HMS Holdings Corp.(HMSY)

$32.39 (As of 06/30/20)

Price Target (6-12 Months): **$34.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/26/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: C | Growth: C	Momentum: F

Summary

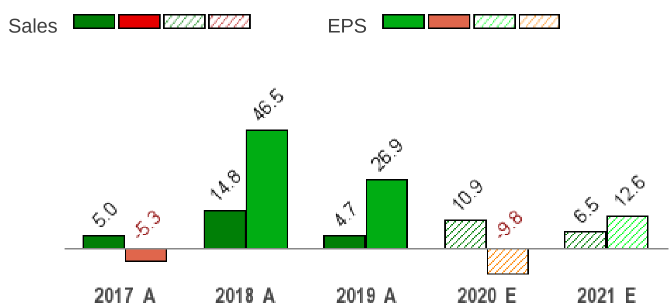
HMS Holdings witnessed revenue growth within Coordination of Benefits (COB) and Payment Integrity (PI) segments during the quarter. A strong 2020 outlook also instills investor optimism in the stock. However, the decline in Population Health Management (PHM) revenues is concerning. Cut-throat competition in the U.S. medical cost containment space is a dampener. A stable liquidity position is also encouraging. HMS Holdings ended first-quarter 2020 on a strong note, with earnings and revenues beating estimates. Over the past six months, the stock has outperformed its industry. Moreover, the company witnessed contraction in both gross and operating margins in the quarter under review. Economic volatility due to the global coronavirus outbreak added to the woes.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$40.67 - $18.20**
20 Day Average Volume (sh)	**528,715**
Market Cap	**$2.9 B**
YTD Price Change	**9.4%**
Beta	**0.96**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Medical Info Systems**
Zacks Industry Rank	**Bottom 44% (142 out of 253)**
Last EPS Surprise	**28.0%**
Last Sales Surprise	**5.4%**
EPS F1 Est- 4 week change	**-1.0%**
Expected Report Date	**08/07/2020**
Earnings ESP	**0.0%**
P/E TTM	**26.3**
P/E F1	**27.2**
PEG F1	**2.5**
P/S TTM	**4.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	176 E	172 E	185 E	196 E	739 E
2020	171 A	154 E	177 E	192 E	694 E
2019	148 A	168 A	147 A	163 A	626 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.33 E	$0.29 E	$0.30 E	$0.40 E	$1.34 E
2020	$0.32 A	$0.19 E	$0.29 E	$0.40 E	$1.19 E
2019	$0.28 A	$0.34 A	$0.30 A	$0.27 A	$1.32 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/30/2020. The reports text is as of 07/01/2020.

Overview

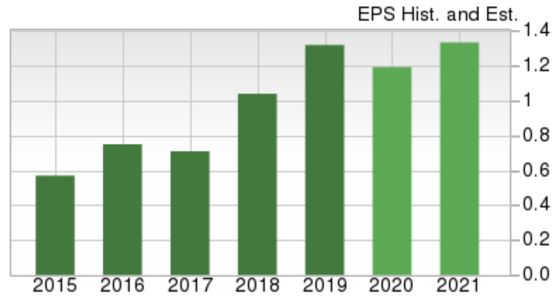
Based in Irving, TX, HMS Holdings Corp. (HMSY) offers cost containment solutions in the United States. The company also provides Coordination of Benefits ("COB") services to government and commercial healthcare payers.

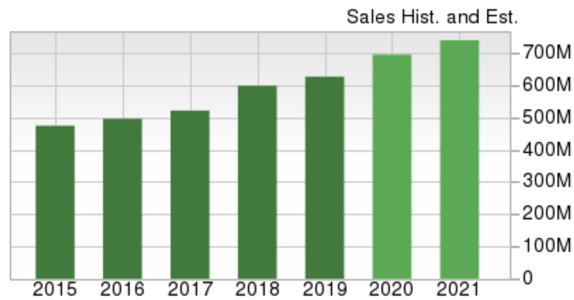
Payment Integrity ("PI") comes under HMS Holdings' unique suite of Analytical Services apart from Population Health Management ("PHM") solutions. The PI segment maintained strong momentum, with first-quarter revenues improving 41.8% year over year. In the first quarter of 2020, the PHM segment saw an uptick in sales of Essette and Elli despite a revenue decline of 2.3% year over year.

The company's services enable customers to recover improper payments, reduce fraud, waste and misuse, improve outcomes, and increase retention apart from ensuring regulatory compliance.

HMS Holdings serves state Medicaid programs, commercial health plans, federal government health agencies, government and private employers, children's health insurance programs, and other healthcare payers and sponsors.

