

## Thoughtworks

## 4Q print and '24 guide much weaker than expected

Reiterate Rating: NEUTRAL | PO: 4.00 USD | Price: 3.31 USD

## Disappointing results across the P&amp;L

We are not surprised to see shares trading down meaningfully following another quarter of disappointing results, with revs/adj. EPS below Street/guide due to both supply side challenges that Thoughtworks (TWKS) believes is temporary (~2/3 of 4Q revs shortfall) and softer than expected demand (approx. 1/3 of shortfall). Initial guide is also below BofAe/Street, as consulting oriented work remains pressured across all verticals and geographies. While shares will likely be pressured near-term following soft guidance, TWKS remains a unique provider of strategic digital IT Services, and with shares trading at ~ 9.5x C25 P/E, we view risk/reward as balanced; reiterate Neutral.

## TWKS experiencing worse demand than peers

Unlike many peers who have seen signs of stabilization, TWKS' management commentary suggests increased softness in the demand environment, and while TWKS has seen stabilization among project cancelations, pricing headwinds, implementation delays, and slower ramp-up timelines continue to pose revs headwinds. Management also expects sales cycles to remain elongated and projects to be broken up into smaller deals. Encouragingly, we expect TWKS to lap the majority of contract pricing headwinds in 2024.

## Another quarter of soft guidance

Initial 1Q revs growth guidance of (21)%-(20)% y/y is meaningfully below BofAe/Street at (13.0)% y/y and prior commentary suggesting flat sequential growth (guide implies (3.9)%-(2.7)% sequential decline). Adj. EBITDA margin guide of 3%-4% is 980bps/950bps below BofAe/Street at midpoint, leading to adj. EPS guide of \$(0.02)-\$(0.01) vs. BofAe/Street at \$0.05. For F24, revs growth guide of (13)%-(10)% is also meaningfully below BofAe/Street at (2.9)%/(1.8)%, with adj. EBITDA margin guide of 8%-10% vs. BofAe/Street at 14.4%/13.7%, leading to adj. EPS guide of \$0.01-\$0.06 below BofAe/Street at \$0.25/\$0.23, with the lower half of guide implying increased pricing pressure and further ramp downs among certain projects. Expect modest increase in 2024 FCF vs. 2023.

## Lowering PO to \$4; see inside for est changes

Following soft 4Q results and management commentary, we lower our PO to \$4 from \$5, based on 21x C25e P/E (21x C24e prior) and our DCF. See inside for more on 4Q results and updated estimates.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.42	0.11	0.04	0.20	0.26
GAAP EPS	(0.32)	(0.21)	(0.09)	0.01	0.06
EPS Change (YoY)	-8.7%	-73.8%	-63.6%	400.0%	30.0%
Consensus EPS (Bloomberg)			0.23	0.34	0.43
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	7.9x	30.1x	82.8x	16.6x	12.7x
GAAP P/E	NM	NM	NM	331.0x	55.2x
EV / EBITDA*	5.0x	11.6x	15.0x	9.5x	7.7x
Free Cash Flow Yield*	6.2%	3.8%	4.3%	4.7%	5.7%

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

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Timestamp: 27 February 2024 11:45AM EST

27 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	5.00	4.00
2024E Rev (m)	1,108.8	994.0
2025E Rev (m)	1,258.9	1,076.1
2026E Rev (m)	NA	1,213.8
2024E EPS	0.25	0.04
2025E EPS	0.38	0.20
2026E EPS	NA	0.26

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## Stock Data

Price	3.31 USD
Price Objective	4.00 USD
Date Established	27-Feb-2024
Investment Opinion	C-2-9
52-Week Range	3.18 USD - 9.10 USD
Mkt Val (mn) / Shares Out (mn)	1,054 USD / 318.4
Free Float	28.3%
Average Daily Value (mn)	1.80 USD
BofA Ticker / Exchange	TWKS / NAS
Bloomberg / Reuters	TWKS US / TWKS.OQ
ROE (2024E)	1.8%
Net Dbt to Eqty (Dec-2023A)	28.8%
ESGMeter <sup>TM</sup>	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".

