



CRA International, Inc. (CRAI)

Introduce 2023 Forecast And Raise Target To \$135 (From \$115); Trends In Multiple Practices Led By Litigation, M&A and Regulatory Actions Support Our 2021-2023 EPS CAGR Of 20.8%

	2020		2021E		2022E		2023E	
		OLD	NEW	OLD	NEW	OLD	NEW	
Mar.	\$0.84	\$1.37A		\$1.19			\$1.39	
June	0.80	1.53A		1.32			1.53	
Sep.	0.76	0.92		1.24			1.45	
Dec.	<u>0.95</u>	<u>1.04</u>		<u>1.35</u>			<u>1.54</u>	
EPS	\$3.35	\$4.89		\$5.11			\$5.91	
P/E				19.2x			16.6x	

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. *FCF excludes the add back of stock-based compensation expense. 2020 exclude \$0.28 in one-time costs. 2020-2023E include a respective \$0.41, \$0.47, \$0.48 and \$0.49 in stock-based compensation expense. Sum of quarterly EPS may not equal full-year total due to rounding and/or change in share count. The Russell 2000 Index includes CRAI. NC=Not covered by Sidoti & Company, LLC.

Year	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Rev.(Mil.)	\$301.6	\$299.8	\$324.0	\$370.1	\$417.6	\$451.4	\$508.4	\$560.2	\$583.8	\$623.6
GAAP EPS	\$1.38	\$0.83	\$1.49	\$0.89	\$2.61	\$3.01	\$3.35	\$4.89	\$5.11	\$5.91

Description: CRA International, Inc. (www.crai.com) provides economic, financial and management consulting services with two major areas of focus: litigation/regulatory and business consulting. Clients include law firms, accounting firms, corporations, and governments worldwide. CRAI employs over 830 consultants in over 20 offices in North America, Europe, and Asia Pacific. About 20% of revenue derives overseas. Headquarters are in Boston, MA

- **Last week, we hosted a presentation with CRAI management at the Sidoti Fall Virtual Small Cap Conference.**
- **We continue to view CRAI as highly likely to continue to gain assignments led by strong trends within litigation, M&A activity, and regulatory needs.**
- **We maintain our 2021-2022 EPS estimates and introduce our 2023 EPS estimate of \$5.91, which implies growth of nearly 16% year over year.**
- **Our free cash flow per share (excluding the add back of stock-based compensation expense) estimates of \$7.13 in 2021, \$7.14 in 2022 and \$8.05 in 2023 imply respective FCF yields of 7.3%, 7.3% and 8.2%.**
- **We raise our price target to \$135 (from \$115), based on 20x our newly introduced 2023 EPS estimate of \$5.91, plus \$16.38 in projected year-end net cash. (Our prior \$115 price target was based on 20x our 2022 EPS estimate of \$5.11, plus the projected 2022 year-end net cash balance of \$12.78.)**
- **On a P/E-only basis, this price target implies a 22.8x multiple of our 2023 EPS estimate.**
- **The Moderately Risky rating reflects a stable customer base of Fortune 100 companies, high client retention and the strong free cash flow.**

Business opportunities remain both healthy and attainable for CRAI, in our view. Last week, we hosted a presentation with Charles River Associates, led by Chief Development Officer Chad Holmes and CFO Daniel Mahoney. We think the strong trends noted during the 2Q:21 earnings season have likely continued, as trusted and well regarded business services companies, which are CRAI's global clients, begin to execute updated growth plans. Litigation, M&A activity and increased regulatory requirements remain key drivers for CRAI, in our view.

