

## Alight Inc

## Things are getting interesting (with strategic review)

Reiterate Rating: BUY | PO: 12.00 USD | Price: 9.58 USD

## Sales miss, but ALIT shaking things up with review

2024 5-7% sales guidance (ex its Hosting exit) was disappointing, but now expectations have been reset and we think its 6-8% mid-term target is still in play. 2024 is a tale of two halves, with 2H benefitting from easier comparisons, material contracts coming on-line, and the seasonality of its annual enrollment business. Notably, ALIT has \$3.0/2.1/1.5bn of its 2024/25/26 sales under contract (83/54/36% of our revenue estimates). We reiterate our Buy. We expect multiple expansion as Alight delivers ongoing new business wins and steady ~10% EBITDA growth.

## 4Q beat as margins lift 4Q and into 2024

4Q's \$0.30 EPS beat our \$0.27 largely on lower taxes (+2cE). Margins beat (28.1% vs. our 26.7%E), but EBITDA fell 1% short due to a material sales miss. 4Q sales was +1.9% (well below our 8.3% view), primarily due to a 6.7%E hit from a large Retiree Health client switching plans. Management qualified this was a one-time and unusual event, but the lack of visibility related to this is disappointing.

## 2024 sales guide disappoints

ALIT launched \$0.72-0.77 2024 EPS guidance on +4-6% sales and 22.2-22.6% EBITDA margins (+50-100bp). 2024 sales includes a ~80bp hit from its Hosting business exit. The outlook fell short of our/the Street's 6.6/7.5%E; we had already factored in the Hosting exit. 4Q24 sales should be above the FY guide, a positive for 2025, although we're incrementally more cautious given 2024's choppiness. We raise our 2024E EPS by 4c to \$0.75. We maintain our \$12 PO, but roll-forward our valuation to 2025E and lower our multiple to 11x (vs. 13x prior) EV/EBITDA to reflect slower near-term sales growth

## ALIT takes a much needed deep look inwards

In 4Q, ALIT's Board hired financial advisors to conduct a strategic portfolio review to increase shareholder value. The company aims to shift towards more recurring revenues, improve its margin profile, and reduce capital intensity. Today, 84% of revenues are recurring. This does not mean the company will exit all its transactional revenues, but we think business lines such as its Workday implementations and commission-based Retiree Health offering could receive incremental scrutiny. The review could also lead to incremental investments in high growth areas and new partnerships. We view sales-growth accretive to asset sales that generate proceeds for debt repayment as incremental positive catalysts for the stock over the near-term.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.57	0.71	0.75	0.84	0.94
EPS Change (YoY)	NA	24.6%	5.6%	12.0%	11.9%
Consensus EPS (Bloomberg)			0.72	0.86	1.07
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	16.8x	13.5x	12.8x	11.4x	10.2x
EV / EBITDA*	12.2x	10.9x	9.9x	9.0x	8.1x
Free Cash Flow Yield*	2.9%	4.7%	7.3%	8.9%	10.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

21 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	3,699.0	3,608.8
2025E Rev (m)	3,959.1	3,860.3
2026E Rev (m)	4,238.9	4,130.8
2024E EPS	0.70	0.75
2025E EPS	0.77	0.84
2026E EPS	0.85	0.94

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## Stock Data

Price	9.58 USD
Price Objective	12.00 USD
Date Established	2-Aug-2023
Investment Opinion	B-1-9
52-Week Range	6.33 USD - 10.19 USD
Mkt Val (mn) / Shares Out (mn)	4,801 USD / 501.2
Free Float	74.0%
Average Daily Value (mn)	81.06 USD
BofA Ticker / Exchange	ALIT / NYS
Bloomberg / Reuters	ALIT US / ALIT.N
ROE (2024E)	8.5%
Net Dbt to Eqty (Dec-2023A)	50.5%
ESGMeter <sup>TM</sup>	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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# iQprofile<sup>SM</sup> Alight Inc

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	NA	-0.2%	1.9%	3.0%	3.5%
Return on Equity	12.1%	7.8%	8.5%	9.2%	9.8%
Operating Margin	-0.4%	-0.5%	6.0%	8.9%	10.2%
Free Cash Flow	138	226	349	429	484

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.0x	1.2x	1.3x	1.3x
Asset Replacement Ratio	0.4x	0.4x	0.4x	0.4x	0.4x
Tax Rate	NM	1.4%	23.5%	23.5%	23.5%
Net Debt-to-Equity Ratio	50.6%	50.5%	43.5%	33.7%	23.4%
Interest Cover	-0.1x	-0.1x	1.5x	2.5x	2.9x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,132	3,410	3,609	3,860	4,131
% Change	NA	8.9%	5.8%	7.0%	7.0%
Gross Profit	996	1,140	1,270	1,401	1,524
% Change	NA	14.5%	11.4%	10.3%	8.8%
EBITDA	659	739	811	897	991
% Change	NA	12.1%	9.8%	10.5%	10.5%
Net Interest & Other Income	(27)	(265)	(141)	(136)	(144)
<b>Net Income (Adjusted)</b>	<b>308</b>	<b>386</b>	<b>415</b>	<b>464</b>	<b>520</b>
<b>% Change</b>	<b>NA</b>	<b>25.3%</b>	<b>7.6%</b>	<b>11.7%</b>	<b>12.0%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(72)	(278)	58	159	213
Depreciation & Amortization	395	421	450	463	472
Change in Working Capital	(158)	(118)	(100)	(126)	(132)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	121	361	110	110	117
Capital Expenditure	(148)	(160)	(169)	(177)	(185)
<b>Free Cash Flow</b>	<b>138</b>	<b>226</b>	<b>349</b>	<b>429</b>	<b>484</b>
<b>% Change</b>	<b>NA</b>	<b>63.8%</b>	<b>54.5%</b>	<b>22.8%</b>	<b>13.0%</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(67)	(50)	(53)	(49)	(49)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	250	358	619	999	1,434
Trade Receivables	678	698	783	880	998
Other Current Assets	1,888	1,720	1,748	1,794	1,844
Property, Plant & Equipment	320	371	409	441	470
Other Non-Current Assets	8,099	7,719	7,400	7,082	6,766
<b>Total Assets</b>	<b>11,235</b>	<b>10,866</b>	<b>10,959</b>	<b>11,195</b>	<b>11,512</b>
Short-Term Debt	31	25	25	25	25
Other Current Liabilities	2,317	2,162	2,159	2,153	2,147
Long-Term Debt	2,792	2,769	2,741	2,717	2,693
Other Non-Current Liabilities	1,006	1,084	1,101	1,122	1,165
<b>Total Liabilities</b>	<b>6,146</b>	<b>6,040</b>	<b>6,026</b>	<b>6,017</b>	<b>6,030</b>
<b>Total Equity</b>	<b>5,089</b>	<b>4,826</b>	<b>4,934</b>	<b>5,178</b>	<b>5,482</b>
<b>Total Equity &amp; Liabilities</b>	<b>11,235</b>	<b>10,866</b>	<b>10,959</b>	<b>11,195</b>	<b>11,512</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Business Services

