



**CHARLES RIVER ASSOCIATES (CRA)  
FOURTH-QUARTER FISCAL YEAR 2017  
EARNINGS ANNOUNCEMENT  
PREPARED CFO REMARKS**

CRA is providing these prepared remarks by CFO Chad Holmes in combination with its press release. These remarks are offered to provide the investment community with additional information on CRA's financial results prior to the start of the conference call. As previously announced, the conference call will be held February 15, 2018 at 10:00 a.m. ET. These prepared remarks will not be read on the call.

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**Q4 Fiscal 2017 Summary (Quarter ended December 30, 2017)**

- Revenue and non-GAAP revenue: \$97.0 million
- Net loss: \$2.3 million, or 2.3% of revenue; non-GAAP net income: \$5.9 million, or 6.1% of revenue
- Loss per diluted share: \$0.28; non-GAAP net income per diluted share: \$0.70
- Operating margin: -0.7%; non-GAAP operating margin: 7.0%
- Effective tax rate: -151.8%; non-GAAP effective tax rate: 9.5%
- Utilization: 75%
- Cash and cash equivalents: \$54.0 million at December 30, 2017
- Non-GAAP Adjusted EBITDA: \$15.8 million, or 16.3% of non-GAAP revenue
- Consultant headcount at the end of Q4 of fiscal 2017: 631, which consists of 124 officers, 352 other senior staff and 155 junior staff

**Revenue**

For Q4 of fiscal 2017, revenue was \$97.0 million, compared with revenue of \$79.6 million for Q4 of fiscal 2016. Revenue for Q4 of fiscal 2017 and Q4 of fiscal 2016 included no contribution from GNU (formerly known as "NeuCo"; see the "Non-GAAP Financial Measures" section for more details).

For the full year fiscal 2017, revenue was \$370.1 million, compared with \$324.8 million for the full year fiscal 2016. Excluding GNU revenue from both periods, non-GAAP

revenue for the full year fiscal 2017 was \$370.1 million, compared with \$324.0 million for the full year fiscal 2016.

### Headcount

The following table outlines our consultant headcount at the end of the stated quarters:

	<b>Q4 2017</b>	<b>Q3 2017</b>	<b>Q2 2017</b>	<b>Q1 2017</b>	<b>Q4 2016</b>
Officers	124	128	123	126	119
Other Senior Staff	352	354	326	340	270
Junior Staff	155	157	151	161	151
<b>Total</b>	<b>631</b>	<b>639</b>	<b>600</b>	<b>627</b>	<b>540</b>

### Utilization

For Q4 of fiscal 2017, companywide utilization was 75%, compared with 71% for Q4 of fiscal 2016.

For both the full year fiscal 2017 and the full year fiscal 2016, companywide utilization was 74%.

### Client Reimbursables

For Q4 of fiscal 2017, on a GAAP and non-GAAP basis, client reimbursables were \$12.0 million, or approximately 12.4% of revenue, compared with \$9.0 million, or 11.3% of revenue, for Q4 of fiscal 2016.

For the full year fiscal 2017, on a GAAP and non-GAAP basis, client reimbursables represented \$41.5 million, or approximately 11.2% of revenue, compared with \$34.5 million, or 10.6% of revenue, and \$34.4 million, or 10.6% of non-GAAP revenue for the full year fiscal 2016.

### Contingent Liability

For Q4 of fiscal 2017, the estimated value of the contingent consideration obligation increased by \$1.8 million to \$5.1 million at December 30, 2017. The expense associated with the increased value of the contingent consideration obligation amounted to \$2.8 million for the fiscal year ended December 30, 2017, compared with \$0.1 million for the fiscal year ended December 31, 2016.

