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Feb 20, 2020

# FTI Consulting Inc. (FCN)

**$129.19** (As of 02/19/20)

Price Target (6-12 Months): **$136.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 12/23/19) Prior Recommendation: Outperform | **Neutral** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **3-Hold** |
| | Zacks Style Scores: | VGM:A |
| | Value: C \| Growth: A \| Momentum: C | |

## Summary

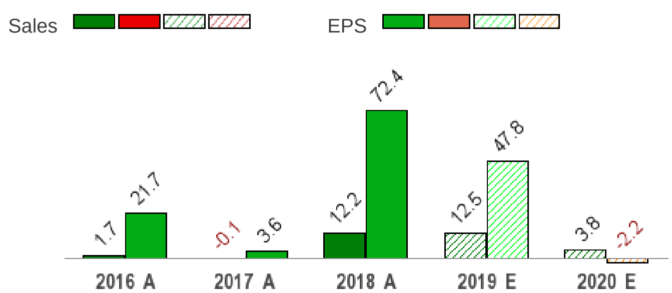
FTI Consulting's unique potential to bring together diverse issues like damage assessment, accounting, economics, statistics, finance and industry under a single platform makes it an excellent partner for global clients, thereby generating continued revenue growth from the existing international operations. 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, thereby affecting its 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. Seasonality is another concern.

## Price, Consensus & Surprise


## Data Overview

| | |
|---|---|
| 52 Week High-Low | **$130.01 - $67.85** |
| 20 Day Average Volume (sh) | **167,133** |
| Market Cap | **$4.9 B** |
| YTD Price Change | **16.8%** |
| Beta | **0.22** |
| Dividend / Div Yld | **$0.00 / 0.0%** |
| Industry | **Consulting Services** |
| Zacks Industry Rank | **Top 33% (84 out of 255)** |
| | |
| Last EPS Surprise | **58.3%** |
| Last Sales Surprise | **9.8%** |
| EPS F1 Est- 4 week change | **0.0%** |
| Expected Report Date | **02/25/2020** |
| Earnings ESP | **0.0%** |
| | |
| P/E TTM | **22.2** |
| P/E F1 | **22.4** |
| PEG F1 | **NA** |
| P/S TTM | **2.2** |

## Sales and EPS Growth Rates (Y/Y %)




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2020 | 567 E | 591 E | 602 E | 606 E | 2,368 E |
| 2019 | 551 A | 606 A | 593 A | 530 E | 2,281 E |
| 2018 | 498 A | 512 A | 513 A | 505 A | 2,028 A |

## EPS Estimates

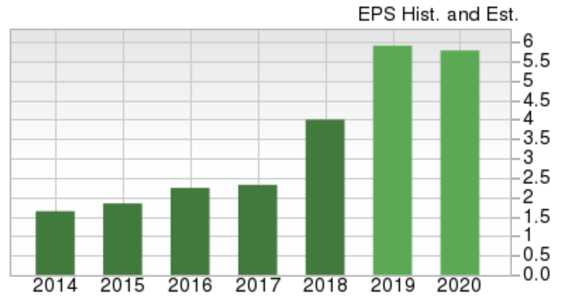
| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2020 | $1.52 E | $1.51 E | $1.52 E | $1.23 E | $5.78 E |
| 2019 | $1.63 A | $1.73 A | $1.63 A | $0.94 E | $5.91 E |
| 2018 | $1.04 A | $1.14 A | $1.00 A | $0.83 A | $4.00 A |

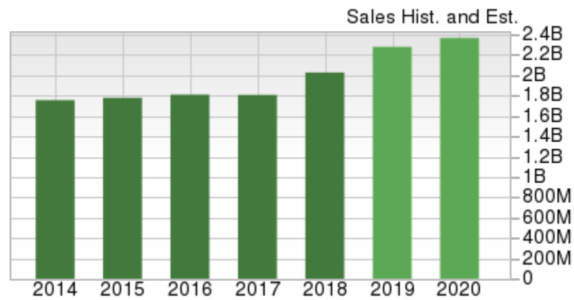
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/19/2020. The reports text is as of 02/20/2020.

## Overview

Based in Baltimore, Maryland, and founded in 1982, FTI Consulting, Inc. 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 (28% of 2018 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 (26%) 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 (11%) 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 (26%) 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 the United States.

## Reasons To Buy:

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

- 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 2018, the company earned almost 32% 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 though share buybacks**. In 2018, 2017 and 2016, the company had repurchased shares of worth $40.7 million, $168.0 million and $21.5 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 87.5% over the past year, outperforming the 26.2% rally of the industry it belongs to.

## Reasons To Sell:

FTI Consulting is highly exposed to foreign exchange rate risk.

- 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. Foreign currency translation had a negative impact of 1.3% on the company's third-quarter 2019 revenues.

## Last Earnings Report

**FTI Consulting Tops Q3 Earnings and Revenues Estimates**

| Quarter Ending | 09/2019 |
|---|---|
| Report Date | Oct 24, 2019 |
| Sales Surprise | 9.81% |
| EPS Surprise | 58.25% |
| Quarterly EPS | 1.63 |
| Annual EPS (TTM) | 5.82 |

FTI Consulting delivered solid third-quarter 2019 results, with both earnings and revenues beating the Zacks Consensus Estimate.

