

Jacobs Solutions Inc. (J)

Rating: Buy	Price	Yield	Market Cap.	52-Week Range
	\$151.28	0.8%	\$19.3B	\$154.50 – \$120.71
	Data as of 07/23/2024			

Sector	Industrials
Subsector	Capital Goods
Investment Category	Small & Mid-Cap
Price Movement	Average

Company Overview

Jacobs Solutions, formerly Jacobs Engineering Group, is an engineering and construction company which provides technical, professional and construction services to industrial, commercial and governmental customers worldwide. End-markets served include power generation, infrastructure, chemicals, cybersecurity, and pharmaceuticals. The company was founded in 1947 and is based in Dallas, Texas. Jacobs' competitors include Fluor, KBR, and AECOM.	
Revenues International	43%
Standard & Poor's/Moody's	NR/NR
MSCI ESG Rating	AA/Leader

Dividend Outlook (1-Year): Rising

Annualized Payment	\$1.16
Last Change	12% (Jan 25, 2024)
Consec. Yrs Increased	6
Paid Since	2017
5-Yr. Trailing Growth	11%
Long-Term Growth Est.	11%
Payout Ratio ('24)	14%
Dividends Paid	Mar, Jun, Sep, Nov

Commentary: The current payout equates to just 14% of our 2024 earnings per share estimate, leaving Jacobs plenty of room to allocate its healthy cash flow toward growing the business, repurchasing shares, and increasing the dividend.

Valuation & Earnings

	'22A	'23A	'24E
Earnings Per Share	6.93	7.20	8.16
P/E	21.8x	21.0x	18.5x
PEGY	1.9x	1.8x	1.6x
LT EPS Growth Est.			11%
Est. Earnings Date	August 06, 2024		

Annualized Total Returns	1yr	3yr	5yr
Jacobs Solutions Inc.	21%	5%	13%
S&P Industrials Index	17%	9%	12%
S&P 500 Index	24%	10%	15%

Data as of 7/23/24. Source: FactSet. Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

Investment Summary

We rate shares of Jacobs Solutions (Jacobs) a Buy. Jacobs is a leader in engineering and construction with broad engineering capabilities, and it has a strong financial position with low debt. We believe Jacobs should benefit from a rise in infrastructure stimulus, including the recently signed U.S. infrastructure bill. In addition, management is prioritizing growth in more attractive end-markets that offer faster growth and higher profitability.

Outlook

Evolving Business Mix to Drive Improved Performance - Jacobs has exited its energy, chemical and resource business, which tended to be more cyclical and less profitable. We believe Jacobs' increased focus on infrastructure, aerospace, cybersecurity and technical building projects bodes well for the future growth and profitability of the company.

Infrastructure Has Long-term Growth Potential - Increasing populations and a rising middle class is a global trend, especially in emerging markets such as China and India. Growing economies promote the expansion of roads, new buildings and reliable energy. We believe the build-out provides long-term growth opportunities for Jacobs.

Valuation and Recent Performance - Currently, the stock is trading at about 19 times our fiscal 2024 earnings estimate, which is slightly above the five-year average of 18. We believe the market is undervaluing Jacobs' growth opportunities in light of a positive change in the business mix of the company. Jacobs' shares have outperformed industrial peers over the past year, as infrastructure-spending and an improved business mix has helped the company's results.

Risks - The primary downside risk to our Buy rating is that the business is tied to customer capital expenditures. These expenditures tend to be related to the health of the economy. If the global economy deteriorates more than expected, Jacobs' business would likely be negatively impacted. Another risk is the regulations and requirements associated with governmental business, which is a significant business for Jacobs.

Key Developments

5/7/24: Jacobs Solutions reported fiscal second-quarter adjusted earnings per share of \$1.91, above the average analyst estimate of \$1.85, representing a 7% decline from the same quarter a year ago. Revenues grew 5%, excluding foreign-currency impacts, but came in slightly below estimates. Jacobs narrowed its fiscal 2024 earnings-per-share outlook to \$7.80-\$8.10, which implies 10% growth at the midpoint and brackets the average analyst estimate of \$8.02.

We think Jacobs delivered solid second-quarter results driven by a strong contribution from its People & Places Solution (P&PS) segment, which grew 7% compared with the prior-year period. The order backlog increased by 2%, which is in line with expectations, and the company expects to see improved profitability based on the quality of project opportunities in the backlog. We think Jacobs remains well-positioned to benefit from continued U.S. and international infrastructure-spending increases. This should especially bode well for results in the P&PS segment. This segment makes up about 50% of Jacob's revenues and should drive growth and stable profitability margins. The company is also making progress on its plan to spin off its Critical Mission Solutions and Cyber & Intelligence government services businesses and merge them with Amentum, a leading global engineering and technology company.

1/25/24: Jacobs Solutions announced a 12% increase in the quarterly dividend to \$0.29 per share from \$0.26 previously. The new \$1.16 annual payout equates to a 0.9% dividend yield. The payable date for the first dividend at the new rate is March 22, 2024.

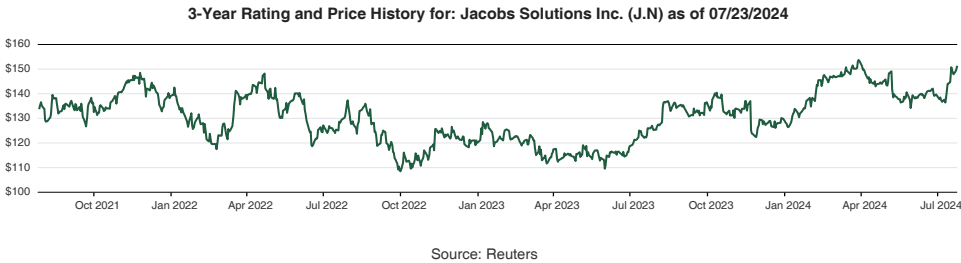
Analyst: Faisal Hersi, CFA

Please see important disclosures and analyst certification on page 2 of the report.