### SG&A Expenses

For Q4 of fiscal 2017, SG&A expenses were \$26.8 million, or 27.6% of revenue, compared with \$17.8 million, or 22.4% of revenue, for Q4 of fiscal 2016. Included in SG&A expenses for Q4 of fiscal 2017 were \$5.7 million of consideration paid in connection with the IQVIA transaction. On a non-GAAP basis, SG&A expenses were

\$21.1 million, or 21.7% of non-GAAP revenue, for Q4 of fiscal 2017, compared with \$17.9 million, or 22.5% of non-GAAP revenue, for Q4 of fiscal 2016.

For the full year fiscal 2017, SG&A expenses were \$86.5 million, or 23.4% of revenue, compared with \$70.6 million, or 21.7% of revenue, for the full year fiscal 2016. Included in SG&A expenses for the full year fiscal 2017 were \$5.7 million of consideration paid in connection with the IQVIA transaction. On a non-GAAP basis, the full year fiscal 2017 SG&A expenses were \$80.2 million, or 21.7% of non-GAAP revenue, compared with \$69.5 million, or 21.4% of non-GAAP revenue, for the full year fiscal 2016.

Commissions to non-employee experts are included in SG&A expenses. On a GAAP and non-GAAP basis, these commissions represented approximately 2.7% and 3.2% of revenue for Q4 of fiscal 2017 and Q4 of fiscal 2016, respectively. Excluding these commissions, SG&A expenses were 24.9% and 19.2% of revenue for Q4 of fiscal 2017 and Q4 of fiscal 2016, respectively. Excluding these commissions, non-GAAP SG&A expenses were 19.0% and 19.3% of non-GAAP revenue for Q4 of fiscal 2017 and Q4 of fiscal 2016, respectively.

For the full year fiscal 2017, on a GAAP and non-GAAP basis, commissions to non-employee experts represented approximately 2.7% and 2.9% of revenue for fiscal 2017 and fiscal 2016, respectively. Excluding these commissions, SG&A expenses were 20.7% of revenue for the full year fiscal 2017, compared with 18.8% of revenue for the full year fiscal 2016. For the full year fiscal 2017, excluding these commissions, non-GAAP SG&A expenses were 19.0% of non-GAAP revenue for the full year fiscal 2017, compared with 18.5% of non-GAAP revenue for the full year fiscal 2016.

### **Depreciation & Amortization**

For Q4 of fiscal 2017, on a GAAP and non-GAAP basis, depreciation and amortization expense was \$2.3 million, or 2.4% of revenue, compared with \$2.0 million, or 2.6% of revenue, for Q4 of fiscal 2016.

For the full year fiscal 2017, on a GAAP and non-GAAP basis, depreciation and amortization expense was \$8.9 million, or 2.4% of both GAAP and non-GAAP revenue, compared with \$7.9 million, or 2.4% of both GAAP and non-GAAP revenue, for the full year fiscal 2016.

### **Forgivable Loan Amortization**

For Q4 of fiscal 2017, on a GAAP and non-GAAP basis, forgivable loan amortization was \$4.8 million, or 4.9% of revenue, compared with \$5.1 million, or 6.4% of revenue, for Q4 of fiscal 2016.

For the full year fiscal 2017, on a GAAP and non-GAAP basis, forgivable loan amortization was \$19.8 million, or 5.3% of both GAAP and non-GAAP revenue,

compared with \$19.2 million, or 5.9% of both GAAP and non-GAAP revenue, for the full year fiscal 2016.

### Share-Based Compensation Expense

For Q4 of fiscal 2017, on a GAAP and non-GAAP basis, share-based compensation expense was approximately \$2.0 million, or 2.0% of revenue, compared with \$2.1 million, or 2.6% of revenue, for Q4 of fiscal 2016.

For the full year fiscal 2017, on a GAAP and non-GAAP basis, share-based compensation expense was approximately \$6.6 million, or 1.8% of both GAAP and non-GAAP revenue, compared with \$6.9 million, or 2.1% of both GAAP and non-GAAP revenue, for the full year fiscal 2016.

