



Computer Task Group, Incorporated (CTG)

CTG's Mostly In-Line 3Q:21 Results Showcase Greater Traction In High-Margin IT Solutions Work; Reinstated Guidance For 4Q:21 Was Upbeat, Reflects Large Project Win; Maintain \$14 Price Target

	2020		2021E		2022E		2023E	
		OLD	NEW	OLD	NEW	OLD	NEW	
Mar.	\$0.10	\$0.13A		\$0.15	\$0.14		\$0.17	
June	0.10	0.13A		0.16	0.18		0.22	
Sep.	0.18	0.12	0.13A	0.18	0.17		0.20	
Dec.	<u>0.14</u>	<u>0.17</u>		<u>0.20</u>			<u>0.24</u>	
Non-GAAP EPS	\$0.52	\$0.55		\$0.69			\$0.83	
P/E		14.9x		11.9x			9.9x	

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. CTG's calculation of non-GAAP EPS excludes net acquisition-related expenses and other one-time items. Non-GAAP EPS for 2020 and 2021-2023E exclude \$0.06 and \$0.07 each, respectively, of net expenses related to these items. 3Q:20 includes an \$0.08 tax benefit. 2020-2023E include \$0.17-\$0.18 of annual stock-based compensation expense. *FCF excludes the add-back of stock-based compensation expense. Sum of quarterly EPS may not equal full-year total due to rounding and/or changes in share count. NC = Not covered by Sidoti & Co. LLC.

Year	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Rev.(Mil.)	\$393.3	\$369.5	\$324.9	\$301.2	\$358.8	\$394.2	\$366.1	\$392.9	\$402.0	\$425.5
GAAP EPS*	\$0.64	\$0.41	(\$2.22)	\$0.05	(\$0.20)	\$0.29	\$0.53	\$0.49	\$0.62	\$0.76

* 2016 includes \$2.45 in net goodwill impairment and severance charges. 2017 and 2018 include a respective \$0.17 and \$0.43 in net non-recurring charges, valuation allowance and tax-related expenses. 2020 include \$0.10 in net benefits from life insurance proceeds and asset sale.

Description: Computer Task Group (www.ctg.com) provides information technology (IT) solutions and services to clients in North America (51% of 1Q:21 revenue) and Western Europe (49%). The IT Staffing business (56% of 1Q:21 revenue) provides clients with high-volume staffing services. IT Solutions (44%) focuses on application support, data management and testing services. Headquarters are in Buffalo, NY.

- As in 1H:21, CTG's 3Q:21 results showed another healthy advance in the high-margin **IT Solutions** business (46% of 3Q:21 revenue), supporting the company's ongoing efforts to expand its digital transformation (DT) pipeline and capabilities.
- IT Solutions** was up 12% year-to-year. Overall revenue, including **IT Staffing**, where there is a deliberate strategy in place to disengage with lower-margin work, was up over 2% from 3Q:20 to \$90.6 million, just off our \$91.5 million estimate.
- Nonetheless, margins outpaced expectations due in part to the greater mix of **Solutions** work and lower SG&A spend that was offset by elevated below-the-line items. CTG posted 3Q:21 EPS of \$0.13, above our \$0.12 estimate on a lower tax rate and share count; 3Q:20 EPS were \$0.10 excluding a tax benefit.
- Management reinstated 4Q:21 guidance, which reflects a step-up in revenue due to the expected contribution from a large engagement/implementation. Revenue guidance is \$110-\$115 million; we up our \$102 million estimate to \$113 million. However, our \$0.17 EPS estimate is intact, bracketed by the \$0.16-\$0.18 guidance.
- Our 2022 outlook is unchanged, although we fine-tune our quarterly EPS numbers to better reflect seasonality. Excluding the contribution from the 4Q:21 engagement, our model implies 5% organic year-to-year revenue gains that include a growing **Solutions** pipeline offset by the disengagement from specific staffing work. We introduce our 2023 outlook: revenue of \$426 million and EPS of \$0.83.
- CTG ended 3Q:21 debt-free, with \$31 million in net cash. Given our EPS and free cash flow outlooks, we project a year-end 2023 net cash balance of \$55 million.
- We maintain our \$14 target, which is based on 20x (in line with our five-year EPS CAGR projection) our unchanged 2022 EPS estimate of \$0.69. Our **Moderately Risky** rating reflects CTG's history of sustained profitability, solid free cash generation and strong financial profile.

