Exponent Inc (EXPO)

Updated May 16th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$89	**5 Year CAGR Estimate:**	3.9%	**Market Cap:**	$4.6 B
Fair Value Price:	$69	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	06/09/2022
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Dividend Payment Date[2]:**	06/24/2022
Dividend Yield:	1.1%	**5 Year Price Target**	$102	**Years of Dividend Growth:**	9
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

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 $4.6 billion.

Exponent reported first quarter 2022 results on April 28th, for the period ending April 1st, 2022. The company reported total revenues of $128.5 million, up 10.3% from the prior year quarter. Net income fell from $30.8 million to $29.6 million. Net income per diluted share of $0.56 was a 3.4% decrease from $0.58 in Q1 2021.

During the first quarter, Exponent repurchased $48.6 million of common stock.

Leadership provided a second quarter of fiscal 2022 business outlook. For the second quarter, EXPO estimates net revenues to grow in the mid-single digits and EBITDA margin to decrease roughly 288 basis points. For the full fiscal year, EXPO estimates net revenues to grow in the mid- to high-single digits and EBITDA margin to decrease roughly 225 basis points.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.65	$0.69	$0.74	$0.80	$0.88	$0.77	$1.33	$1.53	$1.55	$1.90	***$1.82***	***$2.67***
DPS	$0.00	$0.15	$0.25	$0.30	$0.36	$0.42	$0.52	$0.64	$0.76	$0.76	***$0.96***	***$1.41***
Shares[3]	52.8	52.3	51.5	51.4	51.2	51.5	51.5	51.8	51.8	51.8	***53.0***	***53.0***

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 12.7% and 16.6% annually, on average. We estimate that EXPO can continue to compound earnings at roughly 8% per year in the near term. The company's results have remained stable, even throughout the COVID pandemic.

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

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

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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 nine consecutive years, and we estimate it will grow 8%.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	19.5	22.8	25.2	28.3	30.1	42.1	34.8	40.0	49.1	54.4	**48.9**	***38.0***
Avg. Yld.	-	1.0%	1.3%	1.3%	1.4%	1.3%	1.1%	1.0%	1.0%	0.8%	**1.1%**	***1.4%***

Exponent trades at 48.9 times this year's expected net income right now. Shares trade above their nine and five year average PE ratios of 34.6 and 44.1 times earnings. We believe shares are overvalued and see fair value at 38.0 times net income. This would result in valuation losses of 4.9% annually due to valuation contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

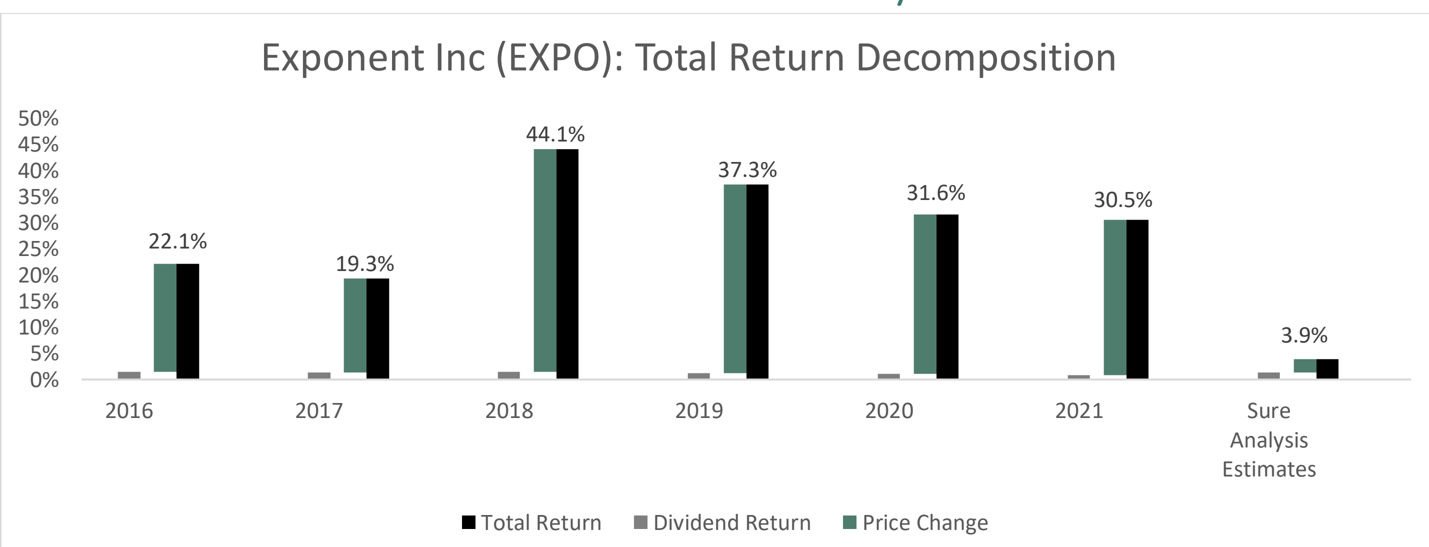
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	0%	22%	34%	38%	41%	55%	39%	42%	49%	40%	***53%***	***55%***

EXPO's payout ratio has steadily increased since the company began paying a dividend in 2013. The estimated 2022 payout ratio of 53% is fairly stable and is in-line with its 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 8% earnings growth which is offset by a 4.9% headwind to the valuation. At current prices, we see Exponent as trading at 129% fair value with estimated total returns of 3.9%, thus EXPO earns a Hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	293	296	305	313	315	348	380	417	400	466
SG&A Exp.	185	199	199	200	209	228	233	273	263	293
D&A Exp.	5	5	5	5	6	6	6	7	7	
Operating Profit	58	56	64	69	62	72	91	85	83	109
Operating Margin	19.7%	18.9%	20.9%	22.0%	19.6%	20.7%	24.1%	20.4%	20.8%	23.4%
Net Profit	37	39	41	44	47	41	72	82	83	101
Net Margin	12.7%	13.0%	13.4%	13.9%	15.1%	11.9%	19.0%	19.8%	20.6%	21.7%
Free Cash Flow	44	56	43	55	53	63	75	85	98	
Income Tax	25	25	27	28	22	41	21	22	14	25

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	315	344	365	388	404	440	469	563	580	684
Cash & Equivalents	113	123	129	126	115	125	127	176	198	298
Accounts Receivable	55	53	63	62	61	78	74	86	80	140
Goodwill & Int. Ass.	9	9	9	9	9	9	9	9	9	9
Total Liabilities	99	109	121	125	130	151	155	213	219	267
Accounts Payable	7	3	2	4	3	3	3	5	3	25
Long-Term Debt	0	0	0	0	0	0	0	0	0	0
Shareholder's Equity	216	235	244	263	273	289	314	350	361	417
D/E Ratio	0	0	0	0	0	0	0	0	0	0

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	12.7%	11.7%	11.5%	11.6%	12.0%	9.8%	15.9%	16.0%	14.4%	16.0%
Return on Equity	18.5%	17.1%	17.0%	17.2%	17.7%	14.7%	24.0%	24.8%	23.2%	26.0%
ROIC	18.5%	17.1%	17.0%	17.2%	17.7%	14.7%	24.0%	24.8%	23.2%	26.0%
Shares Out.	52.8	52.3	51.5	51.4	51.2	51.5	51.5	51.8	51.8	51.8
Revenue/Share	5.12	5.28	5.51	5.73	5.80	6.44	7.01	7.74	7.50	8.74
FCF/Share	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.