August 9, 2018

# MAXIMUS Reports Fiscal Year 2018 Third Quarter Results

## - Company to Increase Quarterly Cash Dividend to $0.25 per Share -

RESTON, Va., Aug. 9, 2018 /PRNewswire/ -- MAXIMUS (NYSE: MMS), a leading provider of government services worldwide, today reported financial results for the three and nine months ended June 30, 2018.

Highlights for the third quarter of fiscal year 2018 include:

- Revenue of $597.9 million compared to $600.4 million reported for the same period last year
- Diluted earnings per share of $0.91 compared to $0.86 for the same period last year
- Cash flows from operations of $72.5 million and free cash flow of $64.1 million
- Year-to-date signed contract awards of $2.0 billion and contracts pending (awarded but unsigned) of $779.4 million at June 30, 2018
- Sales pipeline of $2.9 billion at June 30, 2018
- An expansion of the Company's share repurchase program of up to $200 million and the purchase of 995,000 shares in the quarter
- Today, the Company announced a significant increase to the quarterly cash dividend from the current payout of $0.045 per share to $0.25 per share, which is a yield of approximately 1.5%, effective November 2018.

For the third quarter of fiscal 2018, revenue totaled $597.9 million as compared to $600.4 million reported for the same period last year. Organic growth in the Health Services Segment offset expected revenue declines in the U.S. Federal Services and Human Services Segments.

Financial results in the third quarter benefited from several change orders which provided a $15.5 million uplift to revenue and operating income. The change orders were signed and recorded in the third quarter, but the related costs were incurred in prior periods. The change order benefit was offset by certain large contracts in the Health Services Segment that were recently renewed and reset, as well as by the ongoing startup of contracts in the Human Services Segment.

As a result, for the third quarter of fiscal 2018, operating income totaled $82.6 million, yielding an operating margin of 13.8%.

For the third quarter of fiscal 2018, net income attributable to MAXIMUS totaled $59.9 million (or $0.91 of diluted earnings per share). This compares to fiscal 2017 third quarter diluted earnings per share of $0.86.

**Health Services Segment**
Health Services Segment revenue for the third quarter of fiscal 2018 increased 7% to $359.1 million compared to $335.1 million reported for the same period last year. The increase in revenue was driven by organic growth, including $13.7 million from the aforementioned change orders.

Operating margin for the third quarter of fiscal 2018 was 17.8% compared to 15.4% reported for the prior-year period. The accretive change orders were offset by forecasted changes on several sizable contracts that were rebid, extended or the option periods were exercised where the contracts have commenced service and are in the early cycles of program and margin maturity. Excluding the change orders, Health Services Segment operating margin would have been 14.5% in the third quarter of fiscal 2018.

**U.S. Federal Services Segment**
As expected, U.S. Federal Services Segment revenue for the third quarter of fiscal 2018 decreased 15% to $112.2 million compared to $131.6 million reported for the same period last year. As previously disclosed, the lower revenue was largely due to contracts that ended.

Operating margin for the third quarter of fiscal 2018 was 13.3% compared to 12.1% reported for the prior-year period. The increase in operating margin was driven by higher volumes on a couple of performance-based contracts.

**Human Services Segment**
Human Services Segment revenue for the third quarter of fiscal 2018 decreased 5% to $126.6 million compared to $133.8 million reported for the same period last year due to the wind-down of several contracts both domestically and internationally, including the Work Programme and Work Choice contracts in the U.K. which are set to end in fiscal 2019. Third quarter revenue and operating income benefited from a $1.8 million change order that was disclosed last quarter.

Operating margin for the third quarter of fiscal 2018 was 5.9% compared to 12.2% reported for the prior-year period. As expected, operating margin was tempered by a number of new contracts that are in the start-up phase but performing as expected. On a normalized basis, excluding the benefit of the change order and the unfavorable impact from the contracts in startup, operating margin would have been 6.4% in the third quarter of fiscal 2018.

**Sales and Pipeline**
Year-to-date signed contract awards at June 30, 2018, totaled $2.0 billion and contracts pending (awarded but unsigned) totaled $779.4 million.

