

Booz Allen Hamilton

The gift that keeps on giving: demand environment and employees drive growth

Reiterate Rating: BUY | PO: 160.00 USD | Price: 144.62 USD

Software expertise and customer intimacy is crucial

Booz Allen Hamilton (BAH) continues to be the leader of organic growth, with topline revenues up 13% Y/Y and adj. EBITDA margins expanding 59bps Y/Y. BAH reported strong growth in Civil and Defense (up 18% and 17% respectively). Civil revenues were bolstered by the health business reaching the \$2bn annual revenue mark and continued momentum within energy. We see BAH as in a niche position in Defense as software becomes increasingly critical for mission success. Defense primes have struggled to price software, and we see opportunities for BAH and other services names to take advantage of this market.

Increased focus on tech unlocks strong defense opps.

We expect BAH to benefit from increased demand and spending over the next several quarters given the external threat environment. China, in particular, is one area of potential upside. We see opportunities for BAH in relation to the JADC2 strategic mission, especially given the company's track record of working with various partners and bringing new tech to scale quickly. Earlier in January, BAH and L3Harris announced the two companies are working together on the development and delivery of mission system integration offerings in support of JADC2. We think BAH's shift to unlock value from tech-focused contracts leaves the company well-positioned to benefit from government spending on critical high-tech initiatives.

Power to the people: strong hiring pool & retention

We continue to be impressed with BAH's employee hiring, training, and retention programs. In 3QFY24, client staff headcount was up 9.2% Y/Y and total headcount up 8.6%. Talent is a key source of upside, particularly given the challenging and competitive hiring environment. Management noted that attrition is down meaningfully, and monthly applications are on pace to double Y/Y. Technology to make the hiring and recruiting process more efficient as well as decrease the time to make an employee "billable" after they start has been critical. Current hiring momentum, along with strong orders, position BAH ahead of expectations and in a strong place to beat FY2025 targets, in our view. We raise our estimates to reflect BAH's ability to hire new employees and our PO rises from \$145 to \$160. We reiterate our Buy rating on BAH.

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.21	4.56	5.35	5.90	6.70
GAAP EPS	3.45	2.03	4.75	5.58	6.41
EPS Change (YoY)	7.9%	8.3%	17.3%	10.3%	13.6%
Consensus EPS (Bloomberg)			5.35	5.83	6.44
DPS	1.54	1.76	1.92	2.06	2.14
Valuation (Mar)					
P/E	34.4x	31.7x	27.0x	24.5x	21.6x
GAAP P/E	41.9x	71.2x	30.4x	25.9x	22.6x
Dividend Yield	1.1%	1.2%	1.3%	1.4%	1.5%
EV / EBITDA*	22.3x	20.5x	18.1x	16.1x	14.7x
Free Cash Flow Yield*	3.5%	2.8%	0.9%	3.9%	4.6%

* For full definitions of *IQmethod*SM measures, see page 7.

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Timestamp: 09 February 2024 04:24AM EST

09 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	145.00	160.00
2024E DPS	1.90	1.92

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Stock Data

Price	144.62 USD
Price Objective	160.00 USD
Date Established	9-Feb-2024
Investment Opinion	B-1-7
52-Week Range	87.99 USD - 147.52 USD
Mrkt Val (mn) / Shares Out (mn)	18,764 USD / 129.7
Free Float	98.3%
Average Daily Value (mn)	105.03 USD
BofA Ticker / Exchange	BAH / NYS
Bloomberg / Reuters	BAH US / BAH.N
ROE (2024E)	64.7%
Net Dbt to Eqty (Mar-2023A)	242.7%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

JADC2: Joint All Domain Command and Control

iQprofileSM Booz Allen Hamilton

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	14.5%	14.3%	16.5%	17.9%	19.4%
Return on Equity	53.7%	59.4%	64.7%	64.1%	69.1%
Operating Margin	9.9%	9.7%	9.7%	10.1%	10.4%
Free Cash Flow	657	527	165	736	854

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.0x	0.4x	1.1x	1.2x
Asset Replacement Ratio	0.5x	0.5x	0.5x	0.8x	0.9x
Tax Rate	22.8%	26.3%	22.5%	24.0%	25.0%
Net Debt-to-Equity Ratio	201.1%	242.7%	238.9%	242.0%	229.5%
Interest Cover	9.0x	7.5x	5.9x	6.2x	6.8x

Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,364	9,259	10,648	11,713	12,650
% Change	6.4%	10.7%	15.0%	10.0%	8.0%
Gross Profit	4,464	4,954	5,728	6,189	6,684
% Change	6.3%	11.0%	15.6%	8.0%	8.0%
EBITDA	935	1,014	1,152	1,292	1,417
% Change	11.4%	8.4%	13.6%	12.2%	9.7%
Net Interest & Other Income	(81)	(79)	(163)	(191)	(193)
Net Income (Adjusted)	568	605	701	757	843
% Change	5.0%	6.5%	15.8%	8.0%	11.3%

Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	467	271	626	721	811
Depreciation & Amortization	146	165	165	152	143
Change in Working Capital	138	413	(670)	(115)	(76)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	(14)	(247)	134	95	103
Capital Expenditure	(80)	(76)	(91)	(117)	(126)
Free Cash Flow	657	527	165	736	854
% Change	4.0%	-19.8%	-68.7%	346.4%	16.0%
Share / Issue Repurchase	(419)	(224)	(323)	(540)	(582)
Cost of Dividends Paid	(209)	(236)	(253)	(264)	(269)
Change in Debt	487	415	1,136	0	0

Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	696	405	616	548	551
Trade Receivables	1,623	1,775	2,039	2,243	2,387
Other Current Assets	127	108	111	122	132
Property, Plant & Equipment	202	195	187	195	217
Other Non-Current Assets	3,378	4,067	3,634	3,676	3,694
Total Assets	6,026	6,551	6,587	6,783	6,981
Short-Term Debt	68	41	52	52	52
Other Current Liabilities	1,466	1,856	1,570	1,754	1,888
Long-Term Debt	2,732	2,771	3,370	3,370	3,370
Other Non-Current Liabilities	713	891	422	422	422
Total Liabilities	4,979	5,559	5,413	5,597	5,731
Total Equity	1,046	992	1,174	1,187	1,250
Total Equity & Liabilities	6,025	6,551	6,587	6,783	6,981

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Defense Electronics

Company Description

Booz Allen Hamilton is a tier-one provider of consulting and technology services to the US government, a \$100bn+ market. BAH began serving public sector clients in 1940, and spun off its commercial unit in 2008. The company is based in McLean, VA.

Investment Rationale

We view BAH as a pureplay beneficiary of increased focus on cyber security and technological modernization by both the US government and the commercial sector. We believe a relative multiple at the higher end of the historical range of 0.9-1.4x fairly factors in National Security demand for innovative technologies, the return to shareholder-friendly capital deployment, as well as headwinds related to a possible continuing resolution.

Stock Data

Average Daily Volume 726,230

Quarterly Earnings Estimates

	2023	2024
Q1	1.13A	1.47A
Q2	1.34A	1.29A
Q3	1.07A	1.41A
Q4	1.01A	1.18E

Growth driven by Civil and Defense

Defense: preserving margins and expanding opportunities

Defense revenues grew 17% Y/Y, primarily driven by the strengthening award environment. In addition to top line growth, management highlighted that the business has been able to create efficiencies which has allowed it to preserve margins. Similar to other defense contractors who have reported December quarter earnings, BAH's management team noted that they do not expect to see a government shutdown and do not expect a lapse in defense funding. We expect BAH to benefit from increased demand and spending over the next several quarters given the external threat environment. China, in particular, is one area of potential upside. We see opportunities for BAH in relation to the JADC2 strategic mission, especially given the company's track record of working with various partners and bringing new tech to scale quickly.

Civil: strength in health and energy businesses

Civil revenues grew 18% Y/Y, and management noted that the segment "has been the star of the portfolio for some years now". Growth was primarily driven by the health business which has now crossed the \$2bn annual revenue mark and is becoming a more substantial portion of the overall Civil portfolio. Civil also see growth driven by momentum in the energy sector, which we expect to continue.

Intel: expected decline, impacted by backlog of clearances

While Intel revenues fell (down 3% Y/Y), this was largely expected given the loss of the FocusedFox contract to CACI ([read our Defense Services note here](#)). Despite this, management was confident about the business's upcoming awards pipeline. We also highlight that Intel was partially impacted by the speed at which its employees can gain necessary clearances or transfer clearances. As highlighted at BAH's AI& event, ~80% of the company's AI talent holds some form of security clearance. We expect the clearance-related impact to Intel to dissipate as the backlog of those awaiting clearances is worked through.

Global Commercial: ~2% of business, but synergies to public side

While Global Commercial revenues fell 22% Y/Y, we highlight that the segment only makes up ~2% of the company's overall portfolio. Management noted that performance this quarter is still reflective of divestitures and general softness within the commercial consulting world. The incident response business accelerated during the quarter, and we expect this momentum to continue. Despite the small makeup of the segment, we do see value in Global Commercial. We think having a presence that cuts across both the public and private sectors makes BAH a valuable partner.

