

Booz Allen Hamilton (BAH)

\$76.12 (As of 01/09/20)

Price Target (6-12 Months): **\$81.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/21/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: D

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.

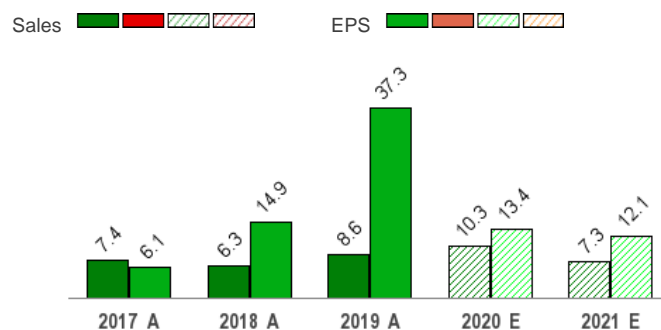
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$78.01 - \$45.17
20 Day Average Volume (sh)	822,860
Market Cap	\$10.7 B
YTD Price Change	7.0%
Beta	0.87
Dividend / Div Yld	\$1.08 / 1.4%
Industry	<u>Government Services</u>
Zacks Industry Rank	Top 43% (108 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.7%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	01/31/2020
Earnings ESP	0.2%
P/E TTM	25.4
P/E F1	24.3
PEG F1	1.7
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,949 E	1,949 E	1,921 E	2,048 E	7,937 E
2020	1,825 A	1,820 A	1,820 E	1,936 E	7,396 E
2019	1,647 A	1,614 A	1,663 A	1,780 A	6,704 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.87 E	\$0.86 E	\$0.84 E	\$0.89 E	\$3.51 E
2020	\$0.83 A	\$0.81 A	\$0.76 E	\$0.73 E	\$3.13 E
2019	\$0.72 A	\$0.68 A	\$0.72 A	\$0.64 A	\$2.76 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 01/09/2020. The reports text is as of 01/10/2020.

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.

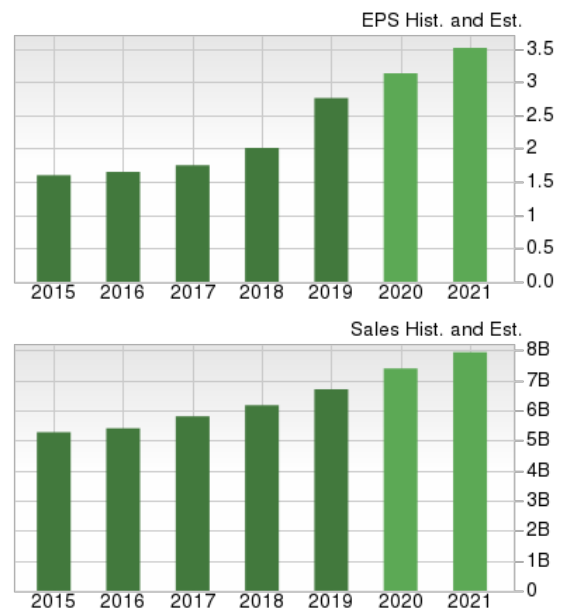
The company serves a diverse base of federal government clients, helping them to tackle complex challenges such as protecting soldiers in combat and supporting their families, keeping national infrastructure secure, advancing cyber capabilities, enabling and enhancing digital services, transforming the 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 66.4% over the past year, outperforming the 42.7% rise of the industry it belongs to. 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.
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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 2019 was \$94.7 million that increased significantly from \$78.4 million in fiscal 2018.
- ▼ Booz Allen Hamilton has a highly **leveraged balance sheet**. As of Sep 30, 2019, long-term debt was \$2 billion while cash and cash equivalents were \$781.5 million. Such a cash position implies that Booz Allen needs to generate an adequate amount of operating cash flow to pay its debt. Moreover, high debt may weigh on its future expansion and worsen its risk profile.