As of December 31, 2018, HMS Holdings covered over 40 state Medicaid programs and more than 325 health plans.





2019 at a Glance

Net revenues in 2019 amounted to $626.4 million, up 4.7% on a year-over-year basis.

Analyzing the segments by product:

- Coordination of Benefits (COB) revenues - $397.1 million (64.5%).
- Analytical Services revenues summed $201.2 million (35.5%).

Reasons To Buy:

HMS Holdings is likely to benefit from solid prospects in its Payment Integrity and TPM solutions. The company is consistently providing a boost to margins and profitability.

- **Shares Up**: Over the past six months, shares of the company gained 10% compared with the industry's rally of 4.1%.The company witnessed revenue growth within Coordination of Benefits (COB) and Payment Integrity (PI) segments during the first quarter. A strong 2020 outlook also instills investor optimism in the stock.

- **Solid Guidance**: For 2020, the company anticipates revenues between $690 million and $705 million, indicating growth of 12.1-14.5% from the year-ago figure. Net income is expected in the band of $62-$74 million, indicating growth of 12.1-14.5% from the year-ago figure. Adjusted EBITDA is expected in the range of $177-$187 million, suggesting a rise of 7.9-14% from the year-ago figure.

- **Payment Integrity Solutions Hold Promise**: Payment Integrity ("PI") comes under HMS Holdings' unique suite of Analytical Services apart from Population Health Management ("PHM") solutions.

  The company's PI services ensure healthcare payments are accurate and appropriate. These services are applicable to all customers HMS serves, including federal and state governments, commercial health plans and other at-risk or self-insured entities.

  PI has been benefitting from greater throughput in the implementations process, expedited customer approvals for new PI edits, applied technology to streamline processes, increased coder productivity and accelerated revenue generation. Management expects PI to be a significant contributor to the Analytical Services wing in 2020. The company continues to witness expansion of its PI client footprint in both the commercial health plan and government markets.

  Of late, the company has signed its second Medicaid managed care plan to leverage its population risk intelligence solution. The plan aims to target conditions like opioid abuse, at-risk pregnancies and chosen non-ADHD medications for those who were not receiving behavioral therapy.

  Per management, HMS Holdings commenced a research project with an Australia-based digital health research organization with an aim to leverage leading U.S. and Australian Universities to research healthcare issues of critical importance. Notably, the company's work with Stanford University is focused on detecting potential risk factors for opioid abuse and misuse, which is an international healthcare crisis.

  The PI segment maintained strong momentum, with first-quarter revenues improving 41.8% year over year. However, COVID-19 circumstances have impacted PI activities, especially work that involves medical record requests from hospitals.

- **Population Health Management Gaining Ground**: In the second quarter 2019 earnings call, HMS Holdings announced that the company has renamed its newest solution set as Population Health Management (PHM) to better align with market nomenclature. The set comes under HMS Holdings' unique suite of Analytical Services apart from PI solutions. The company's TPM services consist of population risk analytics, consumer engagement and care management solutions, which are the result of internal product development and acquisitions of Essette and Eliza in 2016 and 2017, respectively. TPM has been a significant top-line contributor for HMS Holdings.

  The company expects the momentum in the PHM business line to continue in the near term as well. It also anticipates solid revenue growth on an annual basis driven by introduction of new and improved solutions and expansion of its share of important clients. The company continues to gain traction in the market with its sales pipeline being solid.

  In the first quarter of 2020, the PHM segment saw an uptick in sales of Essette and Elli despite a revenue decline of 2.3% year over year.

- **Stable Liquidity Position**: The company exited first-quarter fiscal 2020 with cash and cash equivalents and short-term investments of $148 million, up sequentially from $139 million. The company's long-term debt totaled $254 million versus $255 million in the last-reported quarter. The company exited the quarter with no current debt. This is good news in terms of the company's solvency level as it has sufficient cash for debt repayment during such trying times. The quarter's total debt-to-capital of 22.4% shows a slight sequential decline from 23%. The total-debt-to-capital is also lower than the industry's 41%.

Reasons To Sell:

HMS Holdings faces a highly regulated environment in almost every state it operates. This apart, stiff competition in the U.S. healthcare insurance benefit cost containment industry is concerning for the company.

- **Weak Q1 Trends**: In first-quarter 2020, Population Health Management ("PHM") revenues declined 2.3% on a year-over-year basis. Gross margin was 31.7% of net revenues, down 141 basis points (bps) year over year. Operating margin was 10.8%, down 255 bps from the prior-year quarter.