NR

Price Target: \$14

Price: \$8.20

Risk Rating: M

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Key Statistics

Analysts Covering	2
Market Cap (Mil)	\$130
Enterprise Value	\$115
52-Week Range (NASDAQ)	12-6
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	20,000
Shares Out (Mil)	15.328
Float Shares (Mil)	13.016
Insider Ownership	18%
Institutional Holdings	47%
Annualized Dividend	Nil
Dividend Yield	N/A
FCF Per Share (2023E)*	\$0.82
FCF Yield (2023E)	10.0%
Net Cash Per Share (2023E)	\$3.84
Price to Book Value	1.5x
Return on Equity (2023E)	11.6%
Total Debt to Capital	22%
Interest Coverage Ratio	7.7x
Short Interest %	0.2%
Short Interest Days To Cover	1.5
Russell 2000	2,427
Russell 2000 – Last 12 Months	48.6%
CTG – Last 12 Months	39.3%



Computer Task Group, Incorporated

Source: FactSet Prices

Results in 3Q:21 were largely in line with our expectations, reflecting another strong quarter for the IT Solutions business. CTG's 3Q:21 revenue was \$90.6 million, up 2.2% (1.7% in constant currency) from 3Q:20 and about 1% shy of our \$91.5 million estimate. We note that a return to more seasonal patterns, including increased vacation time in Europe, was evident in the quarter. Also, we remind investors that the company is still deliberately disengaging from lower-margin *IT Staffing* work (54% of 3Q:21 revenue, down about 5% year to year), which we contend should not overshadow the improved traction in the higher-margin *IT Solutions* business (46% of 3Q:21 revenue). Of note, *Solutions* revenue jumped 12% year over year in 3Q:21, hitting our estimate just above \$41 million. It is increasingly clear that CTG's *Solutions* offerings are gaining traction in the marketplace as clients are ramping their digital transformation (DT) initiatives. Highlights from the quarter include the award of a large go-live EPIC medical record system implementation with a U.S. healthcare client (to be largely "completed and contribute significantly" in 4Q:21; discussed below) and an extended managed services agreement with a long-standing European client that includes software development, testing and Agile methodology. Due to the nature of the work and a slightly greater overall mix of solutions projects, relative to our model, CTG's 3Q:21 gross margin expanded to 22.4%, from 22.1% in 3Q:20, besting our 22.0% estimate. SG&A expense (as a percentage of revenue) was also better than expected, despite ongoing investments in IT solutions and business development resources, consistent with management's strategy to rapidly expand IT digital solutions work. As a result, CTG's adjusted/non-GAAP operating income came in at \$3 million, above our \$2.6 million estimate. Below-the-line items were slightly elevated, but this was more than offset by a lower-than-estimated tax rate (22.6%, versus our 29.0% estimate) and share count. As a result, CTG posted non-GAAP EPS (excludes acquisition-related expenses) of \$0.13 in 3Q:21, versus \$0.18 a year ago (or \$0.10 if we exclude an \$0.08 one-time tax benefit) and \$0.01 better than our estimate.

Exhibit 1: Computer Task Group, Inc. Results Variance Table (\$ in '000s, except per share data)

	3Q:21 Actual	3Q:20 Actual	3Q:21 Estimated	Variance (Act. Vs. Est.)	% change	Variance ('21 vs. '20)	% change
Total Revenue	\$90,603	\$88,648	\$91,500	(\$897)	-1.0%	\$1,955	2.2%
<i>IT Solutions</i>	41,340	37,006	41,175	165	0.4%	\$4,334	11.7%
<i>IT Staffing Services Revenue</i>	49,263	51,642	50,325	(1,062)	-2.1%	(\$2,379)	-4.6%
Gross Profit	20,290	19,547	20,121	169	0.8%	\$743	3.8%
Non-GAAP Operating Income	2,982	2,350	2,620	362	13.8%	\$632	26.9%
GAAP Net Income	1,672	2,831	1,580	92	5.8%	(\$1,159)	-40.9%
Diluted GAAP EPS	\$ 0.11	\$ 0.20	\$ 0.10	0.01	7.0%	(\$0.08)	-43.1%
Non-GAAP Net Income	1,888	2,568	1,885	3	0.2%	(680)	-26.5%
Non-GAAP EPS	\$ 0.13	\$ 0.18	\$ 0.12	0.01	5.2%	(\$0.05)	-29.1%