### Operating Income (Loss)

For Q4 of fiscal 2017, operating loss was \$0.6 million, or 0.7% of revenue, compared with operating income of \$3.6 million, or 4.5% of revenue, for Q4 of fiscal 2016. Non-GAAP operating income was \$6.8 million, or 7.0% of revenue, for Q4 of fiscal 2017, compared with \$3.6 million, or 4.6% of revenue, for Q4 of fiscal 2016.

For the full year fiscal 2017, operating income was \$15.8 million, or 4.3% of revenue, compared with \$18.9 million, or 5.8% of revenue, for the full year fiscal 2016. Non-GAAP operating income was \$24.6 million, or 6.6% of non-GAAP revenue, for the full year fiscal 2017, compared with \$19.7 million, or 6.1% of non-GAAP revenue, for the full year fiscal 2016.

### Interest and Other Expense, net

For Q4 of fiscal 2017, interest and other expense, net was \$256,000 on a GAAP and non-GAAP basis. This compares with interest and other expense, net of \$240,000 on a GAAP and non-GAAP basis for Q4 of fiscal 2016.

For the full year fiscal 2017, interest and other income, net was \$600,000 on a GAAP basis and interest and other expense, net was \$849,000 on a non-GAAP basis, compared with interest and other expense, net of \$3.0 million on a GAAP basis and interest and other expense, net of \$858,000 on a non-GAAP basis for the full year of fiscal 2016.

### Income Taxes

The following table outlines our income tax provision recorded (in \$000) and the resulting effective tax rates:

	GAAP		NON-GAAP	
	Q4		Q4	
	2017 <sup>(1)</sup>	2016	2017	2016
Tax Provision	\$1,363	\$1,299	\$620	\$1,312
Effective Tax Rate	-151.8%	38.5%	9.5%	38.5%

	<b>GAAP</b>		<b>NON-GAAP</b>	
	<b>Full year</b>		<b>Full year</b>	
	<b>2017<sup>(1)</sup></b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Tax Provision	\$7,463	\$7,656	\$7,324	\$7,360
Effective Tax Rate	49.2%	35.0%	30.9%	39.0%

<sup>(1)</sup> The 2017 tax provision reflects the initial impact of the enactment of the Tax Cuts and Jobs Act (the “Tax Act”). At December 30, 2017, the estimated remeasurement of CRA’s deferred tax assets and liabilities at the newly enacted U.S. corporate rate resulted in a \$3.5 million charge to the tax provision.

### **Net Income (Loss)**

For Q4 of fiscal 2017, net loss was \$2.3 million, or 2.3% of revenue, or \$0.28 loss per diluted share, compared with net income of \$2.1 million, or 2.6% of revenue, or \$0.24 per diluted share, for Q4 of fiscal 2016. Non-GAAP net income for Q4 of fiscal 2017 was \$5.9 million, or 6.1% of non-GAAP revenue, or \$0.70 per diluted share, compared with \$2.1 million, or 2.6% of non-GAAP revenue, or \$0.24 per diluted share, for Q4 of fiscal 2016.

For the full year fiscal 2017, net income was \$7.6 million, or 2.1% of revenue, or \$0.89 per diluted share, compared with net income of \$12.9 million, or 4.0% of revenue, or \$1.49 per diluted share, for the full year fiscal 2016. Non-GAAP net income for the full year fiscal 2017 was \$16.4 million, or 4.4% of non-GAAP revenue, or \$1.91 per diluted share, compared with non-GAAP net income of \$11.5 million, or 3.6% of non-GAAP revenue, or \$1.33 per diluted share, for the full year fiscal 2016.

### **Non-GAAP Adjusted EBITDA**

For Q4 of fiscal 2017, non-GAAP Adjusted EBITDA was \$15.8 million, or 16.3% of non-GAAP revenue, compared with \$12.9 million, or 16.2% of non-GAAP revenue, for Q4 of fiscal 2016.

