

MAXIMUS INC
Form 10-Q
May 10, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018

Commission File Number: 1-12997

MAXIMUS, INC.
(Exact name of registrant as specified in its charter)

Virginia 54-1000588
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1891 Metro Center Drive 20190
Reston, Virginia
(Address of principal executive offices) (Zip Code)

(703) 251-8500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting company) Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 7, 2018 there were 65,242,950 shares of the registrant's common stock (no par value) outstanding.

MAXIMUS, Inc.
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For the Quarter Ended March 31, 2018
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Throughout this Quarterly Report on Form 10-Q, the terms “Company,” “we,” “us,” “our” and “MAXIMUS” refer to MAXIMUS, Inc. and its subsidiaries, unless the context requires otherwise.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Included in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates, forecasts and projections about us, the industry in which we operate and other matters, as well as management’s beliefs and assumptions and other statements that are not historical facts. Words such as “anticipate,” “believe,” “could,” “expect,” “estimate,” “intend,” “may,” “opportunity,” “plan,” “potential,” “project,” “should,” “will” and similar words are intended to identify forward-looking statements and convey uncertainty of future events or outcomes. These statements are not guarantees and involve risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from such forward-looking statements due to a number of factors, including without limitation:

- a failure to meet performance requirements in our contracts, which might lead to contract termination and actual or liquidated damages;
- the effects of future legislative or government budgetary and spending changes;
- our failure to successfully bid for and accurately price contracts to generate our desired profit;
- our ability to maintain technology systems and otherwise protect confidential or protected information;
- our ability to attract and retain executive officers, senior managers and other qualified personnel to execute our business;
- our ability to manage capital investments and startup costs incurred before receiving related contract payments;
- our ability to adapt to changing market conditions;
- our ability to successfully implement digital enhancements and other technologies into our operations;
- the ability of government customers to terminate contracts on short notice, with or without cause;
- our ability to maintain relationships with key government entities from whom a substantial portion of our revenue is derived;
- the outcome of reviews or audits, which might result in financial penalties and impair our ability to respond to invitations for new work;
- a failure to comply with laws governing our business, which might result in the Company being subject to fines, penalties, suspension, debarment and other sanctions;
- the costs and outcome of litigation;
- our ability to identify and successfully complete acquisitions on favorable terms;
- difficulties in integrating or achieving projected revenues and earnings for acquired businesses;
- matters related to business we have disposed of or divested;
- the effect of changes in laws, including tax laws and the implementation of regulations, guidance and interpretations thereunder; and
- other factors set forth in Exhibit 99.1, under the caption "Special Considerations and Risk Factors," in our Annual Report on Form 10-K for the year ended September 30, 2017, which was filed with the Securities and Exchange Commission on November 20, 2017.

As a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. Additionally, we caution investors not to place undue reliance on any forward-looking statements as these statements speak only as of the date when made. Except as otherwise required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether resulting from new information, future events or otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

MAXIMUS, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2018	2017	2018	2017
Revenue	\$612,787	\$622,047	\$1,235,935	\$1,229,611
Cost of revenue	463,984	469,730	935,172	932,476
Gross profit	148,803	152,317	300,763	297,135
Selling, general and administrative expenses	72,559	68,596	142,118	133,994
Amortization of intangible assets	2,603	3,386	5,321	6,788
Restructuring costs	2,320	—	2,320	2,242
Operating income	71,321	80,335	151,004	154,111
Interest expense	157	744	325	1,593
Other income, net	1,392	417	1,679	680
Income before income taxes	72,556	80,008	152,358	153,198
Provision for income taxes	17,450	26,911	37,300	53,772
Net income	55,106	53,097	115,058	99,426
(Loss)/income attributable to noncontrolling interests	(386) 582	475	247
Net income attributable to MAXIMUS	\$55,492	\$52,515	\$114,583	\$99,179
Basic earnings per share attributable to MAXIMUS	\$0.84	\$0.80	\$1.74	\$1.51
Diluted earnings per share attributable to MAXIMUS	\$0.84	\$0.80	\$1.73	\$1.50
Dividends paid per share	\$0.045	\$0.045	\$0.09	\$0.09
Weighted average shares outstanding:				
Basic	65,856	65,549	65,857	65,669
Diluted	66,268	65,947	66,223	65,989

See notes to unaudited consolidated financial statements.

MAXIMUS, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net income	\$55,106	\$53,097	\$115,058	\$99,426
Foreign currency translation adjustments	2,869	5,623	3,184	(4,071)
Interest rate hedge, net of income taxes of \$-, \$5, \$- and \$(3), respectively	—	(7)	—	5
Comprehensive income	57,975	58,713	118,242	95,360
Comprehensive (loss)/income attributable to noncontrolling interests	(386)	582	475	247
Comprehensive income attributable to MAXIMUS	\$58,361	\$58,131	\$117,767	\$95,113

See notes to unaudited consolidated financial statements.

