

Tyler Technologies (TYL)

\$347.26 (As of 07/28/20)

Price Target (6-12 Months): **\$364.00**

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:B

Value: D

Growth: A

Momentum: A

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Tyler gains on public sector's ongoing transition from on-premise and outdated systems to scalable cloud-based systems.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.

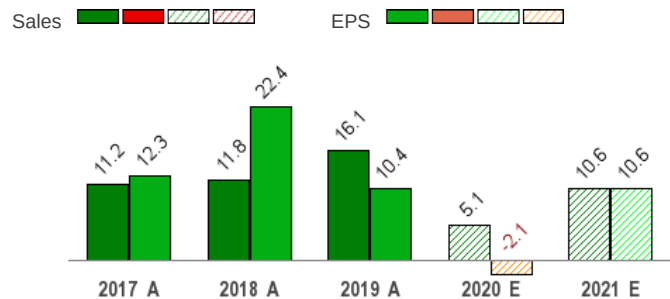
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$382.92 - \$230.62
20 Day Average Volume (sh)	243,000
Market Cap	\$13.8 B
YTD Price Change	15.8%
Beta	0.77
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Business - Software Services
Zacks Industry Rank	Top 24% (60 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.8%
Last Sales Surprise	-1.9%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	07/29/2020
Earnings ESP	4.1%
P/E TTM	65.2
P/E F1	66.9
PEG F1	4.5
P/S TTM	12.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	300 E	319 E	321 E	335 E	1,269 E
2020	277 A	280 E	287 E	303 E	1,147 E
2019	249 A	278 A	277 A	287 A	1,091 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.32 E	\$1.36 E	\$1.45 E	\$1.56 E	\$5.74 E
2020	\$1.25 A	\$1.16 E	\$1.30 E	\$1.47 E	\$5.19 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 07/28/2020. The reports text is as of 07/29/2020.

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.

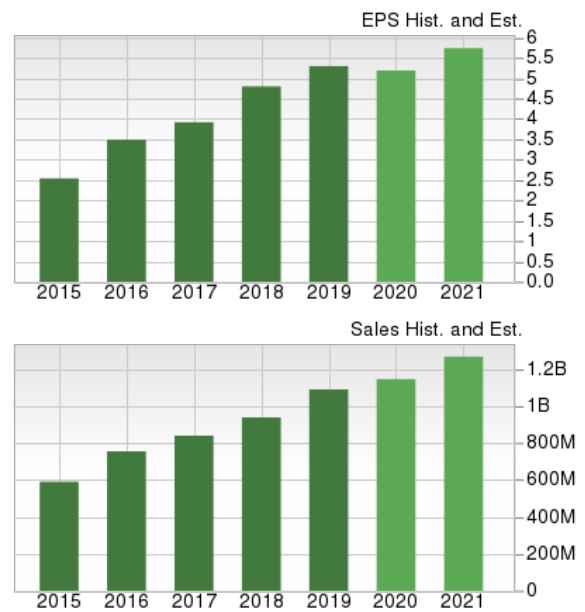
Tyler serves its customers both on-premise and in cloud. By leveraging Tyler private cloud, the company delivers its applications through Software-as-a-Service ("SaaS") model. In October 2019, the company entered into a partnership agreement with Amazon Web Services for cloud-hosting services.

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 Mar 31, 2020, cash and cash equivalents were \$302 million compared with \$232.7 million as of Dec 31, 2019. Moreover, the company has \$400 million available under its credit facility. Further, cash flow from operations was \$56.7 million, up 136.7% year over year in first-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-quarter 2020 with R&D expense growth of 18.1% being much higher than revenue growth of 11.9%. Operating margin contracted 120 bps to 24.1%. 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 \$1.22 billion or 55.6% of total assets, as of Dec 31, 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 Q1 Earnings Ride on Subscription Revenue Growth

Tyler Technologies reported first-quarter 2020 non-GAAP earnings of \$1.25 per share, which missed the Zacks Consensus Estimate by 0.8%. However the bottom line increased 2.5% from the year-ago quarter.

