



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

ANSS - NASDAQ - as of	2/23/17	\$104.15
Price Target		N/A
52-Week Range	\$81.41 -	\$106.00
Diluted Shares Outstanding (000s)		87,811
Market Cap. (\$mm)		\$9,145,516
1-Mo. Average Daily Volume		448,667
Institutional Ownership		99.9%
Debt/Total Capital (net)	Q4'16	0%
ROE	LTM	14.1%
Book Value / Share		\$24.90
Price / Book Value		4.2x
Dividend Yield		0.0%
EBITDA Margin		53.7%

EPS FY 12/31 (Non GAAP figures)

	Prior	Current	Prior	Current
2016A	2017E	2017E	2018E	2018E
1Q	\$0.77	\$0.86	\$0.81	\$1.00
2Q	\$0.93	\$0.99	\$0.91	\$1.04
3Q	\$0.95	\$0.96	\$0.96	\$1.09
4Q	\$0.98	\$1.03	\$1.15	\$1.21
Year	\$3.63	\$3.84	\$3.82	\$4.35
P/E	28.7x	27.3x		23.9x

Revenue (\$mil)

	Prior	Current	Prior	Current
2016A	2017E	2017E	2018E	2018E
1Q	\$226.0	\$237.5	\$240.8	\$253.9
2Q	\$246.1	\$259.0	\$259.5	\$273.0
3Q	\$245.9	\$258.9	\$259.9	\$273.5
4Q	\$270.6	\$280.8	\$284.7	\$299.8
Year	\$988.5	\$1,036.3	\$1,045.1	\$1,100.2

Company Description: Cannonsburg, Pennsylvania based - ANSYS Inc. develops, markets and supports engineering simulation software to more than 45,000 customers on a global basis. ANSYS products are based on its unified simulation platform known as the ANSYS Workbench. ANSYS sells into the aerospace, academic, automotive, construction, consumer goods, manufacturing, electronics, biomedical, energy and defense industries. The company has a direct sales force and a network of third party resellers.

ANSYS Inc.

ANSS - NASDAQ – Neutral - 2

ANSYS Reports Solid Q4'16 Results, FY'17 Guidance Conservative; New Share Buyback

- Results.** ANSYS reported revenue of \$270.6 million, an increase of 7.4% y/y. This was above our estimate of \$267.3 million and the consensus estimate of \$267 million. Non GAAP EPS was \$0.98 vs \$0.91 in the prior year period, matching our \$0.98 estimate and above the consensus estimate of \$0.96. Deferred revenue and backlog increased 26.5% y/y to \$637.8 million, its fastest growth rate in several years. Operating cash flow was \$96.2 million vs. \$109 million reported last year. Free cash flow was a \$92 million vs. \$103.8 million reported last year. Net cash totaled \$822.8 million or \$9.35 per share. ANSYS repurchased 1 million shares during Q4 and reauthorized a 5 million share repurchase allotment, representing 5.6% of outstanding shares.
- Guidance.** ANSYS provided Q1'17 revenue guidance of \$237 million to \$246 million and EPS of \$0.81 to \$0.85. This compares to our prior Q1'17 outlook of \$237.5 million and EPS of \$0.86. The higher revenue guidance is a result of improved Q4 bookings growth of 35% y/y to \$433.9 million and a resurgence in global growth, while the lower EPS view reflects higher selling costs and taxes. ANSYS lowered their FY'17 EPS guidance range of \$3.63 to \$3.83 on revenue of \$1.01 to \$1.045 billion vs. a prior view of \$3.67 to \$3.89 on revenue of \$1.02 to \$1.06 billion and our prior view of \$3.84 on revenue of \$1.036 billion. This is largely a result of currency headwinds and the above mentioned higher costs.
- Outlook.** We lower our Q1'17 EPS estimate to \$0.81 from \$0.86 as a result of higher costs and taxes. Our Q1 revenue estimate increases to \$240.8 million from \$237.5 million. Our FY'17 EPS estimate declines \$0.02 to \$3.82 on the assumption of higher full year expenses despite stronger revenue growth.
- Valuation.** We maintain our Neutral opinion on shares of ANSS. We note improved growth in Q4'16 and the expectation of faster growth in FY'17 & '18 from strength in bookings, and record deferred revenue and backlog, which is offset by ANSS shares trading near peak valuation multiples.

