

MAXIMUS, Inc.(MMS)

\$66.52 (As of 02/26/20)

Price Target (6-12 Months): **\$70.00**

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: B

Growth: A

Momentum: D

Summary

MAXIMUS's 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 the company 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 poor performance of the Outside the U.S. segment. Global presence exposes it to foreign currency exchange rate risks. Due to these negatives, shares have underperformed the industry over the past year .

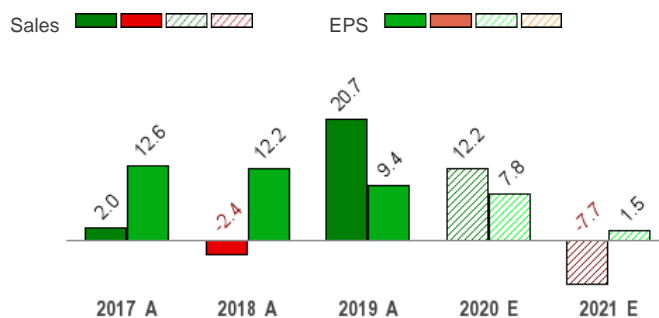
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$82.02 - \$64.87
20 Day Average Volume (sh)	330,917
Market Cap	\$4.3 B
YTD Price Change	-10.6%
Beta	0.82
Dividend / Div Yld	\$1.12 / 1.7%
Industry	<u>Government Services</u>
Zacks Industry Rank	Bottom 21% (200 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	05/14/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	793 E	770 E	697 E	696 E	2,992 E
2020	818 A	837 E	800 E	784 E	3,240 E
2019	665 A	737 A	731 A	755 A	2,887 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.05 E	\$1.01 E	\$0.95 E	\$0.94 E	\$4.07 E
2020	\$0.91 A	\$0.91 E	\$1.14 E	\$1.06 E	\$4.01 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.

P/E TTM	17.1
P/E F1	16.6
PEG F1	1.7
P/S TTM	1.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/26/2020. The reports text is as of 02/27/2020.

Overview

Headquartered in Reston, VA, MAXIMUS 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 40%, 51% and 49% to revenues in fiscal 2019, 2018 and 2017, respectively. Foreign government agencies accounted for almost 19%, 27%, 26% of revenues in fiscal 2019, 2018 and 2017, respectively. U.S. federal government agencies generated 36%, 16%, 19% of revenues in the respective years. Other sources including local municipalities and commercial customers recorded 5%, 6% and 6% of revenues in fiscal 2019, 2018 and 2017, respectively.

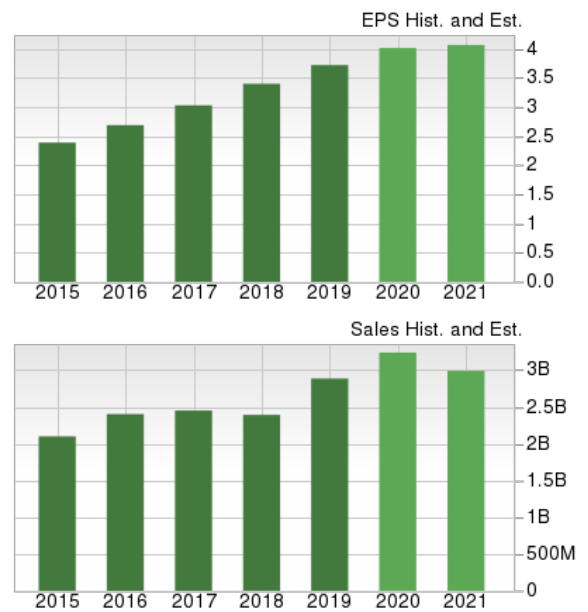
The company contracts with government clients on the basis of four pricing arrangements — performance-based, cost-plus, fixed-price and time-and-materials. Of the total contracts in fiscal 2019, 2018 and 2017, performance-based contracts accounted for 41%, 43% and 42%, respectively, cost-plus accounted for 38%, 33% and 35%, fixed-price contracts constituted 15%, 18% and 18% in each of the years and time-and-materials accounted for 6%, 6% and 5%.