Sources: Company filings and Sidoti & Company, LLC estimates

Management reinstated 4Q:21 guidance that reflects a stronger revenue outlook and EPS that bracket our estimate; we fine-tune our model through 2022 and introduce upbeat 2023 forecasts. Given the robust level of bookings and pipeline activity, as well as the expected work from the large EPIC implementation go-live engagement, management felt comfortable reinstating guidance for the upcoming quarter: revenue should fall within \$110-\$115 million. We were at \$102 million but to account for a greater contribution from the engagement noted above, we up our estimate to \$113 million. Also, based on the margin profile of the business today, the disengagement from targeted staffing volume and the ongoing internal investments noted above, CTG guided adjusted 4Q:21 EPS of \$0.16-\$0.18; this bracketed our unchanged \$0.17 estimate. While there may be some residual revenue/work that could occur in early 2022, the bulk of the engagement (and its revenue contribution) will likely be isolated to the fourth quarter. Accordingly, we leave our 2022 revenue forecast at \$402 million, which implies a roughly 5% organic year-to-year increase excluding this large project. However, we fine-tune our quarterly margin and EPS assumptions to better reflect a return to more seasonal patterns; our full-year EPS estimate is nonetheless intact at \$0.69. Lastly, we introduce our projections for 2023 that reflect 6% year-to-year revenue growth, to \$426 million, and a 20% EPS expansion to \$0.83.

CTG maintains a robust financial profile that investors should pay more attention to, in our view. The company ended 3Q:21 with net cash of \$31 million and no long-term debt; there is \$45 million available on an existing revolving credit facility at an average interest rate below 2%. CTG generates ample free cash flow (FCF), although this year may come under pressure due to the strong revenue rebound as well as the expected repayment of half of 2020's \$6.7 million PPP loan. After posting FCF (excludes the add-back of stock-based compensation expense) of \$26 million, or \$1.84 per share, in 2020 (included the accelerated collection of receivables from its largest IT staffing client in 1Q:20, which added \$12 million to the balance sheet, as well as the CARES Act PPP program loan), we model an outflow of \$900,000 (\$0.06 per share) for 2021 and then a return to FCF of \$9.6 million (\$0.64) for 2022 and \$12.5 million (\$0.82) for 2023. We anticipate that CTG will focus its capital allocation priorities on investing internally in its DT initiatives, as well as acquisitions to further enhance the *Solutions* platform. We note, however, that we exclude any such deals from our model. We estimate net cash of \$59 million at year-end 2023.

Valuation

We maintain a \$14 price target on CTG following the upbeat 3Q:21 earnings report. We are confident that CTG's strategic growth and profitability initiatives, which hinge largely on expanding the higher-margin, resilient *IT Solutions* business, will be fruitful, supporting our upbeat revenue and EPS outlooks through 2023. Also, we think that investors are not fully crediting CTG's inherently resilient business model, success in growing the *IT Solutions* business (which has accelerating margin and profitability prospects) and the company's strong financial profile and net cash position. Accordingly, we contend that the shares should trade in line with our five-year EPS CAGR projection of 20%. Thus, if we apply a 20x multiple to our 2022 EPS estimate of \$0.69, we derive a \$14 price target. We find a *Moderately Risky* rating appropriate for CTG stock, given the company's sustained profitability, free cash generation, and robust financial profile.

Key Risks

Severe or prolonged economic downturn Client concentration Execution on Solutions-centric strategy

COMPUTER TASK GROUP, INCORPORATED

Table 1: Computer Task Group, Inc. Income Statement (\$ in 000s)

