



CRA International, Inc. (CRAI)

Reported 3Q:21 EPS Beat Our Estimate On Strong Order And Margin Trends; We View 17% Drop In Share Price As An Overreaction To A Small Revenue Guidance Decline; Maintain \$135 Target

	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	1.44A	1.24		1.45	
Dec.	<u>0.95</u>	<u>1.04</u>	<u>1.05</u>	<u>1.35</u>		<u>1.54</u>	
EPS	\$3.35	\$4.89	\$5.41	\$5.11		\$5.91	
P/E				18.8x		16.3x	

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	\$568.0	\$583.8	\$623.6
GAAP EPS	\$1.38	\$0.83	\$1.49	\$0.89	\$2.61	\$3.01	\$3.35	\$5.41	\$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

- **Reported 3Q:21 EPS exceeded our estimate by \$0.52, on outsized revenue gains plus margin expansion.**
- **Despite the EPS surprise, shares of CRAI were down 17.2% yesterday due to a modest reduction in the range of full-year revenue guidance due to elevated vacation activity.**
- **CRAI reduced 2021 revenue guidance to \$560-\$570 million (from \$565-\$575 million), citing an increase in vacation usage by employees during 3Q:21 that management noted may continue into 4Q:21**
- **We view the sell-off as an overreaction to consumer trends, which have been well documented by travel-focused companies.**
- **Adjusting exclusively for the 3Q:21 outperformance, we raise our 2021 EPS estimate to \$5.41 (from \$4.89), but maintain our estimates of \$5.11 in 2022 and \$5.91 in 2023.**
- **CRAI increased the quarterly dividend to \$0.31, up nearly 20% from \$0.26.**
- **We revise our 2021 free cash flow per share (excluding the add back of stock-based compensation expense) estimate to \$7.59 (from \$7.13) and maintain our estimates of \$7.14 in 2022 and \$8.05 in 2023; these imply respective FCF yields of 7.9%, 7.4% and 8.4%.**
- **We maintain our \$135 price target, which is based on 20x our 2023 EPS estimate of \$5.91, plus \$16.53 (up from \$16.38) in projected 2023 year-end net cash.**
- **On a P/E-only basis, this price target implies 22.8x our 2023 EPS estimate.**

CRAI's reported 3Q:21 EPS of \$1.44 well exceeded our \$0.92 estimate, thanks to revenue gains and margin expansion. Total revenue of \$136.4 million topped our \$128.6 million estimate. The 12.0% year over year growth was paced by North America with 14.1% gains. On the conference call, management noted ongoing strength in both leads and order flow. With broad-based strength, CRAI finished 3Q:21 with 882 consultants (up nearly 10%

NR
Price Target: \$135
Price: \$96.05
Risk Rating: M

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Key Statistics

Analysts Covering	2
Market Cap (Mil)	\$710
Enterprise Value	\$1,052
52-Week Range (NASDAQ)	117-41
5-Year EPS CAGR	16%
Avg. Daily Trading Volume	37,000
Shares Out (Mil)	7.382
Float Shares (Mil)	7.115
Insider Ownership	4%
Institutional Holdings	86%
Annualized Dividend	\$1.24
Dividend Yield	1.1%
FCF Per Share (2023E)	\$8.05
FCF Yield (2023E)	8.4%
Net Cash Per Share (2023E)	\$16.53
Price to Book Value	4.3x
Return on Equity (2023E)	15.7%
Total Debt to Capital	3%
Interest Coverage Ratio	39.0x
Short Interest %	1.0%
Short Interest Days To Cover	2.5
Russell 2000	2,402
Russell 2000 – Last 12 Months	48.9%
CRAI – Last 12 Months	161.6%



year over year). Even with the headcount increase, CRAI reported a utilization rate of 73%, besting our 70% estimate. The operating margin of 9.4% outpaced our 7.5% forecast as operating leverage, reduced SG&A, and lower travel expenses remained in place.

Our 2021-2023 EPS estimates imply an EPS CAGR of 20.8% CRAI reduced 2021 revenue guidance to \$560-\$570 million (from \$565-\$575 million), citing an increase in vacation usage by employees during 3Q:21 that management noted may continue into 4Q:21. To be clear, the guidance reduction did not affect our estimates. Adjusting exclusively for the 3Q:21 outperformance, we increase our 2021 EPS estimate to \$5.41 (from \$4.89) and maintain our estimates of \$5.11 in 2022 and \$5.91 in 2023. Our operating margin estimates of 9.6% (from 9.1%) in 2021, 8.6% in 2022 and 9.1% in 2023 are based on the potential return of travel and entertainment expenses, before the benefits of operating leverage return in 2023.

