

Booz Allen Hamilton (BAH)

\$83.08 (As of 08/04/20)

Price Target (6-12 Months): **\$88.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

Summary

Booz Allen Hamilton is in the process of implementing Vision 2020 which is aimed at achieving sustainable long-term growth. The company is witnessing significantly higher backlog growth, shift in talent to more technical expertise, a strong performance in the global commercial market and disciplined acquisition. These initiatives might have impacted the company's share price, which has outperformed its industry in the past year. The company is also laboring hard in innovation areas like Machine Intelligence and Directed Energy, thereby ensuring business development over the long haul. However, Booz Allen Hamilton is seeing an escalation in capital expenditure as it has increased investments in facilities, systems, infrastructure and technology. High debt may weigh on its future expansion and worsen its risk profile. Seasonality is a concern.

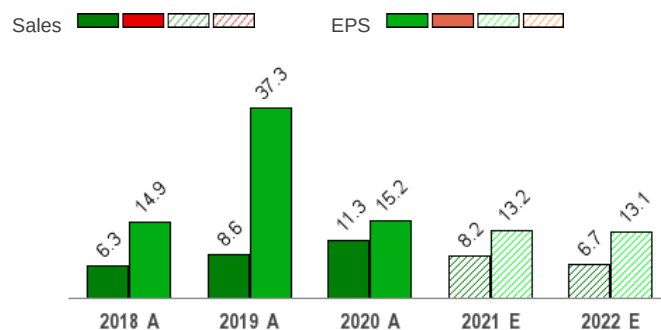
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$84.37 - \$54.37
20 Day Average Volume (sh)	1,038,269
Market Cap	\$11.4 B
YTD Price Change	16.8%
Beta	0.80
Dividend / Div Yld	\$1.24 / 1.5%
Industry	Government Services
Zacks Industry Rank	Top 50% (127 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.9%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	0.7%
Expected Report Date	11/06/2020
Earnings ESP	1.8%
P/E TTM	25.4
P/E F1	23.1
PEG F1	1.6
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,136 E	2,098 E	2,133 E	2,267 E	8,615 E
2021	1,956 A	1,974 E	2,006 E	2,130 E	8,074 E
2020	1,825 A	1,820 A	1,849 A	1,970 A	7,464 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.04 E	\$0.96 E	\$0.98 E	\$1.11 E	\$4.07 E
2021	\$0.93 A	\$0.92 E	\$0.91 E	\$0.87 E	\$3.60 E
2020	\$0.83 A	\$0.81 A	\$0.80 A	\$0.73 A	\$3.18 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/04/2020. The reports text is as of 08/05/2020.

Overview

McLean, VA-based Booz Allen Hamilton Holding Corporation is a provider of management and technology consulting, analytics, engineering, digital solutions, mission operations as well as cyber expertise to the United States and international governments, corporations plus not-for-profit organizations. The company operates as a single profit center with a single bonus pool for partners, vice presidents, principals and senior associates.

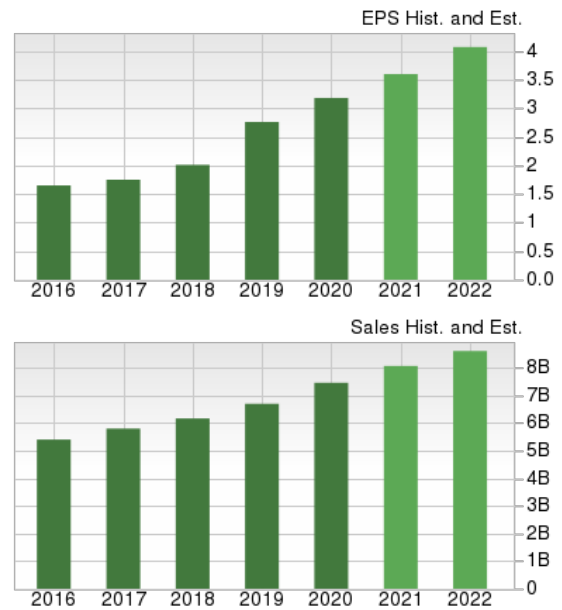
The company serves a diverse base of federal government clients, helping them to tackle complex challenges such as protecting soldiers in combat and supporting their families, keeping national infrastructure secure, advancing cyber capabilities, enabling and enhancing digital services, transforming the healthcare system, and improving governmental efficiency.