We maintain our 2021-2022 EPS estimates... As a reminder, management increased 2021

NR

Price Target: \$135
 Price: \$98.23
 Risk Rating: M

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Key Statistics	
Analysts Covering	3
Market Cap (Mil)	\$730
Enterprise Value	\$918
52-Week Range (NASDAQ)	100-36
5-Year EPS CAGR	16%
Avg. Daily Trading Volume	36,000
Shares Out (Mil)	7.382
Float Shares (Mil)	7.108
Insider Ownership	4%
Institutional Holdings	86%
Annualized Dividend	\$1.04
Dividend Yield	1.1%
FCF Per Share (2023E)	\$8.05
FCF Yield (2023E)	8.2%
Net Cash Per Share (2023E)	\$16.38
Price to Book Value	3.6x
Return on Equity (2023E)	15.8%
Total Debt to Capital	19%
Interest Coverage Ratio	39.0x
Short Interest %	1.0%
Short Interest Days To Cover	1.8
Russell 2000	2,281
Russell 2000 – Last 12 Months	54.7%
CRAI – Last 12 Months	157.7%



guidance when reporting 2Q:21 results. CRAI increased revenue guidance to \$565-\$575 million (from \$550-\$570 million) and adjusted EBITDA margin to 11.2%-11.7% (from 10.0%-10.5%). We maintain our EPS estimates of \$4.89 in 2021 and \$5.11 in 2022. We think some of the strong margin expansion seen this year may be at risk in 2022 due to the potential return of travel and entertainment expenses. As a result, we maintain our operating margin estimate of 9.1% in 2021 and 8.6% in 2022.

....and introduce our 2023 EPS estimate of \$5.91, which implies annual growth of nearly 16%. We expect to continue to see a healthy level of assignment activity, led by an increase in litigation and regulatory needs by major clients and law firms. We model revenue growth of 6.8% (all organic) based on nearly equal levels of assignments and pricing gains. We think increased operating leverage will lead to margin expansion resumption following a pickup in travel expenses in the prior year. We model an operating margin of 9.1% in 2023, matching our estimated 2021 level.

CRAI will use free cash flow for share repurchases and acquisitions, in our view. At the end of 2Q:21, CRAI had \$14.0 million in cash and equivalents and debt of \$45 million. We maintain our free cash flow per share (excluding the add back of stock-based compensation expense) estimates of \$7.13 in 2021 and \$7.14 in 2022 and introduce our 2023 estimate of \$8.05. Our 2021-2023 estimates imply respective FCF yields of 7.3%, 7.3% and 8.2%. CRAI initiated a dividend in November 2017 and has since increased it annually. The 2020 quarterly dividend increase to \$0.26 per share (up from \$0.23) will require \$7.8 million in 2021, \$7.5 million in 2022 and \$7.3 million in 2023 by our calculation. We view another dividend increase this November as likely, but we have not included this in the model. The Board increased the share repurchase authorization to \$45.2 million earlier this year, which had approximately \$40.5 million remaining at the end of 2Q:21. As a reminder, the modified Dutch auction tender offer from earlier this year resulted in a total of 417,300 shares tendered with 337,837 purchased for a total of approximately \$25 million.

Valuation	<p>We raise our price target to \$135 (from \$115) and maintain a Moderately Risky rating on CRAI shares. Year to date, shares of CRAI are up 94.7%, compared with a 16.3% advance in the Russell 2000 and a 23.4% gain in the S&P Small Cap 600. Improving fundamentals, multiple positive earnings surprises and free cash flow support the outperformance, in our view. Our \$135 price target is based on 20x our 2023 EPS estimate of \$5.91, plus \$16.38 in projected year-end net cash. (Our prior \$115 price target was based on 20x our 2022 EPS estimate of \$5.11, plus the projected 2022 year-end net cash balance of \$12.78) On a P/E-only basis, this price target implies a 22.8x multiple of our 2023 EPS estimate. Strong free cash and our long-term EPS CAGR projection of 16% support the multiple, in our view. The Moderately Risky rating reflects a stable customer base of Fortune 100 companies, high client retention and the strong free cash flow.</p>		
Key Risks	Utilization management	Slowdown in M&A activity	Litigation trends

CRA INTERNATIONAL, INC.