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ADDITIONAL DISCUSSION

Lease license revenue increased 9.5% y/y to \$89.6 million as customers in developed markets continue to prefer time based licenses. However, perpetual software licenses bounced back in the quarter increasing 5.9% y/y to \$71.9 million as China and India had strong growth. Maintenance and service revenue increased 6.8% y/y to \$109.1 million. North America, Germany, and Asia-Pacific ex-Japan regions outperformed, while the U.K. lagged. Overall business performance remains strong and ANSYS remains the industry leader within the engineering simulation software market.

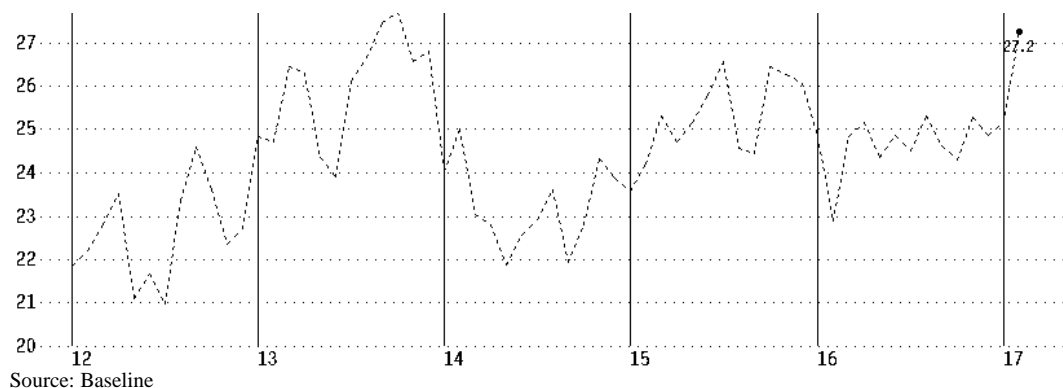
We believe ANSYS's continued investments in simulation driven product development including ANSYS 18 which launched in January, as well as global industry trends within semiconductors, automotive (self-driving & electrification), aerospace, energy efficiency, product safety, factory automation, artificial intelligence, and the Internet of Things are tailwinds for ANSYS, the leader in multi-physics simulation software.

Despite not recommending shares of ANSYS since initiating coverage, we hold the company in high regard and note valuation as our main concern at this juncture. Our positive investment thesis remains more pertinent today than ever before, in our view. Simulation has been proven to reduce product development times by 9x and lower product costs by 4x, which in a highly competitive global environment is key to a manufacturer's success. ANSYS continues to grow its user base and the amount of licenses per user as simulation expands from design, and prototyping, to product lifecycle management with operators creating digital twins within an Internet of Things ecosystem.