Analyst Certification

I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report. Faisal Hersi, CFA

Required Research Disclosures



July 24, 2024	BUY	HOLD	SELL
Stocks	51%	48%	0%
Investment Banking	5%	3%	0%
Services			

The table lists the percent of stocks we follow globally in each of our rating categories. Investment banking services indicate the percentage of those companies where the firm has acted in furtherance of a public offering of the issuer within the past 12 months.

- Initiated Coverage (BUY) 07/16/09.....(B) 07/16/09-
- Analysts receive compensation that is derived from revenues of Edward Jones as a whole which include, but are not limited to, investment banking services revenue.

Opinion Rating Definitions: **Buy (B)** - We believe the valuation is attractive and total return potential is above average over the next 3-5 years compared with industry peers. **Hold (H)** - We believe the stock is fairly valued and total return potential is about average over the next 3-5 years compared with industry peers or a special situation exists, such as a merger, that warrants no action. **Sell (S)** - We believe the stock is overvalued and total return potential is below average over the next 3-5 years compared with industry peers. In some cases we expect fundamentals to deteriorate considerably and/or a recovery is highly uncertain. **FYI (FYI)** - For informational purposes only; factual, no opinion. **Under Review (UR)** – Our rating, estimates, and opinion for this company are under review and should not be relied upon for making investment decisions until updated.

Other Disclosures

- Information about research distribution is available through the Investments and Services link on www.edwardjones.com
- For U.S. clients only: Member SIPC --- For Canadian clients only: Member - Canadian Investor Protection Fund
- In general, Edward Jones analysts do not view the material operations of the issuer.
- Shareholders of issuers domiciled outside the shareholders' country of residence are generally subject to a withholding tax on dividends paid by that issuer. Subject to certain conditions and limitations, these shareholders may be entitled to a partial refund of the withholding tax or the withholding taxes may be treated as a foreign tax eligible for a deduction or credit against the shareholders' tax liability. Shareholders should consult their tax advisors regarding ownership of such shares and the procedures for claiming a deduction, tax credit or withholding tax refund. When investing in issuers incorporated outside your country of residence, you should consider all other material risks such as currency risk, political risk, liquidity risk and accounting rules differences, which can adversely affect the value of your investment. Please consult your financial advisor for more information.
- MSCI's ESG Ratings are assigned to individual companies and issuers of securities and are designed to measure resilience to material environmental, social and governance (ESG) risks relative to industry peers. The ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC). Source: MSCI.com ESG Investing: ESG Ratings. For additional information see MSCI.com.
- All the proper permissions were sought and granted in order to use any and all copyrighted materials/sources referenced in this document.
- Dividend Outlook (1-Year): Rising – We believe the dividend is likely to increase based on historical trends, the current payout ratio, and/or expected future earnings and cash flow; Stable – We believe the dividend is stable at the current level and is unlikely to increase or decrease; At Risk – We believe the dividend is at risk of being reduced or eliminated; No Dividend – This company does not pay a dividend.
- This report does not take into account your particular investment profile and is not intended as an express recommendation to purchase, hold or sell particular securities, financial instruments or strategies. You should contact your Edward Jones Financial Advisor before acting upon this report.
- Investment Category: Large Cap - Stocks of large-sized companies; Small and Mid Cap - Stocks of small- or medium-sized companies; Aggressive - Micro-cap companies, companies with share prices below \$4, and emerging market equity.
- Price Movement: Above Average (AA) – This stock will likely be more volatile than the average stock in the S&P 500 Index. These companies are often growing faster than the average company and/or are in industries that are more sensitive to the economy. Average (A) – This stock will likely experience volatility similar to the average stock in the S&P 500 Index. Below Average (BA) – This stock will likely be less volatile than the average stock in the S&P 500 Index. These companies are often more mature, grow more slowly than the average company, and/or are in industries that are less sensitive to the economy.
- This report is a product of the Edward Jones Security Research Department.
- Dividends can be increased, decreased or eliminated at any point without notice.
- Diversification does not guarantee a profit or protect against loss in declining markets.
- This opinion is based on information believed reliable but not guaranteed. The foregoing is for INFORMATION ONLY. Additional information is available on request. Past performance is no guarantee of future results.
- Our expectation for average annual earnings growth through a full economic cycle. This figure avoids distortions that can occur due to one-time items or by extreme peaks or troughs within the cycle.
- The S&P 500 Index is based on the average performance of 500 widely held common stocks. The S&P 500 Sector Indexes are subsets of the S&P 500 Index. These are unmanaged indexes and cannot be invested in directly. Past performance is no guarantee of future results.
- Ratings from Standard & Poor's ("S&P"), Moody's and Fitch may be shown for certain securities. S&P requires we inform you: (1) Ratings are NOT recommendations to buy, hold, sell or make any investment decisions and DO NOT address suitability or future performance; (2) S&P DOES NOT guarantee the accuracy, completeness, or availability of any ratings and is NOT responsible for results obtained from the use of any ratings. Certain disclaimers related to its ratings are more specifically stated at <http://www.standardandpoors.com/disclaimers>.