

# Thoughtworks Q3 2022 earnings call: Prepared remarks

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## Speakers:

- Guo Xiao, President and CEO, Thoughtworks
- Erin Cummins, CFO, Thoughtworks
- Thoughtworks representative

**Thoughtworks representative:** Hello, everyone and welcome to Thoughtworks' Earnings Call for the Third Quarter of 2022. We will be recording today's call.

Joining us today will be Thoughtworks' President and CEO, Guo Xiao; and CFO, Erin Cummins.

The earnings press release was issued earlier today and is also available on our investor relations page at [thoughtworks.com](https://www.thoughtworks.com), if you want to review or download a copy.

Some of the matters we'll discuss on this call, including our expected business outlook are forward-looking and as such, are subject to known and unknown risks and uncertainties, including, but not limited to, those factors described in today's press release and discussed in the risk factors section of our annual report on Form 10-K, our quarterly reports on Form 10-Q and other reports we may file with the SEC from time to time.

These risks and uncertainties could cause actual results to differ materially from those expressed on the call.

We caution you not to place undue reliance on these forward-looking statements because they are made only as of the date when they were made.

During our call today we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We also provide growth rates in constant currency as a framework for assessing how our underlying businesses performed, excluding the effect of foreign currency rate fluctuations.

We include reconciliations of non-GAAP financial measures to our GAAP financial measures in our press release furnished as an exhibit to our Form 8-K, which is available on the Investor Relations section of our website at [thoughtworks.com](https://www.thoughtworks.com).

The non-GAAP financial measures provided should not be considered as a substitute for or superior to the measures of financial performance prepared in accordance with GAAP.

Thoughtworks assumes no obligation to update or revise the information presented on this conference call.

I will now hand over to Xiao.

**Guo Xiao, President and CEO, Thoughtworks:** Thank you, Sean. Welcome everyone, to our third quarter earnings call.

I'd like to start by sharing an overall update of the business, and then Erin will take you through our third quarter financial results in more detail. I will then share some of our business highlights before Erin provides guidance and we open for Q&A. Let me start with a recap about Thoughtworks.

We're a global technology consultancy that integrates strategy, design and engineering to drive digital innovation. We enable enterprises and technology disruptors to thrive as modern digital businesses. Now let me turn to the financials.

I'm pleased to report strong results in our third quarter, driven by the continued demand for our digital transformation services. We delivered revenue of \$332 million in the third quarter of 2022, reflecting year-on-year growth of 16.6% and 23.9% in constant currency.

In the quarter, we achieved adjusted EBITDA of \$67.2 million, reflecting adjusted EBITDA margin of 20.2%. Thoughtworks has established a reputation for thought leadership and fostering a unique and cultivating culture. Our diverse and global culture continues to track and retain what we believe to be the best talent in the industry.

I would like to thank every Thoughtworker around the world for the extraordinary impact they create through our technology excellence and culture.

Today, the world faces a higher level of economic uncertainty.

Throughout this period, we continue to stay close to our clients, helping them to be adaptive to change and resilient in the face of unpredictability. And we're driving our business with rigor and discipline, managing supply and demand and being proactive with our clients to help them achieve a better return from their technology budgets.

The Thoughtworks business is diversified across industries and geographies, and we see this as a key differentiator. According to the KPMG Global Technology Report published in September 2022, 67% of businesses are set to embrace emerging technologies by 2024.

The report, which surveyed 2,200 technology executives across the globe, found that 44% responded and cited the lack of talent in areas like data science engineering as one of the biggest challenges for the business. We believe that Thoughtworks has the best talent in the industry and that clients continue to value our people and our services.

We have seen better-than-expected demand in third quarter, and our clients are looking to digital innovation to help them navigate uncertainty.

Strong themes are prevailing. Let me share some examples.

We're seeing strong interest from clients in our data services and how data can transform and scale their businesses. Clients are looking for us to develop new digital products and services, enhancing customer experiences, removing friction and bringing customer-facing services together. We're seeing solid demand from clients for Thoughtworks' expertise in enterprise monetization and platforms.

We also continue to see client interest in developer experience platforms as a key enabler for improving the return on investment of technology budgets by boosting the productivity and retention of critical engineering talents. For these reasons, we believe that Thoughtworks is well positioned in the market. Now let me share the details of our growth strategies.

