

## RWS Holdings: Translations and localization will remain relevant

<b>Company:</b>	RWS Holdings (RWS)	<b>Market Cap:</b>	85p (£315m)
<b>Industry:</b>	Translations	<b>Net current assets:</b>	£120m
<b>Country:</b>	Worldwide	<b>Gross Debt:</b>	£74m
<b>Date:</b>	2 <sup>nd</sup> -7 <sup>th</sup> May 2025	<b>Adj. PBT:</b>	£65m (H1 FY guidance)
<b>Dividend:</b>	12.45p (14.65%)	<b>Free cash flow:</b>	£36m (H1 annualised)
<b>Entry:</b>	77p (£285m)	<b>Target:</b>	£400m (+34%)

### Why RWS Holdings?

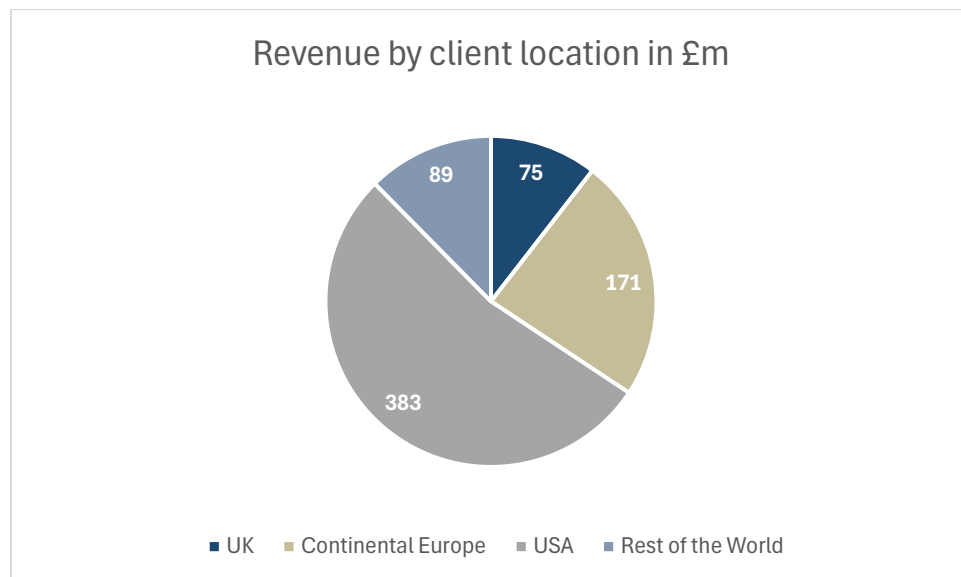
- Attractive EV/FCF ratio of 8.5x
- Large dividend, which would yield nearly 15% if kept stable
- Serves 84 of the top 100 global brands, 19 of the top 20 pharmaceutical companies and 18 of the top 20 patent filers worldwide
- Capex of £40-50m can be reduced to improve cash flow in case of weaker demand
- RWS offers AI models and security of the data with 25% of revenue generated through AI
- Reduction in H1 profit before tax excluding non-trading items was only down 13% compared to a 45% market cap decline upon the announcement
- Large insider buying