	2019	Mar	Jun	Sep	Dec	2020	MarA	JunA	SepA	DecE	2021E	MarE	JunE	SepE	DecE	2022E	2023E
Total Revenue	\$ 394,170	\$ 86,949	\$ 89,146	\$ 88,648	\$ 101,348	\$ 366,091	\$ 97,129	\$ 92,164	\$ 90,603	\$ 113,000	\$ 392,896	\$ 98,500	\$ 101,000	\$ 98,000	\$ 104,500	\$ 402,000	\$ 425,500
Direct Costs	319,135	69,903	70,408	69,101	79,721	289,133	76,362	71,785	70,313	87,806	306,266	77,261	78,524	75,955	80,878	312,618	328,778
Gross Profit	75,035	17,046	18,738	19,547	21,627	76,958	20,767	20,379	20,290	25,194	86,630	21,239	22,476	22,045	23,622	89,382	96,722
Selling, General and Administrative	68,123	14,979	16,824	17,723	18,302	67,828	18,669	17,578	17,588	22,035	75,870	18,715	19,190	18,865	19,792	76,562	80,716
Operating Income (EBIT)	6,912	2,067	1,914	1,824	3,325	9,130	2,098	2,801	2,702	3,159	10,760	2,524	3,286	3,180	3,830	12,819	16,006
Non-GAAP Operating Income	9,262	2,534	2,863	2,350	3,581	11,328	2,742	2,966	2,982	3,560	12,250	2,884	3,646	3,540	4,190	14,260	17,434
Interest Income (Expense) and Other, net	(623)	(191)	1,208	334	180	1,531	(150)	(256)	(542)	85	(863)	85	100	100	100	385	450
Income Before Income Taxes	6,289	1,876	3,122	2,158	3,505	10,661	1,948	2,545	2,160	3,244	9,897	2,609	3,386	3,280	3,930	13,204	16,456
Income Tax (Benefit)	2,164	732	1,363	(673)	1,600	3,022	440	712	488	941	2,581	757	982	951	1,140	3,829	4,772
Net Income (Loss)	4,125	1,144	1,759	2,831	1,905	7,639	1,508	1,833	1,672	2,304	7,317	1,852	2,404	2,328	2,790	9,375	11,684
Diluted GAAP EPS	\$ 0.29	\$ 0.08	\$ 0.12	\$ 0.20	\$ 0.13	\$ 0.53	\$ 0.10	\$ 0.12	\$ 0.11	\$ 0.15	\$ 0.49	\$ 0.12	\$ 0.16	\$ 0.15	\$ 0.18	\$ 0.62	\$ 0.76
Non-GAAP Net Income	5,557	1,429	1,441	2,568	2,044	7,482	2,006	1,952	1,888	2,604	8,258	2,122	2,674	2,598	3,060	10,455	12,754
Non-GAAP EPS (ex Acq-related items)	\$ 0.40	\$ 0.10	\$ 0.10	\$ 0.18	\$ 0.14	\$ 0.52	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.17	\$ 0.55	\$ 0.14	\$ 0.18	\$ 0.17	\$ 0.20	\$ 0.69	\$ 0.83
Avg. Diluted Shares O/S	13,997	14,316	14,282	14,401	14,702	14,427	14,944	14,972	14,939	15,000	14,964	15,000	15,100	15,100	15,200	15,100	15,300
