

Citrix Systems Inc. (CTXS)

\$144.29 (As of 08/26/20)

Price Target (6-12 Months): **\$152.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/20/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

Summary

Citrix is benefiting 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 are expected to boost top line growth. Further, traction witnessed by ShareFile deserves a special mention. The company provided encouraging guidance for third quarter and raised revenue guidance for 2020, driven by momentum in workspace solutions. Also, growing cloud of company's Remote PC Access solution is noteworthy. However, decline in Professional Services revenues remains an overhang. Also, shift toward software-based solutions from traditional hardware is likely to weigh on Networking revenues in the days ahead. Notably, shares of the company have underperformed the industry on a year-to-date basis.

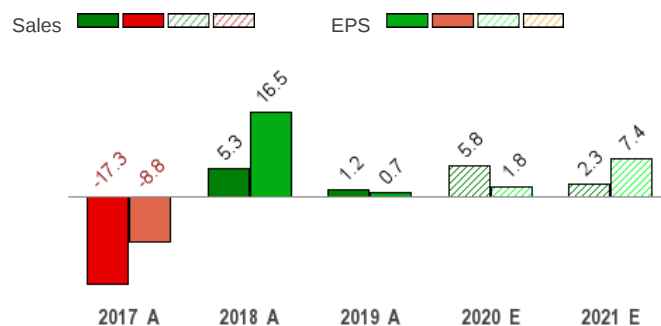
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$173.56 - \$91.19
20 Day Average Volume (sh)	1,223,479
Market Cap	\$17.8 B
YTD Price Change	30.1%
Beta	0.31
Dividend / Div Yld	\$1.40 / 1.0%
Industry	Computer - Software
Zacks Industry Rank	Top 25% (64 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	26.5%
Last Sales Surprise	4.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	10/22/2020
Earnings ESP	0.0%
P/E TTM	22.2
P/E F1	24.9
PEG F1	3.1
P/S TTM	5.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	783 E	811 E	810 E	848 E	3,258 E
2020	861 A	799 A	757 E	784 E	3,185 E
2019	719 A	749 A	733 A	810 A	3,011 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.42 E	\$1.54 E	\$1.56 E	\$1.75 E	\$6.22 E
2020	\$1.73 A	\$1.53 A	\$1.23 E	\$1.31 E	\$5.79 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 08/26/2020. The reports text is as of 08/27/2020.

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).

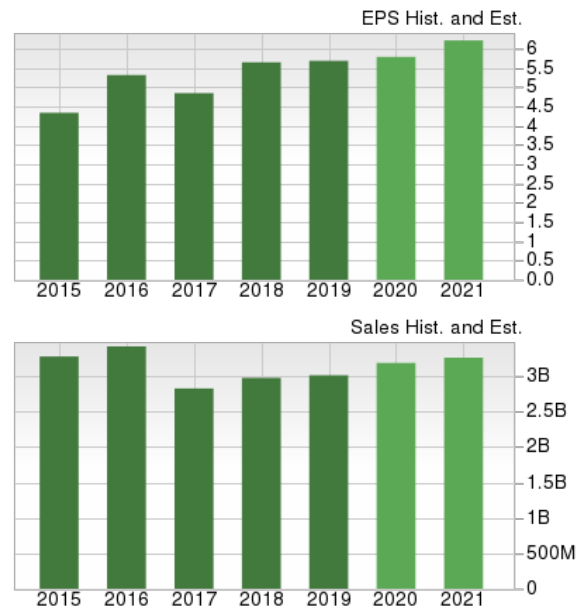
Citrix reported revenues of \$3.01 billion in fiscal 2019. Citrix has three reportable groupings:

