Exponent Inc (EXPO)

Updated February 2nd, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$78	**5 Year CAGR Estimate:**	6.1%	**Market Cap:**	$4.6 B
Fair Value Price:	$67	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	03/09/2024
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Dividend Payment Date[2]:**	03/22/2024
Dividend Yield:	1.4%	**5 Year Price Target**	$98	**Years of Dividend Growth:**	11
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.

On February 1st, 2023, Exponent announced a $0.28 quarterly dividend, a two cent increase, and the eleventh consecutive annual dividend increase.

Exponent reported fourth quarter 2023 results on February 1st, 2024, for the period ending December 31st, 2023. The company reported total revenues of $122.9 million, down 3.5% from the prior year quarter. Net income decreased slightly to $20.9 million from $22.5 million in the prior year quarter. Net income per diluted share of $0.41 declined three cents compared to Q3 2022.

Leadership initiated its 2024 business outlook. For the full year, EXPO expects net revenues to be flat to down by low-single digits.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.74	$0.80	$0.88	$0.77	$1.33	$1.53	$1.55	$1.90	$1.96	$1.94	***$1.75***	***$2.57***
DPS	$0.25	$0.30	$0.36	$0.42	$0.52	$0.64	$0.76	$0.80	$0.96	$1.04	***$1.12***	***$1.65***
Shares[3]	51.5	51.4	51.2	51.5	51.5	51.8	51.8	52.1	52.3	51.6	***51.5***	***52.0***

Exponent has a stable track record of earnings growth and has grown at a strong rate in the trailing nine-year period. Over the last nine and five years, EXPO has grown earnings by 11.3% and 7.8% annually, on average. We estimate that EXPO can continue to increase its earnings-per-share by 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 over the long term, current headwinds notwithstanding. 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 eleven consecutive years, and we estimate it will grow 8% annually from here on out.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	25.2	28.3	30.1	42.1	34.8	40.0	49.1	54.4	48.8	46.8	***44.5***	***38.0***
Avg. Yld.	1.3%	1.3%	1.4%	1.3%	1.1%	1.0%	1.0%	0.8%	0.9%	1.1%	***1.4%***	***1.7%***

Exponent trades at 44.5 times this year's expected net income right now. Shares trade within their nine and five year average PE ratios of 40.0 and 47.8 times earnings. We see fair value at 38.0 times net income, which would result in a 3.1% annual decline due to multiple contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

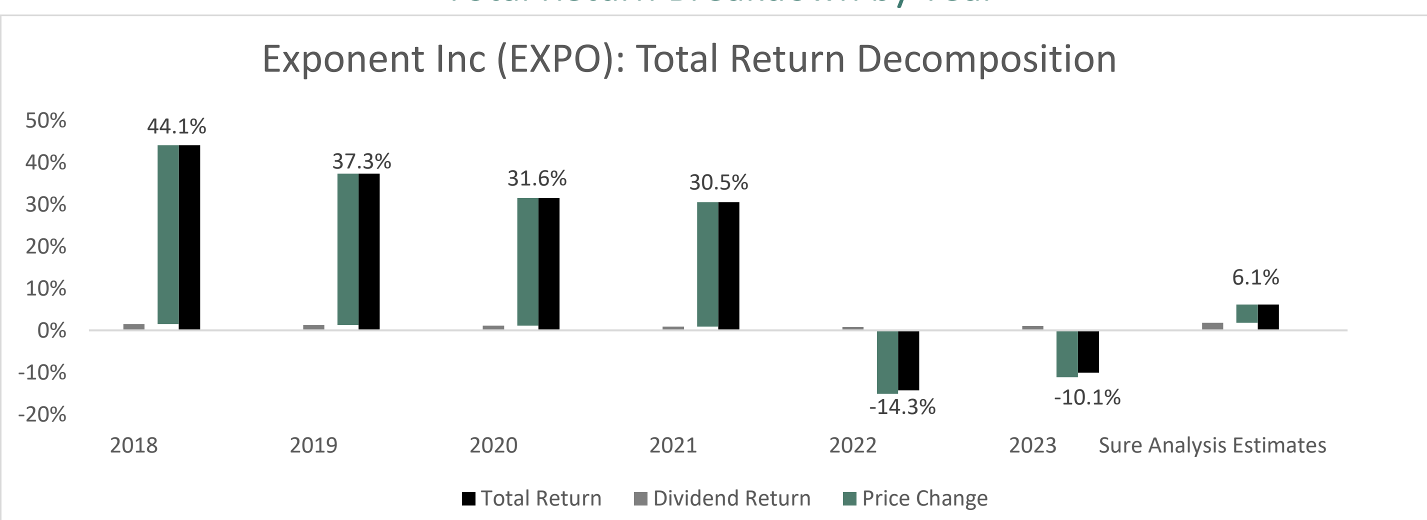
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	34%	38%	41%	55%	39%	42%	49%	42%	49%	54%	***64%***	***64%***

EXPO's payout ratio has steadily increased since the company began paying a dividend in 2013. The estimated 2023 payout ratio of 64% is stable, but above 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 its earnings-per-share by double digits in the last decade, and there remains a growth runway for EXPO to execute on, but we're not expecting the same levels of growth its seen in the past. We estimate 8% earnings-per-share growth. At current prices, we see Exponent as trading at a 17% premium to fair value with estimated total returns of 6.1%. Shares of Exponent earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	305	313	315	348	380	417	400	466	513	537
SG&A Exp.	199	200	209	228	233	273	263	293	288	344
D&A Exp.	5	5	6	6	6	7	7	---		
Operating Profit	64	69	62	72	91	85	83	109	141	111
Operating Margin	20.9%	22.0%	19.6%	20.7%	24.1%	20.4%	20.8%	23.4%	27%	20.7%
Net Profit	41	44	47	41	72	82	83	101	102	100
Net Margin	13.4%	13.9%	15.1%	11.9%	19.0%	19.8%	20.6%	21.7%	19.9%	18.6%
Free Cash Flow	43	55	53	63	75	85	98			
Income Tax	27	28	22	41	21	22	14	25	30	36

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	365	388	404	440	469	563	580	684	587	647
Cash & Equivalents	129	126	115	125	127	176	198	298	161	187
Accounts Receivable	63	62	61	78	74	86	80	140	170	167
Goodwill & Int. Ass.	9	9	9	9	9	9	9	9	9	9
Total Liabilities	121	125	130	151	155	213	219	267	266	291
Accounts Payable	2	4	3	3	3	5	3	25	29	22
Long-Term Debt	0	0	0	0	0	0	0	0	0	
Shareholder's Equity	244	263	273	289	314	350	361	417	321	356
D/E Ratio	0	0	0	0	0	0	0	0	0	

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	11.5%	11.6%	12.0%	9.8%	15.9%	16.0%	14.4%	16.0%	16.1%	16.3%
Return on Equity	17.0%	17.2%	17.7%	14.7%	24.0%	24.8%	23.2%	26.0%	27.7%	29.7%
ROIC	17.0%	17.2%	17.7%	14.7%	24.0%	24.8%	23.2%	26.0%	27.7%	29.7%
Shares Out.	51.5	51.4	51.2	51.5	51.5	51.8	51.8	51.8	52.3	51.6
Revenue/Share	5.51	5.73	5.80	6.44	7.01	7.74	7.50	8.74	9.82	10.40
FCF/Share	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.