Exponent Inc (EXPO)

Updated July 28th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$93	**5 Year CAGR Estimate:**	5.7%	**Market Cap:**	$4.8 B
Fair Value Price:	$79	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	09/07/2023
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Dividend Payment Date[2]:**	09/22/2023
Dividend Yield:	1.1%	**5 Year Price Target**	$116	**Years of Dividend Growth:**	10
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 $4.8 billion.

On February 2nd, 2023, Exponent announced a $0.26 quarterly dividend, a 2 cent increase, and the tenth consecutive annual dividend increase.

Exponent reported second quarter 2023 results on July 27th, 2023, for the period ending June 30th, 2023. The company reported total revenues of $140.2 million, up 7.6% from the prior year quarter. Net income decreased slightly to $25.7 million from $25.8 million in the prior year quarter. Net income per diluted share of $0.50 was up by a penny compared to Q1 2022.

Leadership reaffirmed its fiscal 2023 business outlook. For the third quarter and the full year 2023, EXPO estimates net revenues to grow in the high-single to low-double digits.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.69	$0.74	$0.80	$0.88	$0.77	$1.33	$1.53	$1.55	$1.90	$1.96	***$2.08***	***$3.06***
DPS	$0.15	$0.25	$0.30	$0.36	$0.42	$0.52	$0.64	$0.76	$0.80	$0.96	***$1.04***	***$1.53***
Shares[3]	52.3	51.5	51.4	51.2	51.5	51.5	51.8	51.8	52.1	52.3	***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 12.3% and 20.5% 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.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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 ten consecutive years, and we estimate it will grow 8% annually from here on out.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	22.8	25.2	28.3	30.1	42.1	34.8	40.0	49.1	54.4	48.8	***44.7***	***38.0***
Avg. Yld.	1.0%	1.3%	1.3%	1.4%	1.3%	1.1%	1.0%	1.0%	0.8%	0.9%	***1.1%***	***1.3%***

Exponent trades at 44.7 times this year's expected net income right now. Shares trade between their nine and five year average PE ratios of 37.6 and 45.4 times earnings. We believe shares are overvalued and see fair value at 38.0 times net income. This would result in losses of 3.2% annually due to multiple contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

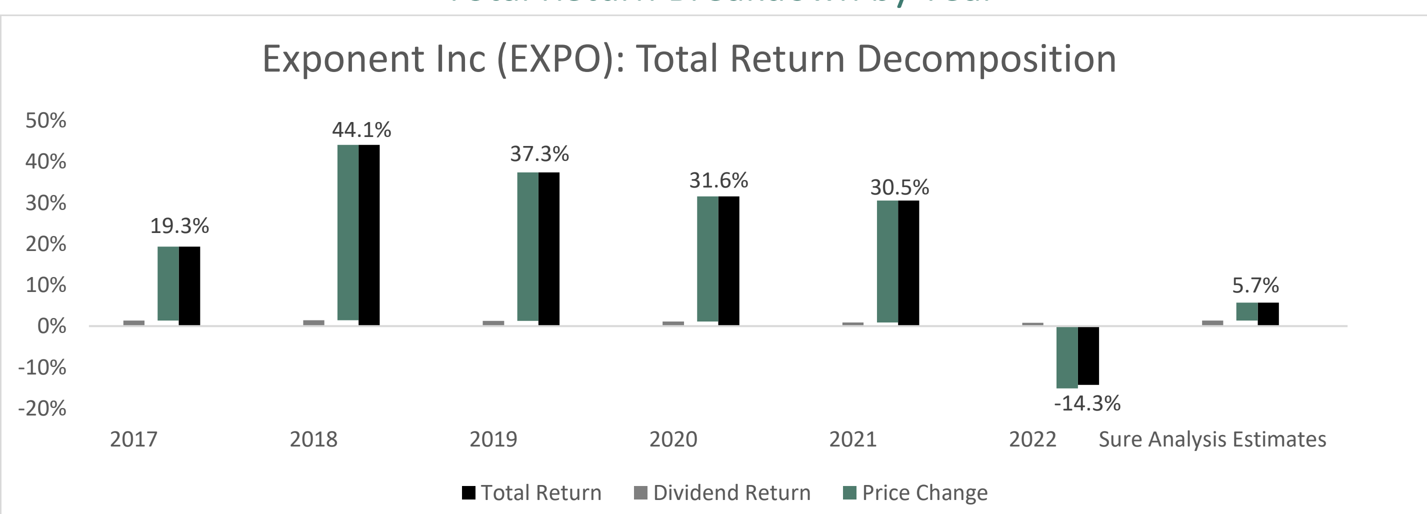
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	22%	34%	38%	41%	55%	39%	42%	49%	42%	49%	***50%***	***50%***

EXPO's payout ratio has steadily increased since the company began paying a dividend in 2013. The estimated 2023 payout ratio of 50% is 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 increased 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-per-share growth which is offset by a 3.2% headwind to the valuation. At current prices, we see Exponent as trading at an 18% premium to fair value with estimated total returns of 5.7%. Shares of Exponent earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	296	305	313	315	348	380	417	400	466	513
SG&A Exp.	199	199	200	209	228	233	273	263	293	288
D&A Exp.	5	5	5	6	6	6	7	7	---	
Operating Profit	56	64	69	62	72	91	85	83	109	141
Operating Margin	18.9%	20.9%	22.0%	19.6%	20.7%	24.1%	20.4%	20.8%	23.4%	27%
Net Profit	39	41	44	47	41	72	82	83	101	102
Net Margin	13.0%	13.4%	13.9%	15.1%	11.9%	19.0%	19.8%	20.6%	21.7%	19.9%
Free Cash Flow	56	43	55	53	63	75	85	98		
Income Tax	25	27	28	22	41	21	22	14	25	30

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	344	365	388	404	440	469	563	580	684	587
Cash & Equivalents	123	129	126	115	125	127	176	198	298	161
Accounts Receivable	53	63	62	61	78	74	86	80	140	170
Goodwill & Int. Ass.	9	9	9	9	9	9	9	9	9	9
Total Liabilities	109	121	125	130	151	155	213	219	267	266
Accounts Payable	3	2	4	3	3	3	5	3	25	29
Long-Term Debt	0	0	0	0	0	0	0	0	0	0
Shareholder's Equity	235	244	263	273	289	314	350	361	417	321
D/E Ratio	0	0	0	0	0	0	0	0	0	0

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	11.7%	11.5%	11.6%	12.0%	9.8%	15.9%	16.0%	14.4%	16.0%	16.1%
Return on Equity	17.1%	17.0%	17.2%	17.7%	14.7%	24.0%	24.8%	23.2%	26.0%	27.7%
ROIC	17.1%	17.0%	17.2%	17.7%	14.7%	24.0%	24.8%	23.2%	26.0%	27.7%
Shares Out.	52.3	51.5	51.4	51.2	51.5	51.5	51.8	51.8	51.8	52.3
Revenue/Share	5.28	5.51	5.73	5.80	6.44	7.01	7.74	7.50	8.74	9.82
FCF/Share	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.