Table 1: CRA International Income Statement (\$ thousands)

	Mar.	Jun.	Sept.	Dec.	2020	Mar.A	Jun.A	Sept.E	Dec.E	2021E	Mar.E	Jun.E	Sept.E	Dec.E	2022E	2023E
Total Revenue	\$126,158	\$123,031	\$121,762	\$137,422	\$508,373	\$146,518	\$148,237	\$128,588	\$136,837	\$560,180	\$134,012	\$150,544	\$148,345	\$150,943	\$583,845	\$623,624
<i>% change (Y over Y)</i>	19.2%	11.3%	5.3%	15.2%	12.6%	16.1%	20.5%	5.6%	-0.4%	10.2%	-8.5%	1.6%	15.4%	10.3%	4.2%	6.8%
Costs Of Services	90,997	90,168	88,304	101,247	370,709	105,374	105,042	89,111	95,786	395,313	94,211	105,983	102,803	105,660	408,657	434,639
<i>% of sales</i>	72.1%	73.3%	72.5%	73.7%	72.9%	71.9%	70.9%	69.3%	70.0%	70.6%	70.3%	70.4%	69.3%	70.0%	70.0%	69.7%
Gross Profit	35,161	32,863	33,458	36,175	137,664	41,144	43,195	39,476	41,051	164,866	39,802	44,561	45,542	45,283	175,188	188,985
<i>Gross Margin</i>	27.9%	26.7%	27.5%	26.3%	27.1%	28.1%	29.1%	30.7%	30.0%	29.4%	29.7%	29.6%	30.7%	30.0%	30.0%	30.3%
S, G & A	24,123	21,418	22,194	22,286	90,028	23,206	24,043	26,618	26,957	100,824	24,792	28,302	30,114	28,830	112,039	119,341
<i>% of sales</i>	19.1%	17.4%	18.2%	16.2%	17.7%	15.8%	16.2%	20.7%	19.7%	18.0%	18.5%	18.8%	20.3%	19.1%	19.2%	19.1%
Depreciation & Amortization	2,943	3,106	3,244	3,547	12,840	3,301	3,215	3,215	3,215	12,946	3,200	3,200	3,200	3,200	12,800	12,800
<i>% of sales</i>	2.3%	2.5%	2.7%	2.6%	2.5%	2.3%	2.2%	2.5%	2.3%	2.3%	2.4%	2.1%	2.2%	2.1%	2.2%	2.1%
Total Costs And Expenses	27,066	24,524	25,438	25,833	102,868	26,507	27,258	29,833	30,172	113,770	27,992	31,502	33,314	32,030	124,839	132,141
<i>% of sales</i>	21.5%	19.9%	20.9%	18.8%	20.2%	18.1%	18.4%	23.2%	22.0%	20.3%	20.9%	20.9%	22.5%	21.2%	21.4%	21.2%
Income From Operations	8,095	8,339	8,020	10,342	34,796	14,637	15,937	9,644	10,879	51,097	11,809	13,059	12,228	13,253	50,349	56,845
<i>% of sales</i>	6.4%	6.8%	6.6%	7.5%	6.8%	10.0%	10.8%	7.5%	8.0%	9.1%	8.8%	8.7%	8.2%	8.8%	8.6%	9.1%
Interest / Other Expense	1,490	92	411	(126)	1,867	(370)	(346)	(346)	(346)	(1,408)	200	200	200	200	800	800
Income Before Income Taxes	9,585	8,431	8,431	10,216	36,663	14,267	15,591	9,298	10,533	49,689	12,009	13,259	12,428	13,453	51,149	57,645
<i>% of sales</i>	7.6%	6.9%	6.9%	7.4%	7.2%	9.7%	10.5%	7.2%	7.7%	8.9%	9.0%	8.8%	8.4%	8.9%	8.8%	9.2%
Income Taxes	2,804	2,087	2,361	2,679	9,931	3,489	4,025	2,603	2,949	13,067	3,363	3,712	3,480	3,767	14,322	16,140
<i>Tax Rate</i>	29.3%	24.8%	28.0%	26.2%	27.1%	24.5%	25.8%	28.0%	28.0%	26.3%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
Net Income	6,781	6,344	6,070	7,537	26,732	10,778	11,566	6,694	7,584	36,622	8,647	9,546	8,948	9,686	36,827	41,504
<i>% change (Y over Y)</i>	50.5%	4.7%	-23.4%	21.9%	8.4%	58.9%	82.3%	10.3%	24.9%	37.0%	-19.8%	-17.5%	33.7%	44.7%	0.6%	12.7%
Diluted EPS (before extraord. Item)	\$0.84	\$0.80	\$0.76	\$0.95	\$3.35	\$1.37	\$1.53	\$0.92	\$1.04	\$4.89	\$1.19	\$1.32	\$1.24	\$1.35	\$5.11	\$5.91
<i>% change (Y over Y)</i>	56.3%	10.2%	-23.3%	24.2%	11.4%	NM	91.5%	21.5%	9.0%	45.8%	-12.7%	-14.2%	35.5%	29.5%	4.5%	15.7%
GAAP EPS	\$0.80	\$0.75	\$0.68	\$0.85	\$3.07	\$1.37	\$1.53	\$0.92	\$1.04	\$4.89	\$1.19	\$1.32	\$1.24	\$1.35	\$5.11	\$5.91
Diluted Shares	8,037	7,920	7,934	7,905	7,948	7,831	7,539	7,300	7,300	7,493	7,250	7,250	7,200	7,200	7,225	7,025

