# Booz Allen Hamilton Holding Corp. (BAH)

*Updated September 1st, 2024 by Prakash Kolli*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $159 | **5 Year CAGR Estimate:** | 3.3% | **Market Cap:** | $20.51B |
| **Fair Value Price:** | $119 | **5 Year Growth Estimate:** | 8.0% | **Ex-Dividend Date:** | 08/14/24 |
| **% Fair Value:** | 134% | **5 Year Valuation Multiple Estimate:** | -5.7% | **Dividend Payment Date[1]:** | 08/30/24 |
| **Dividend Yield:** | 1.3% | **5 Year Price Target** | $174 | **Years Of Dividend Growth:** | 12 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | D | **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 is derived from contracts where the U.S. Government is the end client. Revenue was 47% defense, 31% civil, 19% intelligence, and 3% global commercial in FY23. The company had $10.7B in revenue in FY24.

Booz reported results for Q1 FY 2025 on July 26th, 2024. For the quarter, revenue increased 10.8% to $2,941.8M from $2,654.5M, while adjusted diluted earnings per share declined 6.1% to $1.38 from $1.47 on a year-over-year basis. Booz increased headcount to a record of 35,100 in the quarter from 32,600 in the prior year. Client staff headcount increased to 32,000 from 29,700 in the prior year. Greater head count drives revenue for the company. Contract type mix for the quarter varied as cost-reimbursable contracts was 56%, time-and-materials was 23%, and fixed-price was 21%.

Booz continues to win contracts, and the backlog is ~$36.2B of which $5,136M was funded, $10,119M was unfunded, and $20,923M was priced options. The book-to-bill ratio was 1.72X in the quarter.

The firm acquired PAR Government Systems Corporation (PGSC).

Booz lowered guidance to 8.0% - 11.0% revenue growth and $5.80 to $6.05 adjusted diluted EPS.

## Growth on a Per-Share Basis

| Year[1] | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EPS | $1.52 | $1.94 | $1.67 | $2.03 | $2.91 | $3.41 | $4.37 | $4.21 | $4.56 | $5.50 | ***$5.93*** | ***$8.71*** |
| DPS | $0.43 | $0.52 | $0.60 | $0.68 | $0.76 | $0.96 | $1.24 | $1.48 | $1.88 | $1.92 | ***$2.04*** | ***$3.00*** |
| Shares[2] | 148.0 | 148.9 | 143.5 | 140.0 | 138.7 | 136.3 | 132.6 | 132.2 | 130.8 | 130.8 | ***129.5*** | ***121.9*** |

The EPS history for Booz Allen Hamilton's short operating history as a public company has been volatile. But until several years ago the federal budget environment was unstable. However, Booz 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 2030. This will be driven by client demand for the company's services, around 1% decrease in share count annually, and tuck-in acquisitions. A downside risk is poor billing practices.

The company consistently repurchases shares each year but at the expense of more debt. Booz has reliably increased the dividend at a double-digit rate since FY 2012. However, we have lowered our forecast to an 8% average annual growth rate in dividend per share out to FY 2030 because the payout ratio has risen.

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[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.

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## Valuation Analysis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/E | 14.3 | 19.2 | 17.9 | 17.3 | 20.3 | 20.9 | 20.0 | 23.9 | 22.1 | 27.7 | ***26.8*** | ***20.0*** |
| Avg. Yld. | 1.9% | 1.9% | 1.7% | 1.5% | 1.7% | 1.6% | 1.8% | 1.5% | 1.9% | 1.3% | ***1.3%*** | ***1.7%*** |

Booz Allen Hamilton's stock price is up again since our last report even after missing estimates. Our fair value estimate is 20X, near the 10-year average. We left our FY 2025 earnings estimate to near the mid-point of initial guidance. Our fair value estimate is $119. Our 5-year price target is $174.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 28% | 27% | 36% | 33% | 26% | 28% | 28% | 35% | 41% | 35% | ***34%*** | ***34%*** |