The sales pipeline at June 30, 2018, was $2.9 billion (comprised of approximately $0.5 billion in proposals pending, $0.7 billion in proposals in preparation, and $1.6 billion in opportunities tracking). This compares to a pipeline of $3.0 billion at March 31, 2018. The sequential decline reflects the conversion of pipeline into new awards during the quarter.

**Balance Sheet and Cash Flows**
Cash and cash equivalents at June 30, 2018, totaled $229.0 million. The Company also has $20.2 million in short-term investments that mature in October 2018. For the three months ended June 30, 2018, cash flows from operations totaled $72.5 million, with free cash flow of $64.1 million.

At June 30, 2018, days sales outstanding (DSO) were 66 and consistent with the prior year.

On June 25, 2018, the Company announced an expansion to its board-authorized share repurchase program with an increase of up to $200 million. During the third quarter, MAXIMUS repurchased 995,000 shares of common stock for $61.6 million.

On May 31, 2018, MAXIMUS paid a quarterly cash dividend of $0.045 per share. On July 12, 2018, the Company announced a $0.045 per share cash dividend, payable on August 31, 2018, to shareholders of record on August 15, 2018.

The Board of Directors also announced today its intent to increase the Company's quarterly cash dividend effective in November 2018. The quarterly cash dividend will increase to $0.25 per share or $1.00 per share per year which is an approximate yield of 1.5%.

**Outlook**
MAXIMUS is reiterating its fiscal 2018 revenue and earnings guidance. The Company expects revenue to range between $2.400 billion and $2.440 billion and GAAP diluted earnings per share to range from $3.30 to $3.40 for fiscal 2018.

Bruce Caswell, President and Chief Executive Officer of MAXIMUS, commented, "With several recent new wins and new programs in the start-up phase, we are focused on excellent execution and strong cash generation, driving innovation through digital solutions to simplify citizen engagement with critical programs and effectively balancing resources in geographies where full employment has reduced volumes in certain programs we operate. We have made meaningful progress on our strategic initiatives and execution against our long-term plan. As with any guiding strategy, it will continue to evolve so that we can meet the needs of our clients and capitalize on emerging opportunities."

**Conference Call and Webcast Information**
MAXIMUS will host a conference call this morning, August 9, 2018, at 9:00 a.m. (ET). The call is open to the public and is available by webcast at http://investor.maximus.com or by phone at:

877.407.8289 (Domestic)/+1.201.689.8341 (International)

For those unable to listen to the live call, a replay will be available through August 23, 2018. Callers can access the replay by calling:

877.660.6853 (Domestic)/+1.201.612.7415 (International)

Replay conference ID number: 13681729

**About MAXIMUS**
Since 1975, MAXIMUS has operated under its founding mission of*Helping Government Serve the People*®, enabling citizens around the globe to successfully engage with their

governments at all levels and across a variety of health and human services programs. MAXIMUS delivers innovative business process management and technology solutions that contribute to improved outcomes for citizens and higher levels of productivity, accuracy, accountability and efficiency of government-sponsored programs. With more than 20,000 employees worldwide, MAXIMUS is a proud partner to government agencies in the United States, Australia, Canada, Saudi Arabia, Singapore and the United Kingdom. For more information, visit maximus.com.

**Non-GAAP Measures**

We utilize non-GAAP measures where we believe it will assist the user of our financial statements in understanding our business. The presentation of these measures is meant to complement, and not replace, other financial measures in this document. The presentation of non-GAAP numbers is not meant to be considered in isolation, nor as alternatives to revenue growth, cash flows from operations or net income as measures of performance. These non-GAAP measures, as determined and presented by us, may not be comparable to related or similarly titled measures presented by other companies.

In this news release, we use the following non-GAAP measures: organic revenue growth, constant currency movement and free cash flow. A description of these measures, including a description of our use of these measures and our methodology for calculating them, is included in our most recent Annual Report on Form 10-K, filed with the Securities and Exchange Commission on November 20, 2017. We have included a reconciliation of free cash flow to cash flows from operations in this news release.