Strong hiring momentum, people as a key differentiator

Hiring momentum remained strong throughout 3QFY24, with client staff headcount up 9.2% Y/Y and total headcount up 8.6%. We see BAH's ability to hire, train, and retain employees as a key source of upside, particularly given the challenging and competitive hiring environment. Management noted that attrition is down meaningfully, and monthly applications are on pace to double Y/Y. Technology to make the hiring and recruiting process more efficient as well as decrease the time to make an employee "billable" after they start has been critical. Additionally, management highlighted that in order to make their FY25 targets, LTM book-to-bill should be ~1.2x-1.3x and headcount should grow in the mid-single digit range. We think the fact that BAH is performing ahead on both of these factors helps derisk FY2025 targets.

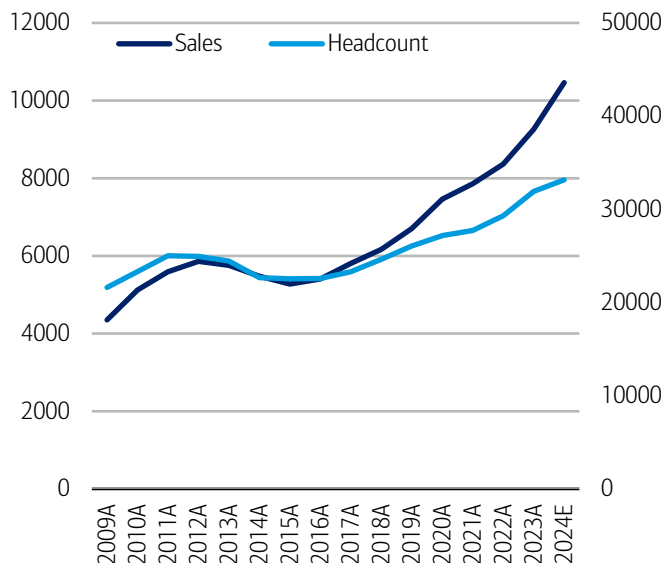
BAH continues to enhance employee development opportunities and promote a culture of career development aligned to better serve a mission rather than a single contract. Management highlighted the heritage of the company and strong past performance as another enabler of their strong growth profile. Additionally, BAH's emphasis on differentiated AI solutions necessitates the hiring of data scientists, data & machine learning engineers, researchers, and mathematicians, among various other specialties.



This expands the potential hiring pool and helps BAH mitigate the challenges associated with a highly competitive hiring environment.

Exhibit 1: Sales and headcount move in tandem

But the focus on solutions has unlocked more revenue opportunities



Source: BofA Global Research, company filings

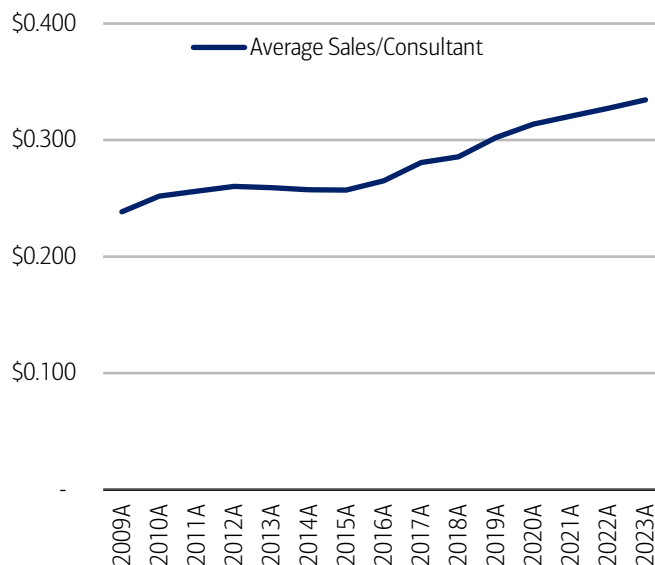
*Sales on left hand side axis (in \$mn)

*Headcount on right hand side axis

BofA GLOBAL RESEARCH

Exhibit 2: Average sales per consultant

Average sales per consultant has been trending upward, along with BAH focus on tech



Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH

Increasing FY2024 and outyear adj. EPS on strong hiring momentum

Given BAH's ability to hire new employees, we raise our adj. EPS expectations in FY2024 and in the outyears. We increase adj. EPS in FY2024E to \$5.35 (vs. \$5.00 previous), FY2025E to \$5.90 (vs. \$5.85 previous), FY2026E to \$6.70 (vs. \$6.60 previous), and FY2027E to \$7.50 (vs. \$7.35 previous).

Capital deployment: dividends and improving M&A

We look favorably on BAH's ongoing return to a more shareholder-friendly capital deployment strategy. During the quarter, management raised the quarterly dividend by \$0.04 to \$0.51. Additionally, similar to other names that have reported, management noted that they see the M&A market easing and becoming more buyer-friendly. There have been indications of more assets, and particularly more assets of scale, coming to market. We appreciate BAH's discipline in looking for unique capabilities or business models that will help accelerate BAH into the new waves of technology.