During fiscal 2019, MAXIMUS generated \$2.89 billion in revenues. It operates through three business segments: U.S. Health and Human Services, U.S. Federal Services and Outside the United States.

U.S. Health and Human Services: The segment offers multiple business process services, such as program administration, appeals and assessments services, and related consulting work for U.S. state and local government programs. It accounted for 41% of fiscal 2019 revenues.

U.S. Federal Services: The segment offers business process solutions and system and software development and maintenance services to several U.S. federal civilian programs. It contributed 38% to fiscal 2019 revenues.

Outside the United States: The segment offers business process services for governments and commercial clients outside the United States, including health and disability assessments, program administration and case management for employment services and other work-support programs. It accounted for 21% of fiscal 2019 revenues.



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 **dividend payments**. During fiscal 2019, MAXIMUS paid cash dividends of \$63.9 million. It 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.
- ▲ 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 2019, MAXIMUS acquired GT Hiring Solutions to improve the reach and capabilities of its Canadian employment services. In 2018, the company 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.

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

Reasons To Sell:

- ▼ **Poor performance of the Outside the U.S. segment** is weighing on MAXIMUS' top line and margins. The segment is marred by lack of contracts in the U.K., unfavorable impacts of foreign currency translation and weak pass-through revenues in Australian welfare-to-work contracts. Revenues from the segment declined 14% in fiscal 2019. Gross profit margin and operating income margin declined 130 basis points (bps) and 240 bps respectively. Due to these negatives, shares of the company have declined 6.6% over the past year against the 17.2% growth of the industry it belongs to.
- ▼ 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 \$35 million in fiscal 2019.
- ▼ 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.

Global presence makes MAXIMUS vulnerable to risks associated with lower volumes in welfare-to-work business and foreign currency exchange rate fluctuations.

Last Earnings Report

MAXIMUS Q1 Earnings Meet Estimates

MAXIMUS reported first-quarter fiscal 2020 earnings per share of 91 cents, which matched the Zacks Consensus Estimate and increased 5.8% year over year.

Revenues of \$818.2 million beat the consensus mark by 1.7% and improved 23.1% year over year. The year-over-year uptick was driven by strength in the U.S. Federal Services Segment due to contribution from the acquired citizen engagement centers business, the ramp-up on the Census contract, and organic growth in the company's U.S. Health & Human Services and U.S. Federal Services Segments.

Revenues by Segment

U.S. Health and Human Services segment revenues of \$312.3 million increased 6.2% year over year mainly driven by new contracts and expansion of existing work. U.S. Federal Services segment revenues of \$366.6 million were up 68.9% from the year-ago quarter. Outside the U.S. segment revenues of \$139.4 million declined 9% year over year on a reported basis and 8% on a constant-currency basis.

Sales and Pipeline

Year to date signed contract awards at Dec 31, 2019 totaled \$176.6 million and contracts pending (awarded but unsigned) totaled \$439.5 million. The sales pipeline at Dec 31, 2019 was \$30.6 billion. This included \$3.7 billion in proposals pending, \$0.7 billion in proposals in preparation and \$26.3 billion in opportunities tracking.

Operating Performance

Operation income of \$79.1 million increased 6.7% year over year. Operating margin of 9.7% declined 150 basis points (bps).

Balance Sheet and Cash Flow

The company ended the quarter with cash and cash equivalents balance of \$149.5 million compared with \$105.6 million in the prior quarter. The company generated \$87.3 million of cash from operations and capital expenditure was \$10.5 million. Free cash flow was \$76.8 million. MAXIMUS paid out dividends of \$18 million in the quarter.

Outlook

The company reiterated its fiscal 2020 guidance. Earnings per share are expected to be in the range of \$3.95 to \$4.15. The company expects revenues of \$3.15-\$3.3 billion. Cash flows from operations are expected to be between \$300 million and \$350 million, and free cash flow is anticipated between \$275 million and \$325 million. Estimated effective income tax rate is between 24.5% and 25.5%.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	1.73%
EPS Surprise	0.00%
Quarterly EPS	0.91
Annual EPS (TTM)	3.88

Recent News

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

Valuation

MAXIMUS shares are down 6.6% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 17.2%, 13.2% and 11.3%, respectively in the same time frame.

