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Ridgewood Investments





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Ridgewood Investments

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Ridgewood Select Value Fund*

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Ridgewood Investments – Presenter Bios



KAUSHAL “KEN” MAJMUDAR, CFA

PORTFOLIO MANAGER

- Founded Ridgewood Investments in 2002 and serves as its Chief Investment Officer
- Ridgewood Investments, a SEC registered advisor with over \$200MM in AUM, has continuously managed multiple portfolios grounded in value and dividend growth
- Graduated with honors from the Harvard Law School in 1994
- Honors graduate of Columbia University in 1991 with a bachelor’s degree in Computer Science
- Prior to Ridgewood Investments, worked for seven years on as an investment banker at Merrill Lynch and Lehman Brothers
- Noted value investor who has written and spoken extensively on the subject of value investing



SAM NAMIRI – CO-PORTFOLIO MANAGER AND ANALYST

- Joined Ridgewood to concentrate on building our Select Value Fund focusing on Small and MicroCap companies.
- Prior to Ridgewood, Sam was an Investment Associate at Grand Slam Asset Management, a small cap value based Hedge Fund.
- Prior to Grand Slam, Sam was Founder and President of Shop Network, a jewelry company involved in television, media, manufacturing, distribution and e-commerce.
- Received his MBA from Columbia Business School in 2012.
- BS in Industrial Engineering and Operations Research from the University of California at Berkeley (2005)

Ridgewood Select Value Fund

Launched in April 2018

- Focused on Small and MicroCap equities
- Concentrated positions
- Long-term investment horizon
- Private equity approach to public company investing
 - Thinking like an owner
- Thorough due diligence / scuttlebutt
 - Emphasis on company site visits and trade shows
 - Emphasis on management and capital allocation ability

Ridgewood Select Value Fund*

Launched in April 2018

	RSVF Net	S&P 500	Russell 2000	Russell Microcap
Q1 - 2020	-25.65%	-20.00%	-30.89%	-32.22%
Q2 - 2020	+36.96%	+19.95%	+25.00%	+30.16%
Q3 - 2020	+32.13%	+8.47%	+4.60%	+3.42%
Q4 - 2020	+24.40%	+11.69%	+30.99%	+31.05%
2020	+67.37%	+16.26%	+18.36%	+19.57%
Since Inception Total	+86.89%	+42.23%	+29.92%	+23.85%
Since Inception Annualized	+25.53%	+13.67%	+9.74%	+8.09%

- Email sam@ridgewoodinvestments.com to be added to our quarterly letter

*DISCLAIMER FROM PAGE 3

Investment Idea: CRA International, Inc. (Ticker: CRAI)



CRA International, Inc. (AKA Charles River Associates)

- Ticker: CRAI
- Price: \$57.85 (as of 1/19/2021)
- Market Cap: \$450 Million
- 2 year projected price target of \$108 (86% return)

- Boutique Economic Litigation and Management Consulting Firm
- Antitrust and competition economics, Valuation, Financial Markets and Corporate Strategy
- Effective capital allocation which we expect to compound returns over time
- Valuation opportunity arises due to “Forgivable Loans” from Signing bonus hires

Disclosure: Ridgewood Investments currently owns shares of CRAI

Background on CRA International, Inc.

Company History

- Founded in 1965 in Cambridge, Massachusetts
- IPO'd in 1998
- Acquired Marakon Associates in 2009
- Current CEO was promoted to position in 2010
- Announced Capital Allocation strategy in 2016 when stock was at approximately \$20 per share

Background on CRA International, Inc. (Continued)

Boutique Consultancy Firm

- Offers economic, financial, and strategic expertise to major law firms, corporations, accounting firms, and governments around the world.
- 75% of revenues from time & material with 25% from fixed projects
- 80% of Revenues derived from US, 16% from UK, 4% other



Background on CRAI (Continued)

M&A Activity Spurs Demand – Big Tech Breakup?



CRA economists advised counsel to CVS Health (CVS) and Aetna on CVS's acquisition of Aetna. The US Department of Justice approved the merger subject to the divestiture of Aetna's Medicare Part D prescription drug plan business for individuals and concluded the merger did not raise any other horizontal or vertical competitive concerns.

