

## MAXIMUS, Inc.(MMS)

**\$74.35** (As of 01/21/20)

Price Target (6-12 Months): **\$79.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/12/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: B

### Summary

MAXIMUS' business process management expertise and the ability to deliver cost effective, efficient and high-scale solutions position it as a lucrative partner to governments. Long-term contracts provide it predictable recurring revenue streams. The company is also focused on expanding foothold in clinical services as well as long-term services and supports. MAXIMUS' financial flexibility enables it to pursue business investment and strategic buyout opportunities and reward shareholders through share buybacks and dividends. Despite such positives, the company's top line and margins continue to remain under pressure due to lower case load volumes on welfare-to-work contracts. Global presence exposes it to foreign currency exchange rate risks. Due to these negatives, shares have underperformed the industry over the past year.

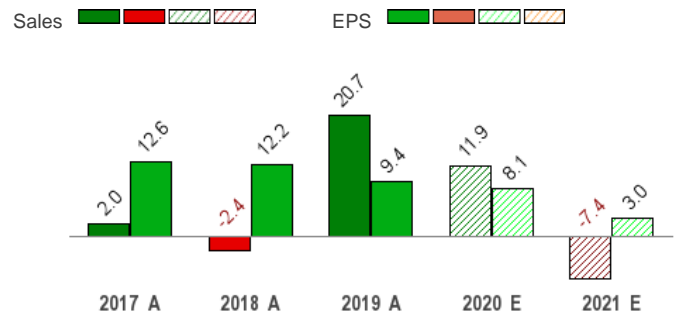
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$82.02 - \$68.15
20 Day Average Volume (sh)	252,915
Market Cap	\$4.8 B
YTD Price Change	-0.1%
Beta	0.79
Dividend / Div Yld	\$1.12 / 1.5%
Industry	<a href="#">Government Services</a>
Zacks Industry Rank	Top 46% (117 out of 255)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.1%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	19.4
P/E F1	18.5
PEG F1	1.9
P/S TTM	1.7

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	781 E	752 E	715 E	708 E	2,991 E
2020	804 E	830 E	801 E	795 E	3,230 E
2019	665 A	737 A	731 A	755 A	2,887 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.04 E	\$1.00 E	\$0.98 E	\$0.96 E	\$4.14 E
2020	\$0.91 E	\$1.02 E	\$1.05 E	\$1.05 E	\$4.02 E
2019	\$0.86 A	\$1.07 A	\$0.97 A	\$0.93 A	\$3.72 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 01/21/2020. The reports text is as of 01/22/2020.

## Overview

Headquartered in Reston, VA, MAXIMUS, Inc. (MMS) operates government health and human services programs globally. With more than 30,000 employees across the globe, MAXIMUS has presence in the United States, Australia, Canada, Saudi Arabia, Singapore and the United Kingdom.

With government agencies being the main clients of MAXIMUS, U.S. state government agencies contributed nearly 51%, 49% and 46% to revenues in fiscal 2018, 2017 and 2016, respectively. Foreign government agencies accounted for almost 27%, 26% and 26% of revenues in fiscal 2018, 2017 and 2016, respectively. U.S. federal government agencies generated 16%, 19% and 22% of revenues in the respective years. Other sources including local municipalities and commercial customers recorded 6% of revenues in each of the respective years.

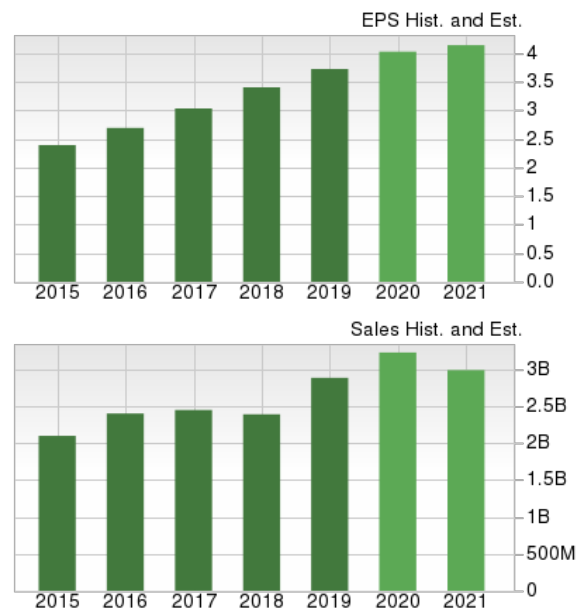
The company contracts with government clients on the basis of four pricing arrangements — performance-based, cost-plus, fixed-price and time-and-materials. Of the total contracts in fiscal 2018, 2017 and 2016, performance-based contracts accounted for 43%, 42% and 42%, respectively, cost-plus accounted for 33%, 35% and 33%, fixed-price contracts constituted 18% in each of the years and time-and-materials accounted for 6%, 5% and 7%.

