



**CHARLES RIVER ASSOCIATES (CRA)
FOURTH QUARTER FISCAL YEAR 2019
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 27, 2020 at 10:00 a.m. ET. These prepared remarks will not be read on the call.

Q4 Fiscal 2019 Summary (Quarter ended December 28, 2019)

- Revenue: \$119.3 million
- Net income: \$4.8 million, or 4.0% of revenue; non-GAAP net income: \$6.2 million, or 5.2% of revenue
- Net income per diluted share: \$0.59; non-GAAP net income per diluted share: \$0.77
- Operating margin: 6.1%; non-GAAP operating margin: 7.7%
- Non-GAAP EBITDA: \$11.3 million, or 9.4% of revenue
- Effective tax rate: 21.4%; non-GAAP effective tax rate: 22.8%
- Utilization: 72%
- Consultant headcount at the end of Q4 of fiscal 2019: 779, which consists of 128 officers, 434 other senior staff and 217 junior staff
- Cash and cash equivalents: \$25.6 million at December 28, 2019

Fiscal Year 2019 Summary (Fiscal Year ended December 28, 2019)

- Revenue: \$451.4 million
- Net income: \$20.7 million, or 4.6% of revenue; non-GAAP net income: \$24.7 million, or 5.5% of revenue
- Net income per diluted share: \$2.53; non-GAAP net income per diluted share: \$3.01
- Operating margin: 6.5%; non-GAAP operating margin: 7.7%

- Non-GAAP EBITDA: \$44.1 million, or 9.8% of revenue
- Effective tax rate: 22.6%; non-GAAP effective tax rate: 23.3%
- Utilization: 75%

Revenue

For Q4 of fiscal 2019, revenue was \$119.3 million, compared with revenue of \$108.8 million for Q4 of fiscal 2018.

For the full year fiscal 2019, revenue was \$451.4 million, compared with \$417.7 million for the full year fiscal 2018.

Headcount

The following table outlines CRA's consultant headcount at the end of the stated quarters:

| | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 | Q4 2018 |
|--------------------|------------|------------|------------|------------|------------|
| Officers | 128 | 121 | 123 | 123 | 124 |
| Other Senior Staff | 434 | 412 | 378 | 387 | 375 |
| Junior Staff | 217 | 208 | 163 | 177 | 188 |
| Total | 779 | 741 | 664 | 687 | 687 |

Utilization

For Q4 of fiscal 2019, companywide utilization was 72%, compared with 76% for Q4 fiscal 2018.

For the full year fiscal 2019, companywide utilization was 75%, compared with 76% for the full year fiscal 2018.

Client Reimbursables

For Q4 of fiscal 2019, on a GAAP and non-GAAP basis, client reimbursables were \$15.6 million, or 13.1% of revenue, compared with \$14.1 million, or 12.9% of revenue, for Q4 of fiscal 2018.

For the full year fiscal 2019, on a GAAP and non-GAAP basis, client reimbursables were \$54.9 million, or 12.2% of revenue, compared with \$48.8 million, or 11.7% of revenue, for the full year fiscal 2018.

Contingent Liability

For Q4 of fiscal 2019, the estimated value of the contingent consideration obligation increased from Q3 of fiscal 2019 by \$1.9 million to \$11.6 million at December 28, 2019. For Q4 of fiscal 2018, the estimated value of the contingent consideration obligation increased from Q3 of fiscal 2018 by \$0.6 million to \$6.2 million at December 29, 2018.

For fiscal year 2019, the estimated value of the contingent consideration obligation increased from fiscal year end 2018 by \$5.4 million to \$11.6 million at December 28, 2019. For fiscal year

2018, the estimated value of the contingent consideration obligation increased from fiscal year end 2017 by \$1.1 million to \$6.2 million at December 29, 2018.

The change in the value of the contingent liability is recorded as an increase to cost of services in the period reported.

Selling, General and Administrative (SG&A) Expenses

For Q4 of fiscal 2019, on a GAAP and non-GAAP basis, SG&A expenses were \$24.7 million, or 20.7% of revenue, compared with \$21.9 million, or 20.1% of revenue, for Q4 of fiscal 2018. Commissions to non-employee experts are included in SG&A expenses. On a GAAP and non-GAAP basis, these commissions represented approximately 2.7% of revenue for Q4 of fiscal 2019, compared with 2.6% in Q4 of fiscal 2018. Excluding these commissions, on a GAAP and non-GAAP basis, SG&A expenses were 18.0% of revenue for Q4 of fiscal 2019, compared with 17.5% in Q4 of fiscal 2018.