At the core, our revenue growth is from deepening relationships with existing clients and winning new logos. We then supplement this with focused strategies around M&A partners and geographic expansion. Turning first to our client portfolio.

The depths of our expertise and breadth of our capabilities means that we can help clients address all their challenges from strategy right through to business outcomes. Our clients appreciate the value we create with them and remain confident in our ability to sustain our premium position and pricing.

For example, at Atlassian, one of Australia's most successful technology companies. Thoughtworks has worked on a mammoth challenge, to migrate one of Atlassian's flagship products, Bitbucket, to the public cloud.

Bitbucket enables Atlassian's customers to build software at scale and processes on average 1 billion transactions per day. Atlassian was managing this data through its own data center, which posed a challenge in terms of scale and security.

Thoughtworks enabled the migration of 50 million customer co-repositories to Atlassian's platform as a service, which is built on AWS. What would previously have taken years was completed by Thoughtworks in just three months. Atlassian saw a 93% reduction in support requests due to outage and a 55% improvement in Bitbucket's Web response time performance.

At our long-term client, the United States Department of Veterans Affairs, VA, we have been working together to transform their organization through data mesh and data platforms. VA is a federal cabinet level agency, providing healthcare services to eligible military veterans in order to improve health outcomes.

For example, VA uses the medication possession ratio calculation, MPR, to provide clinicians with a view on how well a patient is adhering to a medication regime. MPR is critical for veterans who are taking control medication.

Thoughtworks introduced data as a product, a core principle of data mesh which enables data to be managed by VA's domain teams. We paired with the Office of Mental Health and Suicide Prevention to enhance MPR to a fully-managed data platform and delivered an 88% reduction in processing time.

Additionally, Thoughtworks implemented a data catalog for the health, data and analytics platform, HDAP. The new MPR data product became the first data product inside the HDAP Microsoft Azure platform, providing a scalable inventory of enterprise data assets.

Now turning to new clients. We have a focused approach to new clients, helping the organizations we work with to deliver rapid business value from digital transformation. We continued momentum from the first half of the year, and we have contracted with 32 new clients in the third quarter.

Now let me provide an example of a new client that we have been working with recently. We have signed a multiyear agreement with PCI Pharma Services, a leading global contract development and manufacturing organization. Thoughtworks will help PCI in its journey to digitize its supply chain with the goal of accelerating the time it takes to bring life-changing therapies to market for patients.

The agreement includes expanding and adapting PCI bridge, an industry first-of-its-kind data platform that provides real-time status of projects, automatically identifies risks, spots trends and provides business analytics. With this modern application programming interface, clients have the ability to seamlessly integrate their systems with PCI's, creating greater transparency and a more simplified process for decision-making.

We're also pleased to share that last month, Thoughtworks Federal LLC, a wholly-owned subsidiary of Thoughtworks, Inc. was awarded a multiple award schedule prime contract by the U.S. General Services Administration. This is a government-wide indefinite delivery, indefinite quantity contract that grants Thoughtworks Federal an awarded base period of five years and an additional 15 years of optional periods.

This is a big step forward and will allow us to sell to federal agencies directly.

Now let me share an update on partners as a growth strategy. Our primary focus is to develop go-to-market partnerships with hyperscale cloud providers, including AWS, GCP and Azure.

For example, as an Amazon AWS premier services partner, we have the highest tier of partnership which less than 3% of AWS partners achieved. In the third quarter, we also achieved a new AWS Financial Services competency. Thoughtworks has deep technical expertise with AWS cloud technologies, and we're successfully working with a large number of clients at scale.

We're also working on a new data platform together with AWS and the Natural History Museum. The Natural History Museum is a world-leading science research center and was the most visited indoor attraction in the U.K. in 2021.

The new data platform, which is called the data ecosystem, is designed to help the museum scientists to bring together a huge breadth of U.K. biodiversity and environmental data types in one place to help build scientific understanding of the U.K.'s biodiversity and environment. You can find details of some of these customer successes on a new section of our website, [thoughtworks.com](https://www.thoughtworks.com).

I'm now going to hand over to Erin so that she can take you through the numbers in greater detail.

**Erin Cummins, CFO, Thoughtworks:** Thank you, Xiao. Thanks to all of you for joining us today. We were very pleased with our results in the third quarter, which demonstrate continued solid demand across our business. Let me begin by summarizing a few of the highlights for the quarter.

