

HMS Holdings Corp.(HMSY)

\$24.26 (As of 02/25/20)

Price Target (6-12 Months): **\$25.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/26/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: C

Summary

HMS Holdings ended fourth-quarter 2019 on a weak note, wherein both earnings and revenues missed their respective Zacks Consensus Estimate. The company continues to gain from its core Analytical Services, which witnessed strong year-over-year growth in the fourth quarter. Strong guidance for 2020 instills optimism in the stock. However, cut-throat competition in the U.S. medical cost containment space remains a concern. Moreover, the company witnessed contraction in both gross and operating margins in the quarter under review. Further, the stock looks a tad expensive at the moment. The stock has underperformed the industry in a year's time.

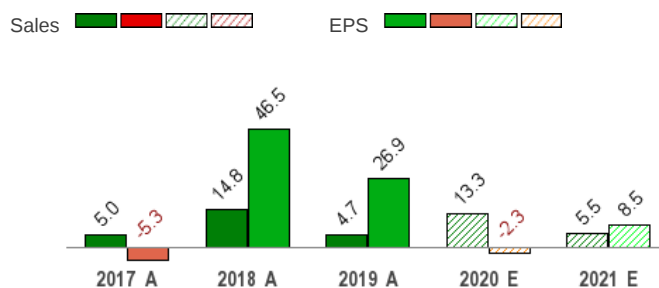
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.67 - \$23.26
20 Day Average Volume (sh)	548,826
Market Cap	\$2.1 B
YTD Price Change	-18.0%
Beta	1.13
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical Info Systems
Zacks Industry Rank	Top 43% (110 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-12.9%
Last Sales Surprise	-4.7%
EPS F1 Est- 4 week change	-3.4%
Expected Report Date	05/01/2020
Earnings ESP	-6.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					748 E
2020	165 E	179 E	172 E	187 E	709 E
2019	148 A	168 A	147 A	163 A	626 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.28 E	\$0.38 E	\$0.29 E	\$0.43 E	\$1.40 E
2020	\$0.27 E	\$0.32 E	\$0.29 E	\$0.36 E	\$1.29 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.

P/E TTM	20.4
P/E F1	18.8
PEG F1	1.7
P/S TTM	3.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/25/2020. The reports text is as of 02/26/2020.

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.

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.

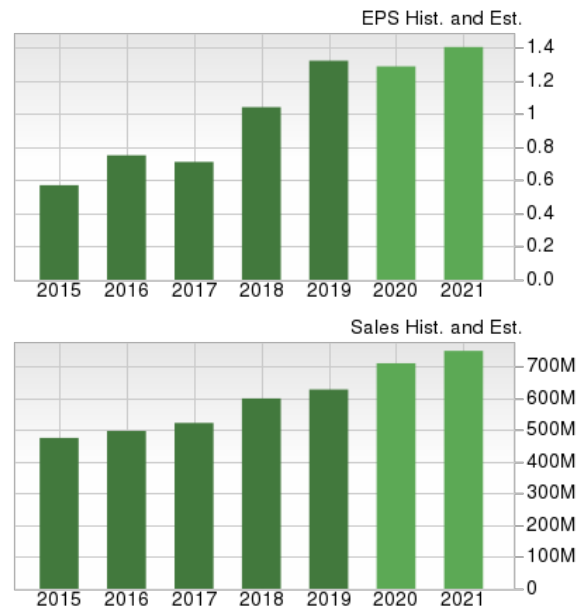
As of December 31, 2018, HMS Holdings covered over 40 state Medicaid programs and more than 325 health plans.

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:

- ▲ **Solid Guidance:** For 2020, the company anticipates revenues between \$705 million and \$715 million, indicating an improvement of 14.5-16.2% from the prior year. The mid-point of \$710 million is higher than the Zacks Consensus Estimate of \$701.9 million.

Net income is expected in the band of \$76-\$80 million, suggesting growth of 10.1-15.9% from the previous year.

Adjusted EBITDA is expected in the range of \$185-\$192 million, indicating an improvement of 12.8-17.1% from the year-ago comparable period.

- ▲ **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.

- ▲ **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.

PHM revenues totaled \$16.6 million in the quarter under review, up 3.8% on a year-over-year basis in fourth-quarter 2019. Moreover, 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.

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:

- ▼ **Shares Down:** Over the past year, shares of the company lost 30.2% against the industry's rally of 12.6%. Meanwhile the S&P 500 index rose 18.6%. Stiff competition and contraction in both gross and operating margins continue to weigh on the stock's performance.
- ▼ **Valuation Looks Dull:** HMS Holdings is currently trading at a forward P/E (TTM basis) ratio of 24.48 over the past year, which compares with 20.77 for the S&P 500 index.
- ▼ **Weak Q4 Trends:** In fourth-quarter 2019, revenues at Coordination of Benefits (COB) segment unit declined 0.3% year over year to \$98.6 million.

