

TaskUs

4Q upside but '24 guide a bit mixed

Reiterate Rating: UNDERPERFORM | PO: 12.00 USD | Price: 12.39 USD

4Q beat + '24 has solid top-line outlook, but margins light

Overall, TaskUs (TASK) printed 4Q results with meaningful P&L outperformance. However, initial '24 top-line guidance is in-line, and adj. EBITDA margins slightly below, which we believe will net out to largely unchanged EPS ests. TASK is planning on additional reinvestments in '24, particularly in technology (generative AI), as well as sales and marketing to further diversify with enterprise clients in healthcare, banking and financial services. TASK expects to return to positive growth in 2H24. See valuation as appropriate given TASK's growth trajectory, while GenAI sentiment remains an overhang; reiterate Underperform.

1Q/'24 top-line guide is fine, but margins below

'24 revenues are expected to be in the range of \$900M-\$950M, representing flat y/y growth at the midpoint (in-line with the Street and ~3% higher than BofAe). Revenues from a few top clients are expected to be flat to slightly up in '24 (vs. material declines in '23) and crypto is expected to represent 5% of revs '24 (vs. 4% in '23). US revenues represented 14% of total in 4Q, and are expected to remain relatively stable in '24 (~10% long-term). 1Q revenues are expected to decline ~5% y/y, 2%/1% ahead of BofAe/Street. 1Q adj. EBITDA margins of ~22% are ~40bps below BofAe/Street due to increased reinvestments.

4Q upside across the P&L

4Q revenues declined 3.3% to \$234M, ~3% ahead of BofAe/Street/guide, driven by better-than-feared seasonal volumes and Trust and Safety segment growth of 23.5%. Opex discipline (particularly G&A) drove the adj. EBITDA beat of 25.2% vs. BofAe/Street/guide of ~22.5%. 4Q adj. EPS of \$0.35 was \$0.03/\$0.04 ahead of BofAe/Street. In 4Q, TASK repurchased \$19M of shares and expect reinvestments (including M&A) to remain the priority for excess FCF.

Updating estimates and PO

We update our '24 and '25 revs/adj. EPS estimates to \$927M/\$1.36 and \$983M/\$1.44 from \$887M/\$1.32 and \$940M/\$1.42 prior. We roll out F26 ests of \$1,042M/\$1.52. We increase our PO to \$12 (from \$11) now based on 9x '24 P/E (vs. 8x '24 P/E prior, due to increased comp multiples) and updated DCF (unchanged WACC/terminal growth assumptions).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.39	1.31	1.36	1.44	1.52
GAAP EPS	0.39	0.47	0.67	0.78	0.89
EPS Change (YoY)	17.8%	-5.8%	3.8%	5.9%	5.6%
Consensus EPS (Bloomberg)			1.31	1.49	NA
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	8.9x	9.5x	9.1x	8.6x	8.2x
GAAP P/E	31.8x	26.4x	18.5x	15.9x	13.9x
EV / EBITDA*	6.0x	6.0x	6.3x	5.9x	5.5x
Free Cash Flow Yield*	8.1%	8.9%	9.0%	11.1%	12.3%

* For full definitions of *IQmethod™* measures, see page 4.

29 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	11.00	12.00
2024E Rev (m)	886.8	927.7
2025E Rev (m)	940.0	983.4
2026E Rev (m)	NA	1,042.4
2024E EPS	1.32	1.36
2025E EPS	1.42	1.44
2026E EPS	NA	1.52

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Stock Data

Price	12.39 USD
Price Objective	12.00 USD
Date Established	29-Feb-2024
Investment Opinion	C-3-9
52-Week Range	7.95 USD - 18.75 USD
Mrkt Val (mn) / Shares Out (mn)	1,271 USD / 102.6
Free Float	92.3%
Average Daily Value (mn)	2.54 USD
BofA Ticker / Exchange	TASK / NAS
Bloomberg / Reuters	TASK US / TASK.OQ
ROE (2024E)	23.4%
Net Dbt to Eqty (Dec-2023A)	31.4%
ESGMeter™	NLA

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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iQprofileSM TaskUs

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.1%	7.3%	8.9%	8.5%	8.0%
Return on Equity	34.2%	28.2%	23.4%	18.6%	15.3%
Operating Margin	8.7%	10.3%	12.4%	13.2%	13.9%
Free Cash Flow	103	113	114	141	156

