

FTI Consulting Inc. (FCN)

\$113.94 (As of 07/09/20)

Price Target (6-12 Months): **\$121.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/10/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: C

Summary

FTI Consulting's unique potential to bring together diverse issues like damage assessment, accounting, economics, statistics, finance and industry under a single platform makes it an excellent partner for global clients, thereby generating continued revenue growth from the existing international operations. The company's international operations help expand its geographic footprint and contribute to top-line growth. Regular share repurchases boost investors' confidence and positively impact earnings per share and share price, which has outperformed the industry in the past year. However, global operations expose the company to risks associated with foreign exchange rate fluctuations. Escalating investments are likely to increase costs and weigh on the bottom line. Seasonality is another concern as it makes profit prediction difficult.

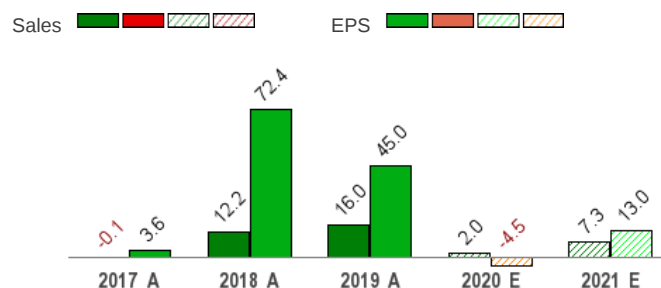
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$144.10 - \$89.23
20 Day Average Volume (sh)	777,277
Market Cap	\$4.2 B
YTD Price Change	3.0%
Beta	0.24
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Consulting Services
Zacks Industry Rank	Bottom 26% (186 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.4%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/30/2020
Earnings ESP	0.0%
P/E TTM	20.0
P/E F1	20.6
PEG F1	NA
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,576 E
2020	605 A	563 E	601 E	632 E	2,401 E
2019	551 A	606 A	593 A	602 A	2,353 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.72 E	\$1.72 E	\$1.82 E	\$1.74 E	\$6.26 E
2020	\$1.53 A	\$1.01 E	\$1.41 E	\$1.60 E	\$5.54 E
2019	\$1.63 A	\$1.73 A	\$1.63 A	\$0.80 A	\$5.80 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/09/2020. The reports text is as of 07/10/2020.

Overview

Based in Baltimore, Maryland, and founded in 1982, FTI Consulting is a global business advisory firm aimed at helping organizations manage change, mitigate risk and resolve financial, legal, operational, political and regulatory, reputational and transactional disputes. The company provides specialized consulting services across 26 foreign countries with a total headcount of more than 4,200 employees. The company has a team of highly qualified professionals, who provide problem-solving and technology services primarily to major corporations, financial institutions and law firms. The company's client list comprises a large percentage of the Fortune 500 companies, the FTSE 100 companies, as well as the majority of the largest 25 banks and the top 100 law firms in the world. The company's five main business segments include Corporate Finance and Restructuring, Forensic and Litigation Consulting, Strategic Communications, Technology, and Economic Consulting.

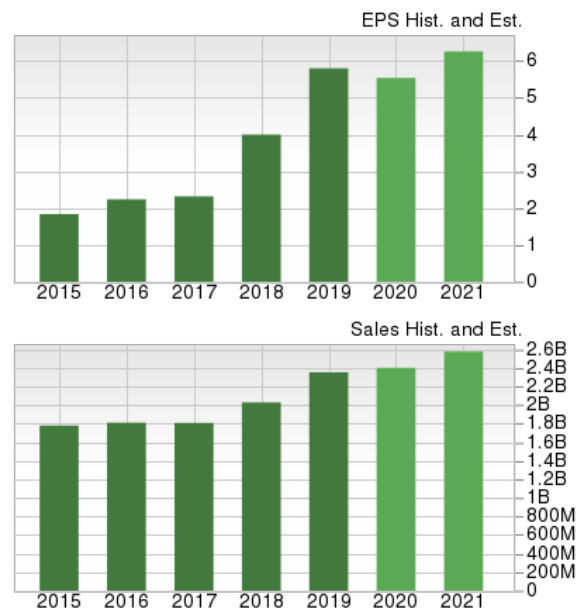
The Corporate Finance and Restructuring segment (31% of 2019 revenues) focuses on strategic, operational, financial and capital needs of businesses. The company offers a wide range of service offerings related to restructuring, business transformation and transaction support.