CRAI will use free cash flow for share repurchases and acquisitions, in our view. At the end of 3Q:21, CRAI had \$19.7 million in cash and equivalents and debt of \$6 million. Adjusting for 3Q:21 results and management commentary, we increase our 2021 free cash flow per share (excluding the add-back of stock-based compensation expense) estimate to \$7.59 (from \$7.13) and maintain our estimates of \$7.14 in 2022 and \$8.05 in 2023; these now imply respective FCF yields of 7.9%, 7.4% and 8.4%. CRAI increased the quarterly dividend to \$0.31 from \$0.26. We now forecast dividend payments of \$8.3 million in 2021, \$9.0 million in 2022, and \$8.7 million in 2023. CRAI has repurchased nearly \$40 million-worth of shares year to date, reducing the authorization to approximately \$35.5 million at the end of 3Q:21.

Exhibit 1: CRAI 3Q:21 Earnings Variance					
(\$ thous., except per share data)	3Q:20 Actual	3Q:21 Estimate	3Q:21 Actual	Variance	% Change (Year To Year)
Revenue	\$121,762	\$128,588	\$136,412	\$7,824	12.0%
Operating income	8,020	9,644	12,801	3,157	59.6%
Pretax income	8,431	9,298	12,853	3,555	52.4%
Net income	6,070	6,694	10,945	4,251	80.3%
Fully diluted EPS	\$0.76	\$0.92	\$1.44	\$0.48	90.4%

Sources: Company reports and Sidoti & Co., LLC estimates

Valuation	We maintain a \$135 price target and Moderately risky rating on shares of CRAI. Despite the meaningful EPS upside in 3Q:21, shares of CRAI were down 17.2% yesterday. We view the decline as a significant overreaction to what we basically view as a commonly seen theme. While CRAI is not generally viewed as a directly tied to leisure travel trends, we can confirm that most of our names tied to travel and entertainment have reported significant increases in activity. We maintain our \$135 price target, based on 20x our 2023 EPS estimate of \$5.91, plus \$16.53 (from \$16.38) in projected year-end net cash. On a P/E-only basis, this price target implies 22.8x our 2023 EPS estimate. Positive order trends, solid free cash flow, and our 16% 5-year EPS CAGR projection support this multiple, in our view. The Moderate risk 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

CRA INTERNATIONAL, INC.

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

	Mar.	Jun.	Sept.	Dec.	2020	Mar.A	Jun.A	Sept.A	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	\$136,412	\$136,837	\$568,004	\$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%	12.0%	-0.4%	11.7%	-8.5%	1.6%	8.7%	10.3%	2.8%	6.8%
Costs Of Services	90,997	90,168	88,304	101,247	370,709	105,374	105,042	95,980	95,786	402,182	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%	70.4%	70.0%	70.8%	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	40,432	41,051	165,822	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%	29.6%	30.0%	29.2%	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	24,490	26,957	98,696	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%	18.0%	19.7%	17.4%	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	3,141	3,141	12,798	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%	2.3%	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	27,631	30,098	111,494	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%	20.3%	22.0%	19.6%	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	12,801	10,953	54,328	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%	9.4%	8.0%	9.6%	8.8%	8.7%	8.2%	8.8%	8.6%	9.1%
Interest / Other Expense	1,490	92	411	(126)	1,867	(370)	(346)	52	52	(612)	200	200	200	200	800	800
Income Before Income Taxes	9,585	8,431	8,431	10,216	36,663	14,267	15,591	12,853	11,005	53,716	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%	9.4%	8.0%	9.5%	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	1,908	3,081	12,503	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%	14.8%	28.0%	23.3%	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	10,945	7,924	41,213	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%	80.3%	30.5%	54.2%	-19.8%	-17.5%	-18.2%	-11.5%	-10.6%	12.7%
Diluted EPS (before extraord. Item)	\$0.84	\$0.80	\$0.76	\$0.95	\$3.35	\$1.37	\$1.53	\$1.44	\$1.05	\$5.41	\$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%	90.4%	9.9%	61.2%	-12.7%	-14.2%	-13.6%	28.4%	-5.5%	15.7%
GAAP EPS	\$0.80	\$0.75	\$0.68	\$0.85	\$3.07	\$1.37	\$1.53	\$1.44	\$1.05	\$5.41	\$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	7,560	7,560	7,623	7,250	7,250	7,200	7,200	7,225	7,025

Sources: Company reports and Sidoti & Company, LLC estimates

CRA INTERNATIONAL, INC.