Adjusted EBITDA	\$ 12,400	\$ 3,400	\$ 4,052	\$ 3,332	\$ 4,935	\$ 15,692	\$ 3,725	\$ 4,096	\$ 3,747	\$ 4,879	\$ 16,447	\$ 4,214	\$ 5,006	\$ 4,900	\$ 5,550	\$ 19,669	\$ 22,911
Margin Analysis:																	
Gross Margin	19.0%	19.6%	21.0%	22.1%	21.3%	21.0%	21.4%	22.1%	22.4%	22.3%	22.0%	21.6%	22.3%	22.5%	22.6%	22.2%	22.7%
SG&A as a % of Revenue	17.3%	17.2%	18.9%	20.0%	18.1%	18.5%	19.2%	19.1%	19.4%	19.5%	19.3%	19.0%	19.0%	19.3%	18.9%	19.0%	19.0%
GAAP Operating Margin	1.8%	2.4%	2.1%	2.1%	3.3%	2.5%	2.2%	3.0%	3.0%	2.8%	2.7%	2.6%	3.3%	3.2%	3.7%	3.2%	3.8%
Non-GAAP Operating Margin	2.3%	2.9%	3.2%	2.7%	3.5%	3.1%	2.8%	3.2%	3.3%	3.2%	3.2%	2.9%	3.6%	3.6%	4.0%	3.5%	4.1%
Adj. EBITDA Margin	3.1%	3.9%	4.5%	3.8%	4.9%	4.3%	3.8%	4.4%	4.1%	4.3%	4.2%	4.3%	5.0%	5.0%	5.3%	4.9%	5.4%
Effective Tax Rate	34.4%	39.0%	43.7%	NM	45.6%	28.3%	22.6%	28.0%	22.6%	29.0%	26.1%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
Net Margin	1.0%	1.3%	2.0%	3.2%	1.9%	2.1%	1.6%	2.0%	1.8%	2.0%	1.9%	1.9%	2.4%	2.4%	2.7%	2.3%	2.7%
Year-over-year comparisons:																	
Total Revenue Growth	9.9%	-10.6%	-11.2%	-8.8%	2.0%	-7.1%	11.7%	3.4%	2.2%	11.5%	7.3%	1.4%	9.6%	8.2%	-7.5%	2.3%	5.8%
IT Solutions	23.7%	2.7%	5.4%	12.3%	29.4%	12.9%	25.4%	9.8%	11.7%	5.9%	12.4%	2.9%	13.9%	10.2%	-4.5%	5.0%	11.2%
IT Staffing & Other	3.5%	-17.6%	-20.3%	-19.6%	-14.9%	-18.1%	2.7%	-1.3%	-4.6%	16.8%	3.4%	0.2%	6.1%	6.4%	-10.1%	0.1%	1.2%
Gross Profit	9.6%	-3.8%	2.2%	4.3%	6.8%	2.6%	21.8%	8.8%	3.8%	16.5%	12.6%	2.3%	10.3%	8.6%	-6.2%	3.2%	8.2%
Operating Income	NM	83.4%	3.3%	19.7%	38.1%	32.1%	1.5%	46.3%	48.1%	-5.0%	17.9%	20.3%	17.3%	17.7%	21.2%	19.1%	24.9%
GAAP Net Income	NM	81.0%	86.5%	NM	14.0%	85.2%	31.8%	4.2%	-40.9%	20.9%	-4.2%	22.8%	31.2%	39.3%	21.1%	28.1%	24.6%
Non-GAAP Net Income	NM	62.0%	10.8%	86.2%	2.4%	34.6%	40.4%	35.5%	-26.5%	27.4%	10.4%	5.8%	37.0%	37.6%	17.5%	26.6%	22.0%
Diluted GAAP EPS	NM	74.3%	81.8%	NM	10.4%	79.7%	26.3%	-0.6%	-43.1%	18.5%	-7.7%	22.4%	30.1%	37.8%	19.5%	27.0%	23.0%
Diluted Non-GAAP EPS	NM	56.0%	8.0%	81.6%	-0.8%	30.6%	34.5%	29.2%	-29.1%	24.8%	6.4%	5.4%	35.8%	36.2%	16.0%	25.5%	20.4%