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 and Revenues in Q2

Booz Allen reported strong second-quarter fiscal 2020 results, beating the Zacks Consensus Estimate on both earnings and revenues.

Adjusted EPS of 81 cents beat the consensus mark by 15.7% and improved 19.1% on a year-over-year basis. Total revenues of \$1.8 billion surpassed the Zacks Consensus Estimate by 2.9% and increased 12.7% year over year. Revenues excluding billable expenses were \$1.3 billion, up 12.7% on a year-over-year basis. Billable expenses accounted for 30% of revenues.

Quarter Ending **09/2019**

Report Date	Nov 01, 2019
Sales Surprise	2.89%
EPS Surprise	15.71%
Quarterly EPS	0.81
Annual EPS (TTM)	3.00

Backlog & Headcount Increase Y/Y

Total backlog increased 7.2% from the prior-year quarter to \$22.9 billion. Funded backlog of \$4.4 billion improved 4.8%. Unfunded backlog was up 12.3% to \$5.4 billion. Priced options went up 6.1% to \$13.2 billion. Book-to-bill ratio was 2.68, down 26.8% year over year. Headcount of 26,984 increased 6.5% year over year.

Operating Performance Improves

Adjusted EBITDA of \$191.7 million increased 17% year over year. Adjusted EBITDA margin on revenues increased to 10.5% from 10.2% in the year-ago quarter. Adjusted EBITDA margin on revenues, excluding billable expenses, increased to 15% from 14.4% in the year-ago quarter.

Adjusted operating income was \$172 million, up 16.7% year over year. Adjusted operating income margin on revenues was 9.5%, up from the year-ago quarter figure of 9.1%. Adjusted operating income margin on revenues, excluding billable expenses, was 13.4% compared with 13% in the year-ago quarter.

Balance Sheet & Cash Flow

Booz Allen exited the fiscal second quarter with cash and cash equivalents of \$781.5 million compared with \$649.1 million at the end of the prior quarter. Long-term debt (net of current portion) was \$2 billion, compared with \$2.1 billion in the previous quarter. The company generated \$215.7 million of net cash from operating activities. Capital expenditure was \$32.6 million and free cash flow was \$183.1 million. It paid out dividend worth \$32.4 million and repurchased shares worth \$2.4 million in the reported quarter.

Fiscal 2020 Outlook

The EPS guidance has been raised to \$3-\$3.1 from \$2.9-\$3.05 projected earlier. The company raised its revenue growth projection to 9-11%, from 6-9% expected earlier. Adjusted EBITDA margin on revenues is continued to be anticipated in the low 10% range. Operating cash flow is now expected in the range of \$450-\$500 million, compared with the previous expectation of \$400-\$450 million.

Recent News

On **Nov 12, 2019**, Booz Allen announced that Jerry Bessette, a former senior cybersecurity official at the FBI, has joined the company as a leader of its Commercial business.

On **Nov 7, 2019**, Booz Allen announced that it has been awarded a contract over 7 years by The U.S. Department of Energy (DOE) to provide advanced cyber analysis and security services.

Valuation

Booz Allen shares are up 66.4% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 42.7%, 27.4% and 25.2%, respectively in the same time frame.

The stock is currently trading at 22.3X price to forward 12 months' earnings, which compares to 20.35X for the Zacks sub-industry, 25.2X for the Zacks sector and 18.42X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.96X and as low as 14.54X, with a 5-year median of 17.78X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$81.00 price target reflects 23.75X 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 F 12M	Current	22.3	20.35	25.2	18.42
	5-Year High	23.96	21.55	25.2	19.34
	5-Year Low	14.54	15.94	18.76	15.17
	5-Year Median	17.78	18.52	20.56	18.82
P/S F 12M	Current	1.26	1.31	3.97	3.49
	5-Year High	1.44	1.43	5.13	3.49
	5-Year Low	0.67	0.93	3.09	2.54
	5-Year Median	0.87	1.09	3.63	3
P/B TTM	Current	12.72	8.66	4.91	4.35
	5-Year High	23.86	14.57	6.73	4.35
	5-Year Low	8	6.96	4.13	2.85
	5-Year Median	10.88	8.38	5.33	3.6