*Statements that are not historical facts, including statements about the Company's confidence and strategies and the Company's expectations about revenues, results of operations, profitability, future contracts, market opportunities, acquisitions, technology-driven innovations, digital transformation, market demand or acceptance of the Company's current or future products or services, are forward-looking statements that involve risks and uncertainties. These uncertainties could cause the Company's actual results to differ materially from those indicated by such forward-looking statements and include reliance on government clients; risks associated with government contracting; risks involved in managing government projects; legislative changes and political developments; opposition from government unions; challenges resulting from growth; adverse publicity; and legal, economic, and other risks detailed in Exhibit 99.1 to the Company's most recent Annual Report filed with the Securities and Exchange Commission, found on maximus.com.*

**MAXIMUS, Inc.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Amounts in thousands, except per share data)**
**(Unaudited)**

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | $ 597,855 | $ 600,447 | $ 1,833,790 | $ 1,830,058 |
| Cost of revenue | 443,171 | 448,258 | 1,378,343 | 1,380,734 |
| Gross profit | 154,684 | 152,189 | 455,447 | 449,324 |
| Selling, general and administrative expenses | 69,588 | 68,308 | 211,706 | 202,302 |
| Amortization of intangible assets | 2,525 | 2,720 | 7,846 | 9,508 |
| Restructuring costs | — | — | 2,320 | 2,242 |
| Gain on sale of a business | — | 650 | — | 650 |
| Operating income | 82,571 | 81,811 | 233,575 | 235,922 |
| Interest expense | 85 | 458 | 410 | 2,051 |
| Other income, net | 2,249 | 1,306 | 3,928 | 1,986 |
| Income before income taxes | 84,735 | 82,659 | 237,093 | 235,857 |
| Provision for income taxes | 24,493 | 24,871 | 61,793 | 78,643 |
| Net income | 60,242 | 57,788 | 175,300 | 157,214 |
| Income attributable to noncontrolling interests | 381 | 870 | 856 | 1,117 |
| Net income attributable to MAXIMUS | $ 59,861 | $ 56,918 | $ 174,444 | $ 156,097 |
| Basic earnings per share attributable to MAXIMUS | $ 0.91 | $ 0.87 | $ 2.65 | $ 2.38 |
| Diluted earnings per share attributable to MAXIMUS | $ 0.91 | $ 0.86 | $ 2.64 | $ 2.36 |
| Dividends paid per share | $ 0.045 | $ 0.045 | $ 0.135 | $ 0.135 |
| Weighted average shares outstanding: | | | | |
| Basic | 65,630 | 65,571 | 65,777 | 65,637 |
| Diluted | 65,925 | 66,082 | 66,131 | 66,023 |

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

| | June 30, 2018 | September 30, 2017 |
|---|---|---|
| | (unaudited) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 229,021 | $ 166,252 |
| Short-term investments | 20,166 | — |
| Accounts receivable — billed and billable | 398,751 | 394,338 |
| Accounts receivable — unbilled | 36,155 | 36,475 |
| Income taxes receivable | 5,480 | 4,528 |
| Prepaid expenses and other current assets | 49,703 | 55,649 |
| Total current assets | 739,276 | 657,242 |
| Property and equipment, net | 84,944 | 101,651 |
| Capitalized software, net | 22,379 | 26,748 |
| Goodwill | 400,904 | 402,976 |
| Intangible assets, net | 90,693 | 98,769 |
| Deferred contract costs, net | 14,025 | 16,298 |
| Deferred compensation plan assets | 33,184 | 28,548 |
| Deferred income taxes | 7,502 | 7,691 |
| Other assets | 8,152 | 10,739 |
| Total assets | $ 1,401,059 | $ 1,350,662 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 98,486 | $ 122,083 |
| Accrued compensation and benefits | 80,049 | 105,667 |
| Deferred revenue | 50,739 | 71,722 |
| Income taxes payable | 3,595 | 4,703 |
| Other liabilities | 11,177 | 12,091 |
| Total current liabilities | 244,046 | 316,266 |
| Deferred revenue, less current portion | 22,601 | 28,182 |
| Deferred income taxes | 29,090 | 20,106 |
| Deferred compensation plan liabilities, less current portion | 32,354 | 30,707 |
| Other liabilities | 17,221 | 9,633 |
| Total liabilities | 345,312 | 404,894 |
| Shareholders' equity: | | |
| Common stock, no par value | 491,852 | 475,592 |
| Accumulated other comprehensive loss | (34,894) | (27,619) |
| Retained earnings | 594,901 | 492,112 |
| Total MAXIMUS shareholders' equity | 1,051,859 | 940,085 |
| Noncontrolling interests | 3,888 | 5,683 |
| Total equity | 1,055,747 | 945,768 |
| Total liabilities and equity | $ 1,401,059 | $ 1,350,662 |