MAXIMUS, Inc.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	March 31, 2018 (unaudited)	September 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$253,227	\$ 166,252
Accounts receivable — billed and billable, net of reserves of \$4,356 and \$6,843	415,008	394,338
Accounts receivable — unbilled	41,202	36,475
Income taxes receivable	1,677	4,528
Prepaid expenses and other current assets	47,918	55,649
Total current assets	759,032	657,242
Property and equipment, net	90,741	101,651
Capitalized software, net	22,601	26,748
Goodwill	405,082	402,976
Intangible assets, net	94,109	98,769
Deferred contract costs, net	14,673	16,298
Deferred compensation plan assets	29,703	28,548
Deferred income taxes	7,625	7,691
Other assets	6,934	10,739
Total assets	\$1,430,500	\$ 1,350,662
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 119,589	\$ 122,083
Accrued compensation and benefits	81,833	105,667
Deferred revenue	52,743	71,722
Income taxes payable	11,652	4,703
Other liabilities	13,534	12,091
Total current liabilities	279,351	316,266
Deferred revenue, less current portion	23,802	28,182
Deferred income taxes	10,997	20,106
Deferred compensation plan liabilities, less current portion	30,904	30,707
Other liabilities	19,118	9,633
Total liabilities	364,172	404,894
Shareholders' equity:		
Common stock, no par value; 100,000 shares authorized; 65,243 and 65,137 shares issued and outstanding at March 31, 2018 and September 30, 2017, at stated amount, respectively	487,385	475,592
Accumulated other comprehensive loss	(24,435) (27,619)
Retained earnings	599,630	492,112
Total MAXIMUS shareholders' equity	1,062,580	940,085
Noncontrolling interests	3,748	5,683
Total equity	1,066,328	945,768
Total liabilities and equity	\$1,430,500	\$ 1,350,662

See notes to unaudited consolidated financial statements.

MAXIMUS, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Six Months Ended March 31,	
	2018	2017
Cash flows from operations:		
Net income	\$115,058	\$99,426
Adjustments to reconcile net income to cash flows from operations:		
Depreciation and amortization of property and equipment and capitalized software	27,074	29,967
Amortization of intangible assets	5,321	6,788
Deferred income taxes	(9,179)	(5,721)
Stock compensation expense	11,324	10,234
Change in assets and liabilities:		
Accounts receivable — billed and billable	(18,522)	10,030
Accounts receivable — unbilled	(4,730)	(3,445)
Prepaid expenses and other current assets	8,526	7,512
Deferred contract costs	1,794	998
Accounts payable and accrued liabilities	(3,171)	(17,719)
Accrued compensation and benefits	(15,391)	(6,293)
Deferred revenue	(23,789)	(15,853)
Income taxes	18,634	20,715
Other assets and liabilities	3,620	209
Cash flows from operations	116,569	136,848
Cash flows from investing activities:		
Purchases of property and equipment and capitalized software costs	(13,175)	(12,975)
Acquisition of part of noncontrolling interest	(157)	—
Proceeds from the sale of a business	—	385
Other	183	218
Cash used in investing activities	(13,149)	(12,372)
Cash flows from financing activities:		
Cash dividends paid to MAXIMUS shareholders	(5,865)	(5,837)
Repurchases of common stock	(1,038)	(28,858)
Tax withholding related to RSU vesting	(8,529)	(9,267)
Borrowings under credit facility	124,683	135,000
Repayment of credit facility and other long-term debt	(124,752)	(184,828)
Other	(2,130)	(1,145)
Cash used in financing activities	(17,631)	(94,935)
Effect of exchange rate changes on cash and cash equivalents	1,186	(878)
Net increase in cash and cash equivalents	86,975	28,663
Cash and cash equivalents, beginning of period	166,252	66,199
Cash and cash equivalents, end of period	\$253,227	\$94,862
See notes to unaudited consolidated financial statements.		

MAXIMUS, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts in thousands)

(Unaudited)

	Common Shares Outstanding	Common Stock	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Noncontrolling Interest	Total
Balance at September 30, 2017	65,137	\$475,592	\$ (27,619)	\$492,112	\$ 5,683	\$945,768
Net income	—	—	—	114,583	475	115,058
Foreign currency translation	—	—	3,184	—	—	3,184
Cash dividends	—	—	—	(5,865)	(2,129)	(7,994)
Dividends on RSUs	—	162	—	(162)	—	—
Repurchases of common stock	(17)	—	—	(1,038)	—	(1,038)
Stock compensation expense	—	11,324	—	—	—	11,324
Tax withholding related to RSU vesting	—	183	—	—	—	183
RSUs vested	123	—	—	—	—	—
Acquisition of part of noncontrolling interest	—	124	—	—	(281)	(157)
Balance at March 31, 2018	65,243	\$487,385	\$ (24,435)	\$599,630	\$ 3,748	\$1,066,328
			Accumulated			
	Common Shares Outstanding	Common Stock	Other Comprehensive Income / (Loss)	Retained Earnings	Noncontrolling Interest	Total
Balance at September 30, 2016	65,223	\$461,679	\$ (36,169)	\$323,571	\$ 4,059	\$753,140
Net income	—	—	—	99,179	247	99,426
Foreign currency translation	—	—	(4,071)	—	—	(4,071)
Interest rate hedge, net of income taxes	—	—	5	—	—	5
Cash dividends	—	—	—	(5,837)	(617)	(6,454)
Dividends on RSUs	—	174	—	(174)	—	—
Repurchases of common stock	(558)	—	—	(28,858)	—	(28,858)
Stock compensation expense	—	10,234	—	—	—	10,234
Tax withholding related to RSU vesting	—	(12)	—	—	—	(12)
RSUs vested	157	—	—	—	—	—
Balance at March 31, 2017	64,822	\$472,075	\$ (40,235)	\$387,881	\$ 3,689	\$823,410

