

HMS Holdings Corp.(HMSY)

\$29.33 (As of 08/19/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/26/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

HMS Holdings ended second-quarter 2020 on a mixed note with earnings in line but revenues missing estimates. The company witnessed revenue growth within its COB segment during the quarter. A strong 2020 revenue outlook also instills investor confidence in the stock. Despite the recent challenges, the company is well positioned to add value to its clients. The development of a unique COVID-19 health engagement and communications solution buoys optimism on the stock as well. Over the past six months, shares have outperformed the industry. However, soft PI and PHM revenues are concerning. Cut-throat competition in the U.S. medical cost-containment space remains a dampener too. Moreover, the company witnessed contraction in both gross and operating margins in the June quarter. Strict regulatory environment also weighs on the stock.

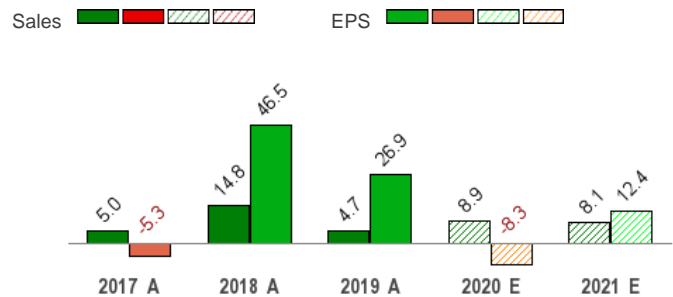
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$39.18 - \$18.20
20 Day Average Volume (sh)	596,532
Market Cap	\$2.6 B
YTD Price Change	-0.9%
Beta	0.97
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical Info Systems
Zacks Industry Rank	Bottom 28% (182 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-7.4%
EPS F1 Est- 4 week change	1.2%
Expected Report Date	11/06/2020
Earnings ESP	0.2%
P/E TTM	27.2
P/E F1	24.2
PEG F1	2.2
P/S TTM	4.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	179 E	166 E	184 E	198 E	737 E
2020	171 A	143 A	171 E	197 E	682 E
2019	148 A	168 A	147 A	163 A	626 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.33 E	\$0.28 E	\$0.32 E	\$0.39 E	\$1.36 E
2020	\$0.32 A	\$0.19 A	\$0.30 E	\$0.42 E	\$1.21 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 08/19/2020. The reports text is as of 08/20/2020.

Overview

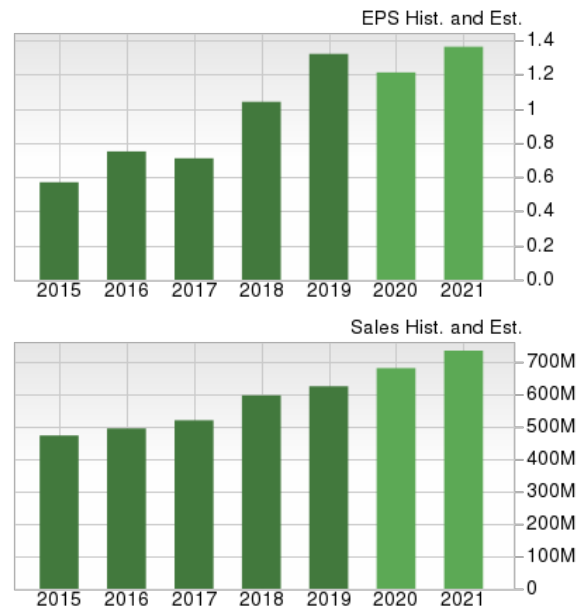
Based in Irving, TX, HMS Holdings Corp. (HMSY) offers cost containment solutions in the United States. The company also provides Coordination of Benefits ("COB") services to government and commercial healthcare payers.

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:

▲ **Shares Up:** Over the past six months, shares of the company gained 21.1% compared with the industry's rally of 12.5%. The company witnessed revenue growth within the Coordination of Benefits (COB) segment during the second quarter. A solid 2020 revenue outlook also raises investor optimism on the stock. The development of a unique COVID-19 health engagement and communications solution during the quarter drove the stock price as well. Moreover, HMS Holdings currently anticipates its performance to improve in the third and the fourth quarter of 2020 with the trend expected to continue in 2021 too.

▲ **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.

In the second quarter, PI revenues amounted to \$24.4 million, down 50.3% on a year-over-year basis. Despite a few health plan clients of the company halting some of its Payment Integrity work during the second quarter, the PI product line is expected to improve in the third quarter of 2020.

▲ **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.

