

FTI Consulting Inc. (FCN)

\$114.62 (As of 03/20/20)

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

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: B

Momentum: B

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	\$135.51 - \$72.94
20 Day Average Volume (sh)	609,509
Market Cap	\$4.3 B
YTD Price Change	3.6%
Beta	0.38
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Consulting Services
Zacks Industry Rank	Top 15% (39 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-13.0%
Last Sales Surprise	13.6%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	19.8
P/E F1	19.9
PEG F1	NA
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,625 E
2020	615 E	644 E	634 E	611 E	2,505 E
2019	551 A	606 A	593 A	602 A	2,353 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.72 E	\$1.68 E	\$1.61 E	\$1.56 E	\$6.07 E
2020	\$1.63 E	\$1.62 E	\$1.53 E	\$1.00 E	\$5.76 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 03/20/2020. The reports text is as of 03/23/2020.

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.

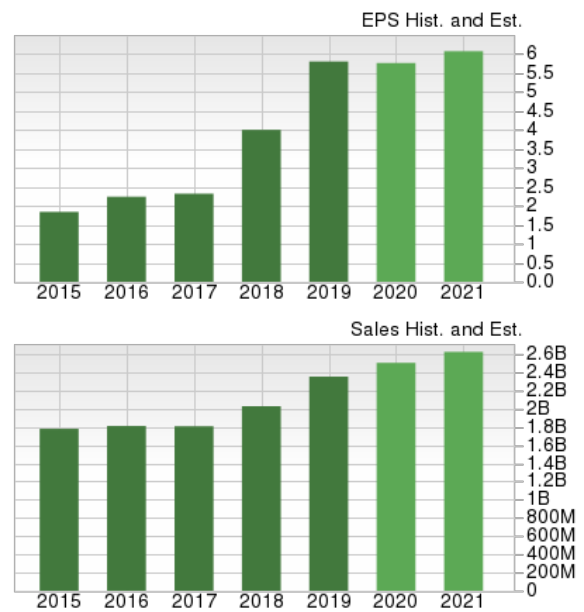
The Corporate Finance and Restructuring segment (31% of 2019 revenues) focuses on strategic, operational, financial and capital needs of businesses. The company offers a wide range of service offerings related to restructuring, business transformation and transaction support.

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 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 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 55.4% over the past year, outperforming the 14.2% 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 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 Lags on Q4 Earnings, Revenues Beat Estimates

FTI Consulting delivered mixed fourth-quarter 2019 results, with earnings missing the Zacks Consensus Estimate but revenues beating the same.

Quarterly adjusted EPS of 80 cents missed the Zacks Consensus Estimate by 13% and decreased 3.6% on a year-over-year basis. The bottom line was negatively impacted by FX remeasurement losses, resulting from the strengthening of the British Pound and Euro against the US dollar.

Total revenues of \$602.2 million beat the consensus mark by 13.6% and increased 19.3% year over year. The increase was driven by higher demand across all business segments.

Revenues by Segment

Corporate Finance & Restructuring's revenues increased 25.1% year over year to \$181.1 million. The upside was driven by higher demand for restructuring, and business transformation and transaction services, and higher success fees. The segment contributed 32% to total revenues.

Forensic and Litigation Consulting's revenues increased 13.8% year over year to \$150.3 million. The improvement came on the back of higher demand for disputes and investigations services. The segment contributed 24% to total revenues.

Strategic Communications' revenues increased 14.3% year over year to \$66.3 million. The upside was driven by an increase in pass-through revenues and higher project-based revenues in North America and EMEA, primarily associated with corporate reputation services. The segment contributed 10% to total revenues.

Economic Consulting's revenues increased 19.2% year over year to \$153.1 million. The increase was supported by higher demand for merger and acquisition-related antitrust, and financial economics services. Higher realization for international arbitration services also drove the segment's revenues. The segment contributed 24% to total revenues.

Technology's revenues rose 23.5% year over year to \$51.5 million. The increase was driven by higher demand for global cross-border and merger, and acquisition-related "second request" services.

Operating Results

Adjusted EBITDA was \$58.3 million, up 8.6% on a year-over-year basis. The increase was driven by higher revenues across all business segments, partially offset by higher compensation associated with an increase in variable compensation, a 17.8% increase in billable headcount, and higher SG&A expenses. Adjusted EBITDA margin declined 90 basis points (bps) year over year to 9.7%.

Balance Sheet and Cash Flow

FTI Consulting exited the quarter with cash and cash equivalents of \$369.4 million compared with \$258.5 million in the prior quarter. Long-term debt was \$275.6 million compared with \$273.1 million at the end of the prior quarter.

The company generated \$141 million of net cash from operating activities and CapEx was \$15 million in the quarter. It spent \$28 million to repurchase 259,823 shares in the quarter.

2020 Guidance

Management expects adjusted EPS of \$5.5-\$6. The company expects revenues of \$2.45-\$2.55 billion.

Quarter Ending **12/2019**

Report Date	Feb 25, 2020
Sales Surprise	13.61%
EPS Surprise	-13.04%
Quarterly EPS	0.80
Annual EPS (TTM)	5.79

Recent News

On **Mar 23, 2020**, FTI Consulting announced the expansion of its Health Solutions practice with the addition of five U.S.-based professionals. This includes the appointment of senior managing director, Bruce Hallowell and four managing directors, Kathleen Fitzgerald, Lucy Lee, Michael Moran and Pam Robertson.