Sources: Company reports and Sidoti & Company, LLC estimates

Table 2: CRA International Statement of Cash Flow (\$ thousands)

	2019	Mar.	Jun.	Sept.	2020	Mar.A	Jun.A	2021E	2022E	2023E
OPERATING ACTIVITIES										
Net Income	\$20,747	\$6,468	\$5,931	\$5,403	\$24,507	\$10,501	\$11,566	\$36,622	\$36,827	\$41,504
Depreciation & Amortization	10,648	2,943	3,106	3,244	12,840	3,301	3,215	12,946	12,800	12,800
Stock-Based Compensation Expense	3,461	655	796	906	3,235	842	980	3,500	3,500	3,500
Right Of Use Asset Amortization	10,662	2,994	2,058	(4,556)	12,037	3,199	2,035	10,000	10,000	10,000
Deferred Income Taxes	(1,159)	23	(468)	8,684	1,114	(896)	1,087	2,000	2,000	2,000
Other	164	(301)	301	-	(90)	(85)	85	-	-	-
Changes In Operating Assets And Liabilities:										
Accounts Receivable	(12,759)	1,388	(10,350)	10,914	(1,948)	19,838	(41,486)	(2,232)	(4,553)	(4,735)
Prepaid Expenses And Other Current Assets	(3,932)	(79,545)	19,701	9,053	2,968	(76,548)	26,143	(932)	(500)	-
Net Cash Provided By Operating Activities	27,832	(65,375)	21,075	33,648	54,663	(39,848)	3,625	61,904	60,074	65,069
INVESTING ACTIVITIES										
Purchase Of Property And Equipment	(16,693)	(7,949)	(5,568)	(2,225)	(17,094)	(692)	(478)	(5,000)	(5,000)	(5,000)
Net Cash Used In Investing Activities	(16,693)	(7,949)	(5,568)	(2,225)	(17,094)	(692)	(478)	(5,000)	(5,000)	(5,000)
Free Cash Flow (Excluding The Add Back of Stock Based Compensation)	7,678	(73,979)	14,711	30,517	34,334	(41,382)	2,167	53,404	51,574	56,569
FINANCING ACTIVITIES										
Issuance Of Common Stock	3,211	151	418	1,098	2,236	1,113	1,387	-	-	-
Stock Repurchases	(18,068)	(3,810)	(390)	(4,607)	(13,371)	(9,642)	(25,923)	(35,000)	(15,000)	(30,000)
Cash Dividend	(6,539)	(1,796)	(1,828)	(1,788)	(7,395)	(1,982)	(1,988)	(7,792)	(7,514)	(7,332)
Other And Foreign Currency Effect	(2,132)	69,570	(70,330)	175	999	39,003	(41,275)	-	-	-
Net Repayment Of Short-Term Debt	-	(612)	59,612	(21,000)	-	(2,000)	47,000	-	-	-
Net Cash Provided By (Used In) Financing Activities	(23,528)	63,503	(12,518)	(26,122)	(17,531)	26,492	(20,799)	(42,792)	(22,514)	(37,332)
Net Increase (Decrease) In Cash And Cash Equivalents	(12,389)	(9,821)	2,989	5,301	20,038	(14,048)	(17,652)	14,112	32,560	22,737
Cash And Cash Equivalents At Beginning Of Period	38,028	25,639	15,818	18,807	25,639	45,677	31,629	45,677	59,789	92,349
Cash And Cash Equivalents At End Of Period	25,639	15,818	18,807	24,108	45,677	31,629	13,977	59,789	92,349	115,086