# iQprofile<sup>SM</sup> Thoughtworks

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-3.0%	-1.5%	0.3%	1.9%	2.9%
Return on Equity	18.8%	4.8%	1.8%	7.5%	8.9%
Operating Margin	-3.4%	-0.1%	0.9%	2.9%	4.3%
Free Cash Flow	65	40	45	50	60

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.6x	1.3x	4.6x	1.1x	1.0x
Asset Replacement Ratio	0.7x	0.2x	0.6x	0.7x	0.7x
Tax Rate	NM	NM	15.0%	22.3%	22.3%
Net Debt-to-Equity Ratio	30.1%	28.8%	18.9%	11.1%	3.5%
Interest Cover	-2.0x	-0.8x	0.1x	1.1x	1.9x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,296	1,127	994	1,076	1,214
% Change	21.1%	-13.1%	-11.8%	8.3%	12.8%
Gross Profit	351	354	319	354	417
% Change	-7.7%	0.8%	-9.8%	11.0%	17.6%
EBITDA	257	112	86	136	167
% Change	15.0%	-56.5%	-22.9%	57.9%	22.7%
Net Interest & Other Income	(30)	(23)	(40)	(28)	(28)
<b>Net Income (Adjusted)</b>	<b>140</b>	<b>37</b>	<b>15</b>	<b>67</b>	<b>87</b>
<b>% Change</b>	<b>11.5%</b>	<b>-73.4%</b>	<b>-60.1%</b>	<b>348.6%</b>	<b>30.8%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(105)	(69)	(31)	3	19
Depreciation & Amortization	34	36	36	33	38
Change in Working Capital	(88)	18	17	(5)	(17)
Deferred Taxation Charge	(19)	(8)	0	0	0
Other Adjustments, Net	268	71	46	43	49
Capital Expenditure	(25)	(9)	(23)	(25)	(28)
<b>Free Cash Flow</b>	<b>65</b>	<b>40</b>	<b>45</b>	<b>50</b>	<b>60</b>
<b>% Change</b>	<b>-29.7%</b>	<b>-38.2%</b>	<b>13.0%</b>	<b>9.3%</b>	<b>21.8%</b>
Share / Issue Repurchase	0	7	17	7	7
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(111)	(107)	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	194	100	163	220	287
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	362	328	308	314	334
Property, Plant & Equipment	82	68	91	115	143
Other Non-Current Assets	823	831	831	831	831
<b>Total Assets</b>	<b>1,462</b>	<b>1,327</b>	<b>1,393</b>	<b>1,480</b>	<b>1,595</b>
Short-Term Debt	7	7	7	7	7
Other Current Liabilities	172	152	146	149	154
Long-Term Debt	422	316	316	316	316
Other Non-Current Liabilities	82	79	79	79	79
<b>Total Liabilities</b>	<b>684</b>	<b>554</b>	<b>548</b>	<b>551</b>	<b>556</b>
<b>Total Equity</b>	<b>778</b>	<b>773</b>	<b>845</b>	<b>929</b>	<b>1,039</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,462</b>	<b>1,327</b>	<b>1,393</b>	<b>1,480</b>	<b>1,595</b>

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

## Company Sector

Computer Services

## Company Description

Headquartered in Chicago, IL and founded in 1993, Thoughtworks (TWKS) is a leading premium global technology consultancy that provides strategy, design and software engineering services. Thoughtworks currently has over 11,000 employees in over 17 countries across 5 continents. As of 3Q23, TWKS has over 450 clients across a well-diversified vertical and geography mix, and generated \$1,296M in revenues in 2022.

## Investment Rationale

TWKS provides strategy, design and software engineering services to Digital clients. Relative to IT services peers, TWKS' business has more of a strategic and design component in its portfolio. We view TWKS' long-term financial growth targets of 20%+ revenue growth and 19%+ adj. EBITDA margins as achievable. That said, demand and macro headwinds will weigh on near-term performance, and at current levels, we believe risk/reward is balanced.