Revenues on a non-GAAP basis improved 11.3% year over year to \$276.8 million, missing the consensus mark by 1.9%. Tyler recorded organic revenue growth of 6.4% for the reported quarter.

Coronavirus negatively impacted revenues by roughly \$6 million.

Delving Deeper Into Q1 Results

Recurring revenues increased 16.1% year over year to \$196.2 million and accounted for 70.9% of the total revenues.

Software-as-a-Service ("SaaS") revenues increased 22.8% to \$59.9 million. Transaction revenues were \$22 million, up 14.7% year over year.

Maintenance revenues (41.4% of total revenues) were \$114.4 million, up 14.2% year over year.

Subscription revenues (29.6% of total revenues) increased 21.5% year over year to \$81.7 million. The company also added 131 subscription-based arrangements, up from 128 a year ago.

Software subscription arrangements comprised roughly 73% of the total new software contract value in the reported quarter, compared with 54% in the year-ago quarter.

Software Services revenues (18.9% of total revenues) of \$52.1 million climbed 7.6% from the year-ago quarter.

Software licenses and royalties (6.8% of total revenues) of \$18.7 million declined 14% on a year-over-year basis.

Appraisal services revenues (2.1% of total revenues) increased 10.5% to \$5.8 million.

Hardware and other revenues (1.4% of total revenues), however, declined 8.8% to \$3.8 million.

Backlog at the end of the quarter was \$1.50 billion, up 19.2% year over year. Of this, software-related backlog increased 20.1% to \$1.46 billion.

Bookings increased 39.8% year over year to \$319 million. Subscription bookings added \$12.6 million in annual recurring revenues.

Operating Details

Tyler's non-GAAP gross profit improved 10.5% year over year to \$141.6 million. However, non-GAAP gross margin contracted 40 basis points (bps) to 51.2%.

Adjusted EBITDA was \$73.2 million, up 5.2% year over year.

Selling, general and administrative (SG&A) expenses as percentage of revenues increased 100 bps year over year to 24.4%. Research and development (R&D) expenses as percentage of revenues were 8.1%, up 40 bps.

Although the company's non-GAAP operating income increased 6.1% year over year to \$66.8 million, its operating margin contracted 120 bps to 24.1%.

Balance Sheet and Cash Flow

As of Mar 31, 2020, cash and cash equivalents were \$302 million compared with \$232.7 million as of Dec 31, 2019.

Cash flow from operations was \$56.7 million, up 136.7% year over year.

Tyler repurchased 58,804 shares for a total of \$15.5 million in the reported quarter.

Guidance

Tyler expects coronavirus to have significant negative impact on second and third quarters. The company continues to see delays in procurement processes and lengthening sales cycles, as public sector entities focus on issues related to the pandemic.

Moreover, the company expects lower services revenues as some projects are delayed by client availability and billable travel is reduced. Further, roughly \$6 million of revenues under hardware and other revenues will be also eliminated in the second quarter as a result of cancellation of the company's Connect conference.

However, Tyler anticipates that recurring revenues will not be significantly affected.

Nevertheless, the company suspended its guidance due to the uncertainty related to the coronavirus impact on economy.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	-1.86%
EPS Surprise	-0.79%
Quarterly EPS	1.25
Annual EPS (TTM)	5.33

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 15.7% in the year-to-date period and 48.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 19% and 15.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 22.1% and 24.8%, respectively.

The S&P 500 index is up 0.8% in the year-to-date period and 8% in the past year.

The stock is currently trading at 63.06X forward 12-month earnings, which compares to 26.88X for the Zacks sub-industry, 25.87X for the Zacks sector and 22.61X 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 \$364 price target reflects 66.21X 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	63.06	26.88	25.87	22.61
	5-Year High	86.22	26.88	25.87	22.61
	5-Year Low	38.37	7.29	16.72	15.25
	5-Year Median	50.02	21.69	19.32	17.52
P/S F12M	Current	11.34	11.09	3.95	3.57
	5-Year High	12.65	11.09	3.95	3.57
	5-Year Low	5.30	6.88	2.32	2.53
	5-Year Median	7.39	8.68	3.14	3.02
EV/Sales TTM	Current	12.08	10.44	4.60	3.17
	5-Year High	13.34	10.44	4.60	3.45
	5-Year Low	6.82	6.70	2.59	2.14
	5-Year Median	8.76	8.71	3.65	2.84

