

Tyler Technologies (TYL)

\$365.94 (As of 08/04/20)

Price Target (6-12 Months): **\$384.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

Summary

Tyler gains on public sector's ongoing transition from on-premise and outdated systems to scalable cloud-based systems. Coronavirus-led remote-working trend is also driving demand for its connectivity and cloud services. Moreover, stable revenue base, along with solid recurring revenues makes it an attractive stock for investors. Strong liquidity position will also help it pursue acquisitions. Shares have outperformed the industry year to date. However, the coronavirus outbreak has negatively impacted Tyler's prospects. The company expects the pandemic to have significant negative impact on second and third quarters. It continues to see delays in procurement processes and lengthening sales cycles, as public entities focus on issues related to the pandemic. Also, many of its customers are likely to face budget pressures in the near term.

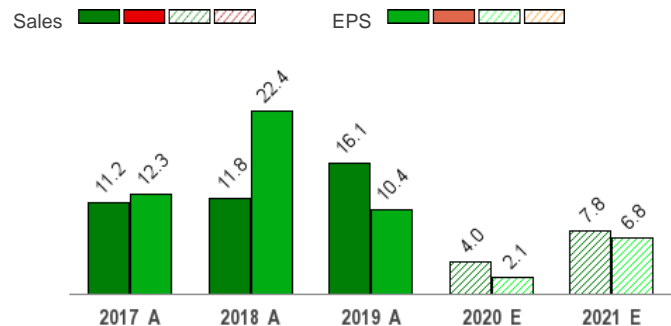
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$382.92 - \$240.17
20 Day Average Volume (sh)	250,580
Market Cap	\$14.7 B
YTD Price Change	22.0%
Beta	0.76
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Business - Software Services
Zacks Industry Rank	Top 25% (63 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	19.0%
Last Sales Surprise	-3.2%
EPS F1 Est- 4 week change	-2.5%
Expected Report Date	11/04/2020
Earnings ESP	2.0%
P/E TTM	67.6
P/E F1	67.6
PEG F1	4.5
P/S TTM	13.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	293 E	297 E	308 E	322 E	1,224 E
2020	277 A	271 A	286 E	301 E	1,135 E
2019	249 A	278 A	277 A	287 A	1,091 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.31 E	\$1.41 E	\$1.46 E	\$1.58 E	\$5.78 E
2020	\$1.25 A	\$1.38 A	\$1.32 E	\$1.46 E	\$5.41 E
2019	\$1.22 A	\$1.30 A	\$1.35 A	\$1.43 A	\$5.30 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 08/04/2020. The reports text is as of 08/05/2020.

Overview

Tyler Technologies is a leading provider of integrated information-management solutions and services for the public sector.

Clients consist primarily of federal, state, county and municipal agencies, school districts, and other local government offices. In counties, clients include the auditor, treasurer, tax assessor/collector, county clerk, district clerk, county and district court judges, probation officers, sheriff, and county appraiser. At municipal government sites, clients include directors of various departments, including administration, finance, utilities, public works, code enforcement, personnel, purchasing, taxation, municipal court, and police.

The company's software solutions and services are generally grouped into the following areas: (1) Financial Management and Education, (2) Courts and Justice, (3) Public Safety, (4) Property Appraisal and Tax, (5) Planning, Regulatory and Maintenance, (6) Land and Vital Records Management, (7) Data and Insights, and (8) Case Management and Business Process Management.

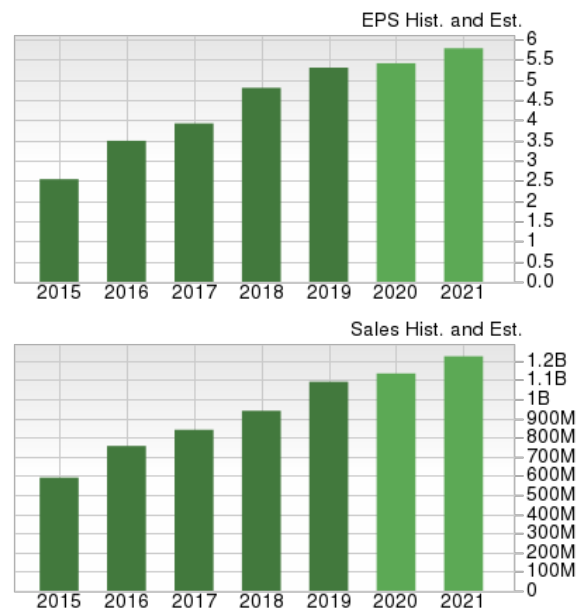
Tyler serves its customers both on-premise and in cloud. By leveraging Tyler private cloud, the company delivers its applications through Software-as-a-Service ("SaaS") model. In October 2019, the company entered into a partnership agreement with Amazon Web Services for cloud-hosting services.

