

Booz Allen Hamilton (BAH)

\$64.34 (As of 03/13/20)

Price Target (6-12 Months): **\$74.00**

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:B

Value: C

Growth: A

Momentum: F

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.

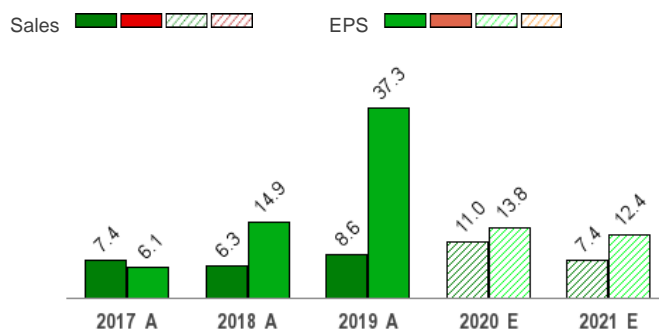
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$82.00 - \$56.26
20 Day Average Volume (sh)	1,832,403
Market Cap	\$9.8 B
YTD Price Change	-1.6%
Beta	0.97
Dividend / Div Yld	\$1.24 / 1.8%
Industry	<u>Government Services</u>
Zacks Industry Rank	Top 43% (108 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.3%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	22.7
P/E F1	20.5
PEG F1	1.4
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,953 E	1,951 E	1,979 E	2,078 E	7,993 E
2020	1,825 A	1,820 A	1,849 A	1,953 E	7,440 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	\$0.88 E	\$0.86 E	\$3.53 E
2020	\$0.83 A	\$0.81 A	\$0.80 A	\$0.71 E	\$3.14 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 03/13/2020. The reports text is as of 03/16/2020.

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.

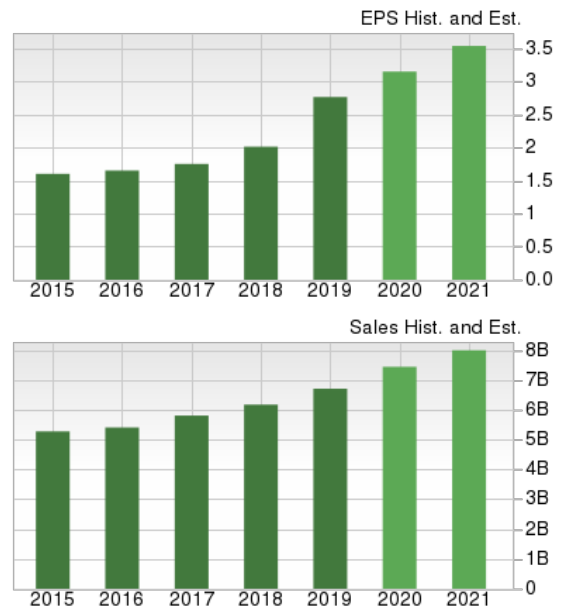
The company serves a diverse base of federal government clients, helping them to tackle complex challenges such as protecting soldiers in combat and supporting their families, keeping national infrastructure secure, advancing cyber capabilities, enabling and enhancing digital services, transforming the 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 22.6% over the past year, outperforming the 5.2% 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.

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 Dec 31, 2019, long-term debt was \$2 billion while cash and cash equivalents were \$696.8 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 Q3

Booz Allen Hamilton Holding Corporation (BAH) reported strong third-quarter fiscal 2020 results, beating the Zacks Consensus Estimate on both earnings and revenues.

Adjusted EPS of 80 cents beat the consensus mark by 5.3% and improved 11.1% on a year-over-year basis. The bottom line benefited from top-line growth, strong contract level performance, efficient management of business and an ongoing shift toward higher-margin technically focused work.

Quarter Ending **12/2019**

Report Date	Jan 31, 2020
Sales Surprise	1.61%
EPS Surprise	5.26%
Quarterly EPS	0.80
Annual EPS (TTM)	3.08

Revenues, Backlog & Headcount Increase Y/Y

Total revenues of \$1.85 billion surpassed the Zacks Consensus Estimate by 1.6% and increased 11.2% year over year. Revenues, excluding billable expenses were \$1.25 billion, up 8.3% on a year-over-year basis. Billable expenses accounted for 32% of revenues.

Total backlog increased 7.3% from the prior-year quarter to \$22 billion. Funded backlog of \$3.52 billion decreased slightly year over year. Unfunded backlog was up 17.9% to \$5.31 billion. Priced options went up 5.8% to \$13.13 billion. Book-to-bill ratio was 0.48, up 6.7% year over year. Headcount of 27,176 increased 5.3% year over year.

Operating Performance Improves

Adjusted EBITDA of \$190.8 million increased 6.2% year over year. Adjusted EBITDA margin on revenues decreased to 10.3% from 10.8% in the year-ago quarter. Adjusted EBITDA margin on revenues, excluding billable expenses, decreased to 15.3% from 15.6% in the year-ago quarter.

Adjusted operating income was \$170.1 million, up 6.2% year over year. Adjusted operating income margin on revenues was 9.2%, down from the year-ago quarter's figure of 9.7%. Adjusted operating income margin on revenues, excluding billable expenses, was 13.6% compared with 14% in the year-ago quarter.

Balance Sheet & Cash Flow

Booz Allen Hamilton exited the fiscal third quarter with cash and cash equivalents of \$696.8 million compared with \$781.5 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 \$99.8 million of net cash from operating activities. Capital expenditure was \$30.7 million and free cash flow was \$69 million.

The company paid out dividend worth \$38.1 million and repurchased shares worth \$22.5 million in the reported quarter.