As of 07/28/2020

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



Top Peers

Company (Ticker)	Rec	Rank
Zoom Video Communications, Inc. (ZM)	Outperform	1
Avaya Holdings Corp. (AVYA)	Neutral	3
Cisco Systems, Inc. (CSCO)	Neutral	2
Guidewire Software, Inc. (GWRE)	Neutral	3
MSCI Inc (MSCI)	Neutral	2
Microsoft Corporation (MSFT)	Neutral	3
RealPage, Inc. (RP)	Neutral	3
Ringcentral, Inc. (RNG)	Underperform	5

Industry Comparison Industry: Business - Software Services				Industry Peers		
	TYL	X Industry	S&P 500	GWRE	MSCI	RP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	B	-	-	F	C	D
Market Cap	13.81 B	6.25 B	22.47 B	9.75 B	31.45 B	5.97 B
# of Analysts	5	4	14	6	4	5
Dividend Yield	0.00%	0.00%	1.84%	0.00%	0.72%	0.00%
Value Score	D	-	-	F	F	D
Cash/Price	0.02	0.11	0.07	0.11	0.03	0.07
EV/EBITDA	57.01	9.83	13.04	122.94	40.39	29.16
PEG Ratio	4.47	2.00	2.97	9.45	NA	NA
Price/Book (P/B)	8.06	5.06	3.11	6.15	NA	5.01
Price/Cash Flow (P/CF)	55.56	22.32	12.07	99.75	50.25	22.71
P/E (F1)	67.01	32.62	21.52	132.45	52.09	35.61
Price/Sales (P/S)	12.37	2.71	2.35	13.80	19.33	5.79
Earnings Yield	1.49%	2.80%	4.34%	0.75%	1.92%	2.80%
Debt/Equity	0.01	0.30	0.76	0.27	-9.40	1.04
Cash Flow (\$/share)	6.25	1.73	7.01	1.18	7.49	2.73
Growth Score	A	-	-	D	B	C
Hist. EPS Growth (3-5 yrs)	16.78%	14.15%	10.85%	2.98%	29.67%	60.48%
Proj. EPS Growth (F1/F0)	-2.04%	-12.93%	-7.56%	-38.97%	12.15%	-1.02%
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	1.60	1.52	1.31	6.93	2.03	1.15
Debt/Capital	0.90%	26.00%	44.41%	21.17%	NA	50.96%
Net Margin	14.94%	4.73%	10.44%	-6.08%	32.14%	5.10%
Return on Equity	10.69%	5.01%	15.10%	0.02%	-310.07%	9.99%
Sales/Assets	0.53	0.90	0.54	0.32	0.42	0.39
Proj. Sales Growth (F1/F0)	5.12%	-1.40%	-1.97%	-1.75%	8.07%	15.62%
Momentum Score	A	-	-	B	A	A
Daily Price Chg	-3.29%	-1.21%	-0.80%	-1.18%	-4.51%	-3.05%
1 Week Price Chg	0.39%	0.04%	0.37%	0.57%	1.59%	-4.00%
4 Week Price Chg	0.11%	7.73%	3.64%	5.75%	12.71%	-4.57%
12 Week Price Chg	7.66%	18.61%	11.56%	27.86%	11.53%	-1.91%
52 Week Price Chg	48.87%	1.36%	-3.92%	13.43%	65.11%	-2.50%
20 Day Average Volume	243,000	385,072	1,867,919	405,133	421,486	751,112
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.17%	0.00%	0.21%	0.00%	2.37%	0.00%
(F1) EPS Est 12 week change	-10.26%	-3.40%	-1.29%	36.71%	2.37%	-6.10%
(Q1) EPS Est Mthly Chg	1.00%	0.50%	0.09%	0.00%	3.05%	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	A
Momentum Score	A
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.