### Risks

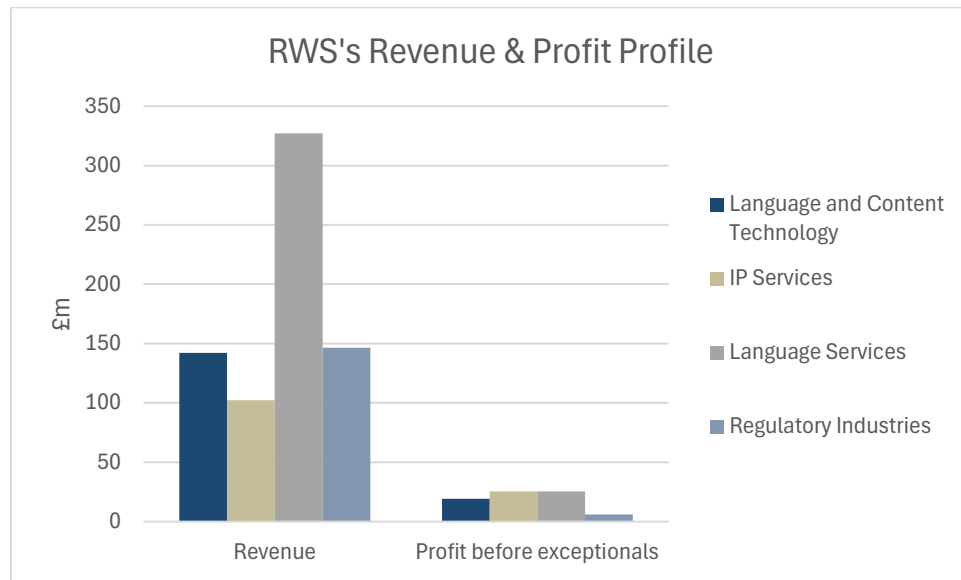
- AI might lead to lower profit margins
- Tariffs and changes to drug prices in the US could impact their pharmaceutical clients and patent filers to decrease activity
- Deregulation could reduce their revenues in regulated activities
- Depreciation of the US\$ could decrease profits

## About RWS Holdings

RWS Holdings is the only listed major translations company, serving over 84 of the top 100 global brands, 19 of the top 20 pharmaceutical companies and 18 of the top 20 patent filers worldwide. Translation services include more than just simple translations. RWS is engaged in all mediums such as text, image, audio and video and not only translates, but ensures that the content is viable and understood in all regions & cultures of the world, i.e. localization services. Whilst AI has been viewed as a threat to RWS, the company has its own AI tools, which generate 25% of total revenue as of FY 2024. It is also not as easy as it seems for new AI firms to steal business, as there is an important aspect of security of the data and content that requires trustworthy relationships. Because over 50% of revenue is generated in the U.S., RWS faces significant FX risks, if the US\$ were to depreciate. RWS's client base is diverse with no client exceeding 10% of revenues and its top 10 clients generating 30% of total revenue, with some of its largest clients based on the U.S. West Coast, including Google, for which RWS does a lot of localization services. Its largest competitors include private firms such as TransPerfect, Lionbridge and WeLocalize. TransPerfect is the largest firm and RWS is the 2<sup>nd</sup> largest translation & localisation firm in terms of revenue. Larger clients typically use the services of two or more translation firms to maintain diversification, which therefore makes it unattractive to merge with large competitors.