Tyler reported revenues of \$1.09 billion in 2019. The Plano, TX-based company derives revenues from five sources: (i) Sales of software licenses and royalties, (ii) Subscription-based arrangements, (iii) Software services, (iv) Maintenance and support, and (v) Appraisal services.

Subscription-based revenues are primarily derived from Tyler's SaaS arrangements, as well as transaction-based offerings such as e-filing solutions, online dispute resolution solutions, and online payment services.

Moreover, client-support services comprise a significant base of recurring maintenance revenues. During 2019, approximately 40% of Tyler's revenues were attributable to ongoing support and maintenance agreements.

Tyler faces competition from Oracle, Infor, SAP AG, Workday, CentralSquare, Thomson Reuters, Motorola Solutions, Axon Enterprise and Constellation.



Reasons To Buy:

- ▲ Public sector's ongoing software transition from on-premise and outdated systems to scalable cloud-based systems benefits Tyler. The multi-year transition is expected to boost the company's recurring revenues that currently accounts for more than 70% of top line. Further, strong adoption of cloud-based systems is expected to drive subscription revenues, Tyler's fastest-growing revenue category over the past five years. Notably, subscription revenues increased from \$111.9 million in 2015 to \$296.4 million in 2019. In first-quarter 2020, Tyler added 131 new subscription-based arrangements and converted 19 existing on-premises clients, representing roughly \$101 million in total contract value.
- ▲ Tyler is a pure play government software provider. Property taxes are the primary source of revenues for local government entities, and are fairly stable in nature. This makes Tyler's revenue base less volatile, particularly amid the coronavirus pandemic. Moreover, once a project is approved by a government entity, budget gets locked in, which reduces its flexibility to cancel the project. Although coronavirus-led disruptions have delayed projects, lower chances of cancellation bode well for Tyler. Notably, backlog at the end of the first quarter reached \$1.5 billion, up 19.2%. Additionally, Tyler has conventionally focused on small and mid-sized governments, but is now targeting larger clients that are expected to expand its revenue source.
- ▲ Tyler offers mission-critical software to public sectors that handle essential services like 911, dispatch, court, permits, licenses, land records, utilities and property taxes. The company's agile cloud-based system not only improves efficiency but also lowers cost. These factors are expected to drive up demand for Tyler's solutions. Moreover, the remote-working wave has also demonstrated limitations of current on-premise solutions that bode well for Tyler's cloud-based solutions. Notably, the company has been using web- and video-conferencing extensively for collaboration, conducting sales demos, providing client support and delivering professional services such as training remotely. It has also helped clients go live virtually. Growing need for connectivity and cloud services amid coronavirus benefits Tyler.
- ▲ Tyler's growth trajectory in recent years has been driven by acquisitions. In 2019, the company acquired certain assets of Courthouse Technologies, MicroPact and Civic. The buyouts expanded the company's footprint into SaaS-based jury-management system, case management and business-process management. MicroPact contributed \$63 million to revenues in 2019. The company is expected to pursue acquisitions that will be strategically fit to its current offerings. Along with investments on research & development (R&D), strategic acquisitions are expected to strengthen product offerings and clientele in the long run.
- ▲ Tyler has a strong balance sheet with ample liquidity position and less debt obligations that provide it flexibility to pursue growth initiatives including acquisitions. As of Jun 30, 2020, cash and cash equivalents were \$351 million compared with \$302 million as of Mar 31, 2020. Moreover, the company has \$400 million available under its credit facility. Further, cash flow from operations was \$39.8 million, up 62.5% year over year in second-quarter 2020. Markedly, the company has been able to regularly increase its cash flow from operations in the last five years.