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. Moreover, rise in remote work trends due to the ongoing pandemic has bolstered the adoption of its desktop virtualization solutions. Besides, Citrix is well poised to have gain from the COVID-19 induced digital transformation across all industries, as more companies transition from on-premise to the cloud to improve their efficiency. Notably, the company has extended its Remote PC Access solution to the cloud to capitalize on this demand. Also, the company's efforts to enhance the security capabilities of its offerings amid increasing threat of cyber-attacks hold promise.
- ▲ 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. 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. Markedly, Citrix partnered with Check Point Software Technologies to roll out additional next-gen firewalls within Citrix SD-WAN. The introduction of burst capacity licenses to attract more small and medium businesses is expected to boost the top line in the quarters ahead. 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 dividend payments deserve a special mention. The company paid out quarterly dividend of 35 cents worth \$43 million in the second quarter. Cash flow from operations was reported at \$419 million compared with \$284.2 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 (0.29) level at least in the near term. Moreover, strong cash flows are expected to help Citrix to resume shareholder friendly initiatives of share repurchase. Notably, lower number of outstanding shares helps the bottom line. As a result of accelerated share repurchase program, the company has approximately \$714 million remaining under share repurchase authorization.

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.
- ▼ Citrix also has a leveraged balance sheet, which adds to the risk of investing in the company. As of Jun 30, 2020, the company's net debt was \$1.17 billion. Moreover, total debt to total capital of 105.1% is greater than the industry's figure of 43.7%, signifying a higher liability to pay back the debt. Further, times interest earned currently stands at 13.2X is lower than the industry's figure of 17.6X. Although the company generates significant cash flow, the high debt level can not only jeopardize its ability to sustain dividend payout and buyback shares, but also pursue accretive acquisitions.

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

Last Earnings Report

Citrix Q2 Earnings and Revenues Beat Estimates

Citrix Systems reported second-quarter 2020 non-GAAP earnings of \$1.53 per share, beating the Zacks Consensus Estimate by 26.5%. The bottom line also improved 26.4% on a year-over-year basis.

Revenues of \$798.93 million surpassed the Zacks Consensus Estimate by 4.1%. The top line improved 7% 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 (16% of total revenues) declined 8% year over year to \$130 million.

Support and services revenues (53%) decreased 6% on a year-over-year basis to \$426 million.

Subscription revenues (31%) surged 56% from the year-ago figure to \$243 million.

During the quarter under review, **SaaS** revenues were \$131 million (54% of total subscription revenues), 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 \$113 million, soaring 75% year over year.

Revenues as per Product Group

Workspace revenues (73% of total revenues) increased 9% year over year to \$585 million due to higher adoption of SaaS-based subscription solutions. Workspace subscription revenues contributed 34% to the figure. Approximately 76% 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 (23%) improved 4% from the year-ago period to \$186 million. Networking subscription revenues soared 73% from the prior-year figure. Networking software revenues contributed 36% to the figure. Approximately 77% of Networking product bookings were subscription based. The company anticipates shift toward software-based solutions from traditional hardware to weigh on Networking revenues in the days ahead.

However, **Professional Services** revenues (4%) declined 21% on a year-over-year basis to \$28 million. As the business shifts toward subscription solutions, Professional services revenues are anticipated to decline over time.

Customer Wise Revenues

Revenues from SSP customers amounted to \$30 million (4% of total revenues) during the reported quarter, up 25% year over year. Revenues from non-SSP customers (96% of total revenues) improved 6% year over year to \$769 million.

Geographic Revenues

Revenues in the Americas (54% of total revenues) came in at \$432 million, flat on a year-over-year basis. Meanwhile, revenues in Europe, Middle East and Africa or "EMEA" (35% of total revenues) advanced 15% from the year-ago quarter to \$277 million. Revenues in Asia-Pacific and Japan or "APJ" (11% of total revenues) improved 18% year over year to \$90 million.

Margin Details

Total operating expenses increased 2.3% year over year to \$533 million. As a percentage of revenues, the figure contracted 290 basis points (bps) to 66.7%.

Non-GAAP operating margin was reported at 31%, flat sequentially.