Source: RWS Holdings 2024 Annual Report

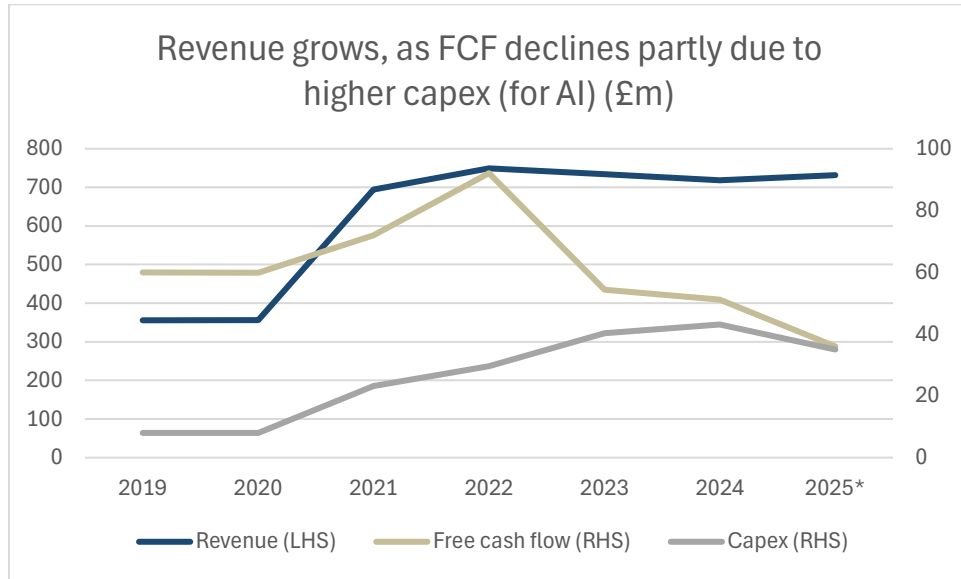


Source: RWS Holdings 2024 Annual Report

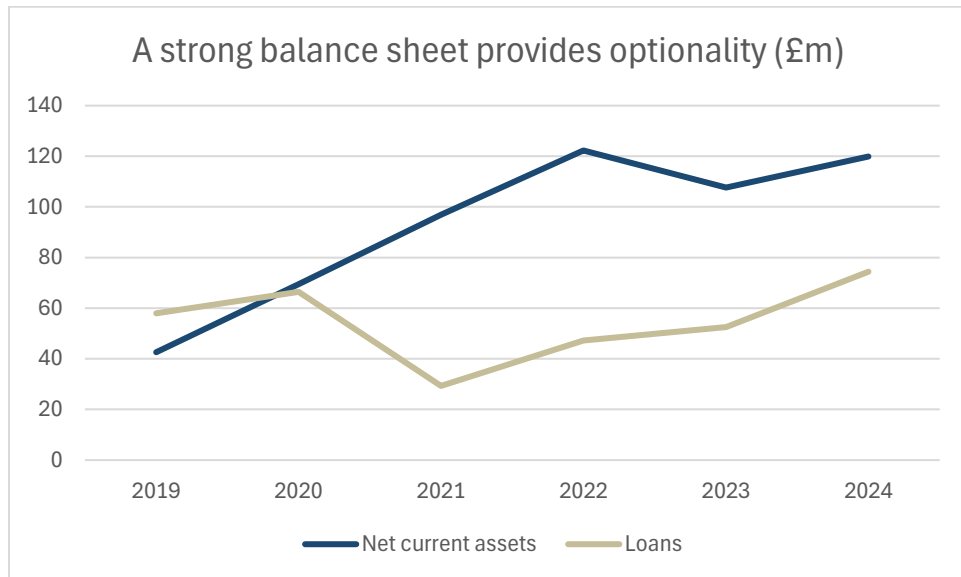
### The 24<sup>th</sup> April trading update

The trading update on 24<sup>th</sup> April<sup>1</sup> caused the market capitalization to shrink by 45% in one day, despite already having declined 36% in 2025 before the update. Whilst the company kept growing organically, the adjusted profit before tax declined from £46m in HY 2024 to £17m in HY 25. However, £23m of this decline was due to non-trading items and only £6m due to trading, i.e. -13% actual decline. At the same time, free cash flow was £18m in H1, after deducting for special items such as the sale receipts of PatBase. After a call with their head of IR, it became clear that the weaker trading performance should improve once the two larger clients are moved to the new delivery models and content types, which were related to one client sending them higher volume with shorter content and the other client having unsophisticated systems, which RWS asked them to change, costing them short-term due to the implementation time. Liontrust reduced their position from a 13% share to below 10%, which was likely another reason for the decline. Overall, the market reaction appeared exaggerated and ultimately led to a valuation of as low as 6.7x EV/FCF.

<sup>1</sup> [https://polaris.brighterir.com/public/rws\\_holdings/news/rns/story/ryv437r](https://polaris.brighterir.com/public/rws_holdings/news/rns/story/ryv437r)



Source: RWS Holdings annual reports, 2025\* = doubling H1 FCF and other assumptions



Source: RWS Holdings annual reports

## Conclusion

This rather short note on RWS concludes with the main take-away that the valuation has been too cheap to ignore. The business is usually slightly more 2<sup>nd</sup> half-weighted, free cash flow continues to support strong dividend payments and AI, whilst a threat, is also an opportunity. Capex is expected to come down further next year. The £16m FX impact in 2024 does not look to repeat itself this year. RWS is hedging half of its cash surplus every October as 1/3 of its cost base is in the U.S. compared to over 50% of its revenues. Liontrust has also stopped selling their shares, which limits further technical downside. Since Google is one of the largest clients, it's unclear to me how a potential break-up of Alphabet could have negative consequences for RWS. Taking all these points and numbers together, RWS Holdings appears undervalued to me, and the firm can pull a few levers such as reducing capex and improving working capital to boost free cash flow in case demand ebbs or AI pushes margins down. Large insider buying is another positive and the half-year update in June could be a further catalyst to revalue the company higher.



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