Adjusted earnings per share of $1.63 beat the Zacks Consensus Estimate by 60 cents and increased 63% on a year-over-year basis. The bottom line benefited from strong operating performance by the company's Corporate Finance & Restructuring and Forensic and Litigation Consulting segments.

Total revenues of $593.1 million beat the consensus mark by $53 million and increased 15.6% year over year. The increase was driven by higher demand across all business segments.

**Revenues by Segment**

**Corporate Finance & Restructuring** segment revenues increased 41.6% year over year to $191.7 million. The upside was driven by higher demand for restructuring and business transformation and transactions services. The segment contributed 32% to total revenues.

**Forensic and Litigation Consulting** segment revenues increased 12.6% year over year to $142.7 million. The improvement came on the back of higher demand for disputes and investigations services. The segment contributed 24% to total revenues.

**Strategic Communications** segment revenues increased 8.9% year over year to $60 million. The upside was driven by increase in project-based revenues in North America and EMEA, primarily associated with corporate reputation services. The segment contributed 10% to total revenues.

**Economic Consulting** segment revenues increased 1.8% year over year to $141.7 million. The increase was supported by higher demand for non-merger and acquisition-related antitrust services. The segment contributed 24% to total revenues.

**Technology** segment revenues increased 0.7% year over year to $57.1 million. The increase was driven by higher demand for global cross-border investigations and litigation services, offset by lower demand for merger and acquisition-related "second request" services. The segment contributed 10% to total revenues.

**Operating Results**

Adjusted EBITDA came in at $92.3 million, up 37% on a year-over-year basis. The increase was driven by higher revenues in Corporate Finance & Restructuring and Forensic and Litigation Consulting segments, partially offset by an increase in compensation expenses and selling, general and administrative (SG&A) expenses.

**Balance Sheet and Cash Flow**

FTI Consulting exited the quarter with cash and cash equivalents of $258.5 million compared with $189.1 million in the prior quarter. Long-term debt was $273.1 million compared with $290.5 million at the end of the prior quarter. The company generated $131.3 million of net cash from operating activities and capex was $6.4 million in the quarter. It spent $7.7 million to repurchase 90,848 shares in the quarter.

**2019 Guidance**

Management raised adjusted EPS and revenue guidance for the year. Adjusted EPS is now anticipated in the range of $5.75 to $6.00 compared with the previous guidance of $5-$5.50. Management now expects revenues in the range of $2.250 billion to $2.300 billion, compared with the previous guidance of $2.175-$2.250 billion.

## Recent News

On **Feb 05, 2020**, FTI Consulting announced that its Corporate Finance & Restructuring segment has been recognized as an industry leader, internationally, through several award programs organized by The Deal, Credit Strategy, The M&A Advisor, Turnaround Management Association ("TMA"), Global M&A Network and Who's Who Legal.

On **Feb, 04, 2020**, FTI Consulting announced that its Technology segment has launched Story Development solution for litigation and investigations.

On **Feb 03, 2020**, FTI Consulting announced that its Technology segment has launched a universal Microsoft Office 365 connector. The connector removes unnecessary steps during the transfer of Microsoft Office 365 email and files to e-discovery platforms and supports efficient e-discovery in litigation, investigations and other matters.

On **Dec 9, 2019,** FTI Consulting announced that it has entered into a technology partnership with Brainspace. The partnership will help FTI Technology's professionals to lower the cost of discovery and accelerate case strategy development by utilizing Brainspace's capabilities. FTI Consulting's Technology segment has launched a set of managed e-discovery services using capabilities of Brainspace.

## Valuation

FTI Consulting shares are up 87.5% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 26.2%, 24.9% and 20.7%, respectively in the same time frame.

The stock is currently trading at 22.26X forward 12-month price-to-earnings, which compares to 24X for the Zacks sub-industry, 26.65X for the Zacks sector and 19X 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 18.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $136.00 price target reflects 23.43X 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 | 22.26 | 24 | 26.65 | 19 |
| | 5-Year High | 27.06 | 24.12 | 26.65 | 19.34 |
| | 5-Year Low | 13.18 | 18.67 | 18.78 | 15.18 |
| | 5-Year Median | 18.04 | 20.97 | 20.59 | 17.47 |
| P/S F 12M | Current | 2.04 | 1.71 | 4.27 | 3.57 |
| | 5-Year High | 2.04 | 1.73 | 5.14 | 3.57 |
| | 5-Year Low | 0.69 | 1.28 | 3.1 | 2.54 |
| | 5-Year Median | 0.96 | 1.5 | 3.64 | 3 |
| P/B TTM | Current | 3.33 | 6.02 | 5.23 | 4.66 |
| | 5-Year High | 3.33 | 7.8 | 6.72 | 4.68 |
| | 5-Year Low | 1.11 | 4.78 | 4.13 | 2.85 |
| | 5-Year Median | 1.5 | 6.43 | 5.27 | 3.62 |