The stock is currently trading at 16.49X forward 12-month price-to-earnings, which compares to 18.74X for the Zacks sub-industry, 24.4X for the Zacks sector and 17.88X 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 18.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$70.00 price target reflects 17.35X 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	16.49	18.74	24.4	17.88
	5-Year High	25.88	21.55	25.26	19.34
	5-Year Low	14.34	15.94	18.78	15.18
	5-Year Median	18.9	18.52	20.59	17.47
P/S F12M	Current	1.36	1.31	3.91	3.29
	5-Year High	2.13	1.45	5.14	3.43
	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	3.28	7.34	4.8	4.52
	5-Year High	7.83	14.57	6.71	4.9
	5-Year Low	3.28	6.96	4.13	2.85
	5-Year Median	4.56	8.33	5.25	3.62

As of 02/26/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 254)



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
VGM Score	A	-	-	A	B	C
Market Cap	4.25 B	4.25 B	22.59 B	10.08 B	1.51 B	12.40 B
# of Analysts	3	3	13	9	3	6
Dividend Yield	1.68%	1.68%	1.92%	1.72%	0.70%	0.00%
Value Score	B	-	-	C	B	D
Cash/Price	0.03	0.03	0.04	0.07	0.00	0.02
EV/EBITDA	10.11	15.74	13.29	17.11	15.74	25.13
PEG Ratio	1.62	1.75	1.93	1.76	1.75	2.66
Price/Book (P/B)	3.28	3.28	3.03	11.02	2.21	13.21
Price/Cash Flow (P/CF)	13.01	15.21	12.33	21.30	15.21	21.63
P/E (F1)	16.23	17.55	17.79	22.89	17.55	34.06
Price/Sales (P/S)	1.40	1.39	2.47	1.39	1.04	2.92
Earnings Yield	6.03%	5.70%	5.60%	4.37%	5.70%	2.94%
Debt/Equity	0.00	0.54	0.70	2.51	0.54	3.06
Cash Flow (\$/share)	5.11	5.11	7.02	3.38	5.29	6.41
Growth Score	A	-	-	A	B	C
Hist. EPS Growth (3-5 yrs)	13.33%	13.33%	10.85%	17.07%	13.00%	14.89%
Proj. EPS Growth (F1/F0)	7.88%	9.55%	6.79%	13.85%	9.55%	4.36%
Curr. Cash Flow Growth	13.97%	14.24%	6.53%	28.37%	14.24%	-7.30%
Hist. Cash Flow Growth (3-5 yrs)	10.95%	10.36%	8.38%	7.77%	10.36%	18.55%
Current Ratio	1.95	1.93	1.22	1.93	1.51	0.71
Debt/Capital	0.00%	35.05%	42.37%	71.54%	35.05%	75.40%
Net Margin	8.01%	5.96%	11.57%	5.96%	4.68%	5.50%
Return on Equity	20.54%	20.54%	16.80%	54.84%	11.87%	38.63%
Sales/Assets	1.71	1.66	0.54	1.66	1.08	0.62
Proj. Sales Growth (F1/F0)	12.24%	10.98%	4.06%	10.98%	7.45%	9.08%
Momentum Score	D	-	-	A	B	A
Daily Price Chg	-0.39%	-0.28%	-0.98%	2.04%	-0.28%	-1.74%
1 Week Price Chg	-3.46%	-3.46%	-0.94%	-4.58%	-2.26%	2.00%
4 Week Price Chg	-9.48%	-9.48%	-6.27%	-8.08%	-10.21%	-14.49%
12 Week Price Chg	-10.51%	-10.51%	-3.33%	-0.58%	-13.19%	-12.10%
52 Week Price Chg	-6.61%	6.79%	6.81%	36.37%	6.79%	-3.63%
20 Day Average Volume	330,917	330,917	2,109,774	1,152,255	92,602	789,422
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.25%	0.00%	-0.08%	0.24%	0.00%	0.83%
(F1) EPS Est 12 week change	-0.97%	-0.97%	-0.22%	0.67%	-1.36%	0.49%
(Q1) EPS Est Mthly Chg	-10.82%	-1.88%	-0.61%	-1.88%	0.00%	-0.87%

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	A
Momentum Score	D
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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