Exponent Inc (EXPO)

Updated November 1st, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$115	**5 Year CAGR Estimate:**	0.2%	**Market Cap:**	$6.0 B
Fair Value Price:	$72	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	12/02/2021
% Fair Value:	159%	**5 Year Valuation Multiple Estimate:**	-8.9%	**Dividend Payment Date[2]:**	12/17/2021
Dividend Yield:	0.7%	**5 Year Price Target**	$111	**Years of Dividend Growth:**	8
Dividend Risk Score:	D	**Retirement Suitability Score:**	**F**	**Last Dividend Increase:**	5.3%

Overview & Current Events

Exponent Inc. is a science and engineering consulting company that provides complex solutions on a project-by-project basis. The organization consists of scientists, physicians, engineers, and regulatory consultants which bring together more than 90 technical disciplines which address the complicated issues facing industry and government. Exponent trades on the NASDAQ under the ticker symbol EXPO. The company was founded in Silicon Valley and today is headquartered in Menlo Park, California. The corporation has offices in the United States, Europe, and Asia. EXPO operates in two segments, the first of which is engineering and other sciences, which provides servicing for biomechanics, biomedical engineering, buildings and structures, civil engineering, construction consulting, etc. Then, the environmental and health segment consists of chemical regulation and food safety, ecological and biological sciences, environmental and earth sciences, and others. EXPO has a market capitalization of $6 billion.

Exponent reported third quarter results on October 28th. The company reported net revenues increased 16% to $108.5 million as pandemic-related restrictions eased, causing new assignments and ongoing work to be resumed. Net income of $24.6 million rose 35.9% year-over-year from $18.1 million. Net income per diluted share rose 35.3% from $0.34 to $0.46. EBITDA increased to $34.0 million from $26.0 million, a 30.8% increase. Year-to-date, net income per diluted share has grown 33% from $1.14 to $1.52.

During the third quarter, Exponent's engineering and other scientific segment accounted for 83% of the company's net revenues, and the environmental and health segment accounted for the remaining 17% of net revenues. The engineering segment grew net revenues 20% year-over-year, while the environmental and health segment had roughly flat net revenues YoY.

Leadership provided a fourth quarter and fiscal 2021 business outlook. For the fourth quarter, EXPO estimates net revenues to grow in the mid-single digits and EBITDA margin to increase roughly 200 basis points. For the full fiscal year, EXPO estimates net revenues to grow in the mid-teen digits and EBITDA margin to increase roughly 300 basis points.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$0.56	$0.65	$0.69	$0.74	$0.80	$0.88	$0.77	$1.33	$1.53	$1.55	***$1.90***	***$2.92***
DPS	$0.00	$0.00	$0.15	$0.25	$0.30	$0.36	$0.42	$0.52	$0.64	$0.76	***$0.80***	***$1.23***
Shares[3]	53.2	52.8	52.3	51.5	51.4	51.2	51.5	51.5	51.8	51.8	***53.0***	***60.0***

Exponent has a stable track record of earnings growth and has grown strongly in both the trailing nine and five year periods on average. Over the last nine and five years, EXPO has grown earnings by 12.0% and 14.1% annually, on average. We estimate that EXPO can continue to compound earnings at roughly 9% per year in the near term. The company's results have remained stable, even throughout the COVID pandemic.

[1] Estimate based on last year's date
[2] Estimate based on last year's date
[3] in millions.

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Growth will primarily come from new business and new clients. Exponent's interdisciplinary proactive solutions is undergoing increasing demand in safety, health, sustainability, and reliability. Both industry and government are advancing their missions, designing novel products, navigating new regulatory challenges, innovating, and evaluating new paradigms and processes. EXPO expects to capitalize on this. Both segments are benefiting from increased activity in litigation related projects and support. In the engineering segment, demand for solutions in electric vehicles and energy storage continues to rise. In the environmental and health segment, EXPO's chemical regulation and food safety practice continue to grow. The share count has remained stable; thus, shareholders have not been heavily diluted in the last decade. Exponent has grown the quarterly dividend for seven consecutive years, and we estimate it will grow 9%.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	19.0	19.5	22.8	25.2	28.3	30.1	42.1	34.8	40.0	49.1	***60.5***	***38.0***
Avg. Yld.	---	---	1.0%	1.3%	1.3%	1.4%	1.3%	1.1%	1.0%	1.0%	***0.7%***	***1.1%***

Exponent trades at 60.5 times this year's expected net income right now. The nine and five year average PE ratios of 31.1 and 39.2 are dwarfed by the current valuation. We believe shares are highly overvalued and see fair value at 38.0 times net income. This would result in valuation losses of 8.9% annually due to valuation contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