On a GAAP basis, for the full year fiscal 2019, SG&A expenses were \$93.6 million, or 20.7% of revenue, compared with \$89.5 million, or 21.4% of revenue, for the full year fiscal 2018. On a non-GAAP basis, the full year fiscal 2019 SG&A expenses were \$93.6 million, or 20.7% of revenue, compared with \$88.9 million, or 21.3% of revenue, for the full year fiscal 2018.

| | Fiscal year ended | | | |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| | December 28, 2019 | As a % of Revenue | December 29, 2018 | As a % of Revenue |
| Selling, general and administrative expenses | \$93,613 | 20.7% | \$89,533 | 21.4% |
| Adjustments needed to reconcile GAAP SG&A expenses to non-GAAP SG&A expenses | | | | |
| Net costs related to lease recapture | - | - | 555 | 0.1% |
| Net operating expenses from GNU123 Liquidating Corporation | - | - | 47 | - |
| Non-GAAP selling, general and administrative expenses | <u>\$93,613</u> | <u>20.7%</u> | <u>\$88,931</u> | <u>21.3%</u> |

For the full year fiscal 2019 and 2018, on a GAAP and non-GAAP basis, these commissions to non-employee experts represented approximately 2.8% of revenue for fiscal year 2019, compared with 2.9% in fiscal year 2018. Excluding these commissions, SG&A expenses were 17.9% of revenue for the full year fiscal 2019, compared with 18.5% of revenue for the full year fiscal 2018. For the full year fiscal 2019, excluding these commissions, non-GAAP SG&A expenses were 17.9% of revenue, compared with 18.4% of non-GAAP revenue for the full year fiscal 2018.

Depreciation & Amortization

For Q4 of fiscal 2019, on a GAAP and non-GAAP basis, depreciation and amortization expenses amounted to \$3.0 million, or 2.5% of revenue, compared with \$2.7 million, or 2.5% of revenue, for Q4 of fiscal 2018.

For the full year fiscal 2019, depreciation and amortization expense was \$10.6 million, or 2.4% of revenue, compared with \$10.0 million, or 2.4% of revenue, for the full year fiscal 2018.

Forgivable Loan Amortization

For Q4 of fiscal 2019, forgivable loan amortization was \$7.2 million, or 6.0% of revenue, compared with \$6.2 million, or 5.7% of revenue, for Q4 of fiscal 2018.

For the full year fiscal 2019, forgivable loan amortization was \$26.5 million, or 5.9% of revenue, compared with \$23.8 million, or 5.7% revenue, for the full year fiscal 2018.

Share-Based Compensation Expense

For Q4 of fiscal 2019, share-based compensation expense was approximately \$0.8 million, or 0.7% of revenue, compared with \$1.1 million, or 1.0% of revenue, for Q4 of fiscal 2018.

For the full year fiscal 2019, share-based compensation expense was \$3.5 million, or 0.8% of revenue, compared with \$4.8 million, or 1.2% of revenue, for the full year fiscal 2018.

Operating Income

For Q4 of fiscal 2019, operating income was \$7.2 million, or 6.1% of revenue, compared with operating income of \$7.8 million, or 7.2% of revenue, for Q4 of fiscal 2018. Non-GAAP operating income was \$9.2 million, or 7.7% of revenue, for Q4 of fiscal 2019, compared with \$8.5 million, or 7.8% of revenue, for Q4 of fiscal 2018.

| | <u>Quarter ended</u> | | | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| | <u>December 28, 2019</u> | <u>As a % of Revenue</u> | <u>December 29, 2018</u> | <u>As a % of Revenue</u> |
| Income from Operations | \$7,277 | 6.1% | \$7,845 | 7.2% |
| Adjustments needed to reconcile GAAP income from operations to non-GAAP income from operations: | | | | |
| Non-cash valuation change in contingent consideration | 1,947 | 1.6% | 633 | 0.6% |
| Net operating expenses from GNU123 Liquidating Corporation | — | — | 47 | — |
| Non-GAAP Income from Operations | <u>\$9,224</u> | <u>7.7%</u> | <u>\$8,525</u> | <u>7.8%</u> |

For the full year fiscal 2019, operating income was \$29.3 million, or 6.5% of revenue, compared with \$28.9 million, or 6.9% of revenue, for the full year fiscal 2018. Non-GAAP operating income was \$34.7 million, or 7.7% of revenue, for the full year fiscal 2019, compared with \$30.6 million, or 7.3% of revenue, for the full year fiscal 2018.

| | Fiscal year ended | | | |
|---|----------------------|----------------------|----------------------|----------------------|
| | December 28, 2019 | As a % of Revenue | December 29, 2018 | As a % of Revenue |
| Income from Operations | \$29,348 | 6.5% | \$28,935 | 6.9% |
| Adjustments needed to reconcile GAAP income from operations to non-GAAP income from operations: | | | | |
| Non-cash valuation change in contingent consideration | 5,382 | 1.2% | 1,060 | 0.3% |
| Net costs related to lease recapture | - | - | 555 | 0.1% |
| Net operating expenses from GNU123 Liquidating Corporation | - | - | 47 | - |
| Non-GAAP Income from Operations | <u>\$34,730</u> | <u>7.7%</u> | <u>\$30,597</u> | <u>7.3%</u> |

Interest Income (Expense), net

For Q4 of fiscal 2019, net interest expense, on a GAAP basis and non-GAAP basis, was \$0.3 million, or 0.3% of revenue, compared with net interest expense of \$0.1 million, or 0.1% of revenue, for Q4 of fiscal 2018.

For the full year fiscal 2019, net interest expense, on a GAAP basis and non-GAAP basis, was \$1.3 million, or 0.3% of revenue, compared with \$0.6 million, or 0.2% of revenue, for the full year fiscal 2018.