The Forensic and Litigation Consulting segment (25%) provides law firms, companies, government clients and other interested parties with end-to-end forensic and litigation services including pre-filing assessments, discovery, trial preparation, expert testimony, and other trial support services.

The Strategic Communications segment (10%) provides advice and consulting services related to financial communications, brand communications, public affairs and reputation management and business consulting.

The Technology segment (9%) provides products, services and consulting to law firms, corporations and government agencies, and also focuses on collection, preservation, review and production of electronically stored information.

The Economic Consulting segment (25%) provides law firms, companies, government entities and other interested parties with a clear analysis of complex economic issues for legal and regulatory proceedings, strategic decision making and public policy debates in U.S.



Reasons To Buy:

- ▲ Increased regulatory scrutiny and a proliferation of corporate litigation are likely to increase the **demand for FTI Consulting's products**. Additionally, structural change has become a necessity in the rapidly evolving global markets as management teams look to fend off rivals, protect intellectual property rights and transform businesses via M&A, divestiture and other restructuring activities. These developments call for FTI Consulting's specialized skill sets and are likely to boost its revenues.
- ▲ FTI Consulting's **potential to club diverse issues** like damage assessment, accounting, economics, statistics, finance and industry under a single platform look impressive. Further, FTI Consulting continues to pursue opportunities in areas such as business transformation services, transaction advisory business, restructuring, retail, construction, data and analytics, cyber business, information governance and international arbitration. This makes it an excellent partner for global clients dealing with international arbitration issues, thereby generating continued revenue growth from the existing international operations. FTI Consulting's international expansion remains strong and will likely continue in the future as well.
- ▲ We believe FTI Consulting's **international operations** help expand its geographic footprint and contribute to top-line growth. In 2019, the company earned almost 34% of its revenues from its international businesses. The industrial and geographical diversification of its customer base (throughout the United States and internationally) helps mitigate the risk of incurring material losses.
- ▲ We are impressed by FTI Consulting's endeavors to **reward shareholders through share buybacks**. In 2019, 2018 and 2017, the company had repurchased shares of worth \$105.9 million, \$40.7 million and \$168.0 million. These initiatives not only instill investors' confidence but also positively impact earnings per share. This might have impacted the company's share price, which has improved 25.2% over the past year, outperforming the 9.3% decline of the industry it belongs to.

FTI Consulting's international operation should help expand its geographic footprint and contribute to top-line growth.

Reasons To Sell:

- ▼ FTI Consulting's **debt level has increased significantly quarter over quarter**. Total debt at the end of first-quarter 2020 was \$492 million, up from the \$452 million recorded at the end of the prior quarter. The total debt to total capital ratio of 0.25 was higher than the previous quarter's 0.23. An increasing debt to capitalization ratio indicates that the proportion of debt to finance the company's assets is on the rise and so is the risk of insolvency. Further, cash and cash equivalent balance of \$223 million at the end of the first quarter was well below the debt level, underscoring that the company doesn't have enough cash to meet its debt burden.
- ▼ FTI Consulting's business experiences **seasonality**. Generally, professionals and clients tend to take vacations during the fourth quarter of the year, which impacts revenues across segments. Incentives are generally paid in the first quarter, thereby causing fluctuations in operating income and related cash flows. Additionally, the timing of investments or acquisitions and the expenses related to their integrations can cause fluctuations in the company's financial results. Seasonality causes considerable fluctuations in revenues and profits, making forecasting difficult.
- ▼ FTI Consulting makes majority of its investments in hiring highly qualified professionals as well as promoting and training individuals. Such investments are necessary to enhance growth and likely to benefit the company in the long term. However, **escalating investments on people are likely to increase the costs** incurred by the company and dent the bottom-line growth at the initial stage.
- ▼ The nature of its business makes FTI Consulting vulnerable to **foreign exchange risk**. The company operates in many countries and derives a significant part of its sales and earnings from Europe, Asia, Latin America, the Middle East and Africa. Thus, appreciation or depreciation of the U.S. dollar versus foreign currencies impacts the company's results.

An increasing debt to capitalization ratio indicates that the proportion of debt to finance the company's assets is on the rise and so is the risk of insolvency.

Last Earnings Report

FTI Consulting Q1 Earnings Miss Estimates

FTI Consulting delivered lower-than-expected first-quarter 2020 results, with earnings missing the Zacks Consensus Estimate but revenues beating the same.