Balance Sheet & Cash Flow

As of Jun 30, 2020, Citrix had cash and cash equivalents of \$555.1 million compared with \$524.9 million as of Mar 31, 2020. As of Jun 30, 2020, long-term debt at the end of the quarter came in at \$1.73 billion, flat sequentially.

Cash flow from operations was reported at \$419 million, compared with \$284.2 million in the prior quarter.

Deferred and unbilled revenues of \$2.654 billion grew approximately 19% year over year.

The company has \$714 million remaining in share repurchase authorization.

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

Notably, Citrix's board of directors approved a cash dividend of 35 cents per share, payable on Sep 25, to shareholders as on Sep 11.

Guidance

For third-quarter 2020, Citrix anticipates revenues between \$750 million and \$760 million.

Moreover, non-GAAP earnings are expected in the range of \$1.20-\$1.25 per share.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	4.11%
EPS Surprise	26.45%
Quarterly EPS	1.53
Annual EPS (TTM)	6.49

For full-year 2020, Citrix updated guidance on the heels of strong pipeline for secure, remote work offerings. The company now expects revenues between \$3.18 billion and \$3.21 billion, compared with the earlier guided range of \$3.10-\$3.16 billion.

Moreover, non-GAAP earnings are now expected between \$5.65 and \$5.85, compared with the previously guided range of \$5.40-\$5.60 per share.

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

Recent News

On Aug 26, Citrix announced that it has been recognized in the 2020 Constellation ShortList for Enterprise File Sharing and Cloud Content Management, an evaluation report from Constellation Research.

On Jul 28, Citrix announced that its Virtual Apps and Desktops have been deployed by Altamaha Bank & Trust. The company's remote work solutions are enabling Altamaha's employees to seamlessly deliver financial services.

On Jul 23, Citrix announced quarterly dividend of 35 cents per share payable on Sep 25, to shareholders as on Sep 11.

On Jul 21, Citrix announced that its digital workspace solutions on Google Cloud's platform are enabling Oncology Venture to transform care for patients and develop personalized treatments in a unified experience.

On Jul 14, Citrix announced the expansion of its partnership with Microsoft in a bid to address the needs of a rapidly evolving work environment amid coronavirus-induced lockdowns.

On Jun 29, Citrix announced collaboration with Upwork for the launch of the new Upwork Talent Solution with Citrix Workspace, which is designed to help companies improve productivity amid growing remote-work trends.

On Jun 25, Citrix announced a partnership with Hewlett Packard Enterprise to launch solutions that will enable customers to bring employees back to the office and ensure their safety. The solutions will help employees manage and complete vital tasks associated with re-opening offices like location mapping and completing health agreements.

Valuation

Citrix Systems' shares rallied 30.1% in the year-to-date period and 56.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 37.7% and 28.6% in the year-to-date period, respectively. In the past year, the Zacks sub-industry and sector are up 54.5% and 46.6%, respectively.

The S&P 500 index is up 8.1% in the year-to-date period and 20.9% in the past year.

The stock is currently trading at 36.29X forward 12-month earnings compared with 35.19X for the Zacks sub-industry, 27.86X for the Zacks sector and 23.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 40.13X and as low as 15.72X, with a five-year median of 21.6X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$152 price target reflects 38.23X 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	36.29	35.19	27.86	23.37
	5-Year High	40.13	35.19	27.86	23.37
	5-Year Low	15.72	18.62	16.72	15.25
	5-Year Median	21.6	25.13	19.6	17.58
P/S F12M	Current	5.51	8.16	4.34	3.81
	5-Year High	6.43	8.16	4.34	3.81
	5-Year Low	2.88	3.88	2.32	2.53
	5-Year Median	4.31	5.63	3.14	3.05
EV/Sales TTM	Current	5.9	9.1	5.05	3.42
	5-Year High	6.8	9.1	5.05	3.46
	5-Year Low	3.03	3.26	2.59	2.15
	5-Year Median	4.56	5.85	3.64	2.88