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| **Cash flows from operations:** | | | | |
| Net income | $ 60,242 | $ 57,788 | $ 175,300 | $ 157,214 |
| Adjustments to reconcile net income to cash flows from operations: | | | | |
| Depreciation and amortization of property, equipment and capitalized software | 12,828 | 13,449 | 39,902 | 43,416 |
| Amortization of intangible assets | 2,525 | 2,720 | 7,846 | 9,508 |
| Deferred income taxes | 18,053 | 14,335 | 8,874 | 8,614 |
| Stock compensation expense | 4,389 | 5,588 | 15,713 | 15,822 |
| Gain on sale of a business | — | (650) | — | (650) |
| Change in assets and liabilities: | | | | |
| Accounts receivable — billed and billable | 11,733 | 57,993 | (6,789) | 68,023 |
| Accounts receivable — unbilled | 5,042 | (3,822) | 312 | (7,267) |
| Prepaid expenses and other current assets | (3,020) | (1,568) | 5,506 | 5,944 |
| Deferred contract costs | 446 | 116 | 2,240 | 1,114 |
| Accounts payable and accrued liabilities | (20,525) | (19,694) | (23,696) | (37,413) |
| Accrued compensation and benefits | (444) | 4,590 | (15,835) | (1,703) |
| Deferred revenue | (1,939) | (417) | (25,728) | (16,270) |
| Income taxes | (12,721) | (15,345) | 5,913 | 5,370 |
| Other assets and liabilities | (4,118) | 166 | (498) | 375 |
| Cash flows from operations | 72,491 | 115,249 | 189,060 | 252,097 |
| **Cash flows from investing activities:** | | | | |
| Purchases of property and equipment and capitalized software costs | (8,377) | (6,113) | (21,552) | (19,088) |
| Acquisition of part of noncontrolling interest | — | — | (157) | — |
| Proceeds from the sale of a business | — | 650 | — | 1,035 |
| Purchases of short-term investments | (19,996) | — | (19,996) | — |
| Other | 92 | 267 | 275 | 485 |
| Cash used in investing activities | (28,281) | (5,196) | (41,430) | (17,568) |
| **Cash flows from financing activities:** | | | | |
| Cash dividends paid to MAXIMUS shareholders | (2,936) | (2,917) | (8,801) | (8,754) |
| Repurchases of common stock | (60,949) | — | (61,987) | (28,858) |
| Tax withholding related to RSU vesting | — | — | (8,529) | (9,267) |
| Borrowings under credit facility | 10,000 | 20,000 | 134,683 | 155,000 |
| Repayment of credit facility and other long-term debt | (10,034) | (120,074) | (134,786) | (304,902) |
| Stock option exercises | — | 370 | — | 370 |
| Other | (1,928) | (80) | (4,058) | (1,225) |
| Cash used in financing activities | (65,847) | (102,701) | (83,478) | (197,636) |
| Effect of exchange rate changes on cash and cash equivalents | (2,569) | 2,164 | (1,383) | 1,286 |
| Net increase in cash and cash equivalents | (24,206) | 9,516 | 62,769 | 38,179 |
| Cash and cash equivalents, beginning of period | 253,227 | 94,862 | 166,252 | 66,199 |
| Cash and cash equivalents, end of period | $ 229,021 | $ 104,378 | $ 229,021 | $ 104,378 |

