

Clarivate PLC

Still waiting for sales growth

Reiterate Rating: UNDERPERFORM | PO: 6.00 USD | Price: 8.94 USD

Mid-term sales targets pushed out and lowered

CLVT posted another qtr of tepid sales growth. Disappointingly, it also lowered its mid-term sales target and pushed it out by a year, while also increasing investment plans. It's now targeting 4-6% organic sales in 2026 (vs. 0.3% in 2023). The prior guide was for ~+6% in 2025 (provided at its 3/2023 Investor Day). We reiterate our Underperform. We worry about near-term visibility. We think shareholder interest will be limited near-term given proven and higher growth at other Info Service peers. On a positive note, mgmt. is looking to opportunistically prune slower-growth assets. We think it could exit some chunkier assets, but valuation will matter.

4Q EPS beat on taxes; 2024 guide weaker than expected

CLVT's \$0.23 4Q EPS beat our/the Street's \$0.21E on taxes (+3c). Organic sales missed (0.1% vs. our/Street's \$0.7/1.1%E) but was offset by better EBITDA margins (43.6% vs. our/the Street's 43.0/42.7%). Mgmt initiated \$0.70-0.80 2024 EPS guidance on 0-2% organic sales and 41-42% EBITDA margins (vs. 42.5% in 2023). 2024 capex guidance was raised to 10% of sales from ~9% previously. We lower our 2024/25E EPS by 12/14c to \$0.76/0.80. We maintain our \$6 PO, but roll forward our valuation estimates to 2025 and cut our multiple to 8.0x EV/EBITDA (vs. 9x prior) because of reduced visibility.

Our confidence is low until we see more sales traction

Management attributes its mid-term sales guide down to macro headwinds hurting the broader industry, and early challenges with its Real World Data initiatives. It does not think it lost share this year in A&G and IP, but did in LS&H. It expects its turnaround to be driven by product innovation that leads to higher renewals, new sales, and improved price capture. We model organic sales +3.8% in 2026. We assume transactional revenues improve, but think it's still too early to assume all turnaround efforts are successful.

As we feared, investment costs ramp to fuel sales

CLVT guided 2024 EBITDA margins down 50-150bp to 41-42% and raised its capex outlook as it spends more to drive sales. This had been one of our key concerns. The company also lowered its mid-term margin target, and now expects 42%+ EBITDA margins by 2026, vs. its prior 43% by 2025 goal. Mgmt has previously noted that it needs ~4-5% organic sales to leverage operating expenses.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.85	0.82	0.76	0.80	0.95
GAAP EPS	(6.24)	(1.47)	(0.19)	0.02	0.20
EPS Change (YoY)	19.7%	-3.5%	-7.3%	5.3%	18.8%
Consensus EPS (Bloomberg)			0.85	0.93	0.94
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	10.5x	10.9x	11.8x	11.2x	9.4x
GAAP P/E	NM	NM	NM	447.0x	44.7x
EV / EBITDA*	9.4x	9.3x	9.6x	9.3x	8.9x
Free Cash Flow Yield*	5.2%	8.5%	7.7%	9.1%	10.6%

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

27 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	2,684.7	2,611.6
2025E Rev (m)	2,777.0	2,685.8
2026E Rev (m)	2,899.2	2,789.1
2024E EPS	0.88	0.76
2025E EPS	0.94	0.80
2026E EPS	1.27	0.95
2024E EBITDA (m)	1,141.8	1,087.5
2025E EBITDA (m)	1,190.3	1,125.1
2026E EBITDA (m)	1,250.2	1,175.2

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Stock Data

Price	8.94 USD
Price Objective	6.00 USD
Date Established	7-Aug-2023
Investment Opinion	C-3-9
52-Week Range	6.07 USD - 11.99 USD
Mkt Val (mn) / Shares Out (mn)	5,935 USD / 663.9
Free Float	59.8%
Average Daily Value (mn)	27.75 USD
BofA Ticker / Exchange	CLVT / NYS
Bloomberg / Reuters	CLVT US / CLVT.N
ROE (2024E)	9.4%
Net Dbt to Eqty (Dec-2023A)	72.6%
ESGMeter™	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".

A&G: Academia & Government
LS&H: Life Sciences & Healthcare

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Timestamp: 27 February 2024 04:33PM EST

iQprofileSM Clarivate PLC

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-23.0%	-5.6%	2.0%	1.6%	2.5%
Return on Equity	6.7%	9.4%	9.4%	9.9%	11.8%
Operating Margin	-147.6%	-27.9%	9.3%	12.3%	14.6%
Free Cash Flow	306	502	455	541	632