Gross margin was 33.6% of net revenues, down 140 bps year over year.

Selling, general and administrative expenses totaled \$29.2 million, up 9% year over year. Operating income in the fourth quarter was \$25.7 million, down 7.7% from the year-ago quarter. Operating margin was 15.7%, down 220 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.

- ▼ **Debt:** As of Dec 31, 2019, the outstanding principal balance under HMS Holdings' Credit Agreement was \$240 million. A huge debt is likely to adversely impact the company's financial condition and its ability to operate the business. In fact, if the debt is not paid off in the right time, it might get difficult for HMS Holdings to generate sufficient cash flows to meet the debt service obligations or capital requirements.

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 Q4 Earnings and Revenues Miss Estimates

HMS Holdings Corp. reported adjusted earnings per share of 27 cents in fourth-quarter 2019, which lagged the Zacks Consensus Estimate of 31 cents by 12.9%. Further, the bottom line declined 12.9% from the year-ago quarter.

Revenues of \$163.4 million missed the Zacks Consensus Estimate by 4.4%. However, the top line improved 4.9% on a year-over-year basis.

Quarter Ending **12/2019**

Report Date	Feb 21, 2020
Sales Surprise	-4.65%
EPS Surprise	-12.90%
Quarterly EPS	0.27
Annual EPS (TTM)	1.19

2019 at a Glance

In 2019, the company reported revenues worth \$626.4 million, which improved 4.7% from the previous year.

Adjusted EPS for the year was \$1.12, up 7.7% from the previous year.

Q4 Segmental Analysis by Product

Analytical Services

Revenues at this segment were \$65 million in the fourth quarter, up 14.2% year over year.

Within Analytical Services, PI revenues (excluding Medicare RAC) amounted to \$48.4 million, up 18.3% year over year.

PHM revenues totaled \$16.6 million in the quarter under review, up 3.8% on a year-over-year basis.

COB

Revenues at the Coordination of Benefits (COB) segment amounted to \$98.6 million in the fourth quarter, down 0.3% year over year.

Margin Analysis

Total cost of services in the reported quarter was \$108.6 million, up 7.3% year over year.

Gross profit came in at \$54.8 million, which inched up 0.5% from the prior-year quarter. Gross margin was 33.6% of net revenues, down 140 bps year over year.

Selling, general and administrative expenses totaled \$29.2 million, up 9% year over year. Operating income in the fourth quarter was \$25.7 million, down 7.7% from the year-ago quarter. Operating margin was 15.7%, down 220 bps from the prior-year quarter.

Financial Update

Cash and cash equivalents as of Dec 31, 2019, amounted to \$139.3 million, down 22.2% from the prior-year quarter.

Cumulative cash provided by operating activities at the end of the fourth quarter came in at \$133.2 million, compared with \$96.5 million reported in the year-ago quarter.

2020 Guidance

For 2020, the company anticipates revenues between \$705 million and \$715 million, indicating an improvement of 14.5-16.2% from prior year. The mid-point of \$710 million is higher than the Zacks Consensus Estimate of \$701.9 million.

Net income is expected in the band of \$76-\$80 million, suggesting growth of 10.1-15.9% from the previous year.

Adjusted EBITDA is expected in the range of \$185-\$192 million, suggesting growth of 12.8-17.1% from the year-ago comparable period.

Valuation

HMS Holdings' shares are down 18% and 29.9% in the year-to-date and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 4.5% while the Zacks Medical sector is down 1.4% in the year-to-date period. Over the past year, the Zacks sub-industry is up 9.9% while the sector is down 1.4%.

The S&P 500 index is up 0.1% in the year-to-date period and up 14.7% in the past year.