Booz Allen has commercial clients from across various industries including aerospace, health and life sciences, energy, financial services and transportation.

Booz Allen was founded by Edwin Booz, one of the pioneers of management consulting, in 1914. The company started serving the U.S. government by advising the Secretary of the Navy in preparation for World War II. With changing needs of clients in terms of both nature and complexity, the company expanded beyond management consulting foundation to develop deep expertise in the analytics, engineering, digital solutions and cyber.

Booz Allen currently has five service offerings, namely Consulting, Analytics, Digital Solutions, Engineering and Server. Consulting solutions are offered to various domains like business strategies, human capital and operations. Analytics services are focused on delivering transformational solutions in the areas of decision analytics, data science and automation plus the emerging areas of artificial intelligence and deep learning. Digital Solutions combines modern system development techniques with cloud platforms and machine learning for providing powerful solutions to clients.

Engineering delivers an array of engineering services and solutions to complex systems like the Launch and Test Range System (LTRS) for the U.S. Air Force Space Command or the Flush Air Data Systems (FADS) for NASA. Cyber provides cyber risk management solutions, such as prevention, detection and cost effectiveness.



Reasons To Buy:

- ▲ Booz Allen Hamilton is currently in the process of implementing **Vision 2020**, a strategy aimed at countering competition and achieving sustainable long-term growth. The strategy focuses on getting closer to clients' core missions, increasing technical content of work, attracting and retaining talent from diverse areas of expertise, increasing innovation, creating a wide network of external partners and alliances and expansion into commercial and international business. Through implementation of Vision 2020, Booz Allen Hamilton is seeing significantly higher backlog growth, a shift in talent to more technical expertise, strong performance in the global commercial market as well as disciplined acquisition. These initiatives might have positively impacted the company's share price, which has improved 20.2% over the past year. The company acquired the technology firm Morphick in October 2017 to expand its managed security portfolio and increase capacity to help clients offset advanced cyber threats.
- ▲ Booz Allen Hamilton developed its solutions business in a way that it creates **differentiated business** models and sales channels, increases client acquisition and enhances future revenue opportunities. The company also differentiated itself in the talent market so as to ensure attraction and retention of quality talent from diverse disciplines. These initiatives bumped up its ability to bring a variety of offerings through which, it has been winning highly technical, mission-critical work for its federal government business. All these ensure long-term sustainable growth for the company.
- ▲ The company is also laboring hard in **innovation** areas ensuring business development over the long haul. These areas are Machine Intelligence and Directed Energy. On the Machine Intelligence front, Booz Allen Hamilton is using machine learning and artificial intelligence to create a congenial working environment across its client organizations wherein people and intelligent machines will collaborate on achieve targets. Through its Directed Energy business, the company is trying to help its clients as a technology maturation agent, integrator and a solutions provider.

Booz Allen is seeing backlog growth, enhanced technical expertise and a strong performance in the global commercial market.

Reasons To Sell:

- ▼ Booz Allen Hamilton's business experiences **seasonality** related to U.S. Government's fiscal year that ends on Sep 30. The company experiences higher bid and proposal costs in the months leading to the government's fiscal year-end. Seasonality is beyond the company's control and continues to weigh on its profitability.
- ▼ **Capital expenditure** is expected to increase significantly year over year in fiscal 2019 as Booz Allen Hamilton has increased investments in facilities, systems, infrastructure and technology to support long-term growth. Notably, the company's capital expenditure for fiscal 2020 was \$128.1 million that increased significantly from \$94.7 million in fiscal 2019.
- ▼ Booz Allen has a **debt-laden balance sheet**. Total debt at the end of fourth-quarter fiscal 2020 was \$2.5 billion, up from the \$2.4 billion recorded at the end of the prior quarter. The total debt to total capital ratio of 0.75 was higher than the industry's 0.65 and the previous quarter's 0.73. Increasing debt to capitalization ratio indicates that the proportion of debt to finance the company's assets is on the rise. Higher debt as a percentage of total capital indicates that a company has a higher risk of insolvency. Further, cash and cash equivalent balance of \$742 million at the end of the fourth quarter was well below the debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level cannot even meet the short-term debt of \$227 million.

Increased investment and seasonality related to the U.S. Government's fiscal year escalated expenditure and cost.