Foreign Currency Gains (Losses), net

For Q4 of fiscal 2019, foreign currency losses, net, on a GAAP basis and non-GAAP basis, was (\$0.9) million, or -0.8% of revenue, compared with foreign currency gains, net, of \$0.3 million, or 0.3% of revenue, for Q4 of fiscal 2018.

For the full year fiscal 2019, on a GAAP basis and non-GAAP basis foreign currency losses, net, was (\$1.3) million, or -0.3% of revenue, compared with foreign currency gains, net of \$0.4 million, or 0.1% of revenue, for the full year fiscal 2018. Foreign currency gains (losses), net, is comprised of gains and losses on foreign denominated transactions and the revaluation of working capital balances.

Gain on Sale of GNU Assets

For the full year fiscal 2018, CRA recognized a gain on the sale assets and subsequent liquidation of GNU123 Liquidating Corporation of \$0.3 million, or 0.1% of revenue.

Income Taxes

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

| | GAAP | | NON-GAAP | |
|--------------------|-------------|-------------|-------------|-------------|
| | Q4 | | Q4 | |
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Tax Provision | \$1,296 | \$1,492 | \$1,823 | \$1,679 |
| Effective Tax Rate | 21.4% | 17.9% | 22.8% | 19.2% |

| | GAAP | | NON-GAAP | |
|--------------------|-------------|-------------|-------------|-------------|
| | Fiscal Year | | Fiscal Year | |
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Tax Provision | \$6,050 | \$6,461 | \$7,508 | \$6,622 |
| Effective Tax Rate | 22.6% | 22.3% | 23.3% | 21.8% |

| | Quarter ended | | | |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| | <u>December 28, 2019</u> | <u>As a % of Revenue</u> | <u>December 29, 2018</u> | <u>As a % of Revenue</u> |
| Income before provision for income taxes | \$6,059 | 5.1% | \$8,331 | 7.7% |
| Adjustments needed to reconcile GAAP income before provision for income taxes to non-GAAP income before provision for income taxes | | | | |
| Non-cash valuation change in contingent consideration | 1,947 | 1.6% | 633 | 0.6% |
| Net operating expenses from GNU123 Liquidating Corporation | - | - | 47 | - |
| Gain on sale of GNU123 Liquidating Corporation | <u>-</u> | <u>-</u> | <u>(258)</u> | <u>-0.2%</u> |
| Non-GAAP income before provision for income taxes | <u>\$8,006</u> | <u>6.7%</u> | <u>\$8,753</u> | <u>8.0%</u> |
| GAAP provision for income taxes | \$1,296 | | \$1,492 | |
| Tax effect on Non-GAAP adjustments | <u>527</u> | | <u>187</u> | |
| Non-GAAP provision for income taxes | <u>\$1,823</u> | | <u>\$1,679</u> | |

| | Fiscal year ended | | | |
|--|----------------------|----------------------|----------------------|----------------------|
| | December 28, 2019 | As a % of Revenue | December 29, 2018 | As a % of Revenue |
| Income before provision for income taxes | \$26,797 | 5.9% | \$28,933 | 6.9% |
| Adjustments needed to reconcile GAAP income before provision for income taxes to non-GAAP income before provision for income taxes | | | | |
| Non-cash valuation change in contingent consideration | 5,382 | 1.2% | 1,060 | 0.3% |
| Net costs related to lease recapture | - | - | 555 | 0.1% |
| Net operating expenses from GNU123 Liquidating Corporation | - | - | 47 | - |
| Gain on sale of GNU123 Liquidating Corporation | - | - | (258) | -0.1% |
| Non-GAAP income before provision for income taxes | <u>\$32,179</u> | <u>7.1%</u> | <u>\$30,337</u> | <u>7.3%</u> |
| GAAP provision for income taxes | \$6,050 | | \$6,461 | |
| Tax effect on Non-GAAP adjustments | <u>1,458</u> | | <u>161</u> | |
| Non-GAAP provision for income taxes | <u>\$7,508</u> | | <u>\$6,622</u> | |

Net Income

For Q4 of fiscal 2019, net income was \$4.8 million, or 4.0% of revenue, or \$0.59 per diluted share, compared with net income of \$6.9 million, or 6.3% of revenue, or \$0.81 per diluted share, for Q4 of fiscal 2018. Non-GAAP net income for Q4 of fiscal 2019 was \$6.2 million, or 5.2% of revenue, or \$0.77 per diluted share, compared with \$7.1 million, or 6.5% of revenue, or \$0.84 per diluted share, for Q4 of fiscal 2018.

For the full year fiscal 2019, net income was \$20.7 million, or 4.6% of revenue, or \$2.53 per diluted share, compared with \$22.5 million, or 5.4% of revenue, or \$2.61 per diluted share, for the full year fiscal 2018. Non-GAAP net income for the full year fiscal 2019 was \$24.7 million, or 5.5% of revenue, or \$3.01 per diluted share, compared with \$23.7 million, or 5.7% of revenue, or \$2.75 per diluted share, for the full year fiscal 2018.

Non-GAAP EBITDA

For Q4 of fiscal 2019, non-GAAP EBITDA was \$11.3 million, or 9.4% of revenue, compared with \$11.5 million, or 10.6% of revenue, for Q4 of fiscal 2018.

For the full year fiscal 2019, non-GAAP EBITDA was \$44.1 million, or 9.8% of revenue, compared with \$41.0 million, or 9.8% of revenue, for the full year fiscal 2018.