Sources: Sidoti & Company, LLC estimates; Company reports

COMPUTER TASK GROUP, INCORPORATED

Table 2: Computer Task Group, Inc. Statement of Cash Flow (\$ in 000s)

	2019	Mar	Jun	Sep	2020	MarA	JunA	SepA	2021E	2022E	2023E
Cash Flows From Operating Activities											
Net Income	\$ 4,125	\$ 1,144	\$ 1,759	\$ 2,831	\$ 7,639	\$ 1,508	\$ 1,833	\$ 1,672	\$ 7,317	\$ 9,375	\$ 11,684
Depreciation and Amortization	3,268	816	825	935	3,309	854	831	766	3,301	3,280	3,270
Equity-Based Compensation Expense	1,748	512	637	656	2,483	590	682	702	2,674	2,800	2,800
Deferred Income Taxes	(294)	(102)	6	(17)	(370)	(95)	(104)	(70)	(300)	(300)	(300)
Deferred Compensation	(427)	48	106	245	(108)	135	(1)	(176)	(200)	(200)	(200)
Gain on Sale of P&E			(826)	(3)	(799)		62	(49)	13		
Non-Taxable Life Insurance Gain			(389)	(574)	(987)						
Gross Cash Flow	8,420	2,418	2,118	4,073	12,022	2,992	3,303	2,845	12,805	14,955	17,254
Operating Sources (Uses):											
Accounts Receivable	(3,627)	18,187	(7,309)	5,733	16,961	994	(7,253)	(544)	(12,378)	5,670	(3,025)
Prepaid and Other Current Assets	952	(960)	658	(255)	(65)	(600)	164	(411)	(1,043)	(250)	(250)
Other Long-Term Assets	84	(248)	(172)	37	(596)	(173)	(156)	(119)	(1,326)	(250)	(250)
Cash Surrender Value of Life Insurance	961	202	75	502	749	172	(39)	(3)	750	750	750
Accounts Payable	3,864	(2,530)	(337)	(1,034)	(577)	(4,139)	973	(3,348)	3,816	(1,700)	1,100
Accrued Compensation	2,203	1,009	(52)	(946)	(3,081)	2,267	(338)	5,897	4,022	(1,955)	1,265
Income Taxes Payable/Receivable	(186)	740	682	(2,093)	(1,304)	40	98	7	0	0	0
Deferred Payroll Taxes				4,321	6,658				(3,329)	(3,329)	0
Advance Billings on Contracts	(2,830)	377	1,456	(994)	1,267	1,140	132	(1,219)	1,148	0	0
Other Current Liabilities	(1,061)	(70)	931	(970)	(818)	(430)	809	(819)	(535)	500	500
Other Long-Term Liabilities	(250)	54	2,410	(2,554)	(478)	(8)	1	(2)	(137)	0	0
Total Changes in Working Capital	110	16,761	(1,658)	1,747	18,716	(737)	(5,609)	(561)	(9,012)	(564)	90
Operating Cash Flow	8,530	19,179	460	5,820	30,738	2,255	(2,306)	2,284	3,793	14,391	17,344
CAPEX	(1,773)	(392)	(191)	(446)	(1,780)	(891)	(298)	(258)	(2,000)	(2,000)	(2,000)
Free Cash Flow	6,757	18,787	269	5,374	28,958	1,364	(2,604)	2,026	1,793	12,391	15,344
Free Cash Flow (ex Stock-Based Comp)	5,009	18,275	(368)	4,718	26,475	774	(3,286)	1,324	(881)	9,591	12,544
Cash Flows From Investing Activities											
Cash Paid for Acquisitions, net of cash acquired	(8,461)	(3,995)	0	(329)	(4,324)						
Additions to Capitalized Software	(669)	(291)	(302)	(239)	(1,105)						
Proceeds from Sale of P&E			2,442	0	2,442						
Premiums Paid for Life Insurance	(618)		(144)	(472)	(616)		(429)	(102)	(531)	(500)	(500)
Deferred Comp Plan Investments, net	0	25	375	0	400						
Cash Flows From Financing Activities											
Proceeds from Long-Term Debt	170,920	40,845	0	0	40,845				0	0	0
Payments on Long-Term Debt	(169,270)	(34,135)	0	(6,000)	(46,135)				0	0	0
Deferred Debt Financing Costs							(1,342)	68	(1,274)		
Proceeds From Stock Option Plan Exercises	91					223	143	0	366		
Taxes Remitted for Shares Withheld	(172)	(81)	(79)	0	(168)	(96)	(293)	0	(400)	(175)	(175)
Proceeds from Employee Stock Purchase Plan	147	28	35	39	143	36	48	38	150	150	150
Change in Cash Overdraft, net	78	(370)	0	0	(370)						
Purchase of Treasury Stock	0				0				0	0	0
Total Cash Flows From Investing and Financing	(7,954)	2,026	2,327	(7,001)	(8,888)	163	(1,873)	4	(1,689)	(525)	(525)
Beginning Cash and Equivalents	12,431	10,781	31,481	34,319	10,781	32,865	33,524	29,209	32,865	32,052	43,918
Effects of Exchange Rates	(453)	(113)	242	720	2,014	(868)	162	(211)	(917)	0	0
Change in Cash	(1,650)	20,700	2,838	(907)	22,084	659	(4,315)	1,819	(813)	11,866	14,819
Ending Cash and Equivalents	10,781	31,481	34,319	33,412	32,865	33,524	29,209	31,028	32,052	43,918	58,737
Per Share Data (Diluted Shares):											
Gross Cash Flow	0.60	0.17	0.15	0.28	0.83	0.20	0.22	0.19	0.86	0.99	1.13
Operating Cash Flow	0.61	1.34	0.03	0.40	2.13	0.15	(0.15)	0.15	0.25	0.95	1.13
Free Cash Flow	0.48	1.31	0.02	0.37	2.01	0.09	(0.17)	0.14	0.12	0.82	1.00
Free Cash Flow (ex Stock-Based Comp)	0.36	1.28	(0.03)	0.33	1.84	0.05	(0.22)	0.09	(0.06)	0.64	0.82
Cash and Equivalents	0.77	2.20	2.40	2.32	2.28	2.24	1.95	2.08	2.14	2.91	3.84

Sources: Sidoti & Company, LLC estimates; Company reports

COMPUTER TASK GROUP, INCORPORATED

Table 3: Computer Task Group, Inc. Balance Sheet (\$ in 000s)