- **Strict Regulatory Environment**: HMS Holdings faces a highly regulated environment in almost every state it operates. Federal Acquisition Regulations, the U.S. Foreign Corrupt Practices Act, federal and state employment, equal opportunity and affirmative action laws, federal and state prompt pay statutes, healthcare fraud, waste and abuse laws, and more are the regulations that the company needs to comply with for carrying out its operations.

  Furthermore, the company has to fulfill specific legal requirements everywhere that includes the tough antitrust regulations. Violating healthcare or other regulations under public law can result in extensive legal repercussions. These include the dismissal of important federal certifications, penalties, fines, recalls, increased costs (for fulfilling regulatory requirements), exclusion from reimbursement programs of the respective government health care system, or even a total or partial ban on business operations.

  Adding to the concerns, changes in the law (especially relating to reimbursement) in such a difficult regulatory environment can also impact the company's fundamental business model and the implementation of strategy.

- **Cutthroat Competition in Cost-Containment Space**: The U.S. healthcare insurance benefit cost containment industry offers cost containment services, both directly and indirectly (through subcontracting). Competition is therefore robust in this dynamic industry as customers have many alternatives available to them.

  The competitive environment for payment integrity services includes some of the companies that provide coordination of benefits services. Within the care management and risk analytics sector, HMS Holdings compete primarily with vendors who provide these and other population health management technology services.

  HMS Holdings' primary competitors include Accenture plc, Cotiviti Corporation, DXC Technology Company, Equian LLC, EXL Service Holdings, Inc., Experian Health, IBM Watson Health, LexisNexis, MedHok, Inc. and more.

Last Earnings Report

HMS Holdings Q1 Earnings and Revenues Top Estimates

Quarter Ending	03/2020
Report Date	May 08, 2020
Sales Surprise	5.35%
EPS Surprise	28.00%
Quarterly EPS	0.32
Annual EPS (TTM)	1.23

HMS Holdings Corp reported adjusted earnings per share of 32 cents in first-quarter 2020, which beat the Zacks Consensus Estimate of 25 cents by 28%. Further, the bottom line rose 14.3% from the year-ago quarter.

Revenues of $171.4 million beat the Zacks Consensus Estimate by 5.4%. Also, the top line improved 15.9% on a year-over-year basis.

Q1 Segmental Analysis by Product

Payment Integrity ("PI") revenues amounted to $39.3 million, up 41.8% year over year.

Population Health Management ("PHM") revenues totaled $14 million in the quarter under review, down 2.3% on a year-over-year basis.

Revenues at the Coordination of Benefits ("COB") segment amounted to $118.1 million in the first quarter, up 11.5% year over year.

Margin Analysis

Gross profit came in at $54.3 million, up 10.9% from the prior-year quarter. Gross margin was 31.7% of net revenues, down 141basis points (bps) year over year.

Operating profit in the first quarter was $18.5 million, down 6.4% from the year-ago quarter. Operating margin was 10.8%, down 255 bps from the prior-year quarter.

Financial Update

The company exited the first quarter with cash and cash equivalents of $148 million, up from $139.3 million at the end of 2019.

Net cash provided by operating activities at the end of the first quarter came in at $17.1 million, compared with $28.5 million in the year-ago quarter.

2020 Guidance

The company has revised its 2020 guidance.

For 2020, the company anticipates revenues between $690 million and $705 million, indicating growth of 12.1-14.5% from the year-ago figure. The Zacks Consensus Estimate for the same is pegged at $696.5 million.

Net income is expected in the band of $62-$74 million, indicating growth of 12.1-14.5% from the year-ago figure. Adjusted EBITDA is expected in the range of $177-$187 million, suggesting a rise of 7.9-14% from the year-ago figure.

Valuation

HMS Holdings' shares are up 9.5% and down 5% in the year-to-date and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 3.5% while the Zacks Medical sector is down 3.1% in the year-to-date period. Over the past year, the Zacks sub-industry is up 1.7% while the sector is up 0.4%.

The S&P 500 index is down 5.2% in the year-to-date period and up 3.3% in the past year.

The stock is currently trading at 30.1X Forward 12-months earnings, which compares to 79.9X for the Zacks sub-industry, 22.3X for the Zacks sector and 21.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.7X and as low as 15.5X, with a 5-year median 27.4X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $34 price target reflects 31.6X forward 12-months earnings.

The table below shows summary valuation data for HMSY.