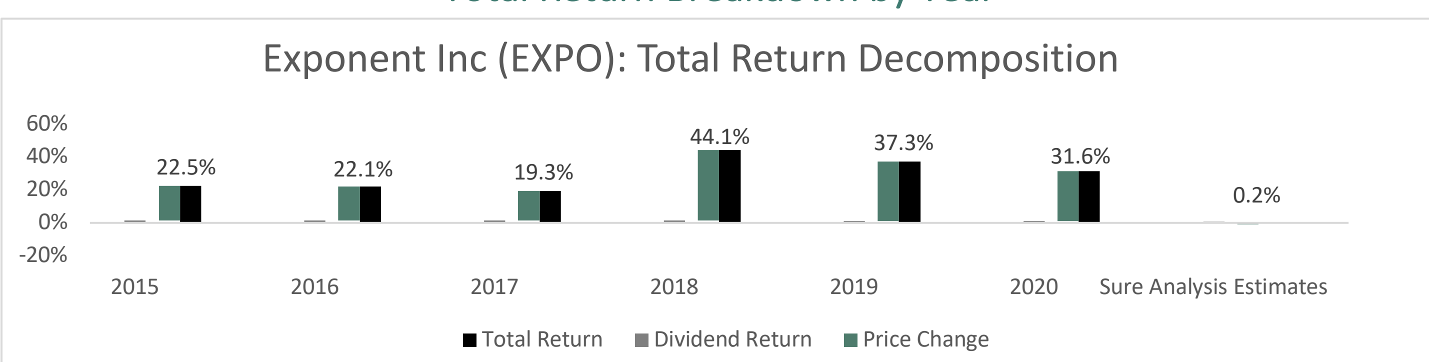
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	0%	0%	22%	34%	38%	41%	55%	39%	42%	49%	***42%***	***42%***

EXPO's payout ratio has steadily increased since the company began paying a dividend in 2013. The estimated 2021 payout ratio of 42% is fairly stable and is in-line with it's recent average payout ratio. During the great financial crisis, the company remained profitable, and, in fact, continued to grow earnings the entire time. EXPO operates in a low barrier to entry business, and competition is increasing for many of their technical disciplines. The marketplace for EXPO's services is fragmented, so they face multiple sources of competition in providing services. We don't see a strong competitive advantage in Exponent, nevertheless, the company has performed very well.

Final Thoughts & Recommendation

EXPO has grown their earnings by double-digits in its recent history, and there remains a growth runway for EXPO to execute on, but we're not expecting the same levels of growth they've seen in the past. We estimate 9% earnings growth which is almost entirely offset by an 8.9% headwind to the valuation. At current prices, we see Exponent as trading at 159% fair value with estimated total returns of 0.2%, thus we rate EXPO a Sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	272	293	296	305	313	315	348	380	417	400
SG&A Exp.	170	185	199	199	200	209	228	233	273	263
D&A Exp.	4	5	5	5	5	6	6	6	7	7
Operating Profit	53	58	56	64	69	62	72	91	85	83
Operating Margin	19.6%	19.7%	18.9%	20.9%	22.0%	19.6%	20.7%	24.1%	20.4%	20.8%
Net Profit	33	37	39	41	44	47	41	72	82	83
Net Margin	12.0%	12.7%	13.0%	13.4%	13.9%	15.1%	11.9%	19.0%	19.8%	20.6%
Free Cash Flow	43	44	56	43	55	53	63	75	85	98
Income Tax	22	25	25	27	28	22	41	21	22	14

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	269	315	344	365	388	404	440	469	563	580
Cash & Equivalents	84	113	123	129	126	115	125	127	176	198
Accounts Receivable	50	55	53	63	62	61	78	74	86	80
Goodwill & Int. Ass.	9	9	9	9	9	9	9	9	9	9
Total Liabilities	82	99	109	121	125	130	151	155	213	219
Accounts Payable	4	7	3	2	4	3	3	3	5	3
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Shareholder's Equity	187	216	235	244	263	273	289	314	350	361
D/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	12.4%	12.7%	11.7%	11.5%	11.6%	12.0%	9.8%	15.9%	16.0%	14.4%
Return on Equity	17.6%	18.5%	17.1%	17.0%	17.2%	17.7%	14.7%	24.0%	24.8%	23.2%
ROIC	17.6%	18.5%	17.1%	17.0%	17.2%	17.7%	14.7%	24.0%	24.8%	23.2%
Shares Out.	53.2	52.8	52.3	51.5	51.4	51.2	51.5	51.5	51.8	51.8
Revenue/Share	4.62	5.12	5.28	5.51	5.73	5.80	6.44	7.01	7.74	7.50
FCF/Share	0.72	0.76	0.99	0.78	1.01	0.97	1.17	1.38	1.58	1.84

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.