Last Earnings Report

Booz Allen Beats on Earnings in Q1

Booz Allen reported mixed first-quarter fiscal 2020 results, with earnings beating the Zacks Consensus Estimate but revenues missing the same.

Adjusted earnings per share of 93 cents beat the consensus mark by 6.9% and improved 12% on a year-over-year basis. The bottom line benefited from top-line growth, strong contract-level performance and operational management.

Quarter Ending 06/2020

Report Date	Jul 31, 2020
Sales Surprise	-0.48%
EPS Surprise	6.90%
Quarterly EPS	0.93
Annual EPS (TTM)	3.27

Revenues, Backlog & Headcount Increase Y/Y

Total revenues of \$1.96 billion lagged the Zacks Consensus Estimate by a slight margin and increased 7.1% year over year. Revenues, excluding billable expenses, were \$1.41 billion, increasing 10.5% on a year-over-year basis. Billable expenses accounted for 28.1% of revenues.

Total backlog increased 15.9% from the prior-year quarter's reported figure to \$23 billion. Funded backlog of \$3.44 billion increased 7.6% year over year. Unfunded backlog was up 8.8% to \$4.73 billion. Priced options went up 4.9% to \$12.8 billion. Book-to-bill ratio was 2.17, up 68.2% year over year. Headcount of 27,381 increased 3.8% year over year.

Operating Results

Adjusted EBITDA amounted to \$213 million, up 6.8% year over year. Adjusted EBITDA margin on revenues stayed flat year over year at 10.9%. Adjusted EBITDA margin on revenues, excluding billable expenses, decreased to 15.1% from 15.6% in the year-ago quarter.

Balance Sheet & Cash Flow

Booz Allen Hamilton exited fiscal first quarter with cash and cash equivalents of \$620.6 million compared with \$450.8 million at the end of the prior quarter. Long-term debt (net of current portion) was \$2 billion, roughly flat with the previous quarter. The company generated \$140.4 million of net cash from operating activities. Capital expenditure was \$20.1 million and free cash flow was \$120.4 million for the March-end quarter.

The company paid out dividends worth \$43.8 million and repurchased shares worth \$85.9 million in the reported quarter.

Fiscal 2021 Outlook

The company's revenue-growth projection is 6-10%. The adjusted earnings per share guidance is \$3.40-\$3.60. The midpoint (\$3.50) of the guided range is below the Zacks Consensus Estimate of \$3.59.

Adjusted EBITDA margin on revenues is anticipated to be 10%. Operating cash flow is expected in the range of \$550-\$600 million.

Recent News

On **Jun 26, 2020**, Booz Allen announced the appointments of Kevin Richards and Tony Sharp in leadership positions in its commercial business. Richards joins as an executive vice president and will lead the company's Strategic Cyber Readiness and Response teams. Sharp will serve as a senior vice president and will lead Booz Allen's Security Architecture and Engineering team.

On **Apr 30, 2020**, Booz Allen announced that it has created a \$1 million Innovation Fund for supporting development of creative solutions to address the impacts of the coronavirus pandemic.

On **Apr 2, 2020**, Booz Allen announced that it has committed more than \$100 million to support its employees and their surrounding communities through a pandemic-resilience program. The program aims at enabling the company's employees to continue working with government and commercial clients, while taking care of themselves and their families amid coronavirus-induced challenging conditions.

Valuation

Booz Allen shares are up 16.4% in the year-to-date period and 20.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 8.2% and 0.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 13.8% and 5.4%, respectively.

The S&P 500 index is up 2.6% in the year-to-date period and 5.4% in the past year.

The stock is currently trading at 22.34X price to forward 12 months' earnings, which compares to 21.45X for the Zacks sub-industry, 30.1X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.96X and as low as 14.92X, with a 5-year median of 18.44X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$88.00 price target reflects 23.66X price to forward 12 months' earnings.