During fiscal 2018, MAXIMUS' significant clients were the U.S. federal government (16% of revenues), the state of New York (16%), the U.K. government (12%) and Australian government (10%). With \$2.39 billion revenues in fiscal 2018, the company operates through three business segments: Health Services, U.S. Federal Services and Human Services.

Health Services (59% of fiscal 2018 revenues): The segment offers multiple business process services (BPS), appeals and assessments for state, provincial and national government programs.

U.S. Federal Services (20%): The segment offers business process solutions, program management and system and software development and maintenance services to several U.S. federal civilian programs.

Human Services (21%): The segment offers BPS and related consulting services for welfare-to-work, child support, higher education institutions and other human services programs to national, state, provincial and local human services agencies.



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## Reasons To Buy:

- ▲ With more than 40 years of experience, MAXIMUS has grown to be a **leading operator of government health and human services programs** globally. The company's business process management expertise, and ability to deliver cost effective, efficient and high-scale solutions position it as a lucrative partner to governments. MAXIMUS maintains solid relationships and strong reputation with governments and long-term contracts provide it predictable recurring revenue streams. The company continuously seeks long-term relationships with clients in both existing and adjacent markets. It is also focused on expanding foothold in clinical services as well as long-term services and supports. Moreover, increased longevity and more complex health needs have increased the need for government social benefit and safety-net programs. This should continue **driving demand** for the company's services.
- ▲ MAXIMUS has a portfolio target operating profit margin range of 10% to 15% with **high cash conversion** and access to a \$400 million credit facility. The company's financial flexibility enables it to pursue business investment and strategic acquisition opportunities as well as reward shareholders through share repurchases and dividends.
- ▲ The company has a solid track record of **share repurchases and dividend payments**. During fiscal 2018, 2017 and 2016, MAXIMUS repurchased shares worth \$67.6 million, \$28.9 million and \$31.3 million, respectively. The company paid \$11.7 million dividends to its shareholders during each of the fiscal years 2018, 2017 and 2016. Such moves indicate the MAXIMUS's commitment to create value for shareholders and underline its confidence in its business. They also positively impact earnings per share.
- ▲ MAXIMUS has been **active on the acquisition front** to expand its business processes, knowledge and client relationships, enhance technical capabilities and gain additional skill sets. Strategic acquisitions also complement the company's long-term organic growth strategy. In 2018, MAXIMUS acquired General Dynamics Information Technology's citizen engagement centers. The acquisition expanded the company's reach in the delivery of citizen services, enabled greater economies of scale, and brought enhanced technology and operational capabilities. The 2017 acquisition of Revitalised enhanced MAXIMUS'S health services programs in the United Kingdom.

Financial flexibility enables MAXIMUS to pursue investment and strategic acquisition opportunities.

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## Reasons To Sell:

- ▼ A strong full employment economy across geographies, especially in Australia and UK keeps MAXIMUS' **top line and margins under pressure**. This is due to lower case load volumes on the company's welfare-to-work contracts. Revenues from outside the United States declined 16.5% year over year in the first nine months of fiscal 2019. The company's gross profit margin and operating income margin declined 200 basis points (bps) and 370 bps respectively over the same time frame in the first nine months of fiscal 2019. Due to these negatives, shares of the company have underperformed the industry over the past year. The stock gained 9.2% compared with the industry's growth of 46.1%.