Increased Cyber Attacks due to Work From Home



When a nationwide financial services company was hit by a targeted phishing email campaign, thousands of customers became victims of wire fraud. Our cyber response experts traced the unauthorized network intrusions and identified impacted customers for timely notification. We helped the company assess its disclosure and regulatory reporting obligations, and prepare an insurance claim to recover costs and damages.

Biden Administration likely to revamp CFPB (Consumer Federal Protection Bureau)



CRA consultants advised counsel to Credit Acceptance Corporation, a leading automobile financing firm that was involved in litigation regarding alleged monopolization. CRA provided expert reports and deposition testimony that addressed monopolization allegations and rebutted damages estimates. The case was ultimately dismissed on summary judgment.

Why this opportunity exists (What's the real Cash Flow?)

People/Employee Centric Business

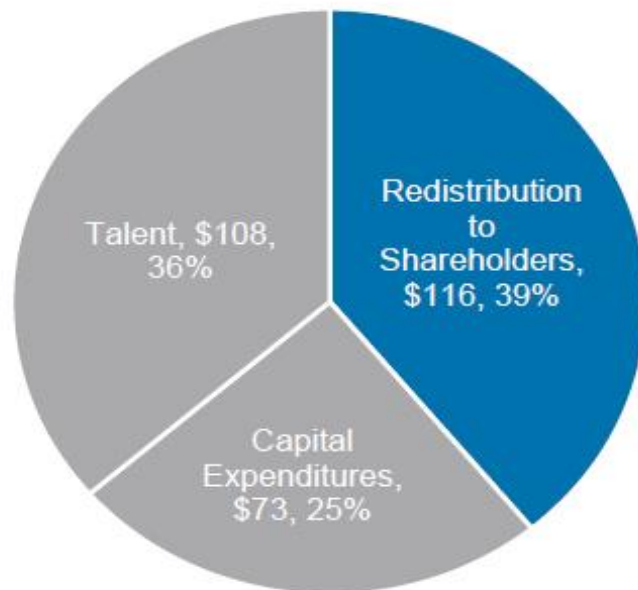
- The consultants are what make a consultant business
- Attract talent by providing signing bonuses (forgivable loans)
 - Similar to M&A
 - Company isn't allowed to amortize the non-cash cost in EBITDA calculation
 - With this adjustment EBITDA would be \$78M Latest Twelve Months
 - Currently trades at 6.2x OUR adjusted EBITDA*
- Less than 2% of revenue in any given year is allocated to renewing inducement to work (<\$10M assuming \$500M revenues)

	2015	2016	2017	2018	2019	LTM Q3 2020
Revenue*	\$300	\$324	\$370	\$418	\$451	\$490
EBITDA*	\$24	\$27	\$33	\$41	\$44	\$48
% of Revenue*	8.1%	8.4%	9.0%	9.8%	9.8%	9.8%
Non-Cash Amortization of Forgivable Loans	\$16	\$19	\$20	\$24	\$27	\$30
% of Revenue*	5.4%	5.9%	5.3%	5.7%	5.9%	6.0%

Capital Allocation

Capital Allocation Philosophy: Redistribution to Shareholders

Uses of Capital (FY2015-19)



Note: Dollar figures in millions

Redistributions to shareholders have consisted of \$97 million of share repurchases and \$19 million of dividend payments

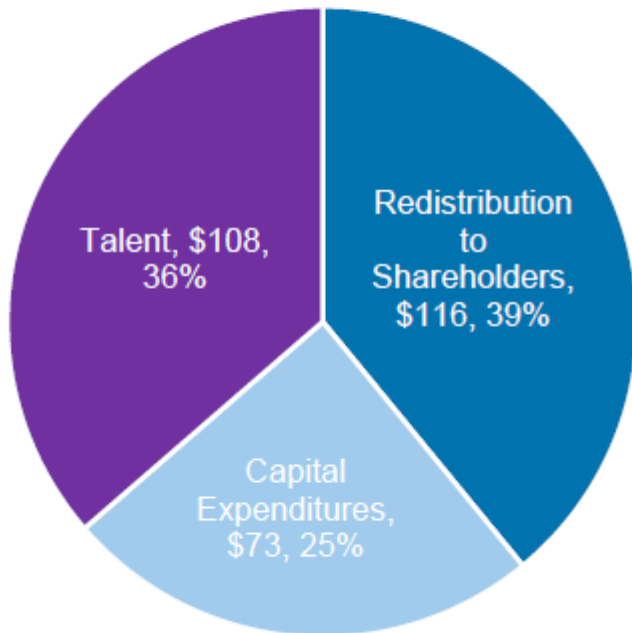
CRA has repurchased 2.8 million shares at an average cost of \$35.06 per share during 2015-2019, reducing net shares outstanding by 15%