**MAXIMUS, Inc.**
**SEGMENT INFORMATION**
**(Amounts in thousands)**
**(Unaudited)**

| | Three Months Ended June 30, | | | | Nine Months Enc | |
|---|---|---|---|---|---|---|
| | 2018 | % (1) | 2017 | % (1) | 2018 | % (1) |
| **Revenue:** | | | | | | |
| Health Services | $ 359,050 | 100 % | $ 335,090 | 100 % | $ 1,076,773 | 100 % |
| U.S. Federal Services | 112,226 | 100 % | 131,589 | 100 % | 361,536 | 100 % |
| Human Services | 126,579 | 100 % | 133,768 | 100 % | 395,481 | 100 % |
| Total | $ 597,855 | 100 % | $ 600,447 | 100 % | $ 1,833,790 | 100 % |
| **Gross Profit:** | | | | | | |
| Health Services | $ 97,254 | 27.1 % | $ 83,269 | 24.8 % | $ 286,517 | 26.6 % |
| U.S. Federal Services | 32,276 | 28.8 % | 33,627 | 25.6 % | 93,008 | 25.7 % |
| Human Services | 25,154 | 19.9 % | 35,293 | 26.4 % | 75,922 | 19.2 % |
| Total | $ 154,684 | 25.9 % | $ 152,189 | 25.3 % | $ 455,447 | 24.8 % |
| **Selling, general, and administrative expense:** | | | | | | |
| Health Services | $ 33,472 | 9.3 % | $ 31,716 | 9.5 % | $ 102,078 | 9.5 % |
| U.S. Federal Services | 17,399 | 15.5 % | 17,757 | 13.5 % | 51,587 | 14.3 % |
| Human Services | 17,685 | 14.0 % | 18,925 | 14.1 % | 57,009 | 14.4 % |
| Other (2) | 1,032 | NM | (90) | NM | 1,032 | NM |
| Total (3) | $ 69,588 | 11.6 % | $ 68,308 | 11.4 % | $ 211,706 | 11.5 % |
| **Operating income:** | | | | | | |
| Health Services | $ 63,782 | 17.8 % | $ 51,553 | 15.4 % | $ 184,439 | 17.1 % |
| U.S. Federal Services | 14,877 | 13.3 % | 15,870 | 12.1 % | 41,421 | 11.5 % |
| Human Services | 7,469 | 5.9 % | 16,368 | 12.2 % | 18,913 | 4.8 % |
| Amortization of intangible assets | (2,525) | NM | (2,720) | NM | (7,846) | NM |
| Restructuring costs (4) | — | NM | — | NM | (2,320) | NM |
| Gain on sale of a business (5) | — | NM | 650 | NM | — | NM |
| Other (2) | (1,032) | NM | 90 | NM | (1,032) | NM |
| Total | $ 82,571 | 13.8 % | $ 81,811 | 13.6 % | $ 233,575 | 12.7 % |

(1) Percentage of respective segment revenue. Percentages not considered meaningful are marked "NM."
(2) Other costs and credits relate to selling, general and administrative expenses (SG&A) that do not relate directly to segment business activities. The majority of charges recorded in the periods above relate to two proposed disallowances by the Centers for Medicare and Medicaid Services.
(3) During fiscal year 2018, we updated our methodology for allocation of costs which resulted in certain costs which had been within cost of revenue now being classified as SG&A. If we had utilized the same methodology in fiscal year 2018 as we had in fiscal year 2017, we estimate that SG&A would have been lower by approximately $1.0 million and $3.5 million during the three and nine months ended June 30, 2018, respectively.
(4) During fiscal years 2018 and 2017, we incurred costs in restructuring our United Kingdom human services business.
(5) In May 2016, we sold our K-12 Education business. In June 2017, we finalized the sale price and recognized a corresponding gain on sale.

**MAXIMUS, Inc.**
**FREE CASH FLOW**
**(Non-GAAP measure)**
**(Amounts in thousands)**
**(Unaudited)**

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Cash flows from operations | $ 72,491 | $ 115,249 | $ 189,060 | $ 252,097 |
| Purchases of property and equipment and capitalized software costs | (8,377) | (6,113) | (21,552) | (19,088) |
| Free cash flow | $ 64,114 | $ 109,136 | $ 167,508 | $ 233,009 |

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