

The Hackett Group, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Quarter Ended	
	April 1, 2022	April 2, 2021
Revenue:		
Revenue before reimbursements	\$ 75,108	\$ 63,410
Reimbursements	556	76
Total revenue	75,664	63,486
Costs and expenses:		
Cost of service:		
Personnel costs before reimbursable expenses (includes \$1,666 and \$1,847 of stock compensation expense in 2022 and 2021, respectively)	47,333	41,170
Reimbursable expenses	556	76
Total cost of service	47,889	41,246
Selling, general and administrative costs (includes \$933 and \$740 of stock compensation expense in 2022 and 2021, respectively)	14,366	13,387
Total costs and operating expenses	62,255	54,633
Operating income	13,409	8,853
Other expense:		
Interest expense	(28)	(25)
Income from continuing operations before income taxes	13,381	8,828
Income tax expense	2,876	2,460
Income from continuing operations	10,505	6,368
Loss from discontinued operations (net of taxes)	-	(7)
Net income	\$ 10,505	\$ 6,361
Weighted average common shares outstanding:		
Basic	31,449	30,207
Diluted	31,844	32,769
GAAP basic net income per common share:		
Income per common share from continuing operations	\$ 0.33	\$ 0.21
Loss per common share from discontinued operations	(0.00)	(0.00)
GAAP basic net income per common share	\$ 0.33	\$ 0.21
GAAP diluted net income per common share:		
Income per common share from continuing operations	\$ 0.33	\$ 0.19
Loss per common share from discontinued operations	(0.00)	(0.00)
GAAP diluted net income per common share	\$ 0.33	\$ 0.19

The Hackett Group, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	April 1, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 47,752	\$ 45,794
Accounts receivable and contract assets, net	50,514	50,616
Prepaid expenses and other current assets	5,364	5,766
Total current assets	103,630	102,176
Property and equipment, net	18,212	18,026
Other assets	540	620
Goodwill	84,639	85,070
Operating lease right-of-use assets	1,424	1,649
Total assets	<u>\$ 208,445</u>	<u>\$ 207,541</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,041	\$ 7,677
Accrued expenses and other liabilities	21,981	30,297
Contract liabilities (deferred revenue)	15,863	14,616
Operating lease liabilities	2,073	2,299
Total current liabilities	47,958	54,889
Long-term deferred tax liability, net	8,992	7,325
Operating lease liabilities	1,180	1,474
Total liabilities	58,130	63,688
Shareholders' equity	150,315	143,853
Total liabilities and shareholders' equity	<u>\$ 208,445</u>	<u>\$ 207,541</u>

The Hackett Group, Inc.

SUPPLEMENTAL FINANCIAL DATA

(unaudited)

	Quarter Ended		
	April 1, 2022	December 31, 2021	April 2, 2021
Revenue Breakdown by Group:			
<i>(in thousands)</i>			
S&BT (1)	\$ 29,980	\$ 28,642	\$ 25,759
EEA (2)	37,965	35,006	32,192
International (3)	7,719	6,584	5,535
Total revenue	\$ 75,664	\$ 70,232	\$ 63,486
Revenue Concentration:			
<i>(% of total revenue)</i>			
Top customer	7%	6%	3%
Top 5 customers	16%	15%	13%
Top 10 customers	24%	22%	22%
Key Metrics and Other Financial Data:			
Total Company:			
Consultant headcount	1,141	1,106	963
Total headcount	1,351	1,308	1,167
Days sales outstanding (DSO)	61	66	55
Cash provided by operating activities (in thousands)	\$ 6,054	\$ 19,885	\$ 5,895
Depreciation (in thousands)	\$ 802	\$ 809	\$ 874
Amortization (in thousands)	\$ 144	\$ 233	\$ 261
Capital expenditures (in thousands)	\$ 993	\$ 986	\$ 525
Remaining Plan authorization:			
Shares purchased (in thousands)	31	10	136
Cost of shares repurchased (in thousands)	\$ 635	\$ 224	\$ 2,106
Average price per share of shares purchased	\$ 20.50	\$ 21.64	\$ 15.45
Remaining Plan authorization (in thousands)	\$ 10,609	\$ 11,244	\$ 2,178
Shares Purchased to Satisfy Employee Net Vesting Obligations (4):			
Shares purchased (in thousands)	126	998	108
Cost of shares purchased (in thousands)	\$ 2,433	\$ 19,767	\$ 1,606
Average price per share of shares purchased	\$ 19.27	\$ 19.81	\$ 14.85

(1) Strategy and Business Transformation Group (S&BT) includes the results of our IP as-a-service offerings, which includes our North America Executive Advisory Programs, our Benchmarking Services and our Business Transformation Practices.