In the second quarter, PHM revenues totaled \$11.5 million, down 17.6% on a year-over-year basis. This was due to clients shifting their focus during the pandemic and pausing many traditional consumer engagement programs, especially those that focus on primary care and wellness business. However, investment made by the company in new sales leadership and business development activities will be driving its PHM sales pipeline in 2020.

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.

▲ **Stable Liquidity Position:** The company exited second-quarter 2020 with cash and cash equivalents and short-term investments of \$193 million, up from \$148 million sequentially. The company's long-term debt totaled \$252 million compared with \$254 million in the preceding quarter, which is much higher than the cash and cash equivalents level. However, it exited the quarter with no current debt on its balance sheet. This is good news in terms of the company's solvency level as it has sufficient cash for debt repayment during such trying times. Moreover, the company's total debt-to-capital of 22.1% shows a slight sequential decline from 22.4%. The same is also lower than the industry's 45.7%.

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.

Reasons To Sell:

- ▼ **Weak Q2 Trends:** In the second quarter, PI revenues declined 50.3% year over year while PHM fell 17.6% in the period on a year-over-year basis. Organic COB revenues, excluding Accent, fell 8.8% owing to lower claim volumes resulting from the impact of the COVID-19 pandemic.

Gross profit came in at \$32.4 million, down 52.8% from the prior-year quarter. Gross margin was 22.7% of net revenues, down 1807 basis points (bps) year over year. Operating profit in the second quarter was \$5.6 million, down 86.1% from the year-ago quarter. Operating margin was 3.9%, down 2017 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.

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.

Last Earnings Report

HMS Holdings EPS in Line with Estimates in Q2

HMS Holdings Corp's share price has declined 2.9% as of Aug 12 since the company reported weaker-than-expected results on Aug 7.

The company reported adjusted earnings per share of 19 cents for second-quarter 2020, in line with the Zacks Consensus Estimate. However, the bottom line fell 44.1% from the year-ago quarter.

Revenues of \$142.7 million missed the Zacks Consensus Estimate by 7.4%. Also, the top line dropped 15.2% on a year-over-year basis.

Q2 Segmental Analysis by Product

Payment Integrity ("PI") revenues amounted to \$24.4 million, down 50.3% year over year.

Population Health Management ("PHM") revenues totaled \$11.5 million in the quarter under review, down 17.6% on a year-over-year basis.

Revenues at the Coordination of Benefits ("COB") segment amounted to \$106.7 million in the second quarter, up 1.6% year over year. Organic COB revenues, excluding Accent, fell 8.8% owing to lower claim volumes resulting from the impact of the COVID-19 pandemic.

Margin Analysis

Gross profit came in at \$32.4 million, down 52.8% from the prior-year quarter. Gross margin was 22.7% of net revenues, down 1807 basis points (bps) year over year.

Operating profit in the second quarter was \$5.6 million, down 86.1% from the year-ago quarter. Operating margin was 3.9%, down 2017 bps from the prior-year quarter.

Financial Update

The company exited the second quarter with cash and cash equivalents of \$193.1, up from \$148 million at the end of first quarter.

Cumulative net cash provided by operating activities at the end of the second quarter came in at \$65.8 million, compared with \$78.1 million in the year-ago period.

2020 Guidance Updated

The company has revised its 2020 guidance.

For 2020, the company anticipates revenues between \$680 million and \$690 million, indicating growth of 10.5-12.1% from the year-ago figure. The Zacks Consensus Estimate for the same is pegged at \$681.8 million.

Net income is expected in the band of \$66-\$74 million. The range reflects a decline of 4.3% to an increase of 7.2% from the year-ago period.

Quarter Ending 06/2020

Report Date	Aug 07, 2020
Sales Surprise	-7.42%
EPS Surprise	0.00%
Quarterly EPS	0.19
Annual EPS (TTM)	1.08

Recent News

HMS Holdings develops COVID-19 health engagement and communications solution: Jun 9, 2020

The company has developed a unique COVID-19 health engagement and communications solution that has reached over 7 million individuals since its launch in March.

Valuation

HMS Holdings' shares are down 0.9% and down 24.3% in the year-to-date and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical sector are up 21.5% and 1.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 22.4% while the sector is up 8.5%.

The S&P 500 index is up 5.2% in the year-to-date period and up 16.1% in the past year.

