

Date: February 25, 2022
Price: \$25.81

Ticker: LWRK
Target Price: \$34.82

Recommendation: Buy
Implied Return: 30%

Financial Snapshot

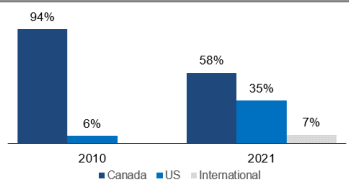
Share Price	\$25.81	Market Cap (mm)	\$1,903.4
(Feb 25)		EV (mm)	\$2,346.0
52 week high	\$37.56		
52 week low	\$24.20	All figures in CAD	

LTM (\$mm)		Key Stats (LTM)	
Revenue	\$1010.62	EV/EBITDA	11.9x
EBITDA	\$132.71	EV/Sales	2.2x
EBIT	\$29.71	EBITDA Margin	13.1%
Net Income	-\$11.82	EBIT Margin	2.9%
All figures in CAD		Dividend Yield	2.8%

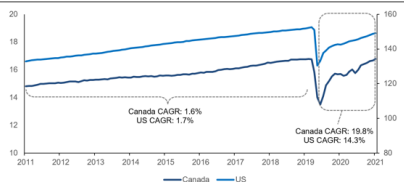
Segment Revenue



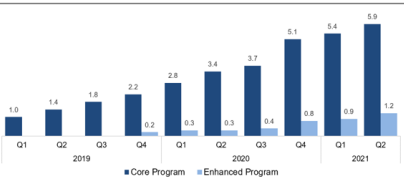
Geographical Revenue Trend



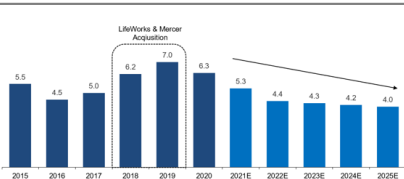
Employment Participation



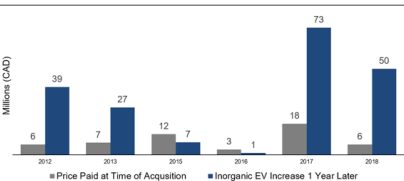
EAP Upsell Trend



Debt/EBITDA



M&A Contribution to EV



Investment Summary

Company Overview:

LifeWorks Inc. (TSX: LWRK), a leading HR administration and benefits provider, using technology solutions and consulting services to provide a variety of services for their 25,000+ corporate clients around the world. These services include but are not limited to employee assistance programs, cognitive behavioural therapy, discounts, mental health therapy, pension health administration and many more.

Recommendation:

We give a **Buy** recommendation for LWRK. A base scenario target price of \$34.82/share is determined with a 34.90% implied return from its closing price of \$25.81 on February 25th, 2022. Our target price is calculated factoring in the average of 1) Gordon Growth Model and 2) EV/EBITDA Multiple Approach. Our recommendation is driven by the following investment thesis.

Industry Overview:

LWRK operates in the HR administration and benefits technology industry, which is a fragmented mature industry with a historical 1.8% growth but is expected to accelerate and innovate due to increased awareness, demand for employee services, and the recovering economy from the pandemic. Given the attractive profit margin of 30%, M&A activity has been active in this space both domestic and internationally. As pension plans continue to evolve and outsourcing needs increase, there are many opportunities to gain market share as this industry innovates.

Investment Thesis:

1. **Strong Revenue Source Quality:** LWRK has over 26 million users under their LifeWorks platform along with over 9 million members subscribed to its pension administration service. These two services account for almost 80% of its revenue. Corporate clients face high switching costs and recurring revenue rates top 96%, thus demonstrating the resiliency from revenue downfalls. Going forward, as the global economy recovers, corporate clients will increase hires which fuels revenue for LWRK. This has been demonstrated in recent clients win over the private and public sector correlating with employment participation growth in the last decade.

2. **Upselling Opportunities:** Other than expanding the user base, LWRK can increase their revenue from upselling efforts from the variety of products offered and supported by multiple state-of-the-art technology. With an 86% daily utilization rate of LWRK products and corporate clients only paying 2.8 out of 10 services on average, there is room for sales improvements. LWRK has worked on partnering with Microsoft Teams, developing a mobile app, and acquiring the Knox-Knee License to enhance accessibility and upsell efforts.

3. **Inorganic Growth:** LWRK has completed over 25 acquisitions since its IPO, most of which yielded accretive earnings with strong synergies in product integration and client base expansion. As Debt/Adj EBITDA is expected to lower after the completion of large-scale acquisitions and projects, LWRK will be ready to seek its next target. We believe management's focus to acquire a target that can yield economies of scale through spreading fixed cost, offering better technology services, or expanding global footprint will continue to strengthen LWRK's business moat.

Catalysts:

The recent successful implementation of Workday ERP system and consolidation real estate office space will stabilize non-recurring costs, thereby improving margins. Secondly, the completion of integration work with recent acquisitions, specifically LifeWorks and Mercer US' pension administration business, should normalize capital expenditures and increase free cash flow. Third, any acceleration in cross selling opportunities due to expansion in user base and better-than-expected Microsoft Teams and mobile platform effectiveness will boost revenues.

Risks:

As geopolitical tensions continue to rise coupled with unstable macroeconomic conditions, this may slow down economic recoveries. Although this will pressure LWRK's growth, the company has historically been defensive against economic downturns due to its low cyclical, sticky, and well-diversified revenue streams. Secondly, LWRK has been affected by FX headwinds over the past year. Although this might be an issue where management might decide to engage in FX swaps, the loonie and greenbag should strengthen in the short run as oil prices and interest rates rise. Finally, as industry continues to be fragmented with different areas of focus, there may be increasing competition. Some existing mitigations to this risk are corporate clients facing high switching costs and LWRK having the capital to complete tuck-in acquisitions going forward to obtain a more dominant market share.