Fiscal 2020 Outlook

The company raised its revenue growth projection to 10-11.5% from 9-11% expected earlier. The adjusted EPS guidance has been raised to \$3.05-\$3.15 from \$3-\$3.1 guided earlier. The midpoint (\$3.1) of the revised guided range is below the Zacks Consensus Estimate of \$3.14.

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 \$500-\$550 million, compared with the previous expectation of \$450-\$500 million.

Recent News

On **Feb 24, 2020**, Booz Allen announced that it has been awarded a contract of \$147.4 million over 5 years by The National Institutes of Health (NIH) to provide technical support and services in order to fulfill its mission of protecting public health around the world.

On **Jan 17, 2020**, Booz Allen Hamilton announced that Judi Dotson, an Executive Vice President, will lead the its National Security business and join its Leadership Team, effective April 1.

Valuation

Booz Allen shares are up 22.6% over the trailing 12-month period. The Zacks sub-industry are up 5.2%, whereas sector and S&P 500 index are down by 3.8% and 5.1%, respectively in the same time frame.

The stock is currently trading at 19.84X price to forward 12 months' earnings, which compares to 17.72X for the Zacks sub-industry, 20.99X for the Zacks sector and 15.74X 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 17.95X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$74.00 price target reflects 21.02X 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	19.84	17.72	20.99	15.74
	5-Year High	23.96	21.55	25.27	19.34
	5-Year Low	14.54	15.94	18.79	15.18
	5-Year Median	17.95	18.42	20.59	17.42
P/S F12M	Current	1.23	1.23	3.33	2.9
	5-Year High	1.44	1.45	4	3.44
	5-Year Low	0.67	0.93	3.09	2.54
	5-Year Median	0.88	1.1	3.63	3
P/B TTM	Current	10.73	7.07	4.17	3.65
	5-Year High	22.91	14.57	6.71	4.54
	5-Year Low	8	6.73	3.83	2.85
	5-Year Median	10.87	8.34	5.24	3.63

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 253)



Top Peers

Leidos Holdings, Inc. (LDOS)	Outperform
ManTech International Corporation (MANT)	Outperform
Accenture PLC (ACN)	Neutral
CACI International, Inc. (CACI)	Neutral
CGI Group, Inc. (GIB)	Neutral
ICF International, Inc. (ICFI)	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	B	-	-	D	B	B
Market Cap	9.81 B	3.53 B	19.05 B	105.85 B	16.25 B	12.77 B
# of Analysts	7	3	13	11	6	6
Dividend Yield	1.77%	1.77%	2.31%	1.92%	0.00%	1.51%
Value Score	C	-	-	D	B	C
Cash/Price	0.07	0.04	0.05	0.05	0.01	0.04
EV/EBITDA	16.72	12.62	11.57	14.33	11.29	12.34
PEG Ratio	1.40	1.73	1.68	2.06	1.77	2.14
Price/Book (P/B)	10.72	2.72	2.56	6.78	3.03	3.74
Price/Cash Flow (P/CF)	20.73	12.50	10.18	18.68	12.71	12.85
P/E (F1)	20.49	17.45	14.94	21.31	15.74	16.07
Price/Sales (P/S)	1.35	1.16	2.02	2.41	1.77	1.15
Earnings Yield	4.49%	5.74%	6.67%	4.70%	6.36%	6.22%
Debt/Equity	2.51	0.40	0.70	0.17	0.28	0.95
Cash Flow (\$/share)	3.38	5.11	7.01	8.91	4.75	7.03
Growth Score	A	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	17.07%	13.33%	10.85%	11.25%	8.89%	14.53%
Proj. EPS Growth (F1/F0)	13.92%	7.60%	5.99%	6.19%	8.33%	8.67%
Curr. Cash Flow Growth	28.37%	13.97%	6.15%	8.06%	3.80%	6.19%
Hist. Cash Flow Growth (3-5 yrs)	7.77%	9.89%	8.52%	9.75%	1.29%	6.45%
Current Ratio	1.93	1.93	1.24	1.39	1.04	1.21
Debt/Capital	71.54%	28.49%	42.57%	14.60%	22.11%	48.76%
Net Margin	5.96%	5.96%	11.64%	11.06%	10.18%	6.01%
Return on Equity	54.84%	20.54%	16.74%	33.35%	19.23%	22.51%
Sales/Assets	1.66	1.66	0.54	1.48	0.94	1.18
Proj. Sales Growth (F1/F0)	10.98%	10.98%	3.54%	6.61%	5.01%	14.01%
Momentum Score	F	-	-	D	B	C
Daily Price Chg	5.42%	4.58%	8.21%	9.17%	3.53%	5.26%
1 Week Price Chg	7.00%	7.00%	-0.67%	-1.02%	0.26%	2.95%
4 Week Price Chg	-8.17%	-17.15%	-22.67%	-21.61%	-21.60%	-20.15%
12 Week Price Chg	-1.23%	-20.79%	-20.46%	-20.06%	-28.17%	-6.20%
52 Week Price Chg	24.38%	-7.40%	-10.79%	1.03%	-10.31%	43.94%
20 Day Average Volume	1,832,403	520,855	3,061,271	3,285,059	307,135	1,359,144
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.19%	0.00%	0.00%
(F1) EPS Est 4 week change	0.18%	0.17%	-0.32%	-0.12%	-0.30%	3.09%
(F1) EPS Est 12 week change	0.42%	-0.25%	-0.65%	0.42%	-2.71%	3.72%
(Q1) EPS Est Mthly Chg	0.00%	-3.20%	-0.62%	0.07%	0.00%	-1.59%

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	C
Growth Score	A
Momentum Score	F
VGM Score	B

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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