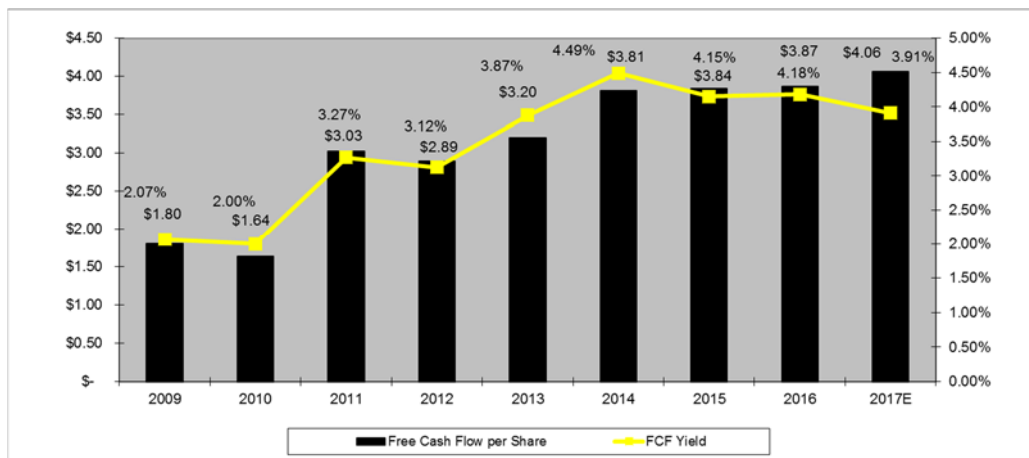
VALUATION

We maintain our Neutral rating on shares of ANSS. ANSS shares trade at 27x our FY'17 EPS estimate of \$3.82. Excluding net cash, shares trade at a 25x forward multiple. This is near the high end of the company's 10 year historical forward P/E multiple range. However, recent growth rates are significantly lower than prior periods. We continue to find this multiple elevated given the 6% EPS growth rate in FY'16 and our mid-single digit growth rate for FY'17. We inaugurate a FY'18 EPS estimate of \$4.35, representing growth of 14% y/y. However, we have lowered our FY'18 tax rate assumption for ANSYS to 26% vs. our 32% estimate for FY'17. We believe without this level of double digit earnings growth, ANSS shares may decline, as we suggest a forward multiple in the high twenties is unsustainable otherwise. We note our FY'18 EPS estimate of \$4.35 is highly aggressive compared to the consensus view of \$4.06.

ANSYS 5 Year Historical Forward Price to Consensus Earnings Multiple



ANSYS Historical Free Cash Flow and FY'17 Estimate



Source: Company notes and Hilliard Lyons estimates

We view shares as fairly valued and maintain our Neutral investment rating. We continue to seek an entry point into shares of ANSS as we believe the company's high profitability and largely recurring revenue base, strong cash flows, continued investments/M&A in systems based simulation, positive global industry trends within several growth market verticals, and few comparable competitors remain long-term growth catalysts for ANSYS. We view ANSYS as an attractive software company based on its leading software platform and recurring revenue base; however, we would continue to wait for a more attractive entry point before recommending shares. We maintain our Neutral rating due to our reduced FY'17 outlook and expensive valuation based on our current and future growth rate assumptions.

SUITABILITY

We apply a suitability rating of 2 on shares of ANSS on our scale of 1-4 (1 = most conservative, 4 = most aggressive). A 2 rating is given based on ANSYS's broad revenue base. A majority of revenues are derived from over 11 industries with revenue also spread evenly throughout the globe. We also believe the company is stable and management has significant foresight into future business conditions as over 70% of ANSYS revenue is classified as recurring revenue. ANSYS products offer a wide-range of multi-physics simulation tests compared to a more narrow focus by the competition. However, the engineering simulation software industry remains a niche industry with high growth characteristics. We believe a suitability rating of 2 incorporates these attributes and is appropriate given management's ability to efficiently run the company. ANSYS Inc. is most suited for aggressive growth investors seeking long-term capital appreciation.