The stock is currently trading at 26.4X Forward 12-months earnings, which compares to 79.2X for the Zacks sub-industry, 22.3X for the Zacks sector and 22.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.7X and as low as 18X, with a 5-year median 27.7X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 27.7X 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	26.37	79.22	22.32	22.90
	5-Year High	44.66	86.01	23.17	22.90
	5-Year Low	18.00	24.52	15.89	15.25
	5-Year Median	27.70	32.18	18.97	17.58
P/S F12M	Current	3.62	3.26	2.83	3.72
	5-Year High	5.16	3.26	3.41	3.72
	5-Year Low	1.56	1.61	2.22	2.53
	5-Year Median	3.06	2.30	2.89	3.05
P/B TTM	Current	2.91	3.99	3.79	4.55
	5-Year High	4.79	3.99	5.07	4.56
	5-Year Low	1.42	2.13	2.94	2.83
	5-Year Median	2.87	3.07	4.28	3.75

As of 08/19/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (182 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Accenture PLC (ACN)	Neutral	3
Cerner Corporation (CERN)	Neutral	3
Computer Programs and Systems, Inc. (CPSI)	Neutral	3
DXC Technology Company. (DXC)	Neutral	5
International Business Machines Corporation (IBM)	Neutral	4
Inovalon Holdings, Inc. (INOV)	Neutral	3
NEXTGEN HEALTHCARE, INC (NXGN)	Neutral	2
Allscripts Healthcare Solutions, Inc. (MDRX)	Underperform	3

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	4	3
VGM Score	A	-	-	B	A	B
Market Cap	2.60 B	238.40 M	23.61 B	149.41 B	110.29 B	3.93 B
# of Analysts	6	5	14	11	6	6
Dividend Yield	0.00%	0.00%	1.65%	1.36%	5.26%	0.00%
Value Score	B	-	-	C	A	C
Cash/Price	0.07	0.09	0.07	0.04	0.13	0.02
EV/EBITDA	16.71	-1.57	13.36	20.33	8.62	25.86
PEG Ratio	2.23	2.15	2.99	3.08	3.41	2.36
Price/Book (P/B)	2.91	3.30	3.16	9.06	5.33	5.85
Price/Cash Flow (P/CF)	17.75	17.75	12.71	26.33	6.27	22.44
P/E (F1)	24.54	18.81	21.82	30.75	11.18	42.47
Price/Sales (P/S)	4.16	4.05	2.47	3.35	1.46	5.98
Earnings Yield	4.13%	-1.60%	4.37%	3.25%	8.94%	2.37%
Debt/Equity	0.28	0.10	0.76	0.17	2.68	1.40
Cash Flow (\$/share)	1.65	-0.06	6.94	8.91	19.75	1.13
Growth Score	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	20.88%	7.28%	10.44%	11.11%	-3.28%	-2.27%
Proj. EPS Growth (F1/F0)	-8.20%	-3.02%	-5.97%	3.67%	-13.54%	14.42%
Curr. Cash Flow Growth	-3.87%	10.02%	5.22%	8.06%	2.09%	38.14%
Hist. Cash Flow Growth (3-5 yrs)	11.42%	10.24%	8.52%	9.75%	-3.76%	14.60%
Current Ratio	4.57	1.97	1.33	1.37	1.04	1.88
Debt/Capital	22.09%	20.03%	44.50%	14.36%	72.83%	58.39%
Net Margin	9.25%	-15.18%	10.13%	11.11%	10.44%	1.75%
Return on Equity	9.00%	-18.63%	14.67%	31.51%	51.06%	9.09%
Sales/Assets	0.50	0.53	0.51	1.35	0.50	0.34
Proj. Sales Growth (F1/F0)	8.95%	0.61%	-1.54%	2.52%	-4.43%	6.54%
Momentum Score	A	-	-	D	A	C
Daily Price Chg	-0.71%	0.00%	-0.38%	0.17%	-0.86%	-1.21%
1 Week Price Chg	-4.57%	-2.10%	1.09%	-0.57%	0.25%	-1.22%
4 Week Price Chg	-9.39%	1.42%	2.23%	4.64%	-3.75%	26.54%
12 Week Price Chg	-4.49%	5.57%	6.91%	17.36%	-1.35%	32.72%
52 Week Price Chg	-24.27%	-6.54%	2.28%	19.87%	-7.75%	55.79%
20 Day Average Volume	596,532	398,284	1,899,976	1,447,830	3,703,995	551,869
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.24%	0.26%	1.70%	0.00%	0.09%	5.07%
(F1) EPS Est 12 week change	-1.14%	0.00%	3.08%	0.74%	-1.88%	5.07%
(Q1) EPS Est Mthly Chg	3.62%	2.16%	0.83%	0.00%	-2.08%	-6.15%

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	B
Growth Score	B
Momentum Score	A
VGM Score	A

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.

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