In the third quarter, we saw revenue growth of 16.6% compared to the prior year period. Constant currency revenue growth was 23.9%. Our revenue growth in constant currency is 2.1 percentage points higher compared to the midpoint of the range I guided to in August. This is primarily due to strong execution and better-than-expected demand.

Adjusted EBITDA for the quarter was \$67.2 million, and our adjusted EBITDA margin of 20.2% was 270 basis points higher compared to the midpoint of the range I guided to in August. Q3 adjusted EBITDA margin decreased when compared to the prior year period due to the impact from lower utilization. Now let me share some details.

Turning to revenue. For the third quarter, revenue growth year-on-year was 16.6% and 23.9% on a constant currency basis. Our clients remain committed to large digital transformation programs. However, we are starting to see a change in client behavior. Some clients are contracting in smaller phases to allow themselves flexibility, and sales cycles are normalizing from the accelerated post-pandemic levels.

Our demand environment, however, remains healthy and clients value working with Thoughtworks. This is evidenced by our average revenue per employee of \$112,000 annualized for the first nine months of 2022, which remains higher than the industry average.

In the third quarter of 2022, we continued to see clients select Thoughtworks for their digital transformations. Over a trailing 12-month period, we had 41 clients with bookings greater than \$10 million compared to 33 clients over the same period last year, an increase of 24.2%. Our overall bookings in the trailing 12 months increased by 19.1% year-on-year to 1.5 billion.

We have a diversified business across industry verticals and geographies. North America grew by 24.7%, Europe by 15%, LATAM by 13.3% and APAC grew by 9.7%. Our growth in APAC continues to be impacted by the COVID situation in China.

Given the continued strengthening of the U.S. dollar in recent months, we want to provide a deeper view into its effect on our reported results. Our primary revenue-generating currencies alongside the U.S. dollar are the Euro, Great British Pound and Australian Dollar. I am pleased with the underlying strength of our business this quarter.

For example, on a local currency basis, our revenue contracted in Euros grew by 26.1%, Great British Pounds by 20% and Australian Dollars by 15.9% compared to the prior year period.

Due to the diverse nature of our business on a geographic basis, 62.6% of our year-to-date revenues as of September 30 were contracted in non-USD currencies. We also continue to see good growth across our industry verticals during the quarter. The strongest growth was in technology and business services growing at 25.5%.

Automotive travel and transport grew at 23.5%. Financial Services grew at 17.7%, Energy, Public & Health Services grew at 16.5%, and our Retail and Consumer vertical was in line with last year. As we shared with you in May, Energy, Public and Health Services is a strategic focus, and this industry vertical has returned to double-digit growth as expected in the third quarter.

In the Retail and Consumer vertical, we are seeing normalizing spend after the post-pandemic boom. At the end of the quarter, on a TTM basis, 88.6% of our business came from existing clients. We have a balanced customer portfolio with relatively low client concentration. In the third quarter, our top 5, top 10 and top 50 clients generated 16.1%, 25.4% and 65.4%, respectively, as a percentage of total revenues.

We now have 36 clients with trailing 12-month revenues greater than \$10 million, seven more than the third quarter of 2021, representing a 24% increase. Moving down the income statement.

For the quarter, adjusted gross margin was 40.7% compared to 45.7% during the prior year period, impacted by utilization, as previously discussed with respect to adjusted EBITDA. In the third quarter, our adjusted SG&A as a percentage of revenue was 21.2%, which is better than the third quarter 2021 by 100 basis points due to efficiencies from scaling and strong execution.

Adjusted EBITDA was \$67.2 million for the third quarter. And adjusted EBITDA margin was 20.2%, a decrease of 310 basis points compared with the third quarter last year due to lower utilization. GAAP diluted loss per share was \$0.10, impacted by non-cash stock compensation charges.

On an adjusted basis, our adjusted diluted earnings per share was \$0.08 compared to \$0.14 in the third quarter of 2021, primarily due to effects from income taxes. Free cash flow for the quarter was \$27.7 million compared to \$27.5 million in the prior year quarter. And we continue to have good liquidity. Our cash balance at September 30, 2022, was \$185 million compared to \$453 million at September 30, 2021.

Our cash balance reflects debt repayments of \$100 million in October 2021 and \$100 million in July 2022. Our debt is continuing to go down and is \$404 million as of September 30, 2022. Now I would like to hand back to Xiao to share additional updates on our business from the third quarter.