Sources: Company reports and Sidoti & Company, LLC estimates

Table 3: CRA International Balance Sheet (\$ thousands)

	Mar.	Jun.	Sept.	2020	Mar.A	Jun.A	2021E	2022E	2023E
ASSETS									
Current Assets									
Cash And Cash Equivalents	\$15,818	\$18,807	\$24,108	\$45,677	\$31,629	\$13,977	\$59,789	\$92,349	\$115,086
A/R Less Allowances	104,886	101,872	106,175	111,595	91,690	113,105	113,827	118,380	123,115
Unbilled Services	44,377	50,159	51,509	40,881	63,985	60,789	41,699	43,367	45,101
Prepaid Expenses And Other Current Assets	12,181	9,739	8,832	7,068	10,030	11,549	8,000	8,500	8,500
Foregivable Loans	14,177	9,380	6,037	14,749	13,196	8,654	15,044	15,646	16,272
Total Current Assets	191,439	189,957	196,661	219,970	210,530	208,074	238,359	278,242	308,074
Property And Equipment									
Property And Equipment	66,626	65,402	64,886	62,878	60,304	57,997	65,000	65,000	65,000
Goodwill And Intangibles, Net	93,960	93,704	93,739	94,295	94,117	93,863	93,095	91,895	90,695
Right Of Use Assets	125,688	122,983	123,390	122,144	120,110	116,868	120,144	118,144	116,144
Deferred Income Taxes	10,622	11,508	10,241	9,667	10,673	10,980	9,860	10,058	10,259
Foregivable Loans	57,868	61,121	58,138	46,864	44,363	44,940	47,567	48,280	49,005
Other Assets	4,005	3,914	3,122	2,692	2,423	2,243	3,500	3,500	3,500
Total Assets	550,208	548,589	550,177	558,510	542,520	534,965	577,525	615,119	642,677
LIABILITIES AND STOCKHOLDERS' EQUITY									
Accounts Payable And Accrued Expenses									
Accounts Payable And Accrued Expenses	101,382	103,093	120,526	155,806	119,753	123,323	160,480	165,295	170,253
Deferred Revenue And Other Liabilities	6,509	7,040	6,368	9,866	8,275	6,044	10,000	10,000	10,000
Current Portion Of Lease Liabilities	12,432	13,208	14,551	13,557	13,889	14,088	13,760	13,967	14,176
Current Portion Of Deferred Compensation	1,000	15,183	17,737	20,902	1,214	2,773	20,484	20,074	19,673
Current Portion Of Notes Payable	70,000	59,000	38,000	-	40,000	45,000	-	-	-
Total Current Liabilities	191,323	197,524	197,182	200,131	183,131	191,228	204,724	209,336	214,102
Other Non-Current Liabilities									
Other Non-Current Liabilities	162,525	148,850	148,600	149,360	148,061	145,906	151,600	153,874	156,183
Total Liabilities	353,848	346,374	345,782	349,491	331,192	337,134	356,325	363,210	370,285
Stockholders' equity:									
Total Stockholders' Equity	196,360	202,215	204,395	209,019	211,328	197,831	221,200	251,909	272,392
Total Liabilities And Stockholders' Equity	550,208	548,589	550,177	558,510	542,520	534,965	577,525	615,119	642,677
SELECTED FINANCIAL DATA									
Free Cash Flow (After Capital Expenditures, Excluding The Add Back of Stock Based Compensation)	(73,979)	14,711	30,517	34,334	(41,382)	2,167	53,404	51,574	56,569
Free Cash Flow Per Share	(\$9.20)	\$1.86	\$3.85	\$4.32	(\$5.28)	\$0.29	\$7.13	\$7.14	\$8.05
Return On Equity (ROE) (TTM)	13.7%	13.7%	12.8%	13.1%	15.1%	18.0%	17.0%	15.6%	15.8%
Return On Assets (ROA) (TTM)	5.4%	5.3%	4.8%	4.9%	5.6%	7.8%	6.4%	6.2%	6.6%
DSO	75	75	78	80	56	69	74	74	72
Book Value Per Share	\$24.43	\$25.53	\$25.76	\$26.30	\$26.99	\$26.24	\$29.52	\$34.87	\$38.77
Net Cash (Debt) Per Share	(\$6.74)	(\$5.07)	(\$1.75)	\$5.75	(\$1.07)	(\$4.12)	\$7.98	\$12.78	\$16.38
Total Debt To Total Capital	26%	23%	16%	0%	16%	19%	0%	0%	0%
Total Debt to equity	36%	29%	19%	0%	19%	23%	0%	0%	0%