Reiterate Buy; raise PO to \$160

We see significant upside potential for BAH given the external demand environment. Having a capable workforce already in place coupled with BAH's ability to hire new employees gives the company an advantage on ramping new contract work. Additionally, given the company's first mover advantage in the AI space, we continue to see BAH as strongly positioned to benefit from the rise in AI demand within the US government.

We are raising our PO to \$160 from \$145 mainly to factor in stronger than expected growth and hiring trends. We are rolling our valuation one year forward. Our PO of \$160 is based on a 1.3x relative EV/EBITDA multiple (unchanged) to the BofA multiple for the defense primes on CY25 estimates (vs. prior CY24). This equals a 17x EV/EBITDA multiple on CY25e. We think a relative multiple at the higher end of the historical range (0.9-1.4x) fairly represents the AI opportunity, strong organic growth opportunities, and a return to a more shareholder-friendly capital deployment strategy.



Price objective basis & risk

Booz Allen Hamilton (BAH)

Our PO of \$160 is based on a 1.3x relative EV/EBITDA multiple to the BofA multiple for the defense primes on CY25 estimates. This equals a 17x EV/EBITDA multiple on CY25e. We think a relative multiple at the higher end of the historical range (0.9-1.4x) fairly represents the AI opportunity, strong organic growth opportunities, and a return to a more shareholder friendly capital deployment strategy.

Risks to the upside are a better-than-anticipated upturn in the federal budget, faster-than-expected normalization from post-COVID environment, inexpensive and well-integrated M&A activity and unexpected capital return to shareholders in the form of buybacks or special dividends.

Risks to the downside are cuts to the DoD budget vs. anticipated, which could negatively impact our estimates. Should BAH run into any problems with integrating M&A, containing its costs or a heightened competitive environment there could be downside risk to our estimates. Further disruption from COVID effects also a risk.

Analyst Certification

I, Mariana Perez Mora, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AerCap Holdings N.V.	AER	AER US	Ronald J. Epstein
	Air Lease Corporation	AL	AL US	Ronald J. Epstein
	Booz Allen Hamilton	BAH	BAH US	Mariana Perez Mora
	BWX Technologies, Inc.	BWXT	BWXT US	Ronald J. Epstein
	CACI International	CACI	CACI US	Mariana Perez Mora
	Cadre Holdings Inc	CDRE	CDRE US	Ronald J. Epstein
	Crane Co.	CR	CR US	Ronald J. Epstein
	Embraer	ERJ	ERJ US	Ronald J. Epstein
	General Dynamics	GD	GD US	Ronald J. Epstein
	HEICO Corporation	HEI	HEI US	Ronald J. Epstein
	Howmet Aerospace Inc.	HWM	HWM US	Ronald J. Epstein
	KBR	KBR	KBR US	Mariana Perez Mora
	Leidos Holdings	LDOS	LDOS US	Mariana Perez Mora
	Leonardo DRS, Inc.	DRS	DRS US	Ronald J. Epstein
	Northrop Grumman	NOC	NOC US	Ronald J. Epstein
	Palantir Technologies	PLTR	PLTR US	Mariana Perez Mora
	Parsons Corporation	PSN	PSN US	Mariana Perez Mora
	RBC Bearings Inc	RBC	RBC US	Ronald J. Epstein
	Rocket Lab	RKLB	RKLB US	Ronald J. Epstein
	Teledyne Technologies Inc	TDY	TDY US	Ronald J. Epstein
	TransDigm Group Inc.	TDG	TDG US	Ronald J. Epstein
	Triumph Group	TGI	TGI US	Ronald J. Epstein
NEUTRAL				
	Albany International	AIN	AIN US	Ronald J. Epstein
	Boeing	BA	BA US	Ronald J. Epstein
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein
	L3Harris	LHX	LHX US	Ronald J. Epstein
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein
	RTX Corp	RTX	RTX US	Ronald J. Epstein
	Textron	TXT	TXT US	Ronald J. Epstein

US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	Bombardier	BDRBF	BDRBF US	Ronald J. Epstein
	Bombardier Inc.	YBBD B	BBD/B CN	Ronald J. Epstein
	CAE Inc.	YCAE	CAE CN	Ronald J. Epstein
	CAE Inc.	CAE	CAE US	Ronald J. Epstein
	Huntington Ingalls Industries	HII	HII US	Ronald J. Epstein
	Mercury Systems	MRCY	MRCY US	Ronald J. Epstein
	Spirit AeroSys-A	SPR	SPR US	Ronald J. Epstein

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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Disclosures

Important Disclosures

Booz Allen Hamilton (BAH) Price Chart



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Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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