Constant Currency Basis

For Q4 of fiscal 2019, revenue was \$119.3 million, and net income was \$4.8 million, or 4.0% of revenue, or \$0.59 per diluted share. On a constant currency basis relative to Q4 of fiscal 2018, Q4 of fiscal 2019 revenue would have been higher by \$0.1 million to \$119.4 million, GAAP net

income would have been lower by \$0.1 million to \$4.7 million, or 4.0% of revenue, on a constant currency basis, and earnings per diluted share would have remained unchanged at \$0.59 per diluted share.

For Q4 of fiscal 2019, revenue was \$119.3 million, non-GAAP net income was \$6.2 million, or 5.2% of revenue, or \$0.77 per diluted share, and non-GAAP EBITDA was \$11.3 million, or 9.4% of revenue. On a constant currency basis relative to Q4 of fiscal 2018, Q4 of fiscal 2019 revenue would have been higher by \$0.1 million to \$119.4 million, non-GAAP net income would have remained unchanged at \$6.2 million, or 5.2% of revenue, non-GAAP earnings per diluted share would have decreased by \$0.01 to \$0.76 per diluted share, and non-GAAP EBITDA would have decreased by \$0.1 million to \$11.2 million, or 9.4% of revenue.

Full year fiscal 2019 revenue was \$451.4 million, and net income was \$20.7 million, or 4.6% of revenue, or \$2.53 per diluted share. On a constant currency basis relative to full year fiscal 2018, full year fiscal 2019 revenue would have been higher by \$3.9 million to \$455.3 million, net income would have remained unchanged at \$20.7 million, or 4.5% of revenue, and earnings per diluted share would have decreased by \$0.01 per share to \$2.52 per diluted share.

Full year fiscal 2019 revenue was \$451.4 million, non-GAAP net income was \$24.7 million, or 5.5% of revenue, or \$3.01 per diluted share, and non-GAAP EBITDA was \$44.1 million, or 9.8% of revenue. On a constant currency basis relative to full year fiscal 2018, full year fiscal 2019 revenue would have been higher by \$3.9 million at \$455.3 million, non-GAAP net income would have decreased by \$0.1 million to \$24.6 million, or 5.4% of revenue, earnings per diluted share would have decreased by \$0.01 per share to \$3.00 per diluted share, and non-GAAP EBITDA would have decreased by \$0.1 million to \$44.0 million, or 9.7% of revenue, on a constant currency basis.

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 28, 2019 were \$144.4 million, compared with \$130.6 million at December 29, 2018. Current liabilities at December 28, 2019 were \$171.4 million, compared with \$142.5 million at December 29, 2018.

Total DSO for Q4 of fiscal 2019 were 105 days, consisting of 77 days of billed and 28 days of unbilled. This compares with 104 days reported for Q4 of fiscal 2018, consisting of 74 days of billed and 30 days of unbilled.

Cash and Cash Flow

Cash and cash equivalents were \$25.6 million at December 28, 2019, compared with \$38.0 million at December 29, 2018.

Net cash provided by operating activities for Q4 of fiscal 2019 was \$47.7 million, compared with \$44.5 million for Q4 of fiscal 2018. For the full year fiscal 2019, net cash provided by operating activities was \$27.8 million, compared with \$36.2 million for the full year fiscal 2018.

As of December 28, 2019, and December 29, 2018, there were no borrowings outstanding under CRA's revolving credit facility. Since the end of Q4 2019, borrowings, net of repayments, have been \$30.0 million under CRA's revolving credit facility.

Capital expenditures totaled \$4.1 million for Q4 of fiscal 2019, compared with \$2.1 million for Q4 of fiscal 2018. Capital expenditures totaled \$16.7 million during full year fiscal 2019, compared with \$15.4 million during full year fiscal 2018.

During Q4 of fiscal 2019, there were no shares of common stock repurchased, compared with Q4 of fiscal 2018, when approximately 163,000 shares of common stock were repurchased for \$7.5 million.

During the full year fiscal 2019, approximately 421,000 shares of common stock were repurchased for \$18.1 million, compared with approximately 542,000 shares of common stock repurchased for \$27.9 million during the full year fiscal 2018.

A quarterly cash dividend of \$0.23 per common share, for total dividends and dividend equivalents of \$2.0 million was paid in Q4 of fiscal 2019, compared with a quarterly cash dividend of \$0.20 per common share, for total dividends and dividend equivalents of \$1.8 million paid in Q4 of fiscal 2018. During the full year fiscal 2019, \$6.8 million of dividends and dividend equivalents were paid, compared with \$6.0 million paid during the full year fiscal 2018.