For the full year fiscal 2017, non-GAAP Adjusted EBITDA was \$59.9 million, or 16.2% of non-GAAP revenue, compared with \$53.6 million, or 16.6% of non-GAAP revenue, for the full year fiscal 2016.

See the exhibit to CRA’s press release and the information provided below under the heading “Non-GAAP Financial Measures” for more details regarding the calculation of non-GAAP Adjusted EBITDA.

### **Constant Currency Basis**

Q4 2017 revenue was \$97.0 million, and Q4 2017 net loss was \$2.3 million, or 2.3% of revenue, or \$0.28 loss per diluted share. On a constant currency basis relative to Q4 of fiscal 2016, Q4 of fiscal 2017 revenue would have decreased by approximately \$1.2 million to \$95.8 million, net loss would have decreased by approximately \$0.1 million to

\$2.2 million, and loss per diluted share would have decreased by approximately \$0.01 to \$0.27 loss per diluted share.

Fiscal 2017 revenue was \$370.1 million, and fiscal 2017 net income was \$7.6 million, or 2.1% of revenue, or \$0.89 per diluted share. On a constant currency basis relative to fiscal 2016, fiscal 2017 revenue would have increased by approximately \$2.5 million to \$372.6 million, and fiscal 2017 net income would have increased by approximately \$0.6 million to \$8.2 million, or 2.2% of revenue, or by approximately \$0.06 per diluted share to \$0.95 per diluted share.

Q4 of fiscal 2017, non-GAAP revenue was \$97.0 million, and Q4 of fiscal 2017 non-GAAP net income was \$5.9 million, or 6.1% of revenue, or \$0.70 per diluted share, and non-GAAP Adjusted EBITDA was \$15.8 million, or 16.3% of non-GAAP revenue. On a constant currency basis relative to Q4 of fiscal 2016, Q4 of fiscal 2017 non-GAAP revenue would have decreased by approximately \$1.2 million to \$95.8 million, while Q4 of fiscal 2017 non-GAAP net income and non-GAAP Adjusted EBITDA would have remained unchanged.

Fiscal 2017 non-GAAP revenue was \$370.1 million, and fiscal 2017 non-GAAP net income was \$16.4 million, or 4.4% of revenue, or \$1.91 per diluted share, and non-GAAP Adjusted EBITDA was \$59.9 million, or 16.2% of non-GAAP revenue. On a constant currency basis relative to fiscal 2016, fiscal 2017 non-GAAP revenue would have increased by approximately \$2.5 million to \$372.6 million, fiscal 2017 non-GAAP net income would have increased by \$0.6 million to \$17.0 million, or 4.6% of revenue, or by \$0.07 per diluted share to \$1.98 per diluted share, and fiscal 2017 non-GAAP Adjusted EBITDA would have increased by approximately \$0.8 million to \$60.7 million, or 16.3% of non-GAAP revenue.

A description of the process for calculating the measures presented on a constant currency basis is contained under the heading “Non-GAAP Financial Measures” below.

### **Key Balance Sheet Metrics**

Billed and unbilled receivables at December 30, 2017 were \$113.3 million, compared with \$91.8 million at December 31, 2016. Current liabilities at December 30, 2017 were \$122.0 million, compared with \$94.1 million at December 31, 2016.

Total DSO for Q4 of fiscal 2017 were 101 days, consisting of 69 days of billed and 32 days of unbilled. This compares with 102 days we reported for Q4 of fiscal 2016, consisting of 73 days of billed and 29 days of unbilled.

### **Cash and Cash Flow**

Cash and cash equivalents were \$54.0 million at December 30, 2017, compared with \$53.5 million at December 31, 2016.

Cash flow from operations for Q4 fiscal 2017 was \$38.3 million, compared with \$31.9 million for Q4 fiscal 2016. For the full year fiscal 2017, cash flow from operations was \$45.9 million, compared with \$48.2 million for the full year fiscal 2016.