Global presence makes MAXIMUS vulnerable to risks associated with lower volumes in welfare-to-work business and foreign currency exchange rate fluctuations.
  - ▼ MAXIMUS' global presence makes it vulnerable to the risks associated with **foreign currency exchange rate fluctuations**. Outside the United States, the company transacts in currencies like the Australian Dollar, the British Pound, the Canadian Dollar, the Saudi Arabian Riyal and the Singapore Dollar and the British Pound. Notably, the company's top line was unfavorably impacted by foreign currency translation of \$9.1 million, \$11.9 million and \$7.2 million, during the first, second and third quarters of fiscal 2019, respectively.
  - ▼ The company's contracts may be reimbursed on a performance-based, cost-plus, fixed rate fee or a combination of all these. The **Health Services Segment could experience seasonality** due to transaction-based work, such as program open enrollment periods. Changes in programs directed by clients and activity related to contract life cycles can also lead to fluctuations. Additionally, the company's below par revenue performance in fiscal 2019 is concerning.
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## Last Earnings Report

### MAXIMUS Misses Q4 Earnings Estimates

MAXIMUS reported dismal fourth-quarter fiscal 2019 results, with earnings and revenues missing the Zacks Consensus Estimate.

Earnings per share of 93 cents missed the consensus estimate of 94 cents but increased 27.4% year over year. Revenues of \$755 million missed the consensus mark of \$761 million but improved 35.2% year over year. The uptick in year over year results was mainly driven by the buyout of citizen engagement centers.

Management stated that the buyout allowed the company to build scale, expand customer base, improve competitive position, and bring on new technology platforms.

Quarter Ending **09/2019**

Report Date	Nov 19, 2019
Sales Surprise	-0.21%
EPS Surprise	-1.06%
Quarterly EPS	0.93
Annual EPS (TTM)	3.83

### Revenues by Segment

U.S. Health and Human Services segment revenues of \$300.4 million increased 4% year over year mainly driven by new work. U.S. Federal Services segment revenues of \$312.2 million were up more than 100% from the year-ago quarter. Outside U.S. segment revenues of \$142.4 million declined 6% year over year on a reported basis and 2% on a constant-currency basis.

### Sales and Pipeline

Year to date signed contract awards at Sep 30, 2019 totaled \$2.6 billion and contracts pending (awarded but unsigned) totaled \$242 million. The sales pipeline at Sep 30, 2019, was roughly \$30.2 billion. This included roughly \$2.9 billion in proposals pending, \$1.2 billion in proposals in preparation and \$26.1 billion in opportunities tracking.

### Operating Performance

Operation income of \$77.6 million increased 25.3% year over year. Operating margin of 10.3% declined 80 basis points (bps).

### Balance Sheet and Cash Flow

The company ended the quarter with cash and cash equivalents balance of \$105.6 million compared with \$71.1 million in the prior quarter. Long-term debt at the end of the quarter was \$268 million. Free cash flow was \$65.2 million. MAXIMUS paid out dividends of \$16 million in the quarter.

### Outlook

MAXIMUS expects fiscal 2020 earnings per share in the range of \$3.95 to \$4.15. The company guided revenues in the range of \$3.15-\$3.3 billion.

Cash flows from operations are expected to range between \$300 million and \$350 million, and free cash flow to range between \$275 million and \$325 million. Estimated effective income tax rate is between 24.5% and 25.5%.

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## Recent News

On **Jan 8, 2020**, MAXIMUS announced approval of a quarterly cash dividend of 28 cents per share. The dividend is payable on Feb28, 2020, to shareholders of record on Feb14, 2020.

On **Oct 22, 2019**, MAXIMUS announced that it has been recognized as a Champions of Disability Employer by the Virginia Department of Aging and Rehabilitation Services (DARS).

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## Valuation

MAXIMUS shares are up 9.2% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 46.1%, 31.4% and 28.1%, respectively in the same time frame.

The stock is currently trading at 18.32X forward 12-month price-to-earnings, which compares to 21.33X for the Zacks sub-industry, 26X for the Zacks sector and 19.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.88X and as low as 14.34X, with a 5-year median of 18.97X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$79.00 price target reflects 19.45X price-to-earnings.

