million.

Subscription (23.9%) revenues surged 49.1% from the year-ago figure to \$193.5 million.

During the quarter under review, SaaS revenues came in at \$113 million (59% of total subscription revenues) and were up 45% year over year. Notably, SaaS revenues form the most significant part of subscription transition. Other subscription revenues in the reported quarter came in at \$80 million, up 56% year over year.

Quarter Ending **12/2019**

Report Date	Jan 22, 2020
Sales Surprise	1.24%
EPS Surprise	3.01%
Quarterly EPS	1.71
Annual EPS (TTM)	5.71

Revenues as per Product Group

Workspace revenues (69.8% of total revenues) increased 1.4% year over year to \$565 million due to higher adoption of SaaS-bases subscription solutions. Workspace subscription revenues contributed 27% to the figure. Approximately 73% of Workspace product bookings were subscription based.

Networking revenues (26.2%) increased 2.9% from the year-ago to \$212 million. Networking subscription revenues surged 100% from the prior-year figure. The company anticipates shift toward software-based solutions from traditional hardware to weigh on Networking revenues going ahead.

However, Professional Services revenues (4.1%) declined 15.4% on a year-over-year basis to \$33 million.

Customer Wise Revenues

Revenues from SSP customers came in at \$36 million (4% of total revenues) during the reported quarter, up 112% year over year. Revenues from non-SSP customers declined 1% year over year to \$774 million.

Geographic Revenues

Revenues in the Americas came in at \$453 million, up 3% on a year-over-year basis. Meanwhile, revenues in Europe, Middle East and Africa (EMEA) declined 1% from the year-ago quarter to \$278 million. Revenues in Asia-Pacific and Japan (APJ) declined 4% year over year to \$79 million.

Margin Details

Total operating expenses increased 3.9% year over year to \$505.3 million. As a percentage of revenues, the figure expanded 170 basis points (bps) to 62.4%

Non-GAAP operating margin was reported at 34.4%, which contracted 170 bps from the year-ago figure, primarily impacted by the shift toward subscription model.

Balance Sheet & Cash Flow

Cash and cash equivalents at the end of the quarter were \$545.8 million compared with \$493.8 million in the previous quarter. Long-term debt at the end of the quarter came in at \$742.9 million, compared with \$742.7 million in the prior quarter.

Cash flow from operations was reported at \$206 million, compared with \$147 million in the prior quarter.

Deferred and unbilled revenues of \$2.501 billion grew approximately 15% year over year.

Citrix repurchased shares of 1 million during the fourth quarter. The company enhanced its share repurchase authorization by \$1 billion, bringing the total authorization to approximately \$1.75 billion.

The company paid out quarterly dividend of 35 cents worth \$46 million.

Key Developments in Q4

Notably, during the fourth quarter, Citrix renewed its partnership with Aston Martin Red Bull Racing where the latter's team will rely on Citrix's digital workspace solutions as it adapts to Formula One's new technical and regulatory framework.

On Dec 4, the company announced deepening of its relationship with Amazon Web Services (AWS) to provide businesses with greater flexibility and choice in deploying Citrix ADC in hybrid environments.

Guidance

For first-quarter 2020, Citrix anticipates revenues between \$730 million and \$740 million.

Moreover, non-GAAP earnings are expected in the range of \$1.15-\$1.2 per share.

For full-year 2020, the company expects revenues between \$3.1 billion and \$3.13 billion.

Non-GAAP operating margin is anticipated to be in the range of 28% to 29%.

Moreover, non-GAAP earnings are expected to be in the range of \$5.35-\$5.55 per share.

Recent News

On **Feb 18, 2020**, Citrix Systems announced that its digital workspace solutions have been adopted by Renasant Bank to enrich user experience.

On **Jan 31, 2020**, Citrix Systems declared that it has entered into accelerated share repurchase program to repurchase an aggregate of \$1 billion of its common stock. As a result of this program, the company has approximately \$750 million remaining under share repurchase authorization.

On **Jan 22, 2020**, Citrix Systems announced quarterly dividend of 35 cents per share to be paid on Mar 20, 2020, to shareholders as on Mar 6, 2020.

On **Jan 13, 2020**, Citrix Systems rolled out Citrix Analytics for Performance, a performance analytics service for apps and desktops.

On **Dec 16, 2019**, Citrix Systems introduced the Citrix Workspace for Google Cloud which companies can use to provide access to G Suite apps.

On **Nov 11, 2019**, Citrix Systems announced that Forrester Research, Inc placed it as a leader in Unified Endpoint Management solutions in the research firm's latest report titled "The Forrester Wave: Unified Endpoint Management, Q4 2019, The 13 Providers that Matter Most and How They Stack Up."

Valuation

Citrix Systems' shares are up 35.3% in the past six-month period and 7.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Computer & Technology sector are up 28.2% and 23.5%, respectively in the past six-month period. Over the past year, the Zacks subindustry and sector are up 49.1% and 30.8%, respectively.

The S&P 500 index is up 17.8% in the past six-month period and 23% in the past year.