Initiated quarterly dividend of \$0.14 per share in Q4 of 2016, with subsequent increases in each year 2017-2020 resulting in a current quarterly dividend of \$0.26 per share

During 2015-2019, stock repurchases and dividend payments have combined to deliver an average shareholder yield of approximately 7.5% relative to our average market capitalization

Capital Allocation

Uses of Capital (FY2015-19)



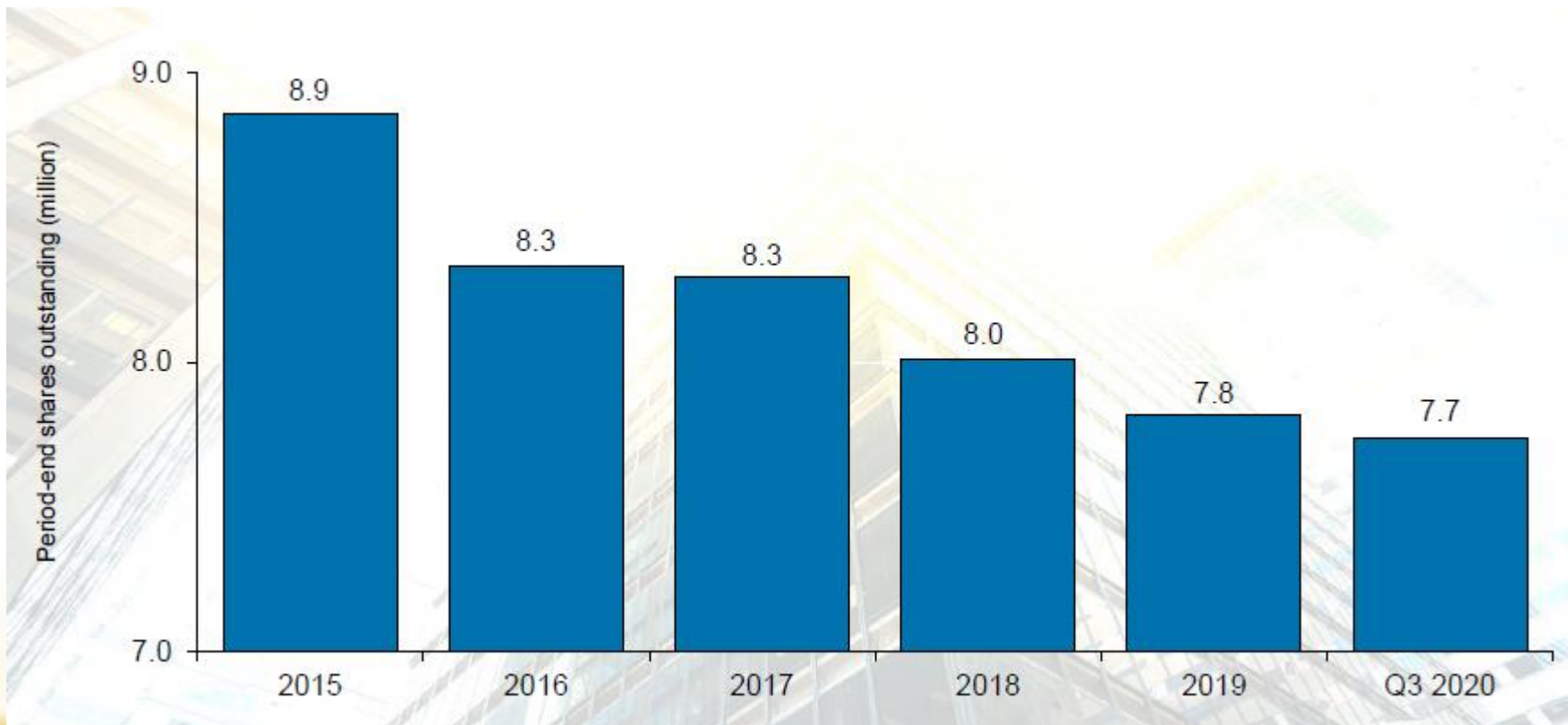
Return on Invested Capital

- Revenue Grew \$150M over this 5 year period
 - EBITDA plus Non-cash forgivable loan amortization margin is approximately 14%
 - This gives a return of \$21M annually
- \$21M return on \$181M invested
 - Assume investment is Talent and Capex combined
 - Opened new offices and new HQ which may overstate capex and amount invested
 - Company states maintenance capex is \$3M annually, so \$15M over this 5 year period
- Conservatively without any adjustments 11% ROIC






Strong Capital Allocation

Shrinking Share Count due to buybacks

- Also initiated dividend in 2016 and have increased it since
 - Similar dollar amount to smaller share count naturally increases dividend
 - Recently increased dividend to \$0.26 last quarter (\$1.04 annualized ~2%)
 - We expect 40% of cash flows will go towards dividends and share buybacks



Delivering Growth in the Business While Returning Capital to Shareholders

	 Revenue Growth*	 Headcount Growth	 EPS Growth*	 Stock Repurchases	 Cash Dividends
Fiscal 2020 Q3 YTD	12%	11% maintaining utilization of 69%	7%	\$9M average price of \$45.72 per share	\$5M
Fiscal 2019	8%	13% maintaining utilization of 75%	9%	\$18M average price of \$42.94 per share	\$7M
Fiscal Years 2015-2019	50%	73% maintaining utilization of 75%	113%	\$97M average price of \$35.06 per share	\$19M

Do share buybacks make sense today?

- Our conservative valuation has CRAI doing \$500M Revenues each of the next two years 2021 & 2022
- Assume operating cash flow margin of 14%
- Equates to cash flows of \$70M each year