As of 02/19/2020

## Industry Analysis **Zacks Industry Rank:** Top 33% (84 out of 255)


## Top Peers

| | |
|---|---|
| CBIZ, Inc. **(CBZ)** | Neutral |
| Charles River Associates **(CRAI)** | Neutral |
| Huron Consulting Group Inc. **(HURN)** | Neutral |
| ICF International, Inc. **(ICFI)** | Neutral |
| IHS Markit Ltd. **(INFO)** | Neutral |
| Gartner, Inc. **(IT)** | Neutral |
| Maximus, Inc. **(MMS)** | Neutral |
| Resources Connection, Inc. **(RECN)** | Underperform |

## Industry Comparison Industry: Consulting Services

| | FCN Neutral | X Industry | S&P 500 | CRAI Neutral | HURN Neutral | INFO Neutral |
|---|---|---|---|---|---|---|
| | | | | Industry Peers | | |
| **VGM Score** | A | - | - | A | A | B |
| Market Cap | 4.86 B | 706.04 M | 24.59 B | 411.27 M | 1.57 B | 31.87 B |
| # of Analysts | 2 | 3 | 13 | 3 | 3 | 10 |
| Dividend Yield | 0.00% | 0.00% | 1.78% | 1.73% | 0.00% | 0.84% |
| **Value Score** | C | - | - | B | B | D |
| Cash/Price | 0.05 | 0.05 | 0.04 | 0.05 | 0.03 | 0.00 |
| EV/EBITDA | 18.02 | 17.28 | 14.21 | 13.11 | 17.37 | 23.25 |
| PEG Ratio | NA | 1.60 | 2.09 | 1.24 | 1.81 | 2.36 |
| Price/Book (P/B) | 3.33 | 3.00 | 3.28 | 2.14 | 2.67 | 3.86 |
| Price/Cash Flow (P/CF) | 24.99 | 16.80 | 13.59 | 12.79 | 16.16 | 22.78 |
| P/E (F1) | 22.10 | 21.97 | 19.17 | 16.09 | 24.48 | 28.35 |
| Price/Sales (P/S) | 2.16 | 1.73 | 2.68 | 0.93 | 1.67 | 7.22 |
| Earnings Yield | 4.47% | 4.47% | 5.18% | 6.21% | 4.08% | 3.53% |
| Debt/Equity | 0.30 | 0.30 | 0.70 | 0.66 | 0.19 | 0.58 |
| Cash Flow ($/share) | 5.17 | 1.43 | 6.93 | 4.15 | 4.23 | 3.56 |
| **Growth Score** | A | - | - | B | A | A |
| Hist. EPS Growth (3-5 yrs) | 28.64% | 14.89% | 10.84% | 22.89% | -10.43% | 15.68% |
| Proj. EPS Growth (F1/F0) | -2.12% | 8.05% | 7.00% | 9.02% | 8.13% | 8.78% |
| Curr. Cash Flow Growth | 47.51% | 11.86% | 7.81% | 33.32% | -71.50% | 5.92% |
| Hist. Cash Flow Growth (3-5 yrs) | -3.38% | 6.95% | 8.25% | 13.39% | 0.64% | 24.83% |
| Current Ratio | 2.00 | 1.77 | 1.24 | 1.05 | 0.65 | 0.66 |
| Debt/Capital | 23.32% | 23.32% | 42.37% | 39.74% | 16.12% | 36.75% |
| Net Margin | 9.37% | 5.58% | 11.69% | 5.18% | 3.25% | 11.39% |
| Return on Equity | 15.79% | 12.24% | 16.86% | 13.08% | 10.40% | 10.95% |
| Sales/Assets | 0.89 | 0.93 | 0.55 | 0.97 | 0.85 | 0.27 |
| Proj. Sales Growth (F1/F0) | 3.82% | 5.68% | 4.05% | 6.41% | 5.68% | 3.46% |
| **Momentum Score** | C | - | - | A | B | B |
| Daily Price Chg | 1.80% | 0.68% | 0.38% | -0.24% | 2.84% | 1.02% |
| 1 Week Price Chg | 3.75% | 2.51% | 1.65% | 3.40% | 3.44% | 0.42% |
| 4 Week Price Chg | 7.93% | 0.78% | 0.86% | -7.92% | 0.78% | 0.52% |
| 12 Week Price Chg | 17.43% | 7.29% | 4.56% | 3.30% | 1.56% | 11.26% |
| 52 Week Price Chg | 89.29% | 15.33% | 14.15% | 21.88% | 22.43% | 52.92% |
| 20 Day Average Volume | 167,133 | 148,573 | 1,989,235 | 29,590 | 101,687 | 1,836,070 |
| (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% | -0.03% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 12 week change | 0.00% | 0.00% | -0.21% | 0.00% | 0.00% | 0.42% |
| (Q1) EPS Est Mthly Chg | 0.00% | 0.00% | -0.40% | 0.00% | 0.00% | 0.00% |

## 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 | A |
| Momentum Score | C |
| VGM Score | A |

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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