

MAXIMUS, Inc.(MMS)

\$73.05 (As of 05/28/20)

Price Target (6-12 Months): **\$77.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/14/19)

Prior Recommendation: NA

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: B

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 .

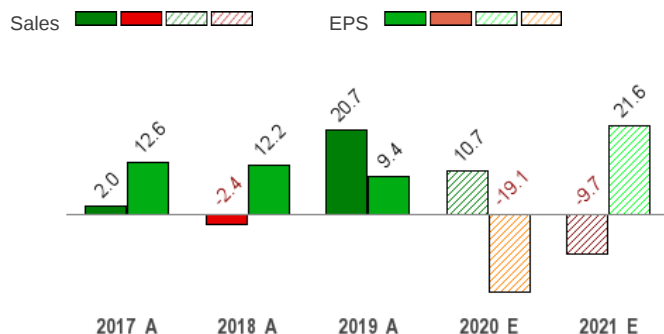
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$82.02 - \$46.42
20 Day Average Volume (sh)	461,821
Market Cap	\$4.5 B
YTD Price Change	-1.8%
Beta	0.91
Dividend / Div Yld	\$1.12 / 1.5%
Industry	Government Services
Zacks Industry Rank	Top 35% (88 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-43.4%
Last Sales Surprise	9.6%
EPS F1 Est- 4 week change	-18.1%
Expected Report Date	08/13/2020
Earnings ESP	0.0%
P/E TTM	22.6
P/E F1	24.3
PEG F1	2.4
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	769 E	754 E	733 E	701 E	2,886 E
2020	818 A	818 A	807 E	753 E	3,197 E
2019	665 A	737 A	731 A	755 A	2,887 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.94 E	\$0.92 E	\$0.95 E	\$0.84 E	\$3.66 E
2020	\$0.91 A	\$0.43 A	\$0.76 E	\$0.91 E	\$3.01 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/28/2020. The reports text is as of 05/29/2020.

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.

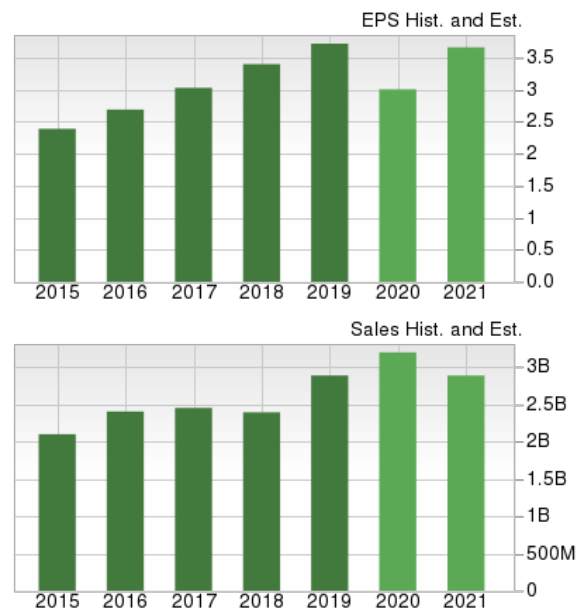
The company contracts with government clients on the basis of four pricing arrangements — performance-based, cost-plus, fixed-price and time-and-materials. Of the total contracts in fiscal 2019, 2018 and 2017, performance-based contracts accounted for 41%, 43% and 42%, respectively, cost-plus accounted 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. Partly due to these negatives, shares of the company have underperformed the industry over the past year.
- ▼ 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.
- ▼ MAXIMUS has a **debt-laden balance sheet**. Total debt at the end of second-quarter fiscal 2020 was \$159 million, compared with \$7 million at the end of the prior quarter. The total debt to total capital ratio of 0.12 is higher than the industry's 0.39 and the previous quarter's 0.05. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$126 million at the end of second-quarter fiscal 2020 was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$9 million.

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 Lags on Q2 Earnings Estimates, Revenues Beat

MAXIMUS reported mixed second-quarter fiscal 2020 results with earnings missing the Zacks Consensus Estimate and revenues beating the same.

Earnings per share (EPS) amounted to 43 cents, which missed the Zacks Consensus Estimate by 43.4% and plunged 59.8% year over year. The downside was primarily caused by the impact of COVID-19 pandemic and timing of the changed order.