Capital expenditures totaled approximately \$4.4 million for Q4 of fiscal 2017, compared with \$1.2 million for Q4 of fiscal 2016. Capital expenditures totaled approximately \$9.8 million during fiscal 2017, compared with \$13.0 million during fiscal 2016.

For Q4 of fiscal 2017 and Q4 of fiscal 2016, no shares of common stock were repurchased. For the full year fiscal 2017, approximately 555,000 shares of common stock were repurchased for approximately \$19.5 million, compared with approximately 785,000 shares of common stock for approximately \$19.1 million for the full year fiscal 2016.

A quarterly cash dividend of \$0.17 per common share, for total dividends of \$1.5 million, was paid in Q4 of fiscal 2017, compared with a quarterly cash dividend of \$0.14 per common share, for total dividends of \$1.2 million, which was paid in Q4 of fiscal 2016. For the full year fiscal 2017, \$5.1 million of dividends were paid compared to \$1.2 million paid for the full year fiscal 2016.

#### **NON-GAAP FINANCIAL MEASURES**

In addition to reporting its financial results in accordance with U.S. generally accepted accounting principles, or GAAP, CRA has also provided in these remarks and accompanying financial tables non-GAAP financial information. CRA believes that the use of non-GAAP measures in addition to GAAP measures is a useful method of evaluating its results of operations. CRA believes that presenting its financial results excluding the results of GNU123 Liquidating Corporation (“GNU”) formerly known as “NeuCo,” certain non-cash and/or non-recurring charges, and the other items identified below, and including presentations of Adjusted EBITDA and comparisons on a constant currency basis, is important to investors and management because they are more indicative of CRA’s ongoing operating results and financial condition. CRA also uses these non-GAAP measures in its budgeting process, as performance criteria for some of its performance-based compensation, and in loan covenants. These non-GAAP financial measures should be considered in conjunction with, but not as a substitute for, the financial information presented in accordance with GAAP, and the results calculated in accordance with GAAP and reconciliations to those results should be carefully evaluated. The non-GAAP financial measures used by CRA may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies. Specifically, for the fourth quarter of fiscal 2017, and the full year fiscal 2017, CRA has excluded GNU’s results; the effects of changes to contingent consideration liabilities; consideration paid in connection with the IQVIA transaction; and the estimated impact of the Tax Act, and for the fourth quarter of fiscal 2016 and the full year fiscal 2016, CRA

has excluded GNU's results and the effects of changes to contingent consideration liabilities. Also, in calculating "Adjusted EBITDA" from net income (loss) attributable to CRA for these fiscal periods, CRA has excluded net income (loss) attributable to noncontrolling interests (net of tax); interest expense (income), net; provision for income taxes; other (income) expense, net; and the following non-cash expenses: depreciation and amortization, share-based compensation expenses, and amortization of forgivable loans.

Finally, CRA also believes that fluctuations in foreign currency exchange rates can significantly affect its financial results. Therefore, CRA provides a constant currency presentation to supplement disclosures regarding its results of operations and performance. CRA calculates constant currency amounts by converting its applicable fiscal period local currency financial results using the prior fiscal year's corresponding period exchange rates. CRA has presented in these remarks its GAAP and non-GAAP revenue, net income, net income margin, and earnings per diluted share, and its non-GAAP Adjusted EBITDA and Adjusted EBITDA margin for the fourth quarter of fiscal 2017 on a constant currency basis relative to the fourth quarter of fiscal 2016 and for the full year fiscal 2017 on a constant currency basis relative to the full year of fiscal 2016.

A reconciliation between the historical GAAP and non-GAAP financial measures presented in these remarks is provided in CRA's fourth-quarter fiscal 2017 press release posted to the Investor Relations section of CRA's website at <http://www.crai.com> and in the financial tables below.