

Business and Information Services

Business & Information Services

conference wrap: Biz Services take-aways

Industry Overview

Key take-aways from our Business Services coverage

We hosted Alight and Aramark for fireside chats, and Strategic Education for group meetings at our March 14th Business & Information Services conference in New York City. Below are some of our key take-aways.

Alight (ALIT): We hosted Jeremy Heaton, Operating CFO, and IR. In telling the ALIT story, we were pleased to hear Heaton put emphasis on the company's core business of implementing and delivering benefits administration to the largest, most complex employers globally. We think this foundation is underappreciated by investors. Meanwhile, it's Business Process as a Service (BPaaS) offering is a set of tools that leverage ALIT's deep historical data sets and enable its customers to drive better employee engagement and ROI on its benefits offerings. BPaaS growth currently is benefiting from employers looking to be more efficient. Because it's a software-based offering, BPaaS has higher margins. Management remains confident in its 6-8% mid-term sales target, and the company has strong momentum in 2H24 and into 1H25 as the GE contract rolls on. Meanwhile, ALIT is confident that it's on track to hit its 25%+ 2026 margin target, the majority of which is cost- rather than sales-driven.

Aramark (ARMK): We hosted John Zillmer, CEO, and Jim Tarangelo, CFO, and IR. Management struck a positive tone, emphasizing the broad-based momentum across sectors and geographies. The company is benefitting from strong stadium attendance and higher participation rates in Business & Industry. At stadiums, its switch to cashless has led to higher spend. On the cost side, ARMK's saw food cost inflation moderate to 4-5% in F1Q (from 5-6% in F4Q). We infer that quarter-to-date trends remain steady in the 4-5% range; further moderation would be upside to margin guidance (see our [food away from home note](#)). There have been some headlines regarding some ARMK customers switching providers. However, management expects FY24 retention to be at or above FY23's levels. These announcements were anticipated for the "most part" The company was recently selected to supply the San Francisco Giants' stadium, a very significant win that more than offsets of the other losses in Sports & Entertainment.

Strategic Education (STRA): We hosted Karl McDonnell, President & CEO, and IR. At our conference, management focused on the future growth and capabilities of the company. In the US business, 70% of incremental enrollment is coming from corporate partnerships. These corporate partnerships are expected to grow and spur new student growth rates at both Strayer and Capella. In the Australia/New Zealand segment (ANZ) management expects enrollment to improve through increased marketing and tech spend, as well as visa approvals accelerating. There are still some synergies possible between the US and the ANZ segments that the company is exploring. The company has formed two teams to focus on the impact and power of GenAI. One team will address the internal changes and optimizations and one team will focus on the impact of GenAI on learning, academic integrity, and the student experience.

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Equity
United States
Business & Information Services

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Timestamp: 18 March 2024 02:04AM EDT

Price objective basis & risk

Alight Inc (ALIT; B-1-9; \$8.67)

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.

Aramark (ARMK; B-1-7; \$31.11)

Our \$34 price objective is based on a 10x EV/EBITDA multiple on our CY25 estimate reflecting our confidence in the company's growth and ability to delever. This is a 0.5x premium to its current multiple. We expect multiple expansion as inflation continues to moderate and the company executes on its plan.

Downside risks to our price objective are 1) worse-than-expected or longer disruption from coronavirus, 2) inability over time to recover COVID-impacted revenue, 3) an inability to continue delivering efficiency/margin gains, 4) high financial leverage, and 5) exposure to wage and/or food inflation.

Upside risks to our PO are a move to separate the Uniforms business, valuation expansion driven by headcount expansion and technology investment, the leadership change and activist involvement, better-than-expected net new business wins and/or operating margins, or more rapid deleveraging.

Strategic Education (STRA; B-1-7; \$101.19)

Our \$124 price objective is based on a 21.5x 2025E P/E multiple, a premium to its 20x pre-COVID average (January 2017-July 2020). We expect modest multiple expansion as the company continues to recover post-COVID.

Downside risks include 1) pressure on enrollment from negative macro headwinds, 2) continued delays in Australia's visa program, 3) increased regulatory risks and requirements, and 4) increased competition.

Upside risks are 1) stronger than expected enrollment trends especially among working adults, 2) increased corporate partnerships and enrollments, 3) tighter cost control, and 4) greater than expected capital returns.