Public sector's ongoing transition to cloud-based solutions from on-premise and outdated systems bodes well for Tyler. Stable revenue base, strategic acquisitions and strong balance sheet are key positives.

Reasons To Sell:

- ▼ The coronavirus outbreak has negatively impacted Tyler's prospects. The company expects the pandemic to have significant negative impact on second and third quarters. It continues to see delays in procurement processes and lengthening sales cycles, as public sector entities focus on issues related to the pandemic. Further, roughly \$6 million of revenues under hardware and other revenues will be also eliminated in the second quarter as a result of the cancellation of Tyler's Connect conference. Additionally, many of its customers are expected to face budget pressures in the near term due to coronavirus.
- ▼ Tyler faces tough competition from the likes of Oracle, SAP and Workday that keeps pricing under pressure and negatively impacts gross margin. Notably, non-GAAP gross margin contracted 40 basis points (bps) to 51.2% in first-quarter 2020. Moreover, both Oracle and SAP have well-established cloud businesses that make it harder for Tyler to gain market share. Further, Workday dominates Human Capital Management and Financial Management software-solution markets.
- ▼ Tyler is spending significantly on R&D to improve its software offerings. However, R&D growth on a year-over-year basis has been much faster compared with revenues. For instance, in 2018 and 2019 revenues grew 11.2% and 16.2% respectively, compared with R&D's growth of 33.7% and 28.6%. As a result, operating margin contracted 190 bps and 310 bps year over year respectively in 2018 and 2019. The trend continued in first-half of 2020 with R&D expense growth of 13.5% being much higher than revenue growth of 4.9%. Given the fact that coronavirus pandemic will hit Tyler's top line at least in the near term, higher R&D expense will keep operating margin under pressure.
- ▼ Tyler faces significant integration risks due to frequent acquisitions. Notably, asset quality is not good due to high level of goodwill and net intangible assets, which totaled \$1.3 billion or 54.4% of total assets, as of Jun 30, 2020.

Coronavirus outbreak has negatively impacted Tyler's prospects. Stiff competition, increasing R&D expenses and significant integration risks are major headwinds.

Last Earnings Report

Tyler's Q2 Earnings Beat, Revenues Miss Estimates

Tyler Technologies reported second-quarter 2020 non-GAAP earnings of \$1.38 per share, which surpassed the Zacks Consensus Estimate of \$1.16. Moreover, the bottom line increased 6.2% from the year-ago quarter.

Revenues on a non-GAAP basis declined 2.4% year over year to \$271.3 million, missing the consensus mark of \$280.2 million. Tyler recorded a 1.9% year-over-year decline in organic revenues.

Recurring revenues increased 12.3% year over year to \$202.4 million and accounted for 74.7% of total revenues.

Q2 Results in Detail

Segment wise, Maintenance revenues (43.1% of total revenues) were \$116.8 million, up 9.4% year over year.

Subscription revenues (31.6% of total revenues) climbed 16.6% year over year to \$85.6 million.

Software subscription arrangements comprised roughly 43% of the total new software contract value in the reported quarter compared with the year-ago quarter's 80%.

Software licenses and royalties (6.3% of total revenues) of \$17 million slid 17.7% on a year-over-year basis.

Software Services revenues (16.1% of total revenues) of \$43.7 million dropped 23.9% from the year-ago quarter.

Appraisal services revenues (1.7% of total revenues) slipped 24.7% to \$4.7 million.

Hardware and other revenues (1.2% of total revenues) plummeted 68.8% to \$3.3 million.

Backlog at the end of the quarter was \$1.54 billion, up 7.4% year over year. Of this, software-related backlog increased 8% to \$1.51 billion.

Bookings plunged 31.6% year over year to \$309 million. Subscription bookings added \$9.2 million in annual recurring revenues.

Operating Details

Tyler's non-GAAP gross profit increased to \$143.8 million from the year-earlier quarter's \$142.5 million. Non-GAAP gross margin also expanded 180 basis points (bps) to 53%.

Adjusted EBITDA was \$80.7 million, up 8.2% year over year.