**Guo Xiao, President and CEO, Thoughtworks:** Thanks, Erin. Let me start with our amazing Thoughtworkers. We've grown our community of Thoughtworkers to over 12,500. With a long-term focus on diversity and inclusion, 42.2% of Thoughtworkers are now women and underrepresented gender minorities, WUGN.

We continue to improve our employee value proposition, and we're pleased that attrition at the end of September 2022, was 11.8% on a TTM basis, significantly better than industry norms. I'm pleased that our attrition is better than our operating plan assumptions. This demonstrates the strength of our employee value proposition.

We believe that Thoughtworks has the best digital talent in the industry, and this positions us well to create extraordinary impact for our clients. Investing in thought workers is a long-standing business priority. One example is our commitment to leadership development. The Thoughtworks global management team has a deep bond with our culture, thanks in part to their average tenure of 16 years.

One way we have achieved a strong and diverse leadership is through our focus on the Global Leadership Development program, which has been running now for over 14 years. We are proud that around 80% of our Global Management Team are alumni of the global leadership development program.

Our 2022 to 2023 global leadership development program launched in September. This year's cohort of 121 leaders are 56% women and underrepresented gender minorities, WUGM. The program is developed in-house and is supported by 116

internal coaches, 53% of whom are WUGM and 65% are Global Leadership Development Alumni.

In the third quarter, we're pleased that Thoughtworks once again received Great Place to Work certification in Singapore, Germany, Spain and China, with all regions meeting or surpassing their previous year's Trust Index score. This brings our current total of active Great Place to Work certifications to 13.

Our strong employer brand continues to attract talent to Thoughtworks. With over 53,000 job applicants during the third quarter, I'm very proud of our recruiting capability, and we continue to see over 50% of our hires coming from Thoughtworkers' referrals and direct sourcing.

Our priority is for Thoughtworks to be a place for talented technologies to grow and have impact. Our global Glassdoor rating is a measure of the progress we're making. In the third quarter, our overall rating was 4.41, which is again higher than the rating for the IT services sector of 3.95.

Our score for diversity and inclusion was 4.77, higher than the rating for the IT services sector of 4.02. 92% of Thoughtworkers will recommend the Company to a friend and employee referrals continue to be an important source for new hires.

We're known as thought leaders who revolutionize the technology industry, and that's how we've built our brand and our reputation from our early days as a company.

We continue to stay close to our clients. And from June to August, we ran Thoughtworks XConf 2022 in nine countries with over 4,500 attendees. XConf, now in its 12th year, is a Thoughtworks flagship program run by technologies for technologies.

This year's global theme was making tech better together. The program consisted of 108 talks, panels and workshops covering a wide range of topics, including enterprise modernization, data mesh, customer experience and product thinking, accessibility and sustainability as well as career-oriented sessions.

Our clients consistently feedback to us that they value our thought leadership. In the third quarter, we informed and guided our clients with papers, including on such topics as how to use low-code tools effectively, how to approach digital fluency in uncertain times and a paper with practical suggestions for our clients through an exploration of the three significant narratives of the metaverse.

And in the third quarter, Thoughtworks published a Harvard Business review data mesh white paper, Beyond Technology, Creating Business Value with Data Mesh. This white paper from Harvard Business Review Analytics Services in association with Thoughtworks, is based on research with academics, industry experts and three of Thoughtworks data mesh clients: Roche, ITV and Saxo Bank.



We're also pleased to share that ITV and Thoughtworks were the winners of the Data IQ Awards 2022. Thoughtworks partnered with ITV to implement a data mesh approach in a reimagining of data use for content production, promotion, distribution and monetization in a way that is scalable and shareable.

The result has been that ITV's marketing team can identify addressable audiences in minutes rather than the prior three months' timeline. Our shared culture and data mesh self-service data exchange impressed the judges. Now let me hand back to Erin.

**Erin Cummins, CFO, Thoughtworks:** Thanks, Xiao. I would like to update you on some areas of focus within our ESG priorities. Our transformational social impact work is a core part of Thoughtworks culture.

For example, Bahmni, our long-term global priority in healthcare, is now the first open source hospital information system to be accepted to India's National Digital Health mission. In the third quarter, Thoughtworks set up the core architecture to support the Bahmni vision to create a national digital health ecosystem that supports universal health coverage, which over 1 billion people are expected to benefit from.