On **Mar 18, 2020**, FTI Consulting announced that it has appointed Neal Ganguli as a senior managing director and Automotive & Industrial Business Transformation Leader.

On **Mar 3, 2020**, FTI Consulting announced that it has appointed Frank Sui as a senior managing director and co-leader of the Financial Services offering within its Corporate Finance & Restructuring segment.

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.

Valuation

FTI Consulting shares are up 55.4% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are down 14.2%, 20.9% and 18.2%, respectively in the same time frame.

The stock is currently trading at 19.66X forward 12-month price-to-earnings, which compares to 17.05X for the Zacks sub-industry, 17.28X for the Zacks sector and 13.75X 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 18.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$121.00 price target reflects 20.75X 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	19.66	17.05	17.28	13.75
	5-Year High	27.06	24.11	25.12	19.34
	5-Year Low	13.18	17.05	17.28	13.75
	5-Year Median	18.1	20.9	20.47	17.42
P/S F 12M	Current	1.7	1.26	2.74	2.5
	5-Year High	2.04	1.73	3.94	3.43
	5-Year Low	0.69	1.26	2.74	2.5
	5-Year Median	0.97	1.5	3.57	3
P/B TTM	Current	2.9	3.78	3.14	3.11
	5-Year High	3.33	7.8	6.68	4.56
	5-Year Low	1.11	3.78	3.14	2.85
	5-Year Median	1.51	6.41	5.19	3.63

As of 03/20/2020

Industry Analysis Zacks Industry Rank: Top 15% (39 out of 254)



Top Peers

CBIZ, Inc. (CBZ)	Outperform
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. (REC�)	Neutral

Industry Comparison Industry: Consulting Services				Industry Peers		
	FCN Neutral	X Industry	S&P 500	CRAI Neutral	HURN Neutral	INFO Neutral
VGM Score	B	-	-	A	A	C
Market Cap	4.30 B	338.34 M	15.82 B	201.01 M	899.46 M	20.35 B
# of Analysts	2	3	13	3	3	10
Dividend Yield	0.00%	0.00%	2.79%	3.59%	0.00%	1.42%
Value Score	C	-	-	A	B	D
Cash/Price	0.08	0.07	0.06	0.08	0.01	0.00
EV/EBITDA	12.25	11.18	9.77	6.53	10.52	15.94
PEG Ratio	NA	0.89	1.42	0.59	1.02	1.42
Price/Book (P/B)	2.90	1.81	2.07	1.00	1.56	2.28
Price/Cash Flow (P/CF)	15.92	10.09	8.39	4.31	8.78	13.45
P/E (F1)	18.60	13.23	12.42	7.68	13.73	17.02
Price/Sales (P/S)	1.83	0.93	1.68	0.45	0.93	4.61
Earnings Yield	5.03%	7.58%	7.97%	13.01%	7.28%	5.87%
Debt/Equity	0.30	0.42	0.70	0.74	0.47	0.58
Cash Flow (\$/share)	7.20	1.56	7.01	5.94	4.55	3.56
Growth Score	B	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	31.25%	13.78%	10.85%	25.55%	-8.93%	15.68%
Proj. EPS Growth (F1/F0)	-0.69%	10.20%	4.90%	10.74%	6.20%	6.96%
Curr. Cash Flow Growth	36.49%	6.37%	6.03%	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	1.92	1.71	1.23	1.07	1.10	0.66
Debt/Capital	23.28%	29.39%	42.57%	42.56%	32.16%	36.75%
Net Margin	9.21%	5.09%	11.57%	4.60%	4.32%	11.39%
Return on Equity	15.32%	11.84%	16.74%	12.60%	10.76%	10.95%
Sales/Assets	0.90	0.88	0.54	0.91	0.86	0.27
Proj. Sales Growth (F1/F0)	6.45%	5.44%	3.13%	7.08%	0.69%	2.80%
Momentum Score	B	-	-	A	C	F
Daily Price Chg	-4.59%	-2.58%	-4.39%	-1.39%	3.90%	-8.21%
1 Week Price Chg	6.91%	-11.34%	-11.01%	-9.87%	-10.75%	-19.26%
4 Week Price Chg	-8.95%	-34.92%	-36.57%	-50.32%	-40.71%	-40.48%
12 Week Price Chg	3.36%	-31.24%	-34.28%	-52.11%	-41.59%	-36.17%
52 Week Price Chg	53.30%	-37.29%	-27.95%	-49.85%	-17.74%	-13.67%
20 Day Average Volume	609,509	199,151	3,981,936	53,978	199,151	4,393,507
(F1) EPS Est 1 week change	0.00%	0.00%	-0.01%	0.00%	0.00%	-0.30%
(F1) EPS Est 4 week change	-0.35%	0.00%	-0.85%	0.91%	4.18%	-1.96%
(F1) EPS Est 12 week change	-0.35%	0.91%	-1.70%	0.91%	4.18%	-1.55%
(Q1) EPS Est Mthly Chg	7.26%	0.00%	-0.88%	-4.76%	3.33%	-5.64%

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	B
Momentum Score	B
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.