Selling, general and administrative (SG&A) expenses, as percentage of revenues, shrunk 80 bps year over year to 23.1%. However, research and development (R&D) expenses, as percentage of revenues, expanded 80 bps to 8.1%.

The company's non-GAAP operating income increased 9.1% year over year to \$74.6 million. Its operating margin expanded 290 bps to 27.5%.

Balance Sheet and Cash Flow

As of Mar 31, 2020, cash and cash equivalents were \$351.3 million compared with \$302 million as of Mar 31, 2019.

Cash flow from operations was \$39.8 million, up 62.5% year over year.

Guidance

Tyler expects the pandemic to adversely impact its business during second-half of 2020. The company continues to see delays in procurement processes and lengthening sales cycles, as public sector entities focus on issues related to the pandemic.

For 2020, the company projects revenues between \$1.125 billion and \$1.145 billion. The company anticipates non-GAAP earnings in the range of \$5.30-\$5.50 per share.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	-3.18%
EPS Surprise	18.97%
Quarterly EPS	1.38
Annual EPS (TTM)	5.41

Recent News

On Jul 21, Tyler announced that it has signed a five-year agreement with the South Carolina Department of Education Administration for its Traversa transportation management solution including Telematic GPS units and Drive tablets for school bus drivers.

On Jul 7, Tyler announced that the city of El Cajon, CA, has successfully gone live with its EnerGov citizen self-service (CSS) and MyCivic citizen engagement solution.

On Jun 30, Tyler announced that the Jefferson City Police Department in Missouri has successfully gone live with its New World Enterprise CAD, a computer-aided dispatch solution.

On Jun 9, Tyler announced that the city of Buffalo, NY, successfully launched its Socrata solution for the public as part of its response strategy for the coronavirus pandemic.

On Jun 2, Tyler announced that Forsyth County, GA, has successfully gone live with Tyler's EnerGov civic services solution.

On May 26, Tyler announced new agreements and successful go-lives with courts in three states for its Modria online dispute resolution solution.

On May 13, Tyler announced that the New York State Division of Veterans Services has added capabilities to its Entellitrak-based Veterans' Benefits solution to be able to continue to provide benefits and services to veterans remotely amid coronavirus outbreak

On May 5, Tyler announced that it has inked an agreement with the Hamilton County School District in Tennessee for its Munis enterprise resource planning , ExecuTime time and attendance, Content Manager, and Socrata Connected Government Cloud. Munis will manage financials, HR, procurement and revenues, helping the district automate and streamline processes and procedures.

On Apr 23, Tyler announced that its Virtual Court product has gained significant traction as 60 courts have selected the solution to help them conduct court sessions entirely online amid coronavirus outbreak.

On Apr 2, Tyler announced that it has signed a software-as-a-service agreement with Jefferson County, TX, for Odyssey Case Manager, Odyssey Attorney Manager, Tyler Corrections, and SoftCode civil process solutions. With this agreement, Tyler's Odyssey solution will now serve all of the 20 largest counties in Texas by population and 86 Texas counties in total.

Valuation

Tyler shares are up 22% in the year-to-date period and 48.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 21.1% and 20.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 30.6% and 37.2%, respectively.

The S&P 500 index is up 2.3% in the year-to-date period and 14.7% in the past year.

The stock is currently trading at 67.3X forward 12-month earnings, which compares to 26.75X for the Zacks sub-industry, 26.41X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 86.22X and as low as 38.37X, with a 5-year median of 50.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$384 price target reflects 70.67X forward 12-month earnings.

The table below shows summary valuation data for TYL

Valuation Multiples - TYL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	67.30	26.75	26.41	22.58
	5-Year High	86.22	26.75	26.41	22.58
	5-Year Low	38.37	7.29	16.72	15.25
	5-Year Median	50.02	21.69	19.47	17.55
P/S F12M	Current	12.14	11.25	4.07	3.60
	5-Year High	12.65	11.25	4.07	3.60
	5-Year Low	5.30	6.88	2.32	2.53
	5-Year Median	7.39	8.69	3.14	3.04
EV/Sales TTM	Current	12.89	11.28	4.60	3.17
	5-Year High	13.34	11.28	4.60	3.45
	5-Year Low	6.82	6.64	2.59	2.14
	5-Year Median	8.77	8.59	3.65	2.84