The stock is currently trading at 22.23X forward 12-month earnings, which compares to 30.89X for the Zacks sub-industry, 23.08X for the Zacks sector and 19.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.35X and as low as 15.72X, with a 5-year median of 21.57X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$133 price target reflects 23.94X 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	22.23	30.89	23.08	19.3
	5-Year High	35.35	30.89	23.08	19.34
	5-Year Low	15.72	18.59	16.87	15.18
	5-Year Median	21.57	24.45	19.32	17.47
P/S F12M	Current	5.13	7.75	3.78	3.57
	5-Year High	5.36	7.75	3.78	3.57
	5-Year Low	2.83	3.88	2.3	2.54
	5-Year Median	4.13	5.3	3.02	3
P/B TTM	Current	22.56	10.96	5.74	4.66
	5-Year High	28.28	10.96	5.76	4.68
	5-Year Low	4.26	3.99	3.13	2.85
	5-Year Median	6.57	6.31	4.24	3.62

As of 02/18/2020

Industry Analysis Zacks Industry Rank: Top 20% (52 out of 255)



Top Peers

Akamai Technologies, Inc. (AKAM)	Neutral
Broadcom Inc. (AVGO)	Neutral
Box, Inc. (BOX)	Neutral
Dropbox, Inc. (DBX)	Neutral
Fortinet, Inc. (FTNT)	Neutral
MobileIron, Inc. (MOBL)	Neutral
VMware, Inc. (VMW)	Neutral
F5 Networks, Inc. (FFIV)	Underperform

Industry Comparison Industry: Computer - Software				Industry Peers		
	CTXS Neutral	X Industry	S&P 500	BOX Neutral	DBX Neutral	VMW Neutral
VGM Score	C	-	-	C	C	F
Market Cap	15.11 B	2.01 B	24.50 B	2.43 B	7.64 B	65.73 B
# of Analysts	10	4	13	7	6	11
Dividend Yield	1.13%	0.00%	1.78%	0.00%	0.00%	0.00%
Value Score	C	-	-	F	D	C
Cash/Price	0.03	0.10	0.04	0.08	0.13	0.03
EV/EBITDA	16.72	22.64	14.25	-37.04	-23.88	18.47
PEG Ratio	2.79	2.48	2.08	2.07	1.46	1.74
Price/Book (P/B)	22.56	5.72	3.28	116.85	10.02	11.30
Price/Cash Flow (P/CF)	19.50	26.41	13.68	NA	NA	24.68
P/E (F1)	22.63	33.65	19.12	53.88	32.36	22.93
Price/Sales (P/S)	5.02	4.88	2.67	3.59	4.80	6.74
Earnings Yield	4.42%	2.82%	5.23%	1.85%	3.10%	4.36%
Debt/Equity	1.35	0.16	0.70	16.17	0.99	0.63
Cash Flow (\$/share)	6.33	1.01	6.93	-0.51	-0.71	6.50
Growth Score	C	-	-	A	B	F
Hist. EPS Growth (3-5 yrs)	6.93%	10.09%	10.84%	NA	NA	15.51%
Proj. EPS Growth (F1/F0)	-4.08%	13.10%	7.11%	3,416.69%	18.82%	6.36%
Curr. Cash Flow Growth	1.48%	7.45%	7.81%	-21.40%	-480.83%	23.44%
Hist. Cash Flow Growth (3-5 yrs)	3.87%	8.25%	8.25%	7.31%	NA	12.60%
Current Ratio	0.74	1.49	1.24	0.76	1.20	0.58
Debt/Capital	57.48%	18.56%	42.37%	94.18%	49.72%	38.53%
Net Margin	22.65%	6.51%	11.76%	-19.76%	-3.49%	67.21%
Return on Equity	93.09%	11.82%	16.86%	-513.34%	-6.82%	61.67%
Sales/Assets	0.69	0.64	0.55	0.86	0.73	0.54
Proj. Sales Growth (F1/F0)	3.44%	7.85%	4.05%	10.91%	14.45%	12.61%
Momentum Score	A	-	-	B	A	F
Daily Price Chg	1.21%	0.00%	-0.38%	2.20%	-0.76%	-0.90%
1 Week Price Chg	0.78%	0.92%	1.65%	2.85%	2.38%	3.55%
4 Week Price Chg	4.80%	1.26%	0.39%	-0.18%	4.25%	7.86%
12 Week Price Chg	8.37%	7.33%	4.84%	-2.75%	-2.70%	-2.75%
52 Week Price Chg	16.21%	26.58%	14.99%	-33.50%	-29.24%	-5.69%
20 Day Average Volume	1,582,072	69,499	1,996,897	1,339,659	4,353,679	972,610
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.55%	0.00%	-0.01%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	0.55%	0.00%	-0.21%	23.60%	0.00%	-6.11%
(Q1) EPS Est Mthly Chg	3.57%	0.00%	-0.26%	0.00%	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	C
Growth Score	C
Momentum Score	A
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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