GAAP Condensed Consolidated Statement of Cash Flows

CRA has derived the consolidated statement of cash flow data for the years ended December 28, 2019 and December 29, 2018 from its audited financial statements appearing on Form 10-K for the fiscal year ended December 28, 2019, filed with the Securities and Exchange Commission on February 27, 2020. The condensed consolidated statement of cash flow data for each of the four quarters of fiscal years 2019 and 2018 have been derived from CRA's unaudited financial statements appearing on Form 10-Q for each of the respective fiscal quarters as well as the consolidated statements of cash flows appearing on Form 10-K for the fiscal year ended December 28, 2019 and December 29, 2018 and have been prepared on the same basis as CRA's audited financial statements.

| | FY 2019 | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| GAAP Condensed Statement of Cash Flows | | | | | |
| Net cash provided by (used in) operating activities | \$ 27,832 | \$ 47,739 | \$ 26,202 | \$ 10,458 | \$ (56,567) |
| Net cash provided by (used in) investing activities | (16,693) | (4,145) | (8,644) | (3,130) | (774) |
| Net cash provided by (used in) financing activities | (23,818) | (38,591) | (12,624) | (6,741) | 34,138 |
| Effect of foreign exchange rates on cash and cash equivalents | <u>290</u> | <u>803</u> | <u>(689)</u> | <u>43</u> | <u>133</u> |
| Net increase (decrease) in cash and cash equivalents | \$ (12,389) | \$ 5,806 | \$ 4,245 | \$ 630 | \$ (23,070) |
| Cash and cash equivalents at beginning of period | <u>38,028</u> | <u>19,833</u> | <u>15,588</u> | <u>14,958</u> | <u>38,028</u> |
| Cash and cash equivalents at end of period | <u>\$ 25,639</u> | <u>\$ 25,639</u> | <u>\$ 19,833</u> | <u>\$ 15,588</u> | <u>\$ 14,958</u> |

| | FY 2018 | Q4 2018 | Q3 2018 | Q2 2018 | Q1 2018 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| GAAP Condensed Statement of Cash Flows | | | | | |
| Net cash provided by (used in) operating activities | \$ 36,189 | \$ 44,583 | \$ 24,407 | \$ 7,738 | \$ (40,539) |
| Net cash provided by (used in) investing activities | (15,447) | (2,068) | (4,440) | (5,691) | (3,248) |
| Net cash provided by (used in) financing activities | (35,747) | (16,217) | (16,740) | (2,791) | 1 |
| Effect of foreign exchange rates on cash and cash equivalents | <u>(1,002)</u> | <u>(133)</u> | <u>(389)</u> | <u>(1,083)</u> | <u>603</u> |
| Net increase (decrease) in cash and cash equivalents | \$ (16,007) | \$ 26,165 | \$ 2,838 | \$ (1,827) | \$ (43,183) |
| Cash and cash equivalents at beginning of period | <u>54,035</u> | <u>11,863</u> | <u>9,025</u> | <u>10,852</u> | <u>54,035</u> |
| Cash and cash equivalents at end of period | <u>\$ 38,028</u> | <u>\$ 38,028</u> | <u>\$ 11,863</u> | <u>\$ 9,025</u> | <u>\$ 10,852</u> |

Adjusted Net Cash Provided by (Used in) Operating Activities

Below are the annual and quarterly reconciliations of GAAP net cash provided by (used in) operating activities for each of the periods presented to non-GAAP adjusted net cash provided by (used in) operating activities. The reconciling items are forgivable loan advances and repayments for each period, which are reported as a component of GAAP net cash provided by (used in) operating activities.

| | FY 2019 | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Adjusted Net Cash Flows from Operations | | | | | |
| GAAP net cash provided by (used in) operating activities | \$ 27,832 | \$ 47,739 | \$ 26,202 | \$ 10,458 | \$ (56,567) |
| Forgivable loan advances | 35,166 | 1,762 | 9,521 | 1,953 | 21,930 |
| Forgivable loan repayments | <u>(1,173)</u> | <u>(67)</u> | <u>(406)</u> | <u>(300)</u> | <u>(400)</u> |
| Adjusted net cash provided by (used in) operating activities | <u>\$ 61,825</u> | <u>\$ 49,434</u> | <u>\$ 35,317</u> | <u>\$ 12,111</u> | <u>\$ (35,037)</u> |
| Net Revenue | <u>\$ 451,293</u> | <u>\$ 119,185</u> | <u>\$ 115,686</u> | <u>\$ 110,573</u> | <u>\$ 105,849</u> |
| GAAP net cash provided by (used in) operating activities as a percentage of net revenue | <u>6.2%</u> | <u>40.1%</u> | <u>22.6%</u> | <u>9.5%</u> | <u>-53.4%</u> |
| Adjusted net cash provided by (used in) operating activities as a percentage of net revenue | <u>13.7%</u> | <u>41.5%</u> | <u>30.5%</u> | <u>11.0%</u> | <u>-33.1%</u> |
| | | | | | |
| | FY 2018 | Q4 2018 | Q3 2018 | Q2 2018 | Q1 2018 |
| Adjusted Net Cash Flows from Operations | | | | | |
| GAAP net cash provided by (used in) operating activities | \$ 36,189 | \$ 44,583 | \$ 24,407 | \$ 7,738 | \$ (40,539) |
| Forgivable loan advances | 30,572 | 1,219 | 6,704 | (379) | 23,028 |
| Forgivable loan repayments | <u>(3,396)</u> | <u>3</u> | <u>(66)</u> | <u>-</u> | <u>(3,333)</u> |
| Adjusted net cash provided by (used in) operating activities | <u>\$ 63,365</u> | <u>\$ 45,805</u> | <u>\$ 31,045</u> | <u>\$ 7,359</u> | <u>\$ (20,844)</u> |
| Net Revenue | <u>\$ 417,648</u> | <u>\$ 108,763</u> | <u>\$ 103,871</u> | <u>\$ 105,538</u> | <u>\$ 99,476</u> |
| GAAP net cash provided by (used in) operating activities as a percentage of net revenue | <u>8.7%</u> | <u>41.0%</u> | <u>23.5%</u> | <u>7.3%</u> | <u>-40.8%</u> |
| Adjusted net cash provided by (used in) operating activities as a percentage of net revenue | <u>15.2%</u> | <u>42.1%</u> | <u>29.9%</u> | <u>7.0%</u> | <u>-21.0%</u> |