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.2x	1.3x	1.4x	1.3x
Asset Replacement Ratio	5.8x	10.5x	11.0x	7.6x	6.5x
Tax Rate	0.7%	10.0%	NM	85.3%	38.1%
Net Debt-to-Equity Ratio	68.4%	72.6%	70.2%	63.9%	54.5%
Interest Cover	-14.5x	-2.5x	0.9x	1.3x	2.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,660	2,629	2,612	2,686	2,789
% Change	41.7%	-1.2%	-0.7%	2.8%	3.8%
Gross Profit	1,706	1,723	1,718	1,763	1,827
% Change	36.4%	1.0%	-0.3%	2.6%	3.6%
EBITDA	1,113	1,117	1,088	1,125	1,175
% Change	39.0%	0.4%	-2.7%	3.5%	4.5%
Net Interest & Other Income	(64)	(278)	(275)	(249)	(196)
Net Income (Adjusted)	628	599	552	575	685
% Change	32.2%	-4.6%	-7.8%	4.2%	19.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(3,960)	(911)	(92)	12	130
Depreciation & Amortization	711	708	720	704	672
Change in Working Capital	(272)	(60)	(11)	(20)	(7)
Deferred Taxation Charge	(54)	(78)	0	0	0
Other Adjustments, Net	4,085	1,086	102	108	99
Capital Expenditure	(203)	(243)	(264)	(263)	(262)
Free Cash Flow	306	502	455	541	632
% Change	49.3%	63.7%	-9.3%	18.8%	16.9%
Share / Issue Repurchase	(189)	(120)	(135)	(135)	(135)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(499)	(300)	(400)	(400)	(386)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	349	371	256	261	372
Trade Receivables	872	908	902	928	971
Other Current Assets	174	183	182	194	213
Property, Plant & Equipment	55	52	74	85	90
Other Non-Current Assets	12,495	11,193	10,714	10,265	9,854
Total Assets	13,945	12,707	12,127	11,734	11,501
Short-Term Debt	1	0	0	0	0
Other Current Liabilities	1,559	1,600	1,581	1,602	1,661
Long-Term Debt	5,005	4,721	4,338	3,956	3,572
Other Non-Current Liabilities	568	393	393	393	393
Total Liabilities	7,132	6,715	6,312	5,951	5,626
Total Equity	6,813	5,992	5,815	5,783	5,875
Total Equity & Liabilities	13,945	12,707	12,127	11,734	11,501

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

Company Sector

Business Services

Company Description

Clarivate is a leading provider of intellectual property and scientific information, analytical tools and services. Through the recent ProQuest acquisition, it is also the leading aggregator of content and software solutions for academic and research institutions. The company currently serves over 30,000 customers (ex ProQuest) in more than 170 countries. Clarivate was formed in October 2016 from the spin out of Thomson Reuters' Intellectual Property and Science business.

Investment Rationale

We have reduced confidence in the pace of CLVT's 3 year turnaround story. Near term end market and macro related headwinds are pushing out meaningful sales acceleration to at least 2024 and we believe product initiatives could take longer than planned to gain traction and potentially require higher than expected investments. We rate the shares Underperform.

Stock Data

Average Daily Volume 3,103,786

Quarterly Earnings Estimates

	2023	2024
Q1	0.18A	0.13E
Q2	0.21A	0.18E
Q3	0.21A	0.20E
Q4	0.23A	0.24E

Price objective basis & risk

Clarivate PLC (CLVT)

Our \$6 price objective is based on a 8x 2025E EV/EBITDA (adjusted for stock based comp). This is a discount to information services peers at approximately 20x. We think a discount is warranted given turnaround risk, slower EBITDA growth, higher net leverage, and lower free cash flow conversion.

Downside risks are 1) slower sales growth recovery, 2) execution risk, 3) turnaround sales strategy may require additional capital investments, 4) elevated leverage during a rising rate environment provides interest rate risk, 5) weakening US or international macro environment.

Upside risks are 1) 2025 sales turnaround strategy can materialize sooner or grow faster than anticipated, 2) strong adoption of new products, 3) higher than expected free cash flow conversion being utilized to reduce debt and return capital to shareholders.

Analyst Certification

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US - Business, Education & Professional Services Coverage Cluster

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	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
NEUTRAL				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
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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



iQmethodSM 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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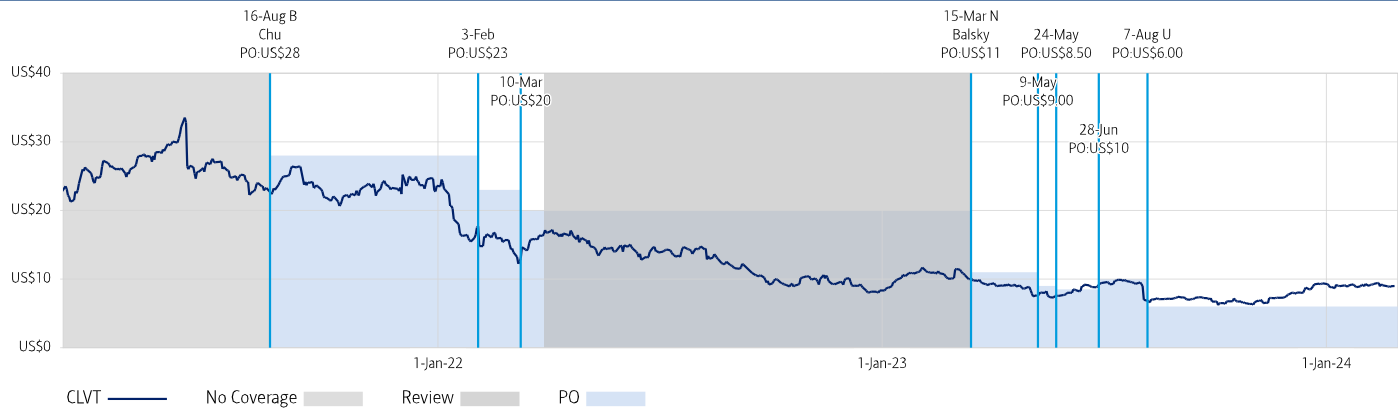
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Clarivate PLC (CLVT) Price Chart



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 ^{R1}	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 ^{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%

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