ANSYS Inc. Balance Sheet (in thousands)	2008	2009	2010	2011	2012	2013	2014	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016
Assets													
Current Assets:													
Cash & short-term investments	233,875	343,844	472,934	472,404	577,155	742,986	788,778	784,614	863,877	843,765	838,272	822,860	822,860
Accounts receivable	61,823	67,084	76,604	84,602	96,598	97,845	101,229	91,579	82,498	85,506	85,273	107,192	107,192
Other	95,462	86,735	147,402	163,296	216,268	200,734	192,308	200,233	172,304	180,471	176,606	239,349	239,349
Deferred income taxes	5,993	17,827	17,693	19,731	23,338	26,031	28,178	-	-	-	-	-	-
Total current assets	397,153	515,490	714,633	740,033	913,359	1,067,596	1,110,493	1,076,426	1,118,679	1,109,742	1,100,151	1,169,401	1,169,401
Property and equipment, net	36,812	35,131	36,921	45,638	52,253	60,538	64,643	61,924	60,151	58,095	55,628	54,677	54,677
Goodwill	1,048,003	1,038,824	1,035,083	1,225,375	1,251,247	1,255,704	1,312,182	1,332,348	1,334,129	1,333,397	1,333,531	1,337,215	1,337,215
Other intangible assets, net	373,398	322,313	278,320	383,420	351,173	291,390	259,312	220,553	209,677	196,933	184,768	172,619	172,619
Other long-term assets	8,692	5,848	56,123	46,942	24,393	10,586	6,187	5,757	5,966	16,926	17,271	24,287	24,287
Deferred income taxes	456	2,576	5,796	7,062	14,992	18,432	21,286	32,896	30,226	32,568	39,008	42,327	42,327
Total assets	1,864,514	1,920,182	2,126,876	2,448,470	2,607,417	2,722,382	2,774,103	2,729,904	2,758,828	2,747,661	2,730,357	2,800,526	2,800,526
Liabilities and stockholders' equity													
Current portion of long-term debt & Cap. Lease	29,630	26,758	31,962	74,423	53,149	-	-	-	-	-	-	-	-
Deferred revenue	166,189	169,275	199,805	259,155	305,793	309,775	332,664	364,644	375,140	375,802	359,979	403,279	403,279
Total current liabilities	267,664	266,766	311,369	438,751	477,387	440,431	465,099	484,146	474,824	467,710	454,437	539,100	539,100
Long-term liabilities:													
Long-term debt and capital lease obligations	249,795	198,668	127,563	53,149	-	-	-	-	-	-	-	-	-
Deferred income taxes	127,527	107,313	75,026	101,618	92,822	66,899	37,390	2,091	6,571	2,160	1,661	2,259	2,259
Other	36,629	34,804	82,989	100,479	96,917	60,670	54,113	49,240	43,530	41,931	44,494	50,762	50,762
Total long-term liabilities	413,951	340,785	285,578	255,246	189,739	145,705	91,503	51,331	50,101	44,091	46,155	53,021	53,021
Commitments and contingencies	-	-	-	-	-	-	-	-	-	-	-	-	-
Stockholders' equity:													
Preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-
Common stock	897	897	916	927	932	932	932	932	932	932	932	932	932
Additional paid in capital	806,755	801,574	856,718	905,662	927,368	926,031	904,825	894,469	882,438	884,675	884,461	883,010	883,010
Retained earnings	385,810	502,201	655,333	836,008	1,039,491	1,284,818	1,539,508	1,792,029	1,848,497	1,918,125	1,987,682	2,057,665	2,057,665
Treasury stock	(9,079)	(853)	-	-	(36,151)	(72,891)	(196,010)	(440,839)	(456,871)	(527,931)	(605,413)	(675,550)	(675,550)
Accumulated other comprehensive income	(1,484)	8,812	16,962	11,876	8,651	(2,644)	(31,754)	(52,164)	(41,093)	(39,941)	(37,897)	(57,652)	(57,652)
Non controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Total stockholders' equity	1,182,899	1,312,631	1,529,929	1,754,473	1,940,291	2,136,246	2,217,501	2,194,427	2,233,903	2,235,860	2,229,765	2,208,405	2,208,405
Total liabilities and stockholders' equity	\$ 1,864,514	\$ 1,920,182	\$ 2,126,876	\$ 2,448,470	\$ 2,607,417	\$ 2,722,382	\$ 2,774,103	\$ 2,729,904	\$ 2,758,828	\$ 2,747,661	\$ 2,730,357	\$ 2,800,526	\$ 2,800,526

Source: Company data

RISKS & CONSIDERATIONS

Risks to our valuation include but are not limited to:

- Changes in macroeconomic conditions that can affect global industrial and IT spending.
- A decline in customer sales as a result of end user demand.
- Heavy reliance of significant sales to existing customers.
- Risks resulting from international business including foreign currency exchange effects.
- Termination of strategic alliances with CAD vendors.
- New disruptive technology enters the marketplace or the introduction of defective products.
- Increased competition from larger, more well-funded companies may reduce product pricing.
- Retaining key personnel. The loss of engineering personnel could impact future product releases.
- Reliance on third party distribution channel for a portion of total sales.
- Uneven revenue flow from the proportion of sales from perpetual licenses vs. time based licensing.
- Poor integration of newly acquired businesses and the lack of acquisition targets or the ability of the company to acquire new businesses.
- Breach of security could impact the company for a significant period of time.
- Legal proceedings involving intellectual property rights and other business activities.
- Regulatory and tax implications from government bodies.

Additional information is available upon request.

Analyst Certification

I, Stephen Turner, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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