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 254)



Top Peers

Leidos Holdings, Inc. (LDOS)	Outperform
Accenture PLC (ACN)	Neutral
CACI International, Inc. (CACI)	Neutral
CGI Group, Inc. (GIB)	Neutral
ICF International, Inc. (ICFI)	Neutral
ManTech International Corporation (MANT)	Neutral
Maximus, Inc. (MMS)	Neutral
Science Applications International Corporation (SAIC)	Neutral

Industry Comparison Industry: Government Services				Industry Peers		
	BAH Neutral	X Industry	S&P 500	ACN Neutral	GIB Neutral	LDOS Outperform
VGM Score	A	-	-	C	A	A
Market Cap	10.69 B	4.77 B	23.94 B	131.04 B	23.16 B	14.31 B
# of Analysts	9	3	13	11	6	6
Dividend Yield	1.42%	1.42%	1.78%	1.55%	0.00%	1.35%
Value Score	B	-	-	D	C	B
Cash/Price	0.08	0.02	0.04	0.04	0.01	0.05
EV/EBITDA	17.91	17.72	13.97	17.84	15.81	16.66
PEG Ratio	1.67	1.87	2.03	2.55	2.33	2.47
Price/Book (P/B)	12.72	3.81	3.33	8.40	4.48	4.40
Price/Cash Flow (P/CF)	22.55	17.58	13.73	23.13	18.15	16.16
P/E (F1)	24.32	20.01	18.79	26.35	21.86	18.55
Price/Sales (P/S)	1.51	1.51	2.64	2.98	2.54	1.33
Earnings Yield	4.11%	5.00%	5.32%	3.79%	4.57%	5.39%
Debt/Equity	2.77	0.54	0.72	0.17	0.32	1.00
Cash Flow (\$/share)	3.38	5.11	6.94	8.91	4.75	6.26
Growth Score	A	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	15.28%	13.15%	10.56%	11.25%	8.17%	14.25%
Proj. EPS Growth (F1/F0)	13.45%	10.80%	7.49%	6.31%	11.35%	9.04%
Curr. Cash Flow Growth	28.37%	14.24%	14.83%	8.06%	3.80%	1.52%
Hist. Cash Flow Growth (3-5 yrs)	7.77%	10.36%	9.00%	9.75%	1.29%	37.15%
Current Ratio	1.79	1.79	1.23	1.39	1.13	1.16
Debt/Capital	73.48%	35.05%	42.99%	14.60%	24.36%	49.88%
Net Margin	6.40%	6.40%	11.08%	11.06%	10.43%	6.25%
Return on Equity	57.89%	21.09%	17.16%	33.35%	19.04%	21.12%
Sales/Assets	1.70	1.70	0.55	1.48	0.95	1.17
Proj. Sales Growth (F1/F0)	10.32%	10.32%	4.20%	6.66%	6.83%	6.47%
Momentum Score	D	-	-	A	B	B
Daily Price Chg	2.78%	1.27%	0.53%	0.89%	1.21%	1.21%
1 Week Price Chg	2.45%	0.92%	-0.30%	-1.14%	-0.32%	1.27%
4 Week Price Chg	9.76%	2.74%	1.92%	1.09%	4.04%	10.85%
12 Week Price Chg	7.47%	7.47%	6.54%	10.81%	10.36%	23.71%
52 Week Price Chg	66.42%	42.76%	22.58%	40.22%	32.16%	84.08%
20 Day Average Volume	822,860	320,808	1,580,816	2,055,432	121,803	815,814
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.43%	0.00%	0.00%	0.55%	0.00%	1.18%
(F1) EPS Est 12 week change	1.86%	0.36%	-0.50%	0.56%	0.77%	3.19%
(Q1) EPS Est Mthly Chg	-1.16%	0.00%	0.00%	-0.66%	0.00%	0.00%

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	D
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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