## Stock Data

Average Daily Volume 542,953

## Quarterly Earnings Estimates

	2023	2024
Q1	0.03A	-0.02E
Q2	0.03A	0.02E
Q3	0.04A	0.02E
Q4	0.02A	0.03E

## More on 4Q results

- 4Q revs of \$252.4M was below BofAe/Street at \$267.2M/\$267.4M and guide of \$265M-\$270M. Const-curr growth of (19.8)% y/y was also below guide of (16)%-(14)% y/y, and includes 100bps from M&A. All five of TWKS' verticals reported y/y declines in revs, with Retail and Consumer declining 26% y/y to \$39.8M. Technology and Business Services remains the largest at \$64.8M but declined 24% y/y.
- By geography, all regions experienced y/y declines. N. America remains the largest at \$93.8M in revs (down 22.5% y/y), while LATAM experienced the largest decline of 37.6% y/y (to \$8.4M in revs). APAC remained the second largest geography with \$89.3M in revs, and declined 10.5% y/y.
- Adj. EBITDA margins of 5.5% was below BofAe/Street/guide of 11.4%/11.6%/10.5%-12.5% driven by increased costs associated with shifting mix offshore and pricing declines on a like-for-like basis.
- Adj. EPS of \$0.02 was at the low end of the \$0.02-\$0.04 guide and modestly below BofAe/Street at \$0.03.
- TWKS reported LTM bookings of \$1.2B (LTM book-to-bill of 1.06x) down from \$1.4B (LTM book-to-bill of 1.18x) in 3Q partially due to smaller contract sizes given current macro pressure.
- LTM attrition improved to 12.0% vs. 12.2% in 3Q and 12.9% in 2Q. While utilization in 2023 was below management's expectations, TWKS anticipates utilization will continue to improve in 2024. Headcount declined 1.9% q/q to 10,848.
- Following initial 2024 guidance and management commentary, we adjust F24 revs/adj. EPS to \$994M/\$0.04 from \$1,109M/\$0.25 prior. We also roll out initial F26 revs/adj. EPS estimates of \$1,222M/\$0.26.
- We lower our PO to \$4 from \$5 based on 21x C25e P/E (21x C24e P/E) and our DCF. Our multiple reflects a 25% discount to peers (vs. 15% prior), due to TWKS' lower growth and margin profile. Our DCF has a WACC of 10.5% (13.1% prior) and a terminal growth rate of 3.5% (no change).



## Price objective basis & risk

### Thoughtworks (TWKS)

We use a blend of 21x C25E P/E and discounted cash flow (DCF) to calculate our \$4 PO. Our multiple is a 25% discount to the peer group, justified, in our view, by TWKS' lower growth and margin profile. Our DCF has a weighted-average cost of capital (WACC) of 10.5% and terminal growth rate of 3.5%.

Downside risks: 1) availability of digital talent, 2) competition/pricing pressure, 3) geopolitical volatility (i.e., China), and 4) limited free float/liquidity.

Upside risks: 1) higher-than-anticipated revenue growth driven by accelerated demand for IT services, 2) lower voluntary attrition rates, 3) better-than-expected bookings.

## Analyst Certification

I, Jason Kupferberg, 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
<b>BUY</b>				
	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
	Discover Financial	DFS	DFS 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
<b>NEUTRAL</b>				
	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
	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

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>UNDERPERFORM</b>				
	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

**iQmethod<sup>SM</sup> 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 &amp; 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

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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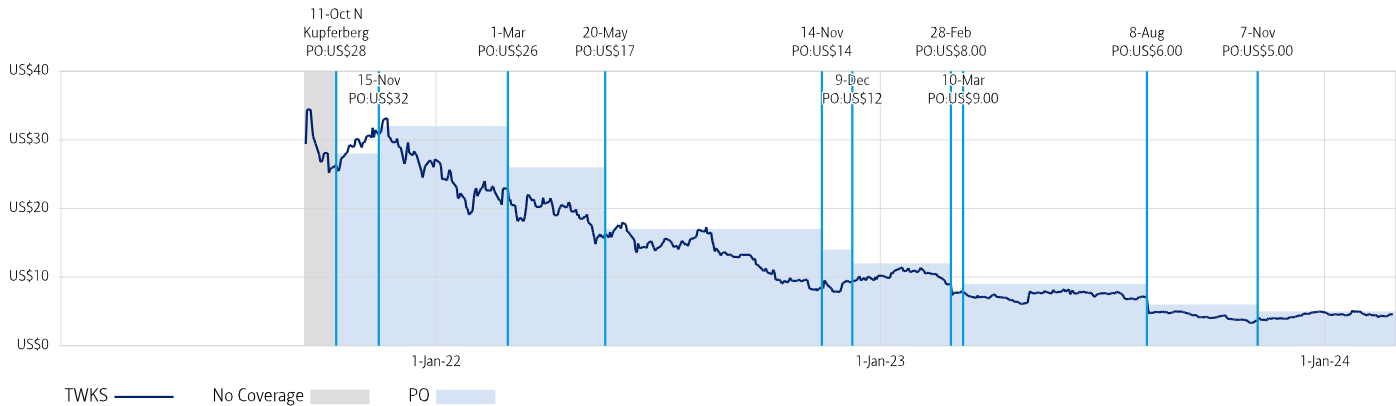
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## Important Disclosures

### Thoughtworks (TWKS) 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: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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