See notes to unaudited consolidated financial statements.

MAXIMUS, Inc.

Notes to Unaudited Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2018 and 2017

1. Organization and Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. As permitted by these instructions, they do not include all of the information and notes required by generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three and six months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2017 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statements. Certain financial results have been reclassified to conform with our current period presentation.

The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenue and expenses. On an ongoing basis, we evaluate our estimates including those related to revenue recognition and cost estimation on certain contracts, the realizability of goodwill and amounts related to income taxes, certain accrued liabilities and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

These financial statements should be read in conjunction with the consolidated audited financial statements and the notes thereto at September 30, 2017 and 2016 and for each of the three years ended September 30, included in our Annual Report on Form 10-K which was filed with the Securities and Exchange Commission on November 20, 2017.

2. Segment Information

The table below provides certain financial information for each of our business segments.

(dollars in thousands)	Three Months Ended March 31,				Six Months Ended March 31,			
	2018	% (1)	2017	% (1)	2018	% (1)	2017	% (1)
Revenue:								
Health Services	\$365,633	100 %	\$348,994	100 %	\$717,723	100 %	\$689,723	100 %
U.S. Federal Services	116,327	100 %	145,370	100 %	249,310	100 %	286,668	100 %
Human Services	130,827	100 %	127,683	100 %	268,902	100 %	253,220	100 %
Total	\$612,787	100 %	\$622,047	100 %	\$1,235,935	100 %	\$1,229,611	100 %
Gross profit:								
Health Services	\$98,207	26.9 %	\$86,454	24.8 %	\$189,263	26.4 %	\$164,688	23.9 %
U.S. Federal Services	27,374	23.5 %	36,571	25.2 %	60,732	24.4 %	74,147	25.9 %
Human Services	23,222	17.8 %	29,292	22.9 %	50,768	18.9 %	58,300	23.0 %
Total	\$148,803	24.3 %	\$152,317	24.5 %	\$300,763	24.3 %	\$297,135	24.2 %
Selling, general and administrative expense:								
Health Services	\$35,190	9.6 %	\$29,914	8.6 %	\$68,606	9.6 %	\$58,021	8.4 %
U.S. Federal Services	17,540	15.1 %	18,927	13.0 %	34,188	13.7 %	38,622	13.5 %
Human Services	19,829	15.2 %	19,663	15.4 %	39,324	14.6 %	36,902	14.6 %
Other (2)	—	NM	92	NM	—	NM	449	NM
Total	\$72,559	11.8 %	\$68,596	11.0 %	\$142,118	11.5 %	\$133,994	10.9 %
Operating income:								
Health Services	\$63,017	17.2 %	\$56,540	16.2 %	\$120,657	16.8 %	\$106,667	15.5 %
U.S. Federal Services	9,834	8.5 %	17,644	12.1 %	26,544	10.6 %	35,525	12.4 %
Human Services	3,393	2.6 %	9,629	7.5 %	11,444	4.3 %	21,398	8.5 %
Amortization of intangible assets	(2,603)	NM	(3,386)	NM	(5,321)	NM	(6,788)	NM
Restructuring costs (3)	(2,320)	NM	—	NM	(2,320)	NM	(2,242)	NM
Other (2)	—	NM	(92)	NM	—	NM	(449)	NM
Total	\$71,321	11.6 %	\$80,335	12.9 %	\$151,004	12.2 %	\$154,111	12.5 %

(1) Percentage of respective segment revenue. Percentages not considered meaningful are marked "NM."

Other costs and credits relate to SG&A balances that do not relate directly to segment business activities. During

(2) the six months ended March 31, 2017 we incurred \$0.4 million of legal costs pertaining to a matter which occurred in fiscal year 2009.

(3) During fiscal years 2018 and 2017, we incurred costs in restructuring our United Kingdom Human Services business. See "Note 5. Supplemental disclosures" for more information.

3. Earnings Per Share

The weighted average number of shares outstanding used to compute earnings per share was as follows:

	Three Months		Six Months	
	Ended March		Ended March	
	31,	31,	31,	31,
(shares in thousands)	2018	2017	2018	2017
Basic weighted average shares outstanding	65,856	65,549	65,857	65,669
Dilutive effect of employee stock options and unvested RSUs	412			