## Company Description

ALIT is a leading provider of human capital management (HCM) solutions. It provides health, wealth, payroll, and wellbeing services to +36mn employees and dependents with a 25+ year history of being a leading benefits provider. The company offers a single platform HCM solution with its Business Process as a Services (BPaaS) business model combining software-as-a-service and artificial intelligence capabilities with the company's vast employee data pools.

## Investment Rationale

We rate ALIT Buy because we do not think valuation fully reflects its potential for double digit earnings growth and recession resiliency. We expect multiple expansion as the company executes on its business transformation and de-levers through EBITDA growth.

## Stock Data

Average Daily Volume

8,461,076

## Quarterly Earnings Estimates

	2023	2024
Q1	0.13A	0.14E
Q2	0.14A	0.14E
Q3	0.14A	0.15E
Q4	0.30A	0.32E



## Price objective basis & risk

### Alight Inc (ALIT)

Our \$12 price objective is based on 11.0x 2025E EV/EBITDA. We adjust out stock comp from EBITDA. It is a 10.0x multiple when adding back stock comp to EBITDA, which is how the company reports. We use a EV/EBITDA multiple given the company's leverage compared to peers. Our price objective implies a premium as the company executes on its strategy and drives double-digit earnings growth. We assume a 5% discount to peers to factor in the company's higher leverage, lower EBITDA margin (adjusting for stock comp) and sponsor overhang.

Downside risks to our price objective are: (1) larger than expected negative impact from a macro downturn, 2) execution challenges as Alight continues to implement its new strategy and transformation initiatives, and (3) the company needs to invest more than expected to drive growth.

Upside risks to our price objective are: (1) higher than expected sales growth driven by the success of BPaaS and new salesforce initiatives, (2) sales and EPS upside from M&A, and (3) better than expected margin expansion from BPaaS sales and cost productivity initiatives.

## Analyst Certification

I, Heather Balsky, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alight Inc	ALIT	ALIT US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
<b>NEUTRAL</b>				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
<b>UNDERPERFORM</b>				
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	Clarivate PLC	CLVT	CLVT US	Heather Balsky
	ManpowerGroup	MAN	MAN US	Heather Balsky
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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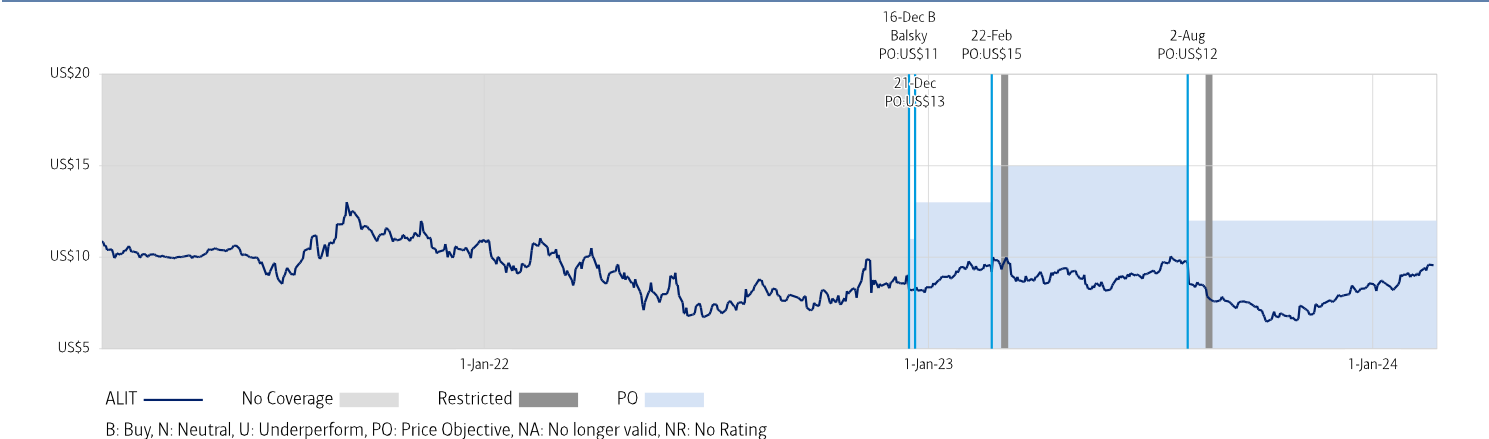
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### Alight (ALIT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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