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

	2019	Mar.	Jun.	Sept.	2020	Mar.A	Jun.A	Sept.A	2021E	2022E	2023E
OPERATING ACTIVITIES											
Net Income	\$20,747	\$6,468	\$5,931	\$5,403	\$24,507	\$10,501	\$11,566	\$10,945	\$41,213	\$36,827	\$41,504
Depreciation & Amortization	10,648	2,943	3,106	3,244	12,840	3,301	3,215	3,141	12,798	12,800	12,800
Stock-Based Compensation Expense	3,461	655	796	906	3,235	842	980	1,008	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	(6,591)	10,000	10,000	10,000
Deferred Income Taxes	(1,159)	23	(468)	8,684	1,114	(896)	1,087	9,627	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)	24,537	(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	7,459	(932)	(500)	-
Net Cash Provided By Operating Activities	27,832	(65,375)	21,075	33,648	54,663	(39,848)	3,625	50,126	66,347	60,074	65,069
INVESTING ACTIVITIES											
Purchase Of Property And Equipment	(16,693)	(7,949)	(5,568)	(2,225)	(17,094)	(692)	(478)	(560)	(5,000)	(5,000)	(5,000)
Net Cash Used In Investing Activities	(16,693)	(7,949)	(5,568)	(2,225)	(17,094)	(692)	(478)	(559)	(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	48,558	57,847	51,574	56,569
FINANCING ACTIVITIES											
Issuance Of Common Stock	3,211	151	418	1,098	2,236	1,113	1,387	2,505	-	-	-
Stock Repurchases	(18,068)	(3,810)	(390)	(4,607)	(13,371)	(9,642)	(25,923)	(4,412)	(35,000)	(15,000)	(30,000)
Cash Dividend	(6,539)	(1,796)	(1,828)	(1,788)	(7,395)	(1,982)	(1,988)	(1,933)	(8,309)	(8,959)	(8,742)
Other And Foreign Currency Effect	(2,132)	69,570	(70,330)	175	999	39,003	(41,275)	(1,038)	-	-	-
Net Repayment Of Short-Term Debt	-	(612)	59,612	(21,000)	-	(2,000)	47,000	(39,000)	-	-	-
Net Cash Provided By (Used In) Financing Activities	(23,528)	63,503	(12,518)	(26,122)	(17,531)	26,492	(20,799)	(43,878)	(43,309)	(23,959)	(38,742)
Net Increase (Decrease) In Cash And Cash Equivalents	(12,389)	(9,821)	2,989	5,301	20,038	(14,048)	(17,652)	5,689	18,038	31,115	21,327
Cash And Cash Equivalents At Beginning Of Period	38,028	25,639	15,818	18,807	25,639	45,677	31,629	13,977	45,677	63,715	94,830
Cash And Cash Equivalents At End Of Period	25,639	15,818	18,807	24,108	45,677	31,629	13,977	19,665	63,715	94,830	116,157

Sources: Company reports and Sidoti & Company, LLC estimates

CRA INTERNATIONAL, INC.