NON-GAAP FINANCIAL MEASURES

In these remarks, CRA has supplemented the presentation of its financial results calculated in accordance with U.S. generally accepted accounting principles or “GAAP” with financial measures that were not calculated in accordance with GAAP. CRA believes that the non-GAAP financial measures described below are important to management and investors because these measures supplement the understanding of CRA’s ongoing operating results, financial condition and cash flows. Non-GAAP adjusted net cash provided by (used in) operating activities is also used by management to assess CRA’s ability to fund items such as the acquisition of talent, office expansions and distributions to shareholders. In addition, non-GAAP net income, non-GAAP EBITDA are used by CRA in its budgeting process, and the non-GAAP adjustments described below are made to the performance measures for some of CRA’s performance-based compensation.

The adjustments made to non-GAAP net income, non-GAAP EBITDA, non-GAAP selling, general and administrative expenses, non-GAAP income from operations and non-GAAP provision for income taxes in these remarks are as follows: for the fourth quarter and full year fiscal 2019, the adjustments exclude non-cash amounts relating to valuation changes in contingent consideration and related tax effects; for the fourth quarter and full year fiscal 2018, the adjustments also exclude net operating expenses and the final liquidating distribution from GNU123 Liquidating Corporation (“GNU”) in December 2018 (GNU was our majority owned subsidiary that was dissolved on December 15, 2017) and related tax effects; and for the full year fiscal 2018, the adjustments also exclude net costs related to a lease recapture, related tax effects. The adjustments made to non-GAAP adjusted net cash provided by (used in) operating activities add back forgivable loan issuances, net of repayments. These remarks also present certain current fiscal period financial measures on a “constant currency” basis in order to isolate the effect that foreign currency exchange rate fluctuations can have on CRA’s financial results. These constant currency measures are determined by recalculating the current fiscal period local currency financial measure using the specified corresponding prior fiscal period’s foreign exchange rates. Finally, these remarks also present the non-GAAP financial metric EBITDA.

All of the non-GAAP financial measures referred to above should be considered in conjunction with, and not as a substitute for, the GAAP financial information presented in these remarks. EBITDA and the financial measures identified in these remarks as “non-GAAP” are reconciled to their GAAP comparable measures either in these remarks or in the attached financial tables. In evaluating these non-GAAP financial measures, note that 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.

CRA INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE FISCAL QUARTERS AND FISCAL YEAR-TO-DATE PERIODS ENDED
DECEMBER 28, 2019 COMPARED TO DECEMBER 29, 2018
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | Fiscal Quarter Ended | | | | Fiscal Year-to-Date Period Ended | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------------------|----------------------|----------------------|----------------------|
| | December 28, 2019 | As a % of Revenue | December 29, 2018 | As a % of Revenue | December 28, 2019 | As a % of Revenue | December 29, 2018 | As a % of Revenue |
| Revenues | \$ 119,262 | 100.0% | \$ 108,763 | 100.0% | \$ 451,370 | 100.0% | \$ 417,648 | 100.0% |
| Cost of services (exclusive of depreciation and amortization) | 84,349 | 70.7% | 76,372 | 70.2% | 317,761 | 70.4% | 289,185 | 69.2% |
| Selling, general and administrative expenses | 24,684 | 20.7% | 21,851 | 20.1% | 93,613 | 20.7% | 89,533 | 21.4% |
| Depreciation and amortization | 2,952 | 2.5% | 2,695 | 2.5% | 10,648 | 2.4% | 9,995 | 2.4% |
| Income from operations | 7,277 | 6.1% | 7,845 | 7.2% | 29,348 | 6.5% | 28,935 | 6.9% |
| GNU gain on sale of business assets and subsequent liquidation | - | - | 258 | 0.2% | - | - | 258 | 0.1% |
| Interest expense, net | (300) | -0.3% | (87) | -0.1% | (1,254) | -0.3% | (647) | -0.2% |
| Foreign currency gains (losses), net | (918) | -0.8% | 315 | 0.3% | (1,297) | -0.3% | 387 | 0.1% |
| Income before provision for income taxes and noncontrolling interest | 6,059 | 5.1% | 8,331 | 7.7% | 26,797 | 5.9% | 28,933 | 6.9% |
| Provision for income taxes | 1,296 | 1.1% | 1,492 | 1.4% | 6,050 | 1.3% | 6,461 | 1.5% |
| Net income | 4,763 | 4.0% | 6,839 | 6.3% | 20,747 | 4.6% | 22,472 | 5.4% |
| Net (income) loss attributable to noncontrolling interests, net of tax | - | - | 20 | 0.0% | - | - | 20 | 0.0% |
| Net income attributable to CRA International, Inc. | <u>\$ 4,763</u> | <u>4.0%</u> | <u>\$ 6,859</u> | <u>6.3%</u> | <u>\$ 20,747</u> | <u>4.6%</u> | <u>\$ 22,492</u> | <u>5.4%</u> |
| Net income per share attributable to CRA International, Inc.: | | | | | | | | |
| Basic | <u>\$ 0.61</u> | | <u>\$ 0.85</u> | | <u>\$ 2.63</u> | | <u>\$ 2.76</u> | |
| Diluted | <u>\$ 0.59</u> | | <u>\$ 0.81</u> | | <u>\$ 2.53</u> | | <u>\$ 2.61</u> | |
| Weighted average number of shares outstanding: | | | | | | | | |
| Basic | <u>7,757</u> | | <u>8,040</u> | | <u>7,866</u> | | <u>8,107</u> | |
| Diluted | <u>8,053</u> | | <u>8,435</u> | | <u>8,167</u> | | <u>8,570</u> | |