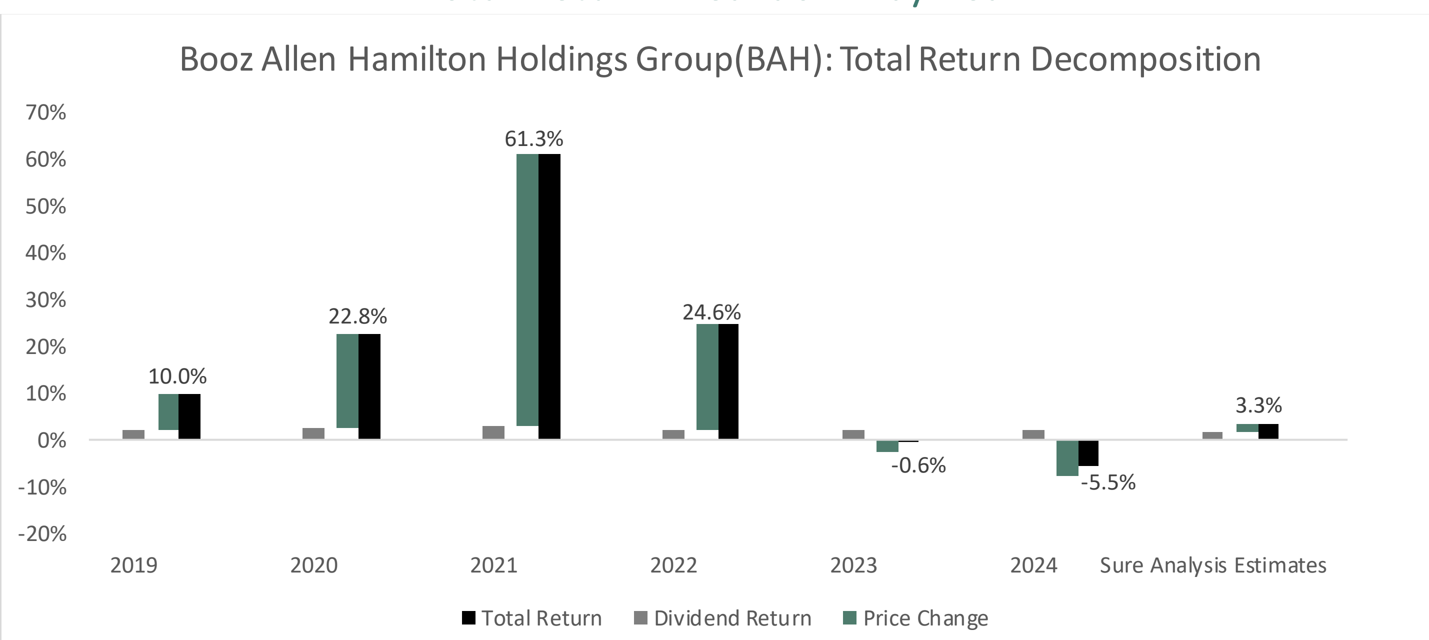
Booz Allen Hamilton is one of the largest prime services contractors for the U.S. Government. The company's competitive advantages include its scale, long-term history, technical depth, first mover advantage with many clients, and historical knowledge of many consulting projects. This is evident in the ~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 $72.2M in current long-term debt and $3,330.4M in long-term debt offset by $297.7M in cash and equivalents at end of the quarter. The leverage ratio is rising again and is now ~2.6X and interest coverage is ~5.6X.