	2019	Mar	Jun	Sep	2020	MarA	JunA	SepA	2021E	2022E	2023E
Assets											
Current Assets:											
Cash and Equivalents	\$ 10,781	\$ 31,481	\$ 34,319	\$ 33,412	\$ 32,865	\$ 33,524	\$ 29,209	\$ 31,028	\$ 32,052	\$ 43,918	\$ 58,737
Accounts Receivable, net	88,772	71,162	79,133	74,907	76,892	74,468	81,777	81,588	89,270	83,600	86,625
Prepaid and Other Current Assets	2,064	4,770	2,358	2,684	2,207	2,780	2,948	3,325	3,250	3,500	3,750
Income Taxes Receivable	231			580	1,174	1,134	1,000	1,047	1,000	1,000	1,000
Total Current Assets	101,848	107,413	115,810	111,583	113,138	111,906	114,934	116,988	125,572	132,018	150,112
Property, Equip. and Capitalized Software, net	6,379	5,040	5,246	5,573	5,515	5,799	5,508	5,253	3,814	2,535	1,265
Operating Lease Right-of-Use Assets	21,253	20,372	20,278	20,616	22,116	23,884	23,175	23,131	23,000	22,500	22,500
Deferred Income Taxes	453	418	330	258	393	392	409	415	400	400	400
Acquired Intangibles, net	8,439	7,982	7,741	9,001	9,097	8,391	8,165	7,713	7,413	6,333	5,263
Goodwill	16,681	19,705	19,969	20,200	21,275	20,415	20,548	20,101	20,101	20,101	20,101
Cash Surrender Value of Life Insurance, net	3,133	2,931	2,989	3,533	3,587	3,415	3,883	3,988	4,000	4,000	4,000
Investments	192	167	187	193	208	213	221	47	200	200	200
Other Assets	328	576	748	711	924	1,088	2,312	2,351	2,250	2,500	2,750
Total Assets	\$ 158,706	\$ 164,604	\$ 173,298	\$ 171,668	\$ 176,253	\$ 175,503	\$ 179,155	\$ 179,987	\$ 186,750	\$ 190,587	\$ 206,591
Liabilities											
Current Liabilities:											
Accounts Payable	\$ 18,612	\$ 15,757	\$ 15,580	\$ 15,045	\$ 18,784	\$ 14,307	\$ 15,333	\$ 11,869	\$ 22,600	\$ 20,900	\$ 22,000
Accrued Compensation	23,538	24,681	24,754	24,279	21,968	23,488	23,228	28,678	25,990	24,035	25,300
Advance Billings on Contracts	1,704	2,063	3,555	2,589	3,102	4,152	4,293	3,016	4,250	4,250	4,250
Short-Term Operating Lease Liabilities	5,904	5,773	5,289	6,030	6,427	6,433	6,460	6,637	6,500	6,500	6,500
Short-Term Deferred Payroll Taxes					3,329	3,329	3,329	3,329	3,329	-	-
Income Taxes Payable		467	1,210		-						
Other Current Liabilities	7,096	7,317	8,450	7,696	7,535	6,920	7,766	6,820	7,000	7,500	8,000
Total Current Liabilities	56,854	56,058	58,838	55,639	61,145	58,629	60,409	60,349	69,669	63,185	66,050
Long-Term Debt	5,290	12,000	12,000	6,000	-	-	-	-	-	-	-
Deferred Compensation Benefits	12,346	12,258	12,435	12,773	14,420	14,052	13,986	13,520	16,950	14,891	15,675
Long-Term Operating Lease Liabilities	15,349	14,540	14,929	14,527	15,564	17,328	16,613	16,408	16,500	16,000	16,000
Deferred Payroll Taxes				4,321	3,329	3,329	3,329	3,329	-	-	-
Deferred Income Taxes	2,101	1,964	1,906	2,203	2,174	1,986	1,915	1,819	2,000	2,000	2,000
Other Long-Term Liabilities	530	584	2,994	501	113	105	106	104	150	150	150
Total Liabilities	92,470	97,404	103,102	95,964	96,745	95,429	96,358	95,529	105,269	96,226	99,875
Shareholders' Equity											
Common Stock	270	270	270	270	270	270	270	270	270	270	270
Capital in Excess of Par Value	112,096	109,112	108,207	108,867	109,407	108,385	109,133	109,714	104,939	103,848	101,145
Retained Earnings	86,673	87,817	89,576	92,407	94,312	95,820	97,653	99,325	101,629	111,004	122,688
Treasury Stock	(114,261)	(110,818)	(109,320)	(109,285)	(109,114)	(107,339)	(107,507)	(107,348)	(107,505)	(103,754)	(101,225)
Accumulated Other Comprehensive Loss	(18,542)	(19,181)	(18,537)	(16,555)	(15,367)	(17,062)	(16,752)	(17,503)	(17,852)	(17,007)	(16,162)
Total Shareholders' Equity	66,236	67,200	70,196	75,704	79,508	80,074	82,797	84,458	81,481	94,361	106,716
Liabilities and Shareholders' Equity	\$ 158,706	\$ 164,604	\$ 173,298	\$ 171,668	\$ 176,253	\$ 175,503	\$ 179,155	\$ 179,987	\$ 186,750	\$ 190,587	\$ 206,591
Selected Data:											
Working Capital	44,994	51,355	56,972	55,944	51,993	53,277	54,525	56,639	55,903	68,833	84,062
Current Ratio (times)	1.79	1.92	1.97	2.01	1.85	1.91	1.90	1.94	1.80	2.09	2.27
Total Debt-to-Capital Ratio	29%	32%	31%	26%	22%	23%	22%	21%	22%	19%	17%
Net Cash (Debt) per share	0.39	1.36	1.56	1.90	2.28	2.24	1.95	2.08	2.14	2.91	3.84
ROA (average, ttm)	2.9%	2.9%	3.3%	4.6%	4.6%	4.7%	4.6%	3.9%	4.0%	5.0%	5.9%
ROE (average, ttm)	6.3%	7.1%	8.0%	10.4%	10.5%	10.9%	10.6%	8.6%	9.1%	10.7%	11.6%
BV per share	4.50	4.46	4.62	4.99	5.24	5.21	5.40	5.50	5.20	5.97	6.67
Tangible Book Value per share	3.37	3.15	3.31	3.66	3.84	3.88	4.06	4.19	3.92	4.70	5.41
DSO	85	71	81	77	74	71	81	82	80	73	73