CRA INTERNATIONAL, INC.
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES
FOR THE FISCAL QUARTERS AND FISCAL YEAR-TO-DATE PERIODS ENDED
DECEMBER 28, 2019 COMPARED TO DECEMBER 29, 2018
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | Fiscal Quarter Ended | | | | Fiscal Year-to-Date Period Ended | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------------------|----------------------|----------------------|----------------------|
| | December 28, 2019 | As a % of Revenue | December 29, 2018 | As a % of Revenue | December 28, 2019 | As a % of Revenue | December 29, 2018 | As a % of Revenue |
| Revenues | \$ 119,262 | 100.0% | \$ 108,763 | 100.0% | \$ 451,370 | 100.0% | \$ 417,648 | 100.0% |
| Net income attributable to CRA International, Inc. | \$ 4,763 | 4.0% | \$ 6,859 | 6.3% | \$ 20,747 | 4.6% | \$ 22,492 | 5.4% |
| Net income (loss) attributable to noncontrolling interests, net of tax | - | - | (20) | 0.0% | - | - | (20) | 0.0% |
| Net income | 4,763 | 4.0% | 6,839 | 6.3% | 20,747 | 4.6% | 22,472 | 5.4% |
| Adjustments needed to reconcile GAAP net income to non-GAAP net income: | | | | | | | | |
| Non-cash valuation change in contingent consideration | 1,947 | 1.6% | 633 | 0.6% | 5,382 | 1.2% | 1,060 | 0.3% |
| Net costs related to lease recapture | - | - | - | - | - | - | 555 | 0.1% |
| Net operating expenses from GNU123 Liquidating Corporation | - | - | 47 | 0.0% | - | - | 47 | 0.0% |
| Gain on sale of GNU123 Liquidating Corporation | - | - | (258) | -0.2% | - | - | (258) | -0.1% |
| Tax effect on adjustments | (527) | -0.4% | (187) | -0.2% | (1,458) | -0.3% | (161) | 0.0% |
| Non-GAAP net income | \$ 6,183 | 5.2% | \$ 7,074 | 6.5% | \$ 24,671 | 5.5% | \$ 23,715 | 5.7% |
| Non-GAAP net income per share: | | | | | | | | |
| Basic | \$ 0.79 | | \$ 0.88 | | \$ 3.13 | | \$ 2.91 | |
| Diluted | \$ 0.77 | | \$ 0.84 | | \$ 3.01 | | \$ 2.75 | |
| Weighted average number of shares outstanding: | | | | | | | | |
| Basic | 7,757 | | 8,040 | | 7,866 | | 8,107 | |
| Diluted | 8,053 | | 8,435 | | 8,167 | | 8,570 | |

CRA INTERNATIONAL, INC.
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES
FOR THE FISCAL QUARTERS AND FISCAL YEAR-TO-DATE PERIODS ENDED
DECEMBER 28, 2019 COMPARED TO DECEMBER 29, 2018
(IN THOUSANDS)