Valuation Multiples - HMSY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	30.07	79.89	22.25	21.87
	5-Year High	44.66	79.89	23.15	22.14
	5-Year Low	15.46	24.52	15.93	15.25
	5-Year Median	27.42	31.97	18.94	17.52
P/S F12M	Current	4.00	2.76	2.73	3.42
	5-Year High	5.16	3.14	3.74	3.44
	5-Year Low	1.45	1.61	2.21	2.53
	5-Year Median	3.00	2.30	2.90	3.02
P/B TTM	Current	3.26	3.39	4.21	4.18
	5-Year High	4.79	4.10	5.06	4.56
	5-Year Low	1.32	2.13	2.93	2.83
	5-Year Median	2.84	3.05	4.27	3.69

As of 06/30/2020

Industry Analysis **Zacks Industry Rank:** Bottom 44% (142 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Accenture PLC **(ACN)**	Neutral	3
Cerner Corporation **(CERN)**	Neutral	2
Computer Programs and Systems, Inc. **(CPSI)**	Neutral	3
International Business Machines Corporation **(IBM)**	Neutral	3
Inovalon Holdings, Inc. **(INOV)**	Neutral	3
Allscripts Healthcare Solutions, Inc. **(MDRX)**	Neutral	3
Performant Financial Corporation **(PFMT)**	Neutral	3
DXC Technology Company. **(DXC)**	Underperform	5

Industry Comparison Industry: Medical Info Systems

Industry Peers

	HMSY	X Industry	S&P 500	ACN	IBM	INOV
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	A	B	B
Market Cap	2.86 B	269.25 M	21.75 B	136.49 B	107.23 B	2.99 B
# of Analysts	4	5	14	11	6	5
Dividend Yield	0.00%	0.00%	1.93%	1.49%	5.40%	0.00%
Value Score	C	-	-	B	A	D
Cash/Price	0.05	0.08	0.07	0.04	0.12	0.06
EV/EBITDA	18.69	-1.31	12.71	18.66	8.42	20.87
PEG Ratio	2.49	2.13	2.86	2.81	3.14	1.92
Price/Book (P/B)	3.26	3.14	2.97	8.57	5.33	4.49
Price/Cash Flow (P/CF)	19.60	16.55	11.71	24.09	6.11	17.10
P/E (F1)	27.39	18.43	21.23	28.14	10.70	34.64
Price/Sales (P/S)	4.41	4.25	2.30	3.06	1.40	4.60
Earnings Yield	3.67%	-1.74%	4.48%	3.55%	9.35%	2.91%
Debt/Equity	0.29	0.21	0.76	0.17	2.62	1.56
Cash Flow ($/share)	1.65	-0.04	7.01	8.91	19.75	1.13
Growth Score	C	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	24.33%	10.97%	10.93%	11.11%	-3.16%	-7.75%
Proj. EPS Growth (F1/F0)	-9.66%	-12.19%	-9.77%	3.67%	-11.89%	6.92%
Curr. Cash Flow Growth	-3.87%	11.83%	5.51%	8.06%	2.09%	38.14%
Hist. Cash Flow Growth (3-5 yrs)	11.42%	10.83%	8.62%	9.75%	-3.76%	14.60%
Current Ratio	4.77	1.83	1.30	1.38	0.96	2.90
Debt/Capital	22.43%	18.96%	44.41%	14.34%	72.36%	60.96%
Net Margin	12.35%	-15.18%	10.62%	11.11%	11.78%	2.14%
Return on Equity	11.47%	-12.09%	15.75%	32.04%	57.55%	9.17%
Sales/Assets	0.54	0.59	0.55	1.39	0.50	0.33
Proj. Sales Growth (F1/F0)	10.84%	0.00%	-2.43%	2.52%	-5.40%	5.99%
Momentum Score	F	-	-	B	D	B
Daily Price Chg	2.86%	1.76%	1.41%	0.94%	0.85%	4.11%
1 Week Price Chg	-1.03%	-2.14%	-3.90%	5.42%	-4.31%	-4.47%
4 Week Price Chg	0.03%	2.88%	-1.62%	4.34%	-4.15%	0.21%
12 Week Price Chg	33.68%	36.24%	15.67%	30.83%	5.07%	15.95%
52 Week Price Chg	-4.96%	-14.64%	-8.07%	13.85%	-13.87%	33.38%
20 Day Average Volume	528,715	490,819	2,699,706	2,601,929	5,756,942	441,373
(F1) EPS Est 1 week change	-0.98%	0.00%	0.00%	0.87%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.98%	0.00%	0.00%	0.74%	0.00%	0.00%
(F1) EPS Est 12 week change	-1.56%	-10.39%	-10.28%	0.61%	-13.08%	-6.67%
(Q1) EPS Est Mthly Chg	-11.29%	0.00%	0.00%	-1.49%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.