The table below shows summary valuation data for MMS

Valuation Multiples - MMS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	18.32	21.33	26	19.18
	5-Year High	25.88	21.55	26	19.34
	5-Year Low	14.34	15.94	18.76	15.17
	5-Year Median	18.97	18.52	20.56	17.44
P/S F12M	Current	1.51	1.5	4.12	3.57
	5-Year High	2.13	1.5	5.13	3.57
	5-Year Low	1.12	0.93	3.09	2.54
	5-Year Median	1.55	1.1	3.63	3
P/B TTM	Current	3.81	9.09	5.08	4.55
	5-Year High	7.83	14.57	6.71	4.55
	5-Year Low	3.63	6.96	4.13	2.85
	5-Year Median	4.63	8.38	5.31	3.61

As of 01/16/2020

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## Industry Analysis Zacks Industry Rank: Top 46% (117 out of 255)



## Top Peers

Leidos Holdings, Inc. (LDOS)	Outperform
Accenture PLC (ACN)	Neutral
Booz Allen Hamilton Holding Corporation (BAH)	Neutral
CACI International, Inc. (CACI)	Neutral
International Business Machines Corporation (IBM)	Neutral
ICF International, Inc. (ICFI)	Neutral
Gartner, Inc. (IT)	Neutral
Science Applications International Corporation (SAIC)	Neutral

Industry Comparison Industry: Government Services				Industry Peers		
	MMS Neutral	X Industry	S&P 500	BAH Neutral	ICFI Neutral	IT Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>A</b>	<b>B</b>	<b>C</b>
Market Cap	4.76 B	4.76 B	24.43 B	11.04 B	1.71 B	14.42 B
# of Analysts	3	3	13	9	3	6
Dividend Yield	1.51%	1.37%	1.75%	1.37%	0.62%	0.00%
<b>Value Score</b>	<b>C</b>	-	-	<b>B</b>	<b>B</b>	<b>D</b>
Cash/Price	0.02	0.02	0.04	0.07	0.00	0.02
EV/EBITDA	11.46	17.35	14.00	18.43	17.35	29.35
PEG Ratio	1.86	1.93	2.06	1.93	1.98	3.12
Price/Book (P/B)	3.80	3.80	3.39	13.14	2.49	15.69
Price/Cash Flow (P/CF)	14.54	17.15	13.69	23.29	17.15	23.39
P/E (F1)	18.60	19.78	19.00	25.12	19.78	39.89
Price/Sales (P/S)	1.65	1.56	2.68	1.56	1.17	3.49
Earnings Yield	5.41%	5.06%	5.26%	3.98%	5.06%	2.51%
Debt/Equity	0.00	0.54	0.72	2.77	0.54	3.08
Cash Flow (\$/share)	5.11	5.11	6.94	3.38	5.29	6.89
<b>Growth Score</b>	<b>A</b>	-	-	<b>A</b>	<b>B</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	13.15%	13.15%	10.60%	15.28%	13.00%	15.14%
Proj. EPS Growth (F1/F0)	8.15%	9.55%	7.57%	13.45%	9.55%	14.23%
Curr. Cash Flow Growth	13.97%	14.24%	14.00%	28.37%	14.24%	11.86%
Hist. Cash Flow Growth (3-5 yrs)	10.95%	10.36%	9.00%	7.77%	10.36%	22.55%
Current Ratio	2.17	1.79	1.23	1.79	1.51	0.68
Debt/Capital	0.00%	35.05%	42.99%	73.48%	35.05%	75.46%
Net Margin	8.34%	6.40%	11.15%	6.40%	4.68%	6.04%
Return on Equity	21.09%	21.09%	17.16%	57.89%	11.87%	40.06%
Sales/Assets	1.70	1.70	0.55	1.70	1.08	0.63
Proj. Sales Growth (F1/F0)	11.89%	10.32%	4.05%	10.32%	7.45%	10.51%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>B</b>	<b>F</b>	<b>B</b>
Daily Price Chg	-1.25%	-1.25%	-0.27%	-0.96%	-1.64%	0.04%
1 Week Price Chg	0.76%	0.76%	2.29%	3.57%	-1.05%	1.12%
4 Week Price Chg	0.31%	0.31%	2.13%	10.51%	-2.29%	4.97%
12 Week Price Chg	-1.90%	7.78%	6.99%	12.44%	7.78%	11.11%
52 Week Price Chg	7.63%	41.21%	21.25%	66.93%	41.21%	24.14%
20 Day Average Volume	252,915	252,915	1,415,064	772,760	75,674	368,447
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.08%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-1.36%	-0.33%
(F1) EPS Est 12 week change	-1.69%	-1.01%	-0.34%	1.86%	-1.01%	0.39%
(Q1) EPS Est Mthly Chg	0.00%	-1.35%	0.00%	-1.35%	-2.14%	0.00%

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## 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.

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### 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	A
Momentum Score	B
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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