

FTI Consulting Inc. (FCN)

\$119.70 (As of 01/22/20)

Price Target (6-12 Months): **\$128.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/23/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

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.

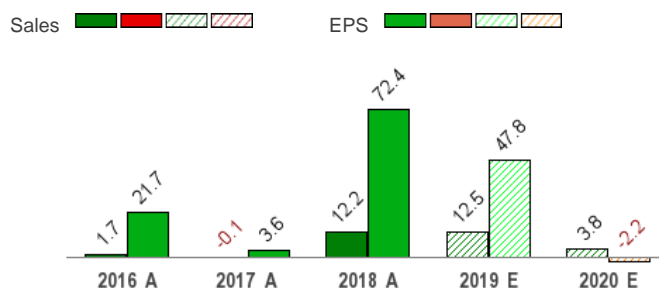
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$119.78 - \$65.47
20 Day Average Volume (sh)	159,691
Market Cap	\$4.5 B
YTD Price Change	8.2%
Beta	0.21
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Consulting Services
Zacks Industry Rank	Top 45% (116 out of 255)

Sales and EPS Growth Rates (Y/Y %)



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	20.6
P/E F1	20.7
PEG F1	NA
P/S TTM	2.0

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 01/22/2020. The reports text is as of 01/23/2020.

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.

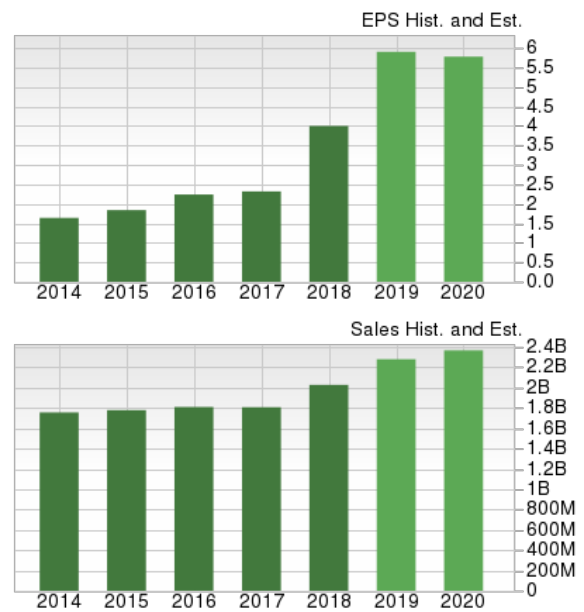
The **Corporate Finance and Restructuring** segment (28% of 2018 revenues) focuses on strategic, operational, financial and capital needs of businesses. The company offers a wide range of service offerings related to restructuring, business transformation and transaction support.

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:

- ▲ 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 through 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 76.7% over the past year, outperforming the 33.7% rally 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 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.

FTI Consulting is highly exposed to foreign exchange rate risk.

Last Earnings Report

FTI Consulting Tops Q3 Earnings and Revenues Estimates

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.

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

Recent News

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.

On **Oct 28, 2019**, FTI Consulting announced appointment of David White as a Senior Managing Director and Leader of the West region of the Office of the CFO Solutions practice within the company's Corporate Finance & Restructuring segment.

On **Sep 11, 2019**, FTI Consulting announced expansion of its technology segment's partnership with Relativity. As part of this expansion, the company will provide its Relativity managed e-discovery services in Australia.

Valuation

FTI Consulting shares are up 76.7% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 33.7%, 31.6% and 27.7%, respectively in the same time frame.

The stock is currently trading at 20.67X forward 12-month price-to-earnings, which compares to 23.9X for the Zacks sub-industry, 26.15X for the Zacks sector and 19.14X 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 18X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$128.00 price target reflects 22.12X 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	20.67	23.9	26.15	19.14
	5-Year High	27.06	24.11	26.15	19.34
	5-Year Low	13.18	17.63	18.76	15.17
	5-Year Median	18	20.9	20.56	17.44
P/S F12M	Current	1.9	1.69	4.15	3.56
	5-Year High	1.91	1.73	5.13	3.56
	5-Year Low	0.69	1.26	3.09	2.54
	5-Year Median	0.96	1.49	3.63	3
P/B TTM	Current	3.08	5.9	5.11	4.54
	5-Year High	3.08	7.8	6.71	4.55
	5-Year Low	1.11	4.78	4.13	2.85
	5-Year Median	1.5	6.45	5.31	3.61

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Top 45% (116 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				Industry Peers		
	FCN Neutral	X Industry	S&P 500	CRAI Neutral	HURN Neutral	INFO Neutral
VGM Score	B	-	-	B	A	B
Market Cap	4.50 B	617.60 M	24.65 B	446.64 M	1.55 B	31.71 B
# of Analysts	2	3	13	3	3	10
Dividend Yield	0.00%	0.00%	1.77%	1.59%	0.00%	0.00%
Value Score	C	-	-	B	B	D
Cash/Price	0.06	0.05	0.04	0.05	0.03	0.00
EV/EBITDA	16.75	15.93	13.98	14.01	17.24	23.15
PEG Ratio	NA	1.42	2.05	1.34	1.80	2.35
Price/Book (P/B)	3.08	2.87	3.38	2.32	2.65	3.84
Price/Cash Flow (P/CF)	23.15	17.72	13.60	13.89	16.03	22.67
P/E (F1)	20.71	20.70	19.07	17.47	24.29	28.20
Price/Sales (P/S)	2.00	1.62	2.69	1.01	1.66	7.18
Earnings Yield	4.83%	4.84%	5.24%	5.72%	4.11%	3.54%
Debt/Equity	0.30	0.30	0.72	0.66	0.19	0.58
Cash Flow (\$/share)	5.17	1.43	6.94	4.15	4.23	3.56
Growth Score	A	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	28.64%	15.14%	10.60%	22.89%	-10.43%	15.68%
Proj. EPS Growth (F1/F0)	-2.12%	8.13%	7.53%	9.02%	8.13%	8.78%
Curr. Cash Flow Growth	47.51%	11.86%	13.90%	33.32%	-71.50%	5.92%
Hist. Cash Flow Growth (3-5 yrs)	-3.38%	8.51%	9.00%	13.39%	0.64%	24.83%
Current Ratio	2.00	1.77	1.22	1.05	0.65	0.66
Debt/Capital	23.32%	23.32%	42.99%	39.74%	16.12%	36.75%
Net Margin	9.37%	5.85%	11.21%	5.18%	3.25%	11.39%
Return on Equity	15.79%	12.24%	17.16%	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%	5.81%	4.08%	6.41%	5.68%	3.46%
Momentum Score	D	-	-	B	A	A
Daily Price Chg	1.48%	0.46%	-0.04%	3.98%	0.46%	0.69%
1 Week Price Chg	2.37%	2.61%	2.29%	2.61%	-0.88%	1.29%
4 Week Price Chg	7.59%	4.77%	2.05%	5.99%	-2.32%	7.40%
12 Week Price Chg	9.92%	12.03%	6.92%	34.24%	2.05%	15.07%
52 Week Price Chg	78.26%	24.87%	21.50%	42.07%	45.20%	57.44%
20 Day Average Volume	159,691	130,229	1,518,423	36,903	69,934	2,003,245
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.06%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.42%
(F1) EPS Est 12 week change	1.05%	0.55%	-0.23%	12.36%	4.75%	-0.08%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	1.30%

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	A
Momentum Score	D
VGM Score	B

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.

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