Jacobs Solutions Inc. (J)

Published December 24th, 2024, by Kody Kester

Key Metrics

Current Price:	$136	**5 Year CAGR Estimate:**	9.2%	**Market Cap:**	$16.9B
Fair Value Price:	$126	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date[1]:**	02/21/25
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.5%	**Dividend Payment Date:**	03/21/25
Dividend Yield:	0.9%	**5 Year Price Target**	$203	**Years Of Dividend Growth:**	6
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Founded in 1947, Jacobs Solutions Inc. provides clients with end-to-end services in energy, life sciences, environmental, transportation and water, and advanced manufacturing. The company's team of approximately 45,000 employees tackles many of the world's biggest problems, including water scarcity, aging infrastructure, and access to life-saving therapies.

J operates the following two operating segments:

1. Infrastructure & Advanced Facilities: This segment operates in the Critical Infrastructure (42% of FY 2024 revenue), Water & Environmental (31% of FY 2024 revenue), and Life Sciences & Advanced Manufacturing end markets (27% of FY 2024 revenue). The segment offers a variety of services, such as engineering, consulting, planning, and design. As of its FY ended September 27th, 2024, the segment made up nearly 90% of J's $11.5 billion in total revenue.
2. PA Consulting: This segment came about from the company's acquisition of a 65% stake in PA Consulting in March 2021. The company's global team of roughly 4,000 people includes strategists, innovators, consultants, designers, scientists, and engineers. These employees work with clients in consumer and manufacturing, defense and security, financial services, energy and utilities, government, transport, and health and life sciences. Clients range from household names like Unilever and start-ups like PulPac, which converts plant fibers into sustainable packaging to limit single-use plastic. The segment made up the remaining 10% of J's $11.5 billion in total FY 2024 revenue.

Also of note, J completed a spinoff at the end of its FY 2024. The company transferred its Critical Mission Solutions business and parts of the Divergent Solutions business to form a new publicly traded spin company called Amentum Holdings. This was done to focus on a simpler, higher-value, and higher-margin portfolio, and it provided $911 million, which was used to repay existing debt. According to CEO Bob Pragada, J received a 7.5% equity ownership in Amentum, which could eventually rise to 8%. Simultaneously, J's shareholders became 51% owners in Amentum, and that ownership stake could increase to 55%.

On November 19th, J shared its fiscal fourth-quarter financial results. The company's adjusted revenue edged 4.3% higher year-over-year to $2.1 billion. J's adjusted EPS rose by 28% over the year-ago period to $1.37. For context, that matched the analyst consensus for adjusted EPS.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.72	$2.57	$2.71	$3.73	$4.22	$4.58	$5.25	$5.79	$6.01	$5.28	***$6.00***	***$9.66***
DPS	-	-	$0.60	$0.60	$0.68	$0.76	$0.84	$0.92	$1.04	$1.16	***$1.16***	***$1.87***
Shares[2]	123.1	121.0	120.4	142.2	132.9	129.8	128.9	127.4	126.0	124.3	***124.0***	***118.5***

[1] Estimate

[2] Share count is in millions.

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Over the years, J has posted approximately 10% annual adjusted EPS growth rate. Moving forward, we believe that this level of growth can continue. That's because mid-single-digit annual revenue growth is arguably a reasonable expectation in the years to come. The spinoff of lower-margin businesses should also translate into margin expansion for the foreseeable future. Combined with modest share repurchases, this is the path to roughly 10% annual adjusted EPS growth over the medium term for J.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	11.5	16.8	18.0	17.1	18.0	17.2	21.4	15.7	19.0	24.6	***22.7***	***21.0***
Avg. Yld.	-	-	1.2%	0.9%	0.9%	1.0%	0.7%	1.0%	0.9%	0.9%	***0.9%***	***0.9%***

In the past decade, J's shares have traded at a P/E ratio as low as the low-double-digits to a valuation multiple as high as the mid-20s. The average P/E ratio in that time has been right around 19.6. The spinoff of lower-margin businesses leads us to believe that a re-rating about one standard deviation higher than the 10-year average could be in order. That would be a P/E ratio of approximately 21. By comparison, the current P/E ratio of 22.7 implies shares of J could be slightly overvalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	-	-	22%	16%	16%	17%	16%	16%	17%	22%	***19%***	***19%***