Sources: Sidoti & Company, LLC estimates; Company reports

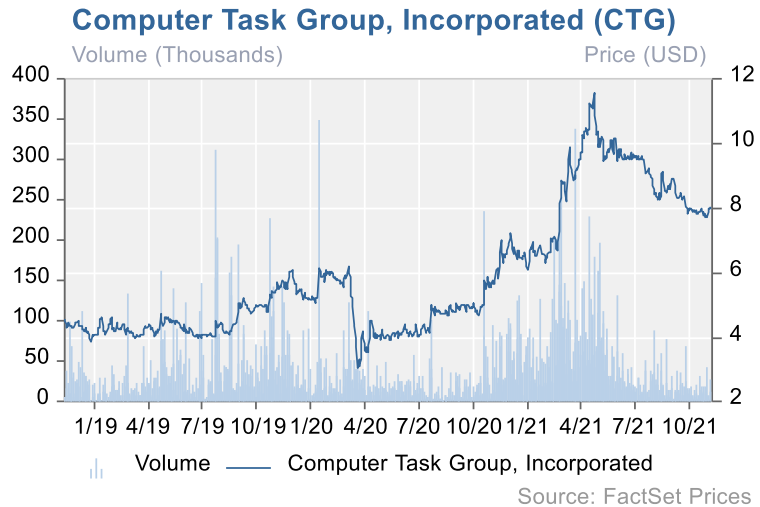
Appendix
Required Disclosures

Required Disclosures

Computer Task Group, Incorporated (CTG-\$8.20) NR Price Target: \$14 Risk Rating: M

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
Initiation	10/12/20	4.7	NR	8	M
PT	11/24/20	6.6		9	
PT	2/16/21	7.1		9	
PT	2/23/21	7.4		10	
PT	3/26/21	9.3		13	
PT	4/16/21	10.8		13	
PT	4/30/21	10.4		14	
PT	5/24/21	10.1		14	
PT	7/26/21	9.2		14	
PT	7/29/21	9.1		14	
PT	10/5/21	8		14	



Valuation	We maintain a \$14 price target on CTG following the upbeat 3Q:21 earnings report. We are confident that CTG's strategic growth and profitability initiatives, which hinge largely on expanding the higher-margin, resilient IT Solutions business, will be fruitful, supporting our upbeat revenue and EPS outlooks through 2023. Also, we think that investors are not fully crediting CTG's inherently resilient business model, success in growing the IT Solutions business (which has accelerating margin and profitability prospects) and the company's strong financial profile and net cash position. Accordingly, we contend that the shares should trade in line with our five-year EPS CAGR projection of 20%. Thus, if we apply a 20x multiple to our 2022 EPS estimate of \$0.69, we derive a \$14 price target. We find a Moderately Risky rating appropriate for CTG stock, given the company's sustained profitability, free cash generation, and robust financial profile.		
Key Risks	Severe or prolonged economic downturn	Client concentration	Execution on Solutions-centric strategy

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