As of 08/04/2020

Industry Analysis Zacks Industry Rank: Top 25% (63 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Guidewire Software, Inc. (GWRE)	Outperform	3
Avaya Holdings Corp. (AVYA)	Neutral	4
Cisco Systems, Inc. (CSCO)	Neutral	2
MSCI Inc (MSCI)	Neutral	2
Microsoft Corporation (MSFT)	Neutral	3
RealPage, Inc. (RP)	Neutral	3
Zoom Video Communications, Inc. (ZM)	Neutral	3
Ringcentral, Inc. (RNG)	Underperform	4

Industry Comparison Industry: Business - Software Services				Industry Peers		
	TYL	X Industry	S&P 500	GWRE	MSCI	RP
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	D	-	-	F	C	C
Market Cap	14.73 B	6.62 B	22.75 B	9.82 B	30.47 B	6.01 B
# of Analysts	5	4	14	6	4	5
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.75%	0.00%
Value Score	D	-	-	D	D	D
Cash/Price	0.03	0.11	0.07	0.11	0.04	0.07
EV/EBITDA	60.62	10.62	13.09	123.89	39.06	29.34
PEG Ratio	4.52	2.13	2.95	8.64	NA	NA
Price/Book (P/B)	8.05	5.19	3.16	6.19	NA	5.05
Price/Cash Flow (P/CF)	58.55	22.88	12.32	100.47	48.66	22.87
P/E (F1)	67.77	32.42	21.81	121.10	50.10	34.78
Price/Sales (P/S)	13.24	2.83	2.46	13.90	18.73	5.60
Earnings Yield	1.48%	2.88%	4.40%	0.83%	2.00%	2.88%
Debt/Equity	0.01	0.29	0.76	0.27	-11.33	1.04
Cash Flow (\$/share)	6.25	1.73	6.94	1.18	7.49	2.73
Growth Score	C	-	-	D	B	C
Hist. EPS Growth (3-5 yrs)	15.42%	14.15%	10.46%	2.98%	29.04%	49.47%
Proj. EPS Growth (F1/F0)	2.08%	-2.74%	-7.16%	10.17%	12.93%	2.05%
Curr. Cash Flow Growth	15.08%	11.37%	5.47%	99.80%	11.37%	23.00%
Hist. Cash Flow Growth (3-5 yrs)	25.59%	14.18%	8.55%	29.98%	14.85%	40.36%
Current Ratio	1.77	1.52	1.32	6.93	2.26	1.15
Debt/Capital	0.77%	25.93%	44.36%	21.17%	NA	50.96%
Net Margin	16.96%	4.45%	10.25%	-6.08%	32.14%	4.55%
Return on Equity	10.05%	5.04%	14.67%	0.02%	-268.97%	10.47%
Sales/Assets	0.50	0.87	0.51	0.32	0.41	0.39
Proj. Sales Growth (F1/F0)	3.96%	0.00%	-1.71%	10.81%	7.85%	16.24%
Momentum Score	F	-	-	D	A	A
Daily Price Chg	0.54%	-0.09%	0.42%	-0.55%	-2.03%	-0.57%
1 Week Price Chg	0.02%	0.45%	0.14%	0.87%	-2.51%	-1.39%
4 Week Price Chg	3.81%	5.44%	4.97%	5.16%	3.33%	-4.17%
12 Week Price Chg	10.26%	24.94%	15.30%	26.13%	4.96%	-5.26%
52 Week Price Chg	48.52%	11.60%	2.34%	26.60%	69.99%	6.24%
20 Day Average Volume	250,580	357,621	2,082,836	396,804	483,522	866,318
(F1) EPS Est 1 week change	-1.38%	0.00%	0.00%	0.00%	0.07%	8.72%
(F1) EPS Est 4 week change	-2.53%	0.00%	0.93%	0.00%	3.08%	8.72%
(F1) EPS Est 12 week change	-2.53%	3.08%	0.78%	21.28%	3.08%	4.15%
(Q1) EPS Est Mthly Chg	-3.60%	0.53%	0.17%	0.00%	4.51%	1.05%

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	F
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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