## Final Thoughts & Recommendation

At present we are forecasting on average a 3.3% annualized total return through FY 2030 from a dividend yield of 1.3%, 8.0% EPS growth, and (-5.7%) P/E multiple contraction. The passage of the debt ceiling deal and the settlement of past billing practices in a civil investigation removed overhangs on this equity. However, competition is strong, leverage is high, and interest expense is trending up. We have maintained our rating at hold.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 5406 | 5406 | 5809 | 6168 | 6704 | 7464 | 7859 | 8364 | 9259 | 10662 |
| Gross Profit | 2826 | 2826 | 3131 | 3301 | 3604 | 4085 | 4201 | 4464 | 4954 | 5741 |
| Gross Margin | 52.3% | 52.3% | 53.9% | 53.5% | 53.8% | 54.7% | 53.5% | 53.4% | 53.5% | 53.8% |
| SG&A Exp. | 2320 | 2320 | 2565 | 2717 | 2933 | 3334 | 336 | 3633 | 4342 | 1281 |
| D&A Exp. | 62 | 62 | 60 | 65 | 69 | 81 | 84 | 146 | 165 | 164 |
| Operating Profit | 445 | 445 | 506 | 520 | 602 | 669 | 754 | 685 | 447 | 1013 |
| Operating Margin | 8.2% | 8.2% | 8.7% | 8.4% | 9.0% | 9.0% | 9.6% | 8.2% | 4.8% | 9.5% |
| Net Profit | 294 | 294 | 261 | 302 | 419 | 483 | 609 | 466 | 272 | 606 |
| Net Margin | 5.4% | 5.4% | 4.5% | 4.9% | 6.2% | 6.5% | 7.7% | 5.6% | 2.9% | 5.7% |
| Free Cash Flow | 183 | 183 | 328 | 291 | 405 | 423 | 631 | 657 | 527 | 192 |
| Income Tax | 85 | 85 | 165 | 128 | 97 | 97 | 54 | 137 | 97 | 248 |

## Balance Sheet Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 3010 | 3010 | 3373 | 3607 | 3832 | 4794 | 5500 | 6026 | 6551 | 6564 |
| Cash & Equivalents | 188 | 188 | 217 | 287 | 284 | 742 | 991 | 696 | 405 | 554 |
| Accounts Receivable | 309 | 309 | 341 | 395 | 495 | 475 | 375 | 465 | 552 | 700 |
| Goodwill & Int. Ass. | 1583 | 1583 | 1843 | 1860 | 1868 | 1882 | 1888 | 2669 | 3024 | 2945 |
| Total Liabilities | 2602 | 2602 | 2800 | 3044 | 3156 | 3938 | 4428 | 4979 | 5559 | 5517 |
| Accounts Payable | 247 | 247 | 269 | 340 | 418 | 433 | 372 | 540 | 598 | 653 |
| Long-Term Debt | 1597 | 1597 | 1663 | 1819 | 1760 | 2186 | 2357 | 2800 | 2812 | 3412 |
| Shareholder's Equity | 408 | 408 | 574 | 562 | 675 | 856 | 1071 | 1046 | 992 | 1047 |
| LTD/E Ratio | 3.91 | 3.91 | 2.90 | 3.23 | 2.61 | 2.55 | 2.20 | 2.68 | 2.83 | 3.26 |

## Profitability & Per Share Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 10.0% | 10.0% | 8.2% | 8.6% | 11.3% | 11.2% | 11.2% | 8.1% | 4.3% | 9.2% |
| Return on Equity | 98.9% | 98.9% | 53.1% | 53.1% | 67.6% | 63.0% | 63.2% | 44.1% | 26.7% | 59.4% |
| ROIC | 15.5% | 15.5% | 12.3% | 13.1% | 17.4% | 17.6% | 17.6% | 12.8% | 7.1% | 14.7% |
| Shares Out. | 149.1 | 148.0 | 148.9 | 143.5 | 140.0 | 138.7 | 138.7 | 134.9 | 132.7 | 130.8 |
| Revenue/Share | 36.11 | 36.11 | 38.66 | 41.74 | 46.83 | 52.85 | 56.66 | 62.02 | 69.76 | 81.50 |
| FCF/Share | 1.22 | 1.22 | 2.19 | 1.97 | 2.83 | 3.00 | 4.55 | 4.87 | 3.97 | 1.47 |

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