Sources: Company reports and Sidoti & Company, LLC estimates

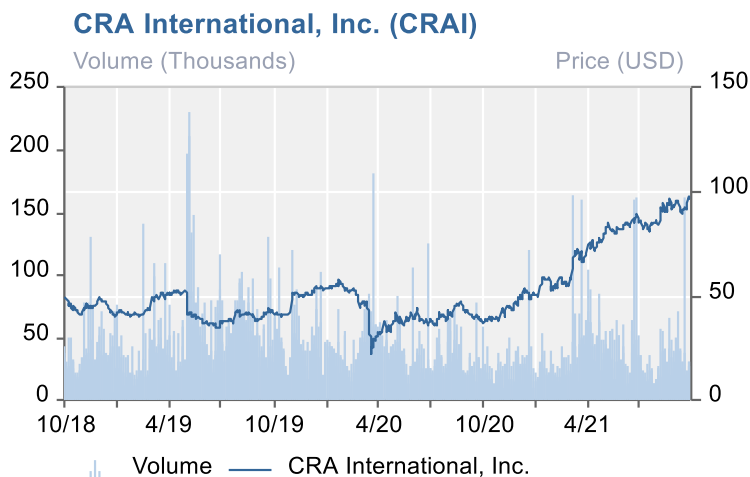
Appendix
Required Disclosures

Required Disclosures

CRA International, Inc. (CRAI-\$98.23) NR Price Target: \$135 Risk Rating: M

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
Initiation	10/11/18	45.1	NR	76	M
PT	1/9/19	42.1		73	
PT	2/28/19	47.7		77	
PT	8/2/19	41		72	
PT	11/1/19	49.2		79	
PT	2/27/20	44		77	
PT	6/24/20	38.9		70	
PT	10/29/20	41		73	
PT	11/25/20	47		73	
PT	2/2/21	54.7		73	
PT	3/4/21	60.2		85	
PT	4/15/21	72.9		96	
PT	5/6/21	83.2		108	
PT	6/24/21	86.1		108	
PT	8/4/21	83.9		108	
PT	8/5/21	86.4		115	



Source: FactSet Prices

Valuation	We raise our price target to \$135 (from \$115) and maintain a Moderately Risky rating on CRAI shares. Year to date, shares of CRAI are up 94.7%, compared with a 16.3% advance in the Russell 2000 and a 23.4% gain in the S&P Small Cap 600. Improving fundamentals, multiple positive earnings surprises and free cash flow support the outperformance, in our view. Our \$135 price target is based on 20x our 2023 EPS estimate of \$5.91, plus \$16.38 in projected year-end net cash. (Our prior \$115 price target was based on 20x our 2022 EPS estimate of \$5.11, plus the projected 2022 year-end net cash balance of \$12.78) On a P/E-only basis, this price target implies a 22.8x multiple of our 2023 EPS estimate. Strong free cash and our long-term EPS CAGR projection of 16% support the multiple, in our view. The Moderately Risky rating reflects a stable customer base of Fortune 100 companies, high client retention and the strong free cash flow.		
Key Risks	Utilization management	Slowdown in M&A activity	Litigation trends

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