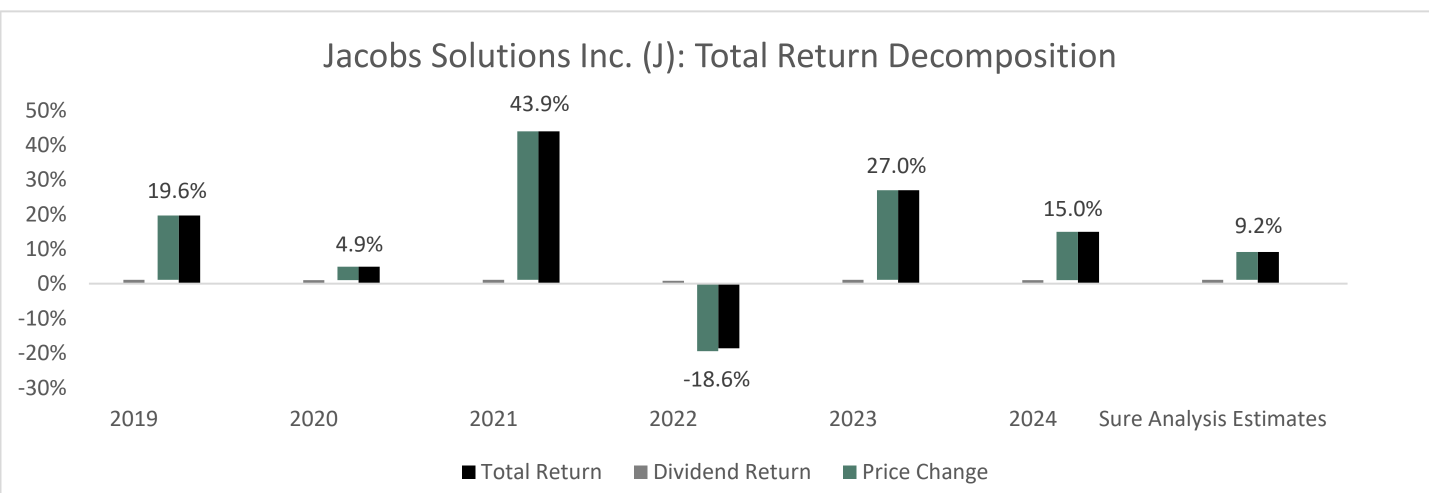
J is an established player in its industry, with a wide variety of services that meet the needs of most clients. That has historically led to high retention rates and fairly consistent adjusted EPS growth over the years.

As of September 27th, 2024, the company's net debt to trailing 12-month adjusted EBITDA ratio was just 1. This offers support to the argument that J is financially stable. Adding to this is the fact that the company's dividend payout ratio is expected to be in the high-teens to low-20% range for FY 2025. That's a manageable payout ratio that gives J the flexibility to navigate a temporary downturn in profits without likely having to cut the dividend.

Final Thoughts & Recommendation

J's 0.9% dividend yield, 10% annual adjusted EPS growth potential, and 1.5% annual valuation multiple contraction could lead to 9.2% annual total returns over the next five years. The stock's valuation is a bit too high to justify a buy rating, so we're initiating coverage with a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	12,115	10,964	6,330	10,580	12,738	13,567	14,093	9,783	10,851	11,501
Gross Profit	1,968	1,768	1,260	2,159	2,477	2,587	3,044	2,580	2,711	2,833
Gross Margin	16.2%	16.1%	19.9%	20.4%	19.4%	19.1%	21.6%	26.4%	25.0%	24.6%
SG&A Exp.	1,523	1,429	1,016	1,771	2,072	2,051	2,356	2,040	2,034	2,140
D&A Exp.	149	130	123	199	169	182	251	301	307	309
Operating Profit	446	339	244	387	405	536	688	540	676	692
Operating Margin	3.7%	3.1%	3.9%	3.7%	3.2%	4.0%	4.9%	5.5%	6.2%	6.0%
Net Profit	303	210	294	163	848	492	477	644	666	806
Net Margin	2.5%	1.9%	4.6%	1.5%	6.7%	3.6%	3.4%	6.6%	6.1%	7.0%
Free Cash Flow	396	602	457	386	(502)	689	633	347	837	934
Income Tax	101	72	73	326	37	55	275	66	101	131

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,786	7,360	7,381	12,646	11,463	12,354	14,633	14,660	14,617	11,759
Cash & Equivalents	461	656	774	635	631	862	1,014	1,140	771	1,145
Accounts Receivable	1,214	1,110	949	1,107	1,222	1,294	1,278	1,400	1,129	1,279
Goodwill & Int. Ass.	3,402	3,417	3,343	5,369	6,098	6,297	8,763	8,579	5,595	5,663
Total Liabilities	3,429	3,030	2,894	6,701	5,694	6,499	8,000	7,924	7,384	6,372
Accounts Payable	567	522	684	776	1,073	1,062	908	967	922	1,029
Long-Term Debt	598	388	238	2,147	1,401	1,677	2,893	3,408	2,875	2,224
Shareholder’s Equity	4,292	4,265	4,428	5,854	5,715	5,816	5,940	6,060	6,546	4,549
LTD/E Ratio	0.14	0.09	0.05	0.37	0.25	0.29	0.49	0.56	0.44	0.49

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.7%	2.8%	4.0%	1.6%	7.0%	4.1%	3.5%	4.4%	4.5%	6.1%
Return on Equity	6.8%	4.8%	6.7%	3.1%	14.5%	8.5%	7.6%	9.6%	9.5%	12.8%
ROIC	5.9%	4.4%	6.2%	2.6%	11.1%	6.7%	5.6%	6.5%	6.6%	9.1%
Shares Out.	123.1	121.0	120.4	142.2	132.9	129.8	128.9	127.4	126.0	124.3
Revenue/Share	96.07	90.25	52.69	76.92	91.50	102.22	107.35	75.58	85.30	91.36
FCF/Share	3.14	4.96	3.80	2.81	(3.61)	5.19	4.83	2.68	6.58	7.42

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