Quarterly adjusted EPS of \$1.53 missed the Zacks Consensus Estimate by 4.4% and decreased 6.1% on a year-over-year basis. The bottom line was negatively impacted by an 18.5% increase in billable headcount, higher variable compensation, and elevated selling, general and administrative expenses, partially offset by increase in revenues, foreign-currency translation ("FX") remeasurement gains and a lower effective tax rate.

Total revenues of \$604.6 million missed the consensus mark by 1.4%. However, the revenue figure increased 9.7% year over year. This increase was driven by higher demand in the Corporate Finance & Restructuring, Forensic and Litigation Consulting, and Technology business segments, partially muted by a demand decline in the Economic Consulting business segment.

Revenues by Segment

Corporate Finance & Restructuring's revenues jumped 29.1% year over year to \$207.7 million. The upside was driven by solid demand for restructuring, and business transformation and transaction services. The segment contributed 34% to total revenues.

Forensic and Litigation Consulting's revenues increased 6.2% year over year to \$147.6 million. The improvement came on the back of higher demand for data & analytics, disputes and investigations services. The segment contributed 24% to total revenues.

Strategic Communications' revenues inched up 1.2% year over year to \$58.4 million. This upside was fueled by an increase in demand for public affairs services. The segment contributed 10% to total revenues.

Technology's revenues were up 14.4% year over year to \$58.7 million. The upswing resulted from strong demand for global cross-border investigation, and merger and acquisition-related services. The segment contributed 10% to total revenues.

Economic Consulting's revenues decreased 7.1% year over year to \$132.1 million. The decline was due to lower demand for non-merger and acquisition-related antitrust, and financial economics services as well as lower realized rates for international arbitration services. The segment contributed 22% to total revenues.

Operating Results

Adjusted EBITDA was \$83.2 million, down 13.4% on a year-over-year basis. Adjusted EBITDA margin contracted 360 basis points (bps) year over year to 13.8%.

Balance Sheet and Cash Flow

FTI Consulting exited the first quarter with cash and cash equivalents of \$223.1 million compared with the prior quarter's \$369.4 million. Long-term debt was \$328.2 million compared with \$275.6 million witnessed at the end of the previous quarter. The company used \$123.6 million of net cash in operating activities and CapEx was \$8.2 million in the March-end quarter. It spent \$50.3 million to repurchase 450,198 shares during this period.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	-1.38%
EPS Surprise	-4.38%
Quarterly EPS	1.53
Annual EPS (TTM)	5.69

Recent News

On **Jul 08, 2020**, FTI Consulting announced the appointment of Daniel P. Wikel as senior managing director in the Turnaround & Restructuring practice under the Corporate Finance & Restructuring segment.

On **Jul 06, 2020**, FTI Consulting announced the appointment of Mathias Samson as senior managing director and leader of the Public Affairs practice in Germany under the Strategic Communications segment

On **Jul 6, 2020**, FTI Consulting announced that it has appointed Andrew McCarthy and Anna Bleazard in leadership positions in its Financial Crime Compliance practice within the Forensic and Litigation Consulting segment in Singapore. Both have joined the company from Deloitte.

On **Jul 02, 2020**, FTI Consulting announced the appointment of Heiko Ziehms and Dr Ekaterina Lohwasser as senior managing directors in its Economic Consulting segment in Germany.

On **Jun 11, 2020**, FTI Consulting announced the appointment of three senior managing directors, Jonathan Chan, Renato Fazzone, Richard Palmer and a managing director, Grainne Bryan to its Technology segment in Europe, the Middle East and Africa ("EMEA").

On **Jun 3, 2020**, FTI Consulting announced that it has appointed Rocco deGrasse as a senior managing director and midwest leader to its Global Risk and Investigations Practice within the Forensic and Litigation Consulting segment.

Valuation

FTI Consulting shares are up 2.9% in the year-to-date period and 25.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 2.3% while those in the Zacks Business Services sector are down 2.1% in the year-to-date period. Over the past year, the Zacks sub-industry is up 9.3% while the sector is down 2.2%.

The S&P 500 index is down 1.4% in the year-to-date period but up 6.2% in the past year.

The stock is currently trading at 19.26X forward 12-month price-to-earnings, which compares to 25.33X for the Zacks sub-industry, 29.82X for the Zacks sector and 22.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.06X and as low as 13.18X, with a 5-year median of 18.41X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$121.00 price target reflects 20.46X price-to-earnings.

The table below shows summary valuation data for FCN.