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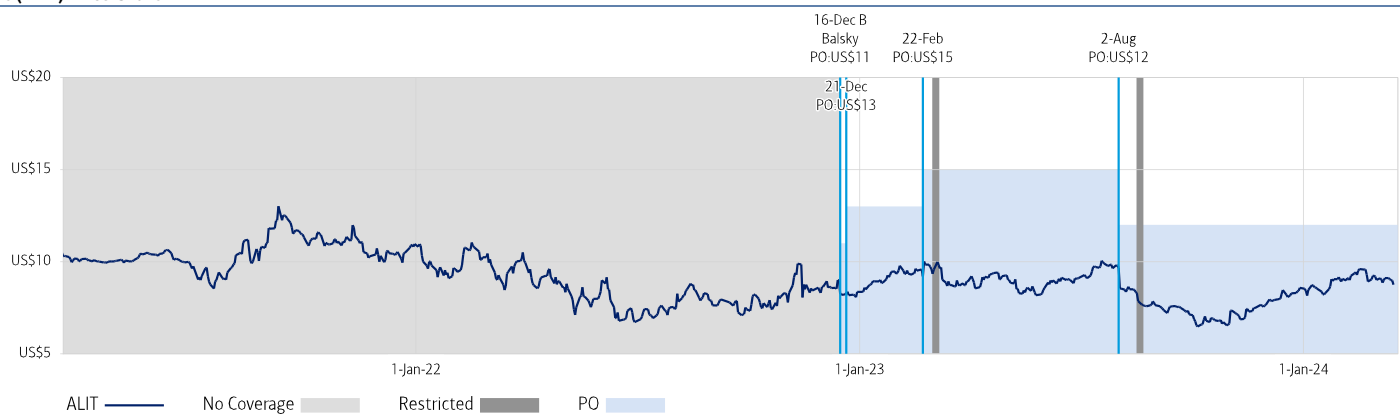
US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alight Inc	ALIT	ALIT US	Heather Balsky
	APi Group	APG	APG US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Driven Brands	DRVN	DRVN US	Robert F. Ohmes, CFA
	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
	Petco	WOOF	WOOF US	Kendall Toscano
	Rollins Inc.	ROL	ROL 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				
	AutoZone Inc.	AZO	AZO US	Robert F. Ohmes, CFA
	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				
	ASGN Inc.	ASGN	ASGN US	Heather Balsky
	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

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Alight (ALIT) Price Chart



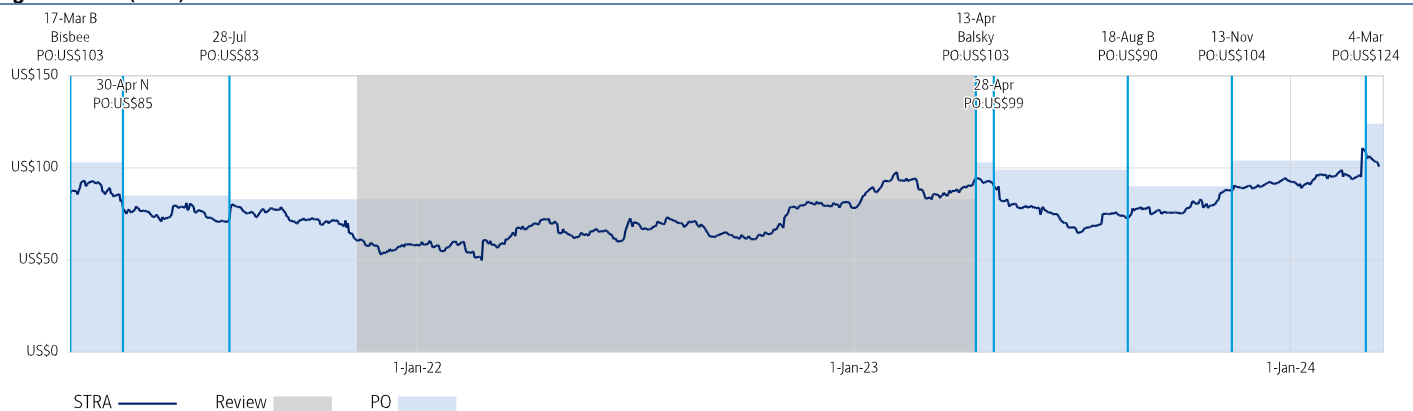
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

Aramark (ARMK) Price Chart

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

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Strategic Education (STRA) Price Chart

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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: Education & Training Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	8	53.33%	Buy	2	25.00%
Hold	4	26.67%	Hold	1	25.00%
Sell	3	20.00%	Sell	0	0.00%

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%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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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