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

	Mar.	Jun.	Sept.	2020	Mar.A	Jun.A	Sept.A	2021E	2022E	2023E
ASSETS										
Current Assets										
Cash And Cash Equivalents	\$15,818	\$18,807	\$24,108	\$45,677	\$31,629	\$13,977	\$19,665	\$63,715	\$94,830	\$116,157
A/R Less Allowances	104,886	101,872	106,175	111,595	91,690	113,105	108,035	113,827	118,380	123,115
Unbilled Services	44,377	50,159	51,509	40,881	63,985	60,789	65,799	41,699	43,367	45,101
Prepaid Expenses And Other Current Assets	12,181	9,739	8,832	7,068	10,030	11,549	10,740	8,000	8,500	8,500
Foregivable Loans	14,177	9,380	6,037	14,749	13,196	8,654	9,662	15,044	15,646	16,272
Total Current Assets	191,439	189,957	196,661	219,970	210,530	208,074	213,901	242,285	280,723	309,145
Property And Equipment										
Property And Equipment	66,626	65,402	64,886	62,878	60,304	57,997	55,577	65,000	65,000	65,000
Goodwill And Intangibles, Net	93,960	93,704	93,739	94,295	94,117	93,863	93,366	93,095	91,895	90,695
Right Of Use Assets	125,688	122,983	123,390	122,144	120,110	116,868	113,759	120,144	118,144	116,144
Deferred Income Taxes	10,622	11,508	10,241	9,667	10,673	10,980	11,125	9,860	10,058	10,259
Foregivable Loans	57,868	61,121	58,138	46,864	44,363	44,940	40,387	47,567	48,280	49,005
Other Assets	4,005	3,914	3,122	2,692	2,423	2,243	1,792	3,500	3,500	3,500
Total Assets	550,208	548,589	550,177	558,510	542,520	534,965	529,907	581,451	617,600	643,748
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	151,617	160,480	165,295	170,253
Deferred Revenue And Other Liabilities	6,509	7,040	6,368	9,866	8,275	6,044	5,826	10,000	10,000	10,000
Current Portion Of Lease Liabilities	12,432	13,208	14,551	13,557	13,889	14,088	14,188	13,760	13,967	14,176
Current Portion Of Deferred Compensation	1,000	15,183	17,737	20,902	1,214	2,773	4,439	20,484	20,074	19,673
Current Portion Of Notes Payable	70,000	59,000	38,000	-	40,000	45,000	6,000	-	-	-
Total Current Liabilities	191,323	197,524	197,182	200,131	183,131	191,228	182,070	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	143,552	151,600	153,874	156,183
Total Liabilities	353,848	346,374	345,782	349,491	331,192	337,134	325,622	356,325	363,210	370,285
Stockholders' equity:										
Total Stockholders' Equity	196,360	202,215	204,395	209,019	211,328	197,831	204,285	225,126	254,390	273,463
Total Liabilities And Stockholders' Equity	550,208	548,589	550,177	558,510	542,520	534,965	529,907	581,451	617,600	643,748
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	48,558	57,847	51,574	56,569
Free Cash Flow Per Share	(\$9.20)	\$1.86	\$3.85	\$4.32	(\$5.28)	\$0.29	\$6.42	\$7.59	\$7.14	\$8.05
Return On Equity (ROE) (TTM)	13.7%	13.7%	12.8%	13.1%	15.1%	18.0%	19.8%	19.0%	15.4%	15.7%
Return On Assets (ROA) (TTM)	5.4%	5.3%	4.8%	4.9%	5.6%	7.8%	8.1%	7.2%	6.1%	6.6%
DSO	75	75	78	80	56	69	71	73	74	72
Book Value Per Share	\$24.43	\$25.53	\$25.76	\$26.30	\$26.99	\$26.24	\$27.02	\$29.53	\$35.21	\$38.93
Net Cash (Debt) Per Share	(\$6.74)	(\$5.07)	(\$1.75)	\$5.75	(\$1.07)	(\$4.12)	\$1.81	\$8.36	\$13.13	\$16.53
Total Debt To Total Capital	26%	23%	16%	0%	16%	19%	3%	0%	0%	0%
Total Debt to equity	36%	29%	19%	0%	19%	23%	3%	0%	0%	0%

Sources: Company reports and Sidoti & Company, LLC estimates

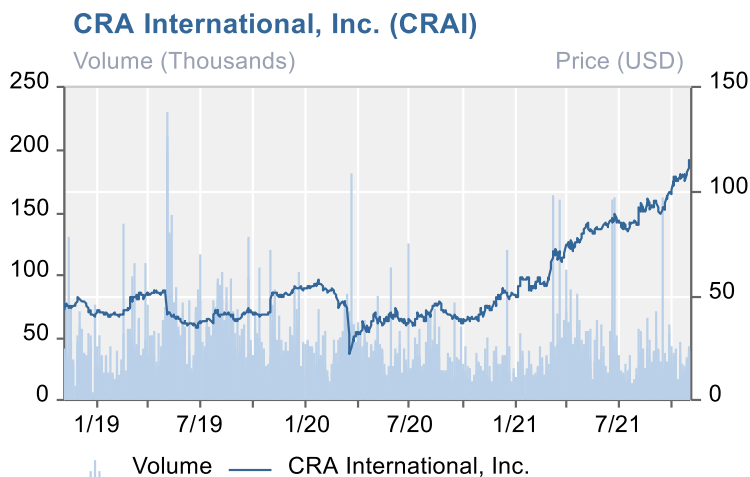
Appendix
Required Disclosures

Required Disclosures

CRA International, Inc. (CRAI-\$96.05) NR Price Target: \$135 Risk Rating: M

Rating and Price Target History Table

Action Date	Px	Rating	PT	Risk Rating
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	
PT 9/28/21	98.2		135	
PT 11/1/21	109.8		135	



Source: FactSet Prices

Valuation	<p>We maintain a \$135 price target and Moderately risky rating on shares of CRAI. Despite the meaningful EPS upside in 3Q:21, shares of CRAI were down 17.2% yesterday. We view the decline as a significant overreaction to what we basically view as a commonly seen theme. While CRAI is not generally viewed as a directly tied to leisure travel trends, we can confirm that most of our names tied to travel and entertainment have reported significant increases in activity. We maintain our \$135 price target, based on 20x our 2023 EPS estimate of \$5.91, plus \$16.53 (from \$16.38) in projected year-end net cash. On a P/E-only basis, this price target implies 22.8x our 2023 EPS estimate. Positive order trends, solid free cash flow, and our 16% 5-year EPS CAGR projection support this multiple, in our view. The Moderate risk 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

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