(2) ERP, EPM and Analytics Solutions (EEA) includes the results of our North America Oracle EEA, SAP Solutions Practices and One Stream.

(3) International Groups include the results of our S&BT and EEA Practices, primarily in Europe.

(4) The share repurchases to satisfy employee net vesting obligations in the quarter ended December 31, 2021, included the net exercise of 2.9 million SARs.

The Hackett Group, Inc.

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

(in thousands, except per share data)

(unaudited)

	Quarter Ended	
	April 1, 2022	April 2, 2021
GAAP NET INCOME	\$ 10,505	\$ 6,361
Adjustments (1):		
Loss from discontinued operations (net of taxes) (2)	-	7
Non-cash stock compensation expense (3)	2,595	2,339
Acquisition-related compensation expense (4)	-	11
Acquisition-related non-cash stock compensation expense (4)	4	248
Amortization of intangible assets (5)	144	261
ADJUSTED NET INCOME BEFORE INCOME TAXES (1)	13,248	9,227
Tax effect of adjustments above (6)	695	710
Adjusted income tax expense (benefit) (7)	460	(248)
ADJUSTED NET INCOME (1)	\$ 12,093	\$ 8,765
GAAP diluted net income per common share	\$ 0.33	\$ 0.19
Adjusted diluted net income per common share (1)	\$ 0.38	\$ 0.27
Weighted average common and common equivalent shares outstanding	31,844	32,769

(1) The Company provides adjusted earnings results (which exclude the amortization of intangible assets, non-cash stock compensation expense, acquisition-related one-time expense, restructuring charges, asset impairments, and include a normalized tax rate, which is our long-term projected cash tax rate) as a complement to results provided in accordance with Generally Accepted Accounting Principles (GAAP). These non-GAAP results are provided to enhance the users' overall understanding of the Company's current financial performance and its prospects for the future. The Company believes the non-GAAP results provide useful information to both management and investors and by excluding certain expenses that it believes are not indicative of its core operating results. The non-GAAP measures are included to provide investors and management with an alternative method for assessing operating results in a manner that is focused on the performance of ongoing operations and to provide a more consistent basis for comparison between quarters. Further, these non-GAAP results are one of the primary indicators management uses for planning and forecasting in future periods. In addition, since the Company has historically reported non-GAAP results to the investment community, it believes the continued inclusion of non-GAAP results provides consistency in its financial reporting. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP.

(2) Discontinued operations relate to the discontinuance of the Company's European Working Capital group, which is adjusted from the GAAP net income as it is not part of the Company's ongoing results of operations.

(3) Non-cash stock compensation expense is accounted for under Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation-Stock Compensation. The Company excludes stock-based compensation expense and the related tax effects for the purposes of adjusted net income and adjusted diluted earnings per share. The Company believes that non-GAAP measures of profitability, which exclude stock-based compensation, are widely used by investors.

(4) The Company incurs cash and stock compensation expense for acquisition related consideration that is recognized over time under GAAP. The Company believes excluding these amounts more consistently present its ongoing results of operations because they are related to acquisitions and not due to normal operating activities. The acquisition-related non-cash stock compensation expense is also accounted for under Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation-Stock Compensation.

(5) The Company has incurred expense on amortization of intangible assets related to various acquisitions. The Company excludes the effect of the amortization of intangibles from our adjusted results in order to more consistently present its ongoing results of operations.

(6) The adjustment for the income tax expense is based on the accounting treatment and income tax rate for the jurisdiction of each item (the impact of non-cash stock compensation was \$0.7 million and \$0.7 million in 2022 and 2021, respectively, and the impact of intangible amortization was \$29 thousand and \$52 thousand in 2022 and 2021, respectively).

(7) To compute adjusted net income, the Company has reflected an adjustment to arrive at an adjusted effective tax rate of 25% after taking into consideration the tax effect of adjusted items reflected in the Reconciliation of GAAP to Non-GAAP Measures.