 - Market cap of \$450M and \$3M maintenance capex
 - Shares provide Cash Flow yield of 15%
 - \$67M/\$450M

Bringing it all together

- Our conservative valuation has CRAI doing \$500M Revenues each of the next two years 2021 & 2022
- Assume operating cash flow margin of 14%
- Equates to cash flows of \$70M each year
 - Assume \$30M spent on dividends and buybacks
 - Leaves \$40M for growth
 - Returns about 10% growth or \$4M each year
 - By 2022 expect cash flows to grow to \$78M due to growth/talent investments and revenues to \$550M
 - Cash distributed to shareholders grows by \$60M over the two years

Bringing it all together (cont'd)

- By 2022 expect cash flows to grow to \$78M due to growth/talent investments and revenues to \$550M
- Cash distributed to shareholders grows by \$60M over the two years (end of 2022)
- Assuming no multiple expansion (trades at 7 times our cash flow proxy)
 - $7 \times \$78\text{M} = \546M EV
 - Add \$60M of cash generated over the next 2 years
 - Market Cap of \$606M
 - Assume share count of 7.7M shares
- Conservative Price Target of **\$78 per share of CRAI**
 - 34% return from current share price of \$57.85

Additional Upside – Bringing it all together (cont'd)

- Comparable FTI Consulting (\$FCN)
 - Trades at 1.8x Sales, 15x Cash Flows, 14x EBITDA
- Comparable Huron Consulting (\$HURN)
 - Trades at 1.4x Sales, 8.1x Cash Flows, 16x EBITDA
- Assuming some multiple expansion (10 times our cash flow proxy)
 - $10 \times \$78\text{M} = \780M EV
 - Add \$60M of cash generated over the next 2 years
 - Market Cap of \$840M
 - Assume share count of 7.7M shares
- Price Target of **\$108 per share of CRAI**
 - 86% return from current share price of \$57.85

Risks

- Our model assumes that the company can get some growth and maintain margins
- Economic downturn causing lack of M&A activity can severely hurt the business
- High Employee/Consultant turnover
- Deploy excess capital poorly



QUESTIONS?

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