The table below shows summary valuation data for BAH

Valuation Multiples - BAH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12 M	Current	22.34	21.45	30.1	22.58
	5-Year High	23.96	21.55	30.1	22.58
	5-Year Low	14.92	15.94	18.7	15.25
	5-Year Median	18.44	18.54	20.93	17.55
P/S F12M	Current	1.39	1.35	4.18	3.6
	5-Year High	1.44	1.45	4.18	3.6
	5-Year Low	0.69	0.93	3.07	2.53
	5-Year Median	0.91	1.11	3.59	3.04
P/B TTM	Current	13.41	9.19	4.75	4.5
	5-Year High	19.61	12.62	6.72	4.56
	5-Year Low	8	6.03	3.28	2.83
	5-Year Median	10.82	8.3	5.22	3.72

As of 08/04/2020

Industry Analysis Zacks Industry Rank: Top 50% (127 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Accenture PLC (ACN)	Neutral	3
CACI International, Inc. (CACI)	Neutral	3
CGI Group, Inc. (GIB)	Neutral	2
ICF International, Inc. (ICFI)	Neutral	3
Leidos Holdings, Inc. (LDOS)	Neutral	3
ManTech International Corporation (MANT)	Neutral	2
Maximus, Inc. (MMS)	Neutral	3
Science Applications International Corporation (SAIC)	Neutral	3

Industry Comparison Industry: Government Services				Industry Peers		
	BAH	X Industry	S&P 500	ACN	GIB	LDOS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	A	-	-	B	A	A
Market Cap	11.45 B	4.66 B	22.75 B	144.64 B	18.31 B	13.11 B
# of Analysts	9	3	14	11	7	9
Dividend Yield	1.49%	1.47%	1.76%	1.41%	0.00%	1.47%
Value Score	B	-	-	C	A	B
Cash/Price	0.07	0.05	0.07	0.05	0.05	0.03
EV/EBITDA	16.97	14.47	13.09	19.67	12.78	13.94
PEG Ratio	1.57	2.06	2.95	2.98	2.63	1.64
Price/Book (P/B)	12.97	4.27	3.16	8.78	3.65	3.70
Price/Cash Flow (P/CF)	21.74	14.86	12.32	25.49	14.88	13.13
P/E (F1)	22.95	23.09	21.81	29.77	19.98	17.59
Price/Sales (P/S)	1.51	1.49	2.46	3.25	2.01	1.13
Earnings Yield	4.33%	4.33%	4.40%	3.36%	5.01%	5.68%
Debt/Equity	2.55	0.92	0.76	0.17	0.52	1.32
Cash Flow (\$/share)	3.82	5.11	6.94	8.91	4.75	7.03
Growth Score	A	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	19.35%	12.65%	10.46%	11.11%	9.72%	14.53%
Proj. EPS Growth (F1/F0)	13.14%	-14.33%	-7.16%	3.67%	-0.08%	1.44%
Curr. Cash Flow Growth	13.32%	13.32%	5.47%	8.06%	3.80%	6.19%
Hist. Cash Flow Growth (3-5 yrs)	11.25%	10.95%	8.55%	9.75%	1.29%	6.45%
Current Ratio	1.81	1.81	1.32	1.37	1.33	0.89
Debt/Capital	71.82%	47.94%	44.36%	14.36%	34.30%	56.87%
Net Margin	6.51%	6.51%	10.25%	11.11%	9.77%	5.26%
Return on Equity	52.76%	17.09%	14.67%	31.51%	18.99%	23.81%
Sales/Assets	1.62	1.62	0.51	1.35	0.87	1.11
Proj. Sales Growth (F1/F0)	8.18%	8.18%	-1.71%	2.52%	-1.19%	14.23%
Momentum Score	A	-	-	D	B	A
Daily Price Chg	-0.51%	0.50%	0.42%	-0.01%	-0.48%	-6.13%
1 Week Price Chg	9.98%	5.76%	0.14%	1.51%	10.46%	4.49%
4 Week Price Chg	10.19%	10.19%	4.97%	5.00%	12.21%	4.98%
12 Week Price Chg	16.65%	16.65%	15.30%	22.31%	13.44%	-7.65%
52 Week Price Chg	20.67%	8.17%	2.34%	20.31%	-6.05%	15.28%
20 Day Average Volume	1,038,269	294,420	2,082,836	1,599,999	213,841	1,055,226
(F1) EPS Est 1 week change	0.65%	0.00%	0.00%	0.00%	0.73%	1.25%
(F1) EPS Est 4 week change	0.65%	0.65%	0.93%	0.00%	4.46%	2.12%
(F1) EPS Est 12 week change	3.85%	0.61%	0.78%	0.77%	3.06%	2.51%
(Q1) EPS Est Mthly Chg	1.22%	0.00%	0.17%	0.00%	0.99%	-0.50%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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