As of 08/26/2020

Industry Analysis Zacks Industry Rank: Top 25% (64 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Dropbox, Inc. (DBX)	Outperform	1
Akamai Technologies, Inc. (AKAM)	Neutral	3
Broadcom Inc. (AVGO)	Neutral	3
Box, Inc. (BOX)	Neutral	3
F5 Networks, Inc. (FFIV)	Neutral	2
Fortinet, Inc. (FTNT)	Neutral	3
MobileIron, Inc. (MOBL)	Neutral	4
VMware, Inc. (VMW)	Neutral	3

Industry Comparison Industry: Computer - Software				Industry Peers		
	CTXS	X Industry	S&P 500	BOX	DBX	VMW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	1	3
VGM Score	B	-	-	B	C	C
Market Cap	17.82 B	1.75 B	23.69 B	2.91 B	8.50 B	60.17 B
# of Analysts	7	3	14	6	5	11
Dividend Yield	0.97%	0.00%	1.65%	0.00%	0.00%	0.00%
Value Score	C	-	-	D	F	C
Cash/Price	0.05	0.07	0.07	0.10	0.13	0.10
EV/EBITDA	23.61	17.85	13.37	-54.46	65.68	24.39
PEG Ratio	3.04	2.57	3.04	NA	0.77	1.80
Price/Book (P/B)	NA	6.88	3.17	71.17	10.58	8.11
Price/Cash Flow (P/CF)	23.52	23.52	12.78	NA	44.76	21.50
P/E (F1)	24.66	35.59	21.63	38.33	26.58	23.89
Price/Sales (P/S)	5.57	4.87	2.50	3.95	4.73	5.62
Earnings Yield	4.01%	2.63%	4.44%	2.59%	3.74%	4.19%
Debt/Equity	-20.62	0.24	0.75	9.06	1.15	0.78
Cash Flow (\$/share)	6.14	1.17	6.94	-0.37	0.46	6.68
Growth Score	A	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	3.24%	9.39%	10.41%	NA	NA	13.76%
Proj. EPS Growth (F1/F0)	1.81%	10.00%	-4.92%	1,577.77%	54.80%	-3.67%
Curr. Cash Flow Growth	-6.41%	6.56%	5.22%	-23.00%	-165.61%	0.87%
Hist. Cash Flow Growth (3-5 yrs)	-0.25%	9.63%	8.50%	8.89%	NA	13.69%
Current Ratio	0.85	1.51	1.34	0.84	1.25	0.87
Debt/Capital	53.20%	28.91%	44.18%	90.06%	53.47%	43.71%
Net Margin	24.11%	6.61%	10.25%	-14.19%	1.85%	58.44%
Return on Equity	201.80%	10.54%	14.66%	-358.25%	9.34%	30.45%
Sales/Assets	0.74	0.60	0.50	0.80	0.68	0.44
Proj. Sales Growth (F1/F0)	6.02%	2.07%	-1.45%	9.81%	14.18%	11.83%
Momentum Score	D	-	-	C	C	B
Daily Price Chg	0.97%	0.00%	-0.18%	6.99%	2.14%	2.06%
1 Week Price Chg	5.05%	0.61%	-1.45%	3.38%	3.18%	2.21%
4 Week Price Chg	3.59%	4.02%	2.10%	9.42%	-8.82%	2.69%
12 Week Price Chg	3.38%	7.48%	3.61%	1.37%	-12.65%	-3.88%
52 Week Price Chg	56.63%	34.42%	3.61%	39.48%	16.54%	8.41%
20 Day Average Volume	1,223,479	132,381	1,883,291	1,666,439	7,330,012	1,062,568
(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%	0.93%	0.00%	50.00%	0.00%
(F1) EPS Est 12 week change	-1.73%	2.64%	3.41%	0.00%	129.41%	7.76%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	0.00%

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	A
Momentum Score	D
VGM Score	B

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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