The stock is currently trading at 18.25X Forward 12-months earnings, which compares to 44.43X for the Zacks sub-industry, 20.53X for the Zacks sector and 18.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.66X and as low as 15.46X, with a 5-year median 27.78X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$25 price target reflects 18.79X 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	18.25	44.43	20.53	18.44
	5-Year High	44.66	51.46	21.21	19.34
	5-Year Low	15.46	24.52	15.82	15.18
	5-Year Median	27.78	32.16	18.87	17.47
P/S F12M	Current	3.01	2.18	2.74	3.39
	5-Year High	5.16	3.15	3.84	3.43
	5-Year Low	1.45	1.61	2.45	2.54
	5-Year Median	2.98	2.3	2.97	3
P/B TTM	Current	2.5	3.01	4.48	4.66
	5-Year High	4.79	4.47	5.05	4.9
	5-Year Low	1.32	2.13	3.44	2.85
	5-Year Median	2.83	3.07	4.32	3.62

As of 02/25/2020

Industry Analysis Zacks Industry Rank: Top 43% (110 out of 255)



Top Peers

Inovalon Holdings, Inc. (INOV)	Outperform
Accenture PLC (ACN)	Neutral
Cerner Corporation (CERN)	Neutral
Computer Programs and Systems, Inc. (CPSI)	Neutral
DXC Technology Company. (DXC)	Neutral
International Business Machines Corporation (IBM)	Neutral
Allscripts Healthcare Solutions, Inc. (MDRX)	Neutral
Performant Financial Corporation (PFMT)	Neutral

Industry Comparison Industry: Medical Info Systems				Industry Peers		
	HMSY Neutral	X Industry	S&P 500	ACN Neutral	IBM Neutral	INOV Outperform
VGM Score	D	-	-	C	B	B
Market Cap	2.14 B	285.89 M	22.56 B	125.29 B	125.50 B	3.03 B
# of Analysts	7	4	13	11	8	6
Dividend Yield	0.00%	0.00%	1.88%	1.62%	4.57%	0.00%
Value Score	C	-	-	D	A	D
Cash/Price	0.07	0.08	0.04	0.04	0.08	0.03
EV/EBITDA	14.18	-1.07	13.36	17.04	10.65	21.05
PEG Ratio	1.70	1.72	1.94	2.44	1.94	4.09
Price/Book (P/B)	2.50	2.39	3.09	8.03	6.94	4.41
Price/Cash Flow (P/CF)	14.68	14.68	12.57	22.11	7.51	17.37
P/E (F1)	18.71	18.26	17.93	25.19	10.61	32.71
Price/Sales (P/S)	3.41	3.57	2.51	2.85	1.63	4.72
Earnings Yield	5.32%	-1.44%	5.55%	3.97%	9.43%	3.07%
Debt/Equity	0.30	0.15	0.70	0.17	3.40	1.37
Cash Flow (\$/share)	1.65	-0.04	7.02	8.91	18.86	1.13
Growth Score	C	-	-	C	D	A
Hist. EPS Growth (3-5 yrs)	25.36%	14.79%	10.85%	11.25%	-3.50%	-12.95%
Proj. EPS Growth (F1/F0)	-2.60%	14.98%	6.86%	6.31%	4.30%	15.06%
Curr. Cash Flow Growth	-3.87%	24.69%	6.53%	8.06%	-1.93%	38.14%
Hist. Cash Flow Growth (3-5 yrs)	11.42%	12.19%	8.38%	9.75%	-5.41%	14.60%
Current Ratio	3.92	1.78	1.22	1.39	1.09	1.97
Debt/Capital	22.97%	16.57%	42.37%	14.60%	77.29%	57.89%
Net Margin	13.93%	-21.53%	11.57%	11.06%	12.23%	1.13%
Return on Equity	11.51%	-42.41%	16.80%	33.35%	65.38%	9.12%
Sales/Assets	0.53	0.62	0.54	1.48	0.53	0.33
Proj. Sales Growth (F1/F0)	10.94%	25.29%	4.03%	6.66%	1.89%	10.07%
Momentum Score	C	-	-	A	C	A
Daily Price Chg	1.21%	-1.66%	-3.36%	-3.55%	-3.22%	-4.30%
1 Week Price Chg	-14.14%	0.00%	-0.94%	-0.23%	-0.57%	-7.63%
4 Week Price Chg	-12.48%	-0.02%	-5.65%	-6.25%	1.55%	-3.95%
12 Week Price Chg	-16.45%	8.53%	-1.04%	-0.83%	7.26%	10.38%
52 Week Price Chg	-29.52%	-14.29%	8.00%	22.16%	1.42%	48.26%
20 Day Average Volume	548,826	278,365	2,073,853	1,776,855	5,920,464	427,964
(F1) EPS Est 1 week change	-2.82%	0.00%	0.00%	0.00%	0.00%	5.26%
(F1) EPS Est 4 week change	-3.39%	0.00%	-0.06%	0.00%	0.21%	5.26%
(F1) EPS Est 12 week change	-2.28%	-0.16%	-0.19%	0.55%	1.34%	5.26%
(Q1) EPS Est Mthly Chg	-7.14%	0.00%	-0.61%	0.00%	0.00%	3.53%

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	C
VGM Score	D

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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