Booz Allen Hamilton Holding Corp. (BAH)

Updated February 2nd, 2023 by Prakash Kolli

Key Metrics

Current Price:	$95	**5 Year CAGR Estimate:**	6.5%	**Market Cap:**	$12.62B
Fair Value Price:	$80	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	02/09/23
% Fair Value:	120%	**5 Year Valuation Multiple Estimate:**	-3.5%	**Dividend Payment Date:**	03/01/23
Dividend Yield:	2.0%	**5 Year Price Target**	$117	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Booz Allen Hamilton Holding Corporation traces its roots to 1914. The company had an IPO on November 10, 2010. Booz is a leading provider of professional management and technology consulting services to the U.S. Government. Technology consulting services include information technology, cybersecurity, cloud computing, and engineering services. The company basically provides staffing to U.S. Government clients. About 97% of revenue was derived from contracts where the US Government was the end client in FY22. Revenue was 47% defense, 31% civil, 19% intelligence, and 3% global commercial in FY22. The company had $8.36B in revenue in FY22.

Booz reported solid results for Q3 FY 2023 on January 27h, 2023. For the quarter, revenue increased 12.1% to $2,277M from $2,031M and adjusted diluted earnings per share increased 4.9% to $1.07 from $1.02 on a year-over-year basis. Higher revenue was again offset by lower margins. Booz increased headcount to 31,130 in the quarter from 29,453 in the prior year. Client staff headcount increased to 28,269 from 26,294 in the prior year. Greater head count drives revenue for the company. Contract type mix for the quarter varied as cost-reimbursable contracts was 53%, time-and-materials was 25%, and fixed-price was 22%.

Booz is growing via bolt-on acquisitions. In the past two years, it has spent $1.2B on Tracepoint, Liberty IT, and Everwatch, expanding in digital healthcare and cyber security. Booz has started a $100M corporate venture capital fund to invest in defense, AI, cybersecurity, and deep learning startups.

Booz continues to win contracts and the backlog rose 8.2% to ~$30.0B of which $4,544M was funded, $10,131M was unfunded, and $15,373M was priced options. The book-to-bill ratio was 0.09X in the quarter, low by historical standards.

Booz raised guidance to 9.5% - 10.5% revenue growth and $4.35 to $4.50 adjusted diluted EPS.

Growth on a Per-Share Basis

Year[1]	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.45	$1.54	$1.52	$1.94	$1.67	$2.03	$2.91	$3.41	$4.37	$4.21	***$4.43***	***$6.51***
DPS	$0.36	$0.39	$0.43	$0.52	$0.60	$0.68	$0.76	$0.96	$1.24	$1.48	***$1.88***	***$3.31***
Shares[2]	145.8	148.7	149.1	148.0	148.9	143.5	140.0	138.7	136.3	132.6	***129.9***	***115.1***

The EPS history for Booz Allen Hamilton's short operating history as a public company has been volatile. But until a few years ago the federal budget environment has been unstable. However, Booz has exhibited an upward trend in EPS since fiscal 2016 until 2021. We are expecting continued growth for the next several years because of growth in the backlog and U.S. federal government spending. We are now forecasting on average an 8% annual growth rate for EPS out to FY 2028. This will be driven by client demand for the company's services combined with around 2% decrease in share count annually. The company consistently repurchases shares each year. Booz has reliably increased the dividend at a double-digit rate since FY 2012. We expect the growth rate to slow over time. But we are still forecasting on average a 12% annual growth rate in DPS out to FY 2028 due to the relatively low payout ratio.

---

[1] BAH's fiscal year ends on the last day of March and all the tables are in fiscal year.

[2] Share count in millions.

Booz Allen Hamilton Holding Corp. (BAH)

Updated February 2nd, 2023 by Prakash Kolli

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.9	16.4	14.3	19.2	17.9	17.3	20.3	20.9	20.0	22.7	***21.5***	***18.0***
Avg. Yld.	1.8%	1.9%	1.9%	1.9%	1.7%	1.5%	1.7%	1.6%	1.8%	1.6%	***2.0%***	***2.8%***

Booz Allen Hamilton's stock price is down since our last report on fears of federal budget cuts. Still, the stock is trading above our fair value estimate of 18X, based on the trailing 10-year average. We have pegged our FY 2023 earnings estimate near the mid-point of updated guidance. Our fair value estimate is $80. Our 5-year price target is $117.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	25%	25%	28%	27%	36%	33%	26%	28%	28%	28%	***42%***	***51%***