Another focus of our approach to ESG is in the practices around responsible technology. As technology becomes ever-more pervasive in our lives, the field of responsible tech is growing in importance to help mitigate negative inadvertent consequences of technology. We are a leader in the field of responsible tech.

For example, Dr. Rebecca Parsons, our Chief Technology Officer, opened the world's first responsible Tech Congress held in Ecuador in September. Thoughtworks is also a contributor to a new report by Forrester, a leading global research and adviser firm.

The Forrester report, "Responsible and Ethical Technology Strategy", spotlights that every company, not just big tech, is accountable for having a responsible and ethical technology strategy that earns trust and drives sustainable differentiation.

Now let me turn to our business outlook. While there is uncertainty in the macro environment, our customers are continuing to come to Thoughtworks to transform their businesses.

For the fourth quarter of 2022, we expect revenues to be in the range of \$303 million to \$309 million, reflecting year-over-year growth of 5.6% to 7.7% or 14.2% to 16.3% in constant currency. We expect acquisitions completed during the year will contribute approximately 3% to fourth quarter reported revenue growth.

We expect adjusted EBITDA margin for the fourth quarter to be in the range of 17% to 18%. For the fourth quarter, we expect adjusted diluted earnings per share to be in the range of \$0.08 to \$0.09, assuming a weighted average share count of approximately 330 million diluted shares outstanding.

As we did in the third quarter, let me provide some context that is informing our guidance for the fourth quarter. We expect the demand environment for digital transformation programs to remain solid as we help our clients drive growth and efficiencies. Within that framing, let me share a few factors.

First, as we mentioned last quarter, we expect some clients' contracting behavior to be at more normalized decision cycles compared to the post-pandemic compressed cycles. Additionally, some clients are breaking larger digital transformation programs into smaller statements of work to allow themselves flexibility.

Second, we expect the caution we are seeing in our business in APAC, primarily China, to continue into fourth quarter.

And third, in a few clients in the Retail and Consumer segment, we are seeing signs of moderation in demand due to additional scrutiny on budgets. Certain retail clients are being more cautious in response to overall consumer sentiment and economic uncertainty.

For these reasons, our fourth quarter guidance is prudent. We have taken a realistic view. We expect that managing the impact of the challenges we have just shared would most likely negate any overperformance on our fourth quarter guidance.

Now turning to full year guidance. For the full year 2022, we expect revenue growth year-on-year on a reported basis in the range of 20.4% to 21%, or 26.7% to 27.3% in constant currency. Reported revenue growth includes a negative foreign currency impact of approximately 6.3%.

We expect acquisitions completed in the year to contribute approximately 2% to full year 2022 reported revenue growth. Since I last provided our full year 2022 outlook in August, the U.S. dollar has continued to strengthen. As such, I am providing a deeper view into the impact of foreign exchange on our guidance.

The full year 2022 expected revenue includes a negative impact of \$69 million compared to the \$57 million due to foreign exchange that I shared in August. This negative FX impact comprises \$23 million to the midyear, \$21 million FX impact in the third quarter, an expectation of \$25 million negative FX for the fourth quarter.

For adjusted EBITDA margin, we expect full year 2022 to be 19.4% to 19.6%. We expect full year adjusted diluted earnings per share for 2022 to be in the range of \$0.40 to \$0.41, assuming a weighted average share count of approximately 331 million diluted shares outstanding.

Our full year EPS guidance is negatively impacted by foreign exchange and a lower-than-previously-assumed tax benefit from stock-based compensation. For 2022, we remain highly vigilant of any potential impact of external factors or

emerging global developments with our focus on strong execution and scaling our operations efficiently. Our value proposition and services are highly relevant, and we continue to stay close to our clients.

We have solid bookings and good visibility into our business. We believe that we have the best talent in the industry and low attrition levels. We expect to continue hiring in fourth quarter around specific skill sets at more moderated levels. We remain focused on calibrating supply and demand so that we can balance solid utilization with an ability to respond to growth hotspots in the market.

For example, like the high demand we are seeing for our data platforms and data mesh services and our developer effectiveness propositions and our partner-led opportunities. Now let me hand back to Sean.

Thoughtworks representative: Thanks, Erin. You can find our investor presentation on the Thoughtworks Investor Relations website.