

Citrix pivoting from growth mode to profit-taking in CEO change, analysts say

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Software company Citrix Systems promoted its chief financial officer to CEO on Monday, and for good reason, analysts say.

Fort Lauderdale-based Citrix has been struggling for growth, so the board is pivoting toward a focus on cost cutting and expanding profits in its appointment of David Henshall as president and CEO. He replaces Kirill Tatarinov, who joined the company as CEO just a year-and-half ago.

Wall Street didn't like the late-Monday surprise, with Citrix's stock falling nearly 4 percent, as low as \$76.91, in after-market trading on Nasdaq, following the announcement. On Tuesday, the stock opened at \$77.37, down \$2.56 or 2.73 percent.

Henshall's appointment follows a "mutual separation decision" between Citrix's board and Tatarinov. It is the second permanent CEO change in three years. Tatarinov was hired to replace long-time CEO Mark Templeton, who left the position in 2015 as an activist investment firm, Elliott Management, sought changes.

While analysts credit Tatarinov with completing Citrix's restructuring to transform it to all cloud-based services, some board members are likely pushing to sell all or parts of the company. Earlier this year, Citrix completed the sale of its GoTo Family of businesses to LogMeIn.

Citrix also reportedly had bids this spring from private equity - Bain

Capital, The Carlyle Group and Thoma Bravo - to take the company private. But after a few months, no buyer has emerged.

Jefferies analyst John DiFucci said Citrix still "struggles for relevance" in his note to investors following the CEO change.

The analyst views the CEO change as a shift to a financial focus from a technological one, as Henshall is "a very capable finance professional" with "strong operational expertise." Henshall was also chief operating officer for Citrix, which he joined as CFO in 2003.

In contrast, Tartinov is a "technologist at heart with operational discipline," DiFucci said.

DiFucci said in his note to investors, "the shift ... may squeeze further profit out of the company but likely at the expense of already dismal growth."

Rob Oliver, analyst for R.W. Baird & Co., said the change indicates a focus on cost containment and margins. "They just made the CFO the CEO. That should tell you how they're focused," he said.

Oliver said Citrix has been pivoting toward growth under Tatarinov. "Kirill definitely wanted to grow the business. It doesn't seem like the board did," he said.

"We know they were trying to sell the business and it has not been sold. Elliott would like to get it sold at a premium," Oliver said.

Citrix's business is difficult to grow, Oliver said, because while it once had a monopoly in virtualizing Microsoft desktop computers, today there are more operating systems and more devices.

So, instead, the board is choosing to focus on taking out costs and expanding profits. "They probably expect to go at this alone for awhile and they don't want the stock price to be based upon growth," Oliver said.

In 2015, Elliott Management, which owns about 9 percent of the company, took an initial stake in Citrix and sent a letter urging then-CEO Mark Templeton and the board to restructure and sell certain assets.

Elliott's Jesse Cohn is one of four Citrix board members who now will review opportunities to improve profits and return capital to shareholders. The other committee members are new CEO and board member Henshall, chairman Robert Calderoni, and Peter Sacripanti, an independent director.

Management reaffirmed its financial guidance for the second quarter, saying net income for fiscal 2017 would be in line with its current guidance of 70 cents to 74 cents a share. Quarterly revenues are still expected to land in the \$685 million to \$695 million range, "with strong demand from customers for subscription-based solutions," the company said in a statement.

In a Securities and Exchange Commission filing Monday, Citrix said it had signed a three-year employment contract with Henshall for a base salary of \$1 million, an equity grant of \$2.5 million in restricted stock, annual equity awards with a potential value of \$8 million in 2018, as well as potential bonuses tied to performance. Tartinov will receive severance and other benefits accrued under his employment agreement, according to the filing.

Citrix said it will conduct a conference call to discuss its first half results and business outlook on August 2.

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