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.1x	1.2x	1.4x	1.4x
Asset Replacement Ratio	1.2x	0.8x	0.9x	0.9x	0.9x
Tax Rate	37.4%	39.1%	35.0%	35.0%	35.0%
Net Debt-to-Equity Ratio	39.0%	31.4%	5.4%	-15.0%	-28.5%
Interest Cover	7.0x	4.4x	5.2x	5.8x	6.5x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	960	924	928	983	1,042
% Change	26.3%	-3.8%	0.4%	6.0%	6.0%
Gross Profit	402	386	390	412	437
% Change	22.1%	-4.0%	1.2%	5.6%	6.0%
EBITDA	223	222	213	227	242
% Change	18.8%	-0.6%	-4.2%	6.9%	6.5%
Net Interest & Other Income	(19)	(20)	(22)	(22)	(22)
Net Income (Adjusted)	143	127	122	129	136
% Change	14.8%	-11.4%	-3.9%	6.0%	5.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	40	46	60	70	80
Depreciation & Amortization	58	61	56	58	61
Change in Working Capital	(6)	(12)	(24)	(4)	(3)
Deferred Taxation Charge	(12)	(8)	6	0	0
Other Adjustments, Net	67	57	48	52	55
Capital Expenditure	(44)	(31)	(32)	(34)	(36)
Free Cash Flow	103	113	114	141	156
% Change	NM	9.0%	1.4%	23.5%	10.3%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(3)	(4)	(12)	(12)	(12)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	134	126	237	374	527
Trade Receivables	179	177	172	182	188
Other Current Assets	29	26	26	27	29
Property, Plant & Equipment	75	69	101	135	171
Other Non-Current Assets	486	467	468	469	470
Total Assets	902	864	1,003	1,187	1,384
Short-Term Debt	15	8	25	25	25
Other Current Liabilities	95	94	101	109	114
Long-Term Debt	297	256	244	231	219
Other Non-Current Liabilities	40	66	35	36	36
Total Liabilities	446	423	405	401	394
Total Equity	456	441	597	786	990
Total Equity & Liabilities	902	864	1,003	1,187	1,384

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Computer Services

Company Description

TaskUs is a global digital customer experience provider with over 100 clients in high-growth verticals including e-commerce, FinTech, food delivery and ride sharing, gaming, HiTech, HealthTech, social media and streaming media. The company generated \$924M of revs in 2023 and \$222M of adj. EBITDA in 3 reportable segments - Digital CX, Trust and Safety, and AI Operations.

Investment Rationale

TASK is not immune to macro, and we believe the company is losing visibility, while structural changes in client behavior could have implications for longer-term potential revenue growth in the business. Post-2023 margin trajectory is also unclear. Ongoing concerns around ChatGPT/generative AI displacing labor-intensive IT/BPO outsourcing businesses will also continue to be a sentiment overhang.

Stock Data

Average Daily Volume 204,673

Quarterly Earnings Estimates

	2023	2024
Q1	0.32A	0.31E
Q2	0.32A	0.32E
Q3	0.32A	0.34E
Q4	0.35A	0.38E

Price objective basis & risk

TaskUs (TASK)

We derive our \$12 price objective based on a 9x multiple to our 2024E adj. EPS estimate. Our multiple represents a 10% discount to CX outsourcing comps (TIXT, TLPFF, CNXC, TDCX, G), which we believe is justified due to TASK's lower growth profile and limited visibility on estimates, along with higher client concentration and limited float/trading volume.

Upside risks to our price objective area: 1) faster than expected growth in top clients, 2) better pricing, 3) lower than anticipated wage inflation, 4) improved macro outlook

Downside risks to our price objective are: 1) loss of large clients that prevent TASK from achieving its financial growth targets, 2) intensifying competition for Digital talent, 3) wage inflation, and 4) limited free float and low trading liquidity.

Analyst Certification

I, Cassie Chan, 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 - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
NEUTRAL				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg



US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan

UNDERPERFORM

	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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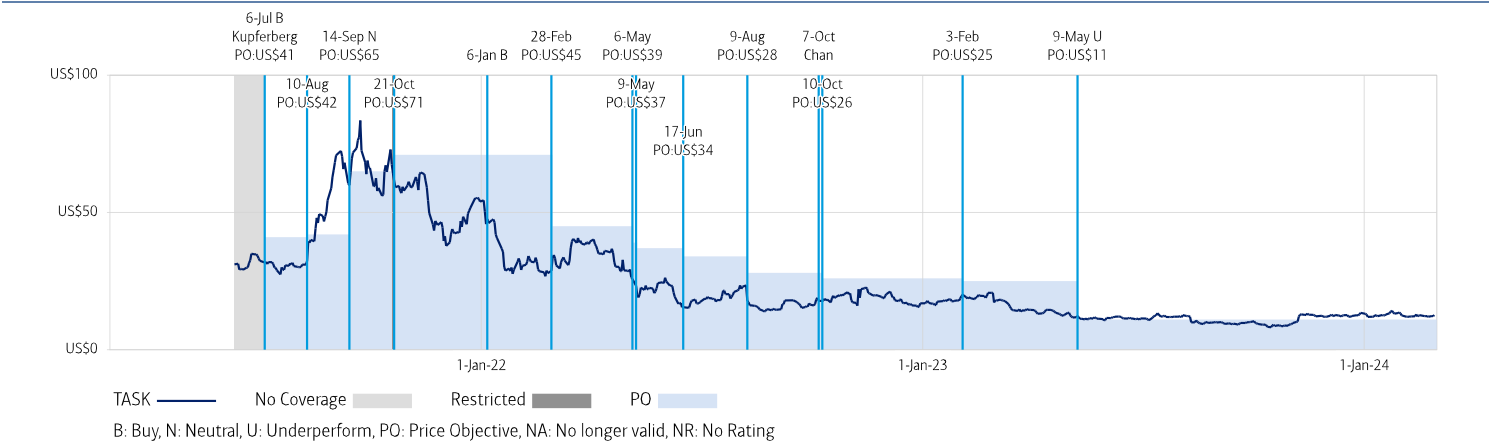
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TaskUs (TASK) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

^{R1} 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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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