Revenues of \$818.1 million beat the consensus mark by 9.6% and increased 11.1% year over year. The year-over-year uptick was driven by the Census contract in the United States and organic revenue 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 \$308.7 million increased 6.2% (all organic) year over year, mainly on new contracts and expansion of existing work. U.S. Federal Services segment revenues of \$393.4 million rallied 35.8% from the year-ago quarter's reported figure. In this segment, organic revenue growth was 6.7%. Outside the U.S. segment revenues of \$116 million declined 26% year over year on a reported basis and 24% on a constant-currency basis. Operating margin in this segment was 2.9%.

Sales and Pipeline

Year to date signed contract awards at Mar 31, 2020 totaled \$729.8 million and contracts pending (awarded but unsigned) totaled \$215.8 million. The sales pipeline at Mar 31, 2020 was \$29.2 billion. This included \$2.8 billion in proposals pending, \$2 billion in proposals in preparation and \$24.4 billion in opportunities tracking.

Operating Performance

Operating income of \$37.3 million decreased 54.4% year over year. Operating margin of 4.6% declined 650 basis points (bps). Timing related change order and impact of the pandemic on performance-based work, ongoing investments in business development and technological capabilities have negatively impacted operating performance in the quarter.

Balance Sheet and Cash Flow

The company ended the quarter with cash and cash equivalents balance of \$126.3 million compared with \$149.5 million in the prior quarter. The company generated \$22 million of cash from operations. Free cash flow amounted to \$13.4 million. MAXIMUS paid out dividends of \$17.9 million and repurchased approximately 2.74 million shares for \$165.1 million.

Trimmed Outlook

The company lowered its fiscal 2020 guidance. Earnings per share are now expected in the range of \$2.95-\$3.15 compared with the previously expectation of \$3.95 to \$4.15. The company expects revenues of \$3.15-\$3.25 billion compared with the previous expectation of \$3.15-\$3.3 billion. Cash flows from operations are expected between \$250 million and \$300 million compared with the previous expectation of \$300 million and \$350 million. Free cash flow is anticipated between \$200 million and \$250 million compared with the previous projection of \$275 million and \$325 million.

Quarter Ending 03/2020

Report Date	May 07, 2020
Sales Surprise	9.63%
EPS Surprise	-43.42%
Quarterly EPS	0.43
Annual EPS (TTM)	3.24

Recent News

On **Apr 28, 2020**, MAXIMUS announced that Internal Revenue Service (IRS) has awarded MAXIMUS Federal a \$40 million contract for the agency's Information Technology Financial Management Application Support (ITFMAS) task order.

On **Mar 23, 2020**, MAXIMUS announced appointment of Jan D. Madsen and John J. Haley to the company's Board of Directors, effective March 17, 2020.

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 1.8% in the year-to-date period but up 2.5% over the trailing 12-month period. Stocks in the Zacks sub-industry were up 3.1% while those in the Zacks Business Services sector are down 5.2%. Over the past year, the Zacks sub-industry and the sector are up 15.2% and 0.6%, respectively.

The S&P 500 index is down 5.9% in the year-to-date period but up 8.5% in the past year.

The stock is currently trading at 21.23X forward 12-month price-to-earnings, which compares to 21.08X for the Zacks sub-industry, 29X for the Zacks sector and 22.06X for the S&P 500 index.

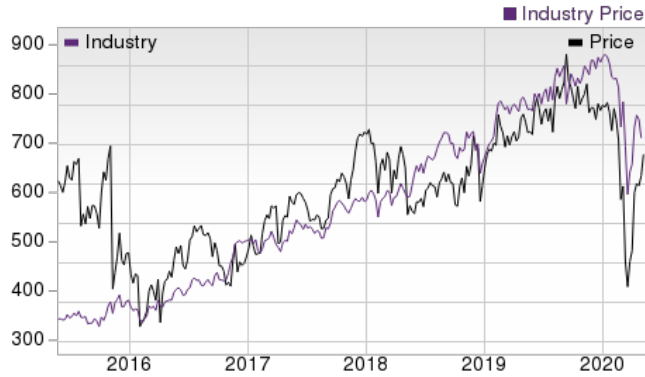
Over the past five years, the stock has traded as high as 24.46X and as low as 12.25X, with a 5-year median of 18.79X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$77.00 price target reflects 22.38X price-to-earnings.