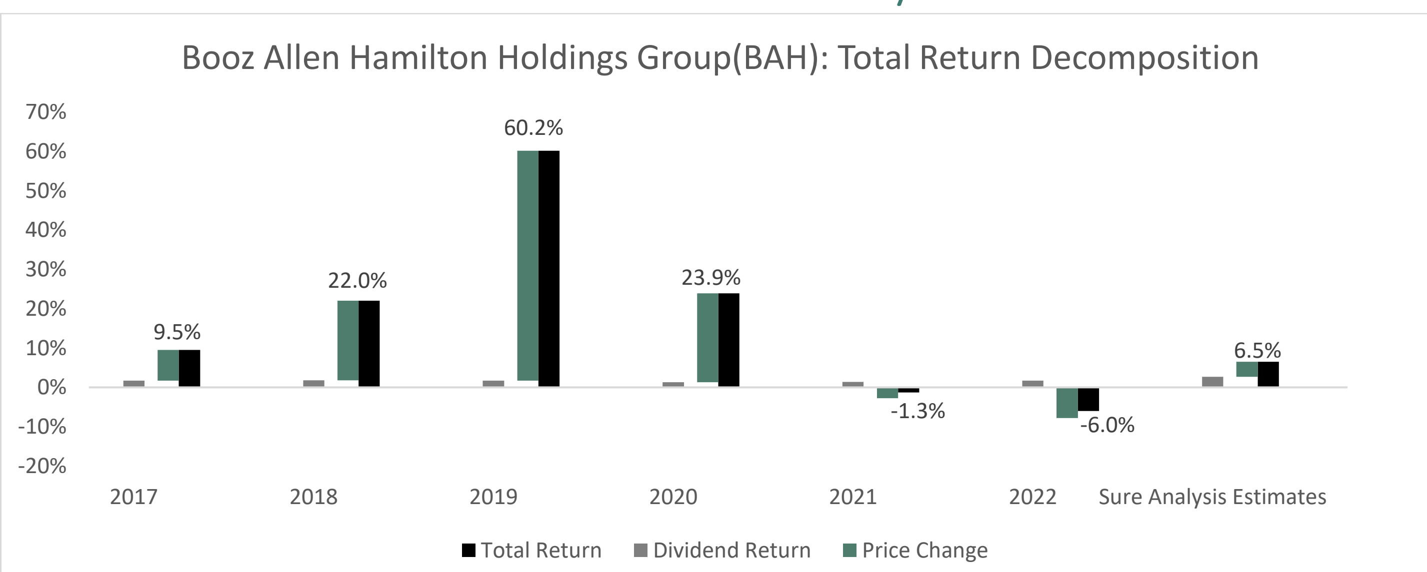
Booz Allen Hamilton is one of the largest prime services contractors for the U.S. Government. The company's competitive advantages include its scale, long-term history, technical depth, first mover advantage with many clients, and historical knowledge of many consulting projects. This is evident in the ~90% win rate for recompete contracts and ~61% win rate for new contracts. This provides some degree of recession resistance. But saying that, the company is not immune to economic downturns or slowdowns in federal government spending. Events such as changes in administration or party control of Congress can affect the federal budget and impact Booz' top and bottom lines.

The company has $41.3M in current long-term debt and $2,780.5M in long-term debt offset by $370.9M in cash and equivalents at end of the quarter. The leverage ratio is rising again and is now ~2.9X and interest coverage is ~6.3X.

Final Thoughts & Recommendation

At present we are forecasting on average a 6.5% annualized total return through FY 2028 from a dividend yield of 2.0%, 8.0% EPS growth, and (-3.5%) P/E multiple contraction. Booz is winning contracts, and the total backlog is increasing on average each year. Furthermore, Booz focuses on returning cash to shareholders through a rising dividend and share repurchases. But the company is leveraged. We rate this stock a hold at the current price and valuation.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Booz Allen Hamilton Holding Corp. (BAH)

Updated February 2nd, 2023 by Prakash Kolli

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5479	5275	5406	5406	5809	6168	6704	7464	7859	8364
Gross Profit	2763	2681	2826	2826	3131	3301	3604	4085	4201	4464
Gross Margin	50.4%	50.8%	52.3%	52.3%	53.9%	53.5%	53.8%	54.7%	53.5%	53.4%
SG&A Exp.	2230	2159	2320	2320	2565	2717	2933	3334	336	3633
D&A Exp.	72	63	62	62	60	65	69	81	84	146
Operating Profit	461	459	445	445	506	520	602	669	754	685
Operating Margin	8.4%	8.7%	8.2%	8.2%	8.7%	8.4%	9.0%	9.0%	9.6%	8.2%
Net Profit	232	233	294	294	261	302	419	483	609	466
Net Margin	4.2%	4.4%	5.4%	5.4%	4.5%	4.9%	6.2%	6.5%	7.7%	5.6%
Free Cash Flow	312	274	183	183	328	291	405	423	631	657
Income Tax	149	153	85	85	165	128	97	97	54	137

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2941	2864	3010	3010	3373	3607	3832	4794	5500	6026
Cash & Equivalents	260	207	188	188	217	287	284	742	991	696
Accounts Receivable	396	318	309	309	341	395	495	475	375	465
Goodwill & Int. Ass.	1495	1524	1583	1583	1843	1860	1868	1882	1888	2669
Total Liabilities	2769	2677	2602	2602	2800	3044	3156	3938	4428	4979
Accounts Payable	265	216	247	247	269	340	418	433	372	540
Long-Term Debt	1659	1613	1597	1597	1663	1819	1760	2186	2357	2800
Shareholder's Equity	172	186	408	408	574	562	675	856	1071	1046
LTD/E Ratio	9.67	8.65	3.91	3.91	2.90	3.23	2.61	2.55	2.20	2.68

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.6%	8.0%	10.0%	10.0%	8.2%	8.6%	11.3%	11.2%	11.2%	8.1%
Return on Equity	117%	130%	98.9%	98.9%	53.1%	53.1%	67.6%	63.0%	63.2%	44.1%
ROIC	12.3%	12.8%	15.5%	15.5%	12.3%	13.1%	17.4%	17.6%	17.6%	12.8%
Shares Out.	145.8	148.7	149.1	148.0	148.9	143.5	140.0	138.7	138.7	134.9
Revenue/Share	36.85	35.08	36.11	36.11	38.66	41.74	46.83	52.85	56.66	62.02
FCF/Share	2.10	1.82	1.22	1.22	2.19	1.97	2.83	3.00	4.55	4.87

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.