| | Fiscal Quarter Ended | | | | Fiscal Year-to-Date Period Ended | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------------------|----------------------|----------------------|----------------------|
| | December 28, 2019 | As a % of Revenue | December 29, 2018 | As a % of Revenue | December 28, 2019 | As a % of Revenue | December 29, 2018 | As a % of Revenue |
| Revenues | \$ 119,262 | 100.0% | \$ 108,763 | 100.0% | \$ 451,370 | 100.0% | \$ 417,648 | 100.0% |
| Net income attributable to CRA International, Inc. | \$ 4,763 | 4.0% | \$ 6,859 | 6.3% | \$ 20,747 | 4.6% | \$ 22,492 | 5.4% |
| Net income (loss) attributable to noncontrolling interests, net of tax | - | - | (20) | 0.0% | - | - | (20) | 0.0% |
| Net income | 4,763 | 4.0% | 6,839 | 6.3% | 20,747 | 4.6% | 22,472 | 5.4% |
| Adjustments needed to reconcile GAAP net income to non-GAAP net income: | | | | | | | | |
| Non-cash valuation change in contingent consideration | 1,947 | 1.6% | 633 | 0.6% | 5,382 | 1.2% | 1,060 | 0.3% |
| Net costs related to lease recapture | - | - | - | - | - | - | 555 | 0.1% |
| Net operating expenses from GNU123 Liquidating Corporation | - | - | 47 | 0.0% | - | - | 47 | 0.0% |
| Gain on sale of GNU123 Liquidating Corporation | - | - | (258) | -0.2% | - | - | (258) | -0.1% |
| Tax effect on adjustments | (527) | -0.4% | (187) | -0.2% | (1,458) | -0.3% | (161) | 0.0% |
| Non-GAAP net income | \$ 6,183 | 5.2% | \$ 7,074 | 6.5% | \$ 24,671 | 5.5% | \$ 23,715 | 5.7% |
| Adjustments needed to reconcile non-GAAP net income to non-GAAP EBITDA: | | | | | | | | |
| Interest expense, net | 300 | 0.3% | 87 | 0.1% | 1,254 | 0.3% | 647 | 0.2% |
| Provision for income taxes | 1,823 | 1.5% | 1,679 | 1.5% | 7,508 | 1.7% | 6,622 | 1.6% |
| Depreciation and amortization | 2,952 | 2.5% | 2,695 | 2.5% | 10,648 | 2.4% | 9,995 | 2.4% |
| Non-GAAP EBITDA | \$ 11,258 | 9.4% | \$ 11,535 | 10.6% | \$ 44,081 | 9.8% | \$ 40,979 | 9.8% |

CRA INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

| | <u>December 28, 2019</u> | <u>December 29, 2018</u> |
|--|------------------------------|------------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 25,639 | \$ 38,028 |
| Accounts receivable and unbilled services, net | 144,410 | 130,585 |
| Other current assets | 14,028 | 12,527 |
| Total current assets | <u>184,077</u> | <u>181,140</u> |
| Property and equipment, net | 61,295 | 48,088 |
| Goodwill and intangible assets, net | 94,980 | 96,054 |
| Right-of-use assets | 130,173 | - |
| Other assets | 62,718 | 45,564 |
| Total assets | <u>\$ 533,243</u> | <u>\$ 370,846</u> |
| Liabilities and Shareholders' Equity | | |
| Accounts payable | \$ 26,069 | \$ 21,938 |
| Accrued expenses | 121,301 | 108,233 |
| Current portion of lease liabilities | 12,847 | - |
| Other current liabilities | 11,193 | 12,326 |
| Total current liabilities | <u>171,410</u> | <u>142,497</u> |
| Non-current portion of lease liabilities | 146,551 | - |
| Other non-current liabilities | 17,531 | 31,877 |
| Total liabilities | <u>335,492</u> | <u>174,374</u> |
| Total shareholders' equity | <u>197,751</u> | <u>196,472</u> |
| Total liabilities and shareholders' equity | <u>\$ 533,243</u> | <u>\$ 370,846</u> |

CRA INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

| | Fiscal Year-to-Date Period Ended | |
|---|---|------------------------------|
| | December 28, 2019 | December 29, 2018 |
| Operating activities: | | |
| Net income | \$ 20,747 | \$ 22,472 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| GNU gain on sale of business assets and subsequent liquidation | - | (258) |
| Non-cash items, net | 23,776 | 16,172 |
| Accounts receivable and unbilled services | (13,111) | (17,414) |
| Working capital items, net | (3,580) | 15,217 |
| Net cash provided by operating activities | 27,832 | 36,189 |
| Investing activities: | | |
| Purchases of property and equipment | (16,693) | (15,447) |
| Net cash used in investing activities | (16,693) | (15,447) |
| Financing activities: | | |
| Issuance of common stock, principally stock option exercises | 3,211 | 2,166 |
| Borrowings under revolving line of credit | 54,000 | 30,161 |
| Repayments under line of credit | (54,000) | (30,161) |
| Tax withholding payments reimbursed by shares | (2,176) | (3,946) |
| Cash paid on dividend equivalents | (246) | (256) |
| Cash dividend paid to shareholders | (6,539) | (5,784) |
| Repurchases of common stock | (18,068) | (27,884) |
| Distribution to noncontrolling interest | - | (43) |
| Net cash used in financing activities | (23,818) | (35,747) |
| Effect of foreign exchange rates on cash and cash equivalents | 290 | (1,002) |
| Net decrease in cash and cash equivalents | (12,389) | (16,007) |
| Cash and cash equivalents at beginning of period | 38,028 | 54,035 |
| Cash and cash equivalents at end of period | \$ 25,639 | \$ 38,028 |
| Noncash investing and financing activities: | | |
| Purchases of property and equipment not yet paid for | \$ 4,914 | \$ 303 |
| Purchases of property and equipment by a third party | \$ 156 | \$ 133 |
| Asset retirement obligations | \$ 428 | \$ 223 |
| Right-of-use assets obtained in exchange for lease obligations | \$ 57,827 | \$ - |
| Right-of-use assets related to the adoption of ASC 842 | \$ 82,329 | \$ - |
| Lease Liabilities related to the adoption of ASC 842 | \$ 106,765 | \$ - |
| Supplemental cash flow information: | | |
| Cash paid for taxes | \$ 7,590 | \$ 4,813 |
| Cash paid for interest | \$ 1,157 | \$ 509 |
| Cash paid for amounts included in operating lease liabilities | \$ 14,620 | \$ - |