The table below shows summary valuation data for MMS

Valuation Multiples - MMS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	21.23	21.08	29	22.06
	5-Year High	24.46	21.55	29	22.06
	5-Year Low	12.25	15.94	18.68	15.23
	5-Year Median	18.79	18.42	20.69	17.49
P/S F 12M	Current	1.5	1.29	3.96	3.42
	5-Year High	1.91	1.45	3.96	3.44
	5-Year Low	1.01	0.29	3.05	2.53
	5-Year Median	1.53	1.11	3.57	3.01
P/B TTM	Current	4.1	7.8	4.15	4.15
	5-Year High	7.54	13.41	6.69	4.56
	5-Year Low	2.44	6.03	3.19	2.83
	5-Year Median	4.44	8.28	5.18	3.65

As of 05/27/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Accenture PLC (ACN)	Neutral	3
Booz Allen Hamilton Holding Corporation (BAH)	Neutral	3
CACI International, Inc. (CACI)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	3
ICF International, Inc. (ICFI)	Neutral	3
Gartner, Inc. (IT)	Neutral	3
Leidos Holdings, Inc. (LDOS)	Neutral	3
Science Applications International Corporation (SAIC)	Neutral	3

Industry Comparison Industry: Government Services				Industry Peers		
	MMS	X Industry	S&P 500	BAH	ICFI	IT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	A	D	B
Market Cap	4.48 B	4.48 B	21.49 B	10.86 B	1.25 B	10.86 B
# of Analysts	3	3	14	8	3	4
Dividend Yield	1.53%	1.53%	1.98%	1.57%	0.84%	0.00%
Value Score	A	-	-	B	C	D
Cash/Price	0.03	0.05	0.06	0.07	0.05	0.02
EV/EBITDA	11.10	14.11	12.50	18.22	14.11	22.58
PEG Ratio	2.41	1.88	2.87	1.90	1.85	3.99
Price/Book (P/B)	4.10	4.10	2.95	12.89	1.81	12.21
Price/Cash Flow (P/CF)	14.29	14.29	11.81	20.60	11.53	18.93
P/E (F1)	24.12	22.72	21.33	22.72	18.53	39.85
Price/Sales (P/S)	1.43	1.43	2.28	1.46	0.84	2.53
Earnings Yield	4.12%	4.39%	4.50%	4.39%	5.40%	2.51%
Debt/Equity	0.13	0.92	0.76	2.66	0.92	3.20
Cash Flow (\$/share)	5.11	5.11	6.96	3.82	5.76	6.43
Growth Score	B	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	11.99%	12.65%	10.87%	17.07%	12.65%	14.99%
Proj. EPS Growth (F1/F0)	-19.17%	-14.33%	-10.48%	8.96%	-13.57%	-21.67%
Curr. Cash Flow Growth	13.97%	13.32%	5.39%	13.32%	8.66%	-7.30%
Hist. Cash Flow Growth (3-5 yrs)	10.95%	9.89%	8.55%	7.77%	9.89%	18.55%
Current Ratio	1.97	1.75	1.29	1.75	1.65	0.70
Debt/Capital	11.65%	47.94%	44.54%	72.68%	47.94%	76.19%
Net Margin	6.71%	6.47%	10.59%	6.47%	4.30%	6.70%
Return on Equity	17.09%	17.09%	16.26%	53.41%	11.43%	44.23%
Sales/Assets	1.69	1.61	0.55	1.61	1.01	0.63
Proj. Sales Growth (F1/F0)	10.73%	8.08%	-2.53%	8.08%	-0.32%	-9.44%
Momentum Score	D	-	-	A	D	C
Daily Price Chg	-0.11%	-0.11%	-0.65%	2.73%	-0.23%	-0.92%
1 Week Price Chg	7.18%	7.11%	4.99%	7.11%	4.86%	5.45%
4 Week Price Chg	8.51%	7.22%	4.28%	7.22%	-9.63%	2.47%
12 Week Price Chg	12.11%	4.31%	-3.05%	4.31%	-18.14%	-3.05%
52 Week Price Chg	2.50%	2.50%	0.01%	25.48%	-8.86%	-20.23%
20 Day Average Volume	461,821	461,821	2,425,602	1,013,859	150,257	523,042
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	2.30%	0.00%	0.00%
(F1) EPS Est 4 week change	-18.07%	-8.50%	-1.70%	2.30%	-8.50%	-2.77%
(F1) EPS Est 12 week change	-25.08%	-13.37%	-16.00%	0.65%	-13.37%	-24.94%
(Q1) EPS Est Mthly Chg	-22.90%	-22.10%	-3.25%	0.44%	-22.10%	4.13%

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	A
Growth Score	B
Momentum Score	D
VGM Score	B

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

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