

Mossberg's Investor Digest

Best Idea Profile

FTI Consulting (NYSE:FCN)

DESCRIPTION:

FTI Consulting, Inc. is a business advisory company that operates globally with 3,400 employees in approximately 22 countries. Its five operating segments include corporate finance and restructuring, forensic and litigation consulting, strategic communications, technology, and economic consulting. It has become recognized as a leading advisor for protecting and enhancing companies' value and thus, its clients include 95 of the top 100 law firms, nine of the ten largest bank holding companies, and a number of blue chip corporations. It has a significant presence in the real estate and construction fields, as well as automotive, telecommunications, healthcare, energy, utilities, chemicals, insurance, pharmaceuticals, retail, information technology and communications, and media and entertainment industries. The company has been strategically acquisitive over the past several years, and made key additions in all five of its divisions in 2008.

KEY INVESTMENT CONSIDERATIONS:

Strong Financial Performance: FCN has produced steady revenue, EBITDA, and operating cash flow growth over the past several years. Revenues have expanded from \$708 million in 2006, to \$1.3 billion in 2008. At the same time, EBITDA and operating cash flow have increased from \$154 million and \$64 million to \$282 million and \$200 million, respectively. 2008 saw FCN's revenues grow by 29.2%. Organic growth was 17.4% for the period.

(NYSE: FCN)

Investment Data (as of 10/30/09)

Recent Price	\$40.81
52-Week Range	36.14 - 80.00
Fiscal Year End	December
Shares Outstanding	52 MM
Average Trading Volume (3 mos)	860,000
Market Capitalization	2.1 B
Cash	\$213 MM
Long Term Debt	\$568 MM
Enterprise Value (EV)	2.5 B
LT Debt/ Equity	0.44
BV/ Share	24.72
TTM Revenue	1.4 B
P/ Revenue	1.5x
TTM EPS	2.40
P/ EPS	17.0x
TTM EBITDA	297 MM
EV/ EBITDA	8.3x

Growth is Driven by Secular and Cyclical Demand – FCN's revenue is driven by events and circumstances in **both** expanding and contracting economies. Growth has been driven by the globalization of markets (which has created the need to constantly monitor and assess the risks associated with operating outside familiar boundaries) and more recently, strong cyclical demand drivers. FCN's bankruptcy and restructuring consulting services are utilized heavily during recessionary cycles (for example, FCN's Corporate Finance and Restructuring division experienced 2Q09 revenue growth of 39.4%), and its capital markets activities in such areas as M&A and raising capital are called upon more often in expanding economic environments.

Disciplined Acquisition Strategy - FCN has historically utilized acquisitions to expand geographically, to add industry expertise, and broaden its internal capabilities. It has been disciplined in its approach, typically dividing the purchase price between cash (60% to 70%), restricted stock (20% to 30%), and an earn-out (10% to 20%). The company made 16 acquisitions (across all operating segments) in 2008, spending \$369 million, of which approximately \$315 million was in cash and \$54 million in restricted stock. Earn-outs associated with these transactions are evaluated over a three to five year time period and are generally capped at a maximum amount.

Outlook Remains Strong for Restructuring - It appears that a record number of bankruptcy filings will be filed in 2009, up from 2008's significant activity. Global default rates are expected to reach approximately 14% versus historical averages of 6% by year end which should further drive FCN's franchise in this sector. Additionally, FCN's Litigation and Regulation practices should also benefit from the effects of the economic cycle and pro-active administration.

VALUATION:

At 17X earnings, FCN's shares trade at a significant discount to its competitors. Its peers are trading at the following multiples: CRAI (34X earnings and 1.2 PEG), NCI (25X earnings and 1.5 PEG), and XPRT (negative earnings). Additionally, the company's gross margin of 46% exceeds its peers' average of 31%, while its operating margin of 18.1% far exceeds CRAI's 8.9%, NCI's 9.9%, and XPRT's -8.09%. Given FCN's consistent performance and expanding global footprint, and revenue model that benefits in both upturns and down cycles, we believe the shares are attractively valued compared to the peer group.

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