Valuation Multiples - FCN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	19.26	25.33	29.82	22.62
	5-Year High	27.06	25.33	29.82	22.62
	5-Year Low	13.18	18.67	18.64	15.27
	5-Year Median	18.41	21.09	20.88	17.59
P/S F 12M	Current	1.7	1.84	4.12	3.53
	5-Year High	2.08	1.84	4.12	3.53
	5-Year Low	0.69	1.28	3.04	2.52
	5-Year Median	0.99	1.52	3.57	3.04
P/B TTM	Current	2.88	5.48	4.64	4.34
	5-Year High	3.59	7.8	6.34	4.65
	5-Year Low	1.11	3.8	3.28	2.81
	5-Year Median	1.54	6.32	5.12	3.69

As of 07/09/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (186 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
CBIZ, Inc. (CBZ)	Neutral	3
Charles River Associates (CRAI)	Neutral	4
Huron Consulting Group Inc. (HURN)	Neutral	4
ICF International, Inc. (ICFI)	Neutral	3
IHS Markit Ltd. (INFO)	Neutral	3
Gartner, Inc. (IT)	Neutral	3
Maximus, Inc. (MMS)	Neutral	2
NV5 Global, Inc. (NVEE)	Underperform	3

Industry Comparison Industry: Consulting Services				Industry Peers		
	FCN	X Industry	S&P 500	CRAI	HURN	INFO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	3
VGM Score	D	-	-	C	D	C
Market Cap	4.23 B	625.88 M	21.19 B	281.74 M	964.46 M	31.96 B
# of Analysts	2	3	14	3	3	9
Dividend Yield	0.00%	0.00%	1.96%	2.54%	0.00%	0.90%
Value Score	C	-	-	B	D	C
Cash/Price	0.05	0.07	0.07	0.05	0.15	0.01
EV/EBITDA	12.57	12.46	12.56	8.31	12.02	23.41
PEG Ratio	NA	1.86	2.85	1.03	2.30	2.28
Price/Book (P/B)	2.88	2.52	3.00	1.43	1.84	3.94
Price/Cash Flow (P/CF)	15.83	12.98	11.41	6.09	9.27	21.28
P/E (F1)	19.96	22.18	20.79	13.43	32.22	27.34
Price/Sales (P/S)	1.76	1.19	2.19	0.60	0.98	7.36
Earnings Yield	4.86%	4.49%	4.52%	7.44%	3.10%	3.66%
Debt/Equity	0.33	0.68	0.76	0.73	0.99	0.63
Cash Flow (\$/share)	7.20	1.61	6.94	5.94	4.55	3.56
Growth Score	D	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	33.55%	11.46%	10.90%	28.48%	-8.79%	14.04%
Proj. EPS Growth (F1/F0)	-4.48%	-10.43%	-9.99%	-10.52%	-52.19%	5.32%
Curr. Cash Flow Growth	36.49%	7.21%	5.51%	36.49%	9.24%	5.92%
Hist. Cash Flow Growth (3-5 yrs)	18.21%	9.73%	8.55%	17.67%	-1.64%	24.83%
Current Ratio	2.36	2.08	1.30	1.00	3.01	0.73
Debt/Capital	25.08%	40.57%	44.46%	42.32%	49.71%	38.84%
Net Margin	8.76%	4.67%	10.62%	4.78%	-0.39%	18.43%
Return on Equity	14.89%	12.91%	15.75%	13.80%	11.03%	10.73%
Sales/Assets	0.90	0.88	0.55	0.91	0.86	0.27
Proj. Sales Growth (F1/F0)	2.06%	-0.87%	-2.52%	3.47%	-11.10%	-2.81%
Momentum Score	C	-	-	B	A	B
Daily Price Chg	1.25%	-1.07%	-1.52%	-1.79%	-1.45%	-0.93%
1 Week Price Chg	4.99%	3.95%	3.66%	2.87%	3.95%	4.35%
4 Week Price Chg	4.42%	2.33%	0.36%	-5.68%	2.33%	9.36%
12 Week Price Chg	-15.95%	8.81%	10.41%	7.30%	-10.42%	16.81%
52 Week Price Chg	25.21%	-19.94%	-8.70%	-5.07%	-19.94%	15.81%
20 Day Average Volume	777,277	213,791	2,339,510	31,647	135,265	2,346,464
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-5.94%	0.00%	0.45%
(F1) EPS Est 12 week change	-5.06%	-17.71%	-7.77%	-10.72%	-53.27%	-0.03%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-11.65%	0.00%	2.29%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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