

The background features a large, stylized 'X' shape formed by overlapping geometric shapes in two shades of purple. The word 'maximus' is written in a white, lowercase, sans-serif font in the upper left corner.

**maximus**

# Fiscal 2023 Third Quarter Earnings Call

**David Mutryn**  
Chief Financial Officer

August 3, 2023

# Forward-looking Statements & Non-GAAP Information

These slides should be read in conjunction with the Company's most recent quarterly earnings press release, along with listening to or reading a transcript of the comments of Company management from our most recent quarterly earnings conference call.

This document may contain non-GAAP financial information. Management uses this information in its internal analysis of results and believes that this information may be informative to investors in gauging the quality of our financial performance, identifying trends in our results, and providing meaningful period-to-period comparisons. These measures should be used in conjunction with, rather than instead of, their comparable GAAP measures. For a reconciliation of non-GAAP measures to the comparable GAAP measures presented in this document, see the Company's most recent quarterly earnings press release.

Included in this presentation are forward-looking statements within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: "anticipate," "intend," "plan," "goal," "seek," "opportunity," "could," "potential," "believe," "project," "estimate," "expect," "forecast," "strategy," "future," "likely," "may," "should," "will," and similar references to future periods.

Forward-looking statements that are not historical facts, including statements about our confidence, strategies and initiatives and our expectations about revenues, results of operations, profitability, liquidity, market demand or the impact of the pandemic are forward-looking statements that involve risks and uncertainties such as those related to the impact of the pandemic and our recently-completed acquisitions.

These risks could cause the Company's actual results to differ materially from those indicated by such forward-looking statements. A summary of risk factors can be found in Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2022, which was filed with the Securities and Exchange Commission (SEC) on November 22, 2022, and in our Form 10-Q expected to be filed shortly.

Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

On July 26, 2023, the Company announced a cybersecurity incident related to a third-party file sharing application. Our results of operations for the third quarter of fiscal year 2023 contained in this presentation include an approximate \$22 million expense for our investigation and remediation costs related to the incident, which reflects our best estimate based on the currently available information. This estimate is preliminary and could change prior to the time we file our Form 10-Q for the third fiscal quarter of 2023

Throughout this presentation, numbers may not add due to rounding.

# Total Company Results – Third Quarter of FY23

(\$ in millions, except per share data)	Q3 FY23	Q3 FY22	% Change
<b>Revenue</b>			
U.S. Federal Services	\$ 584.0	\$ 525.5	11 %
U.S. Services	449.1	399.3	12 %
Outside the U.S.	155.7	200.9	(23)%
<b>Total Revenue</b>	<b>\$ 1,188.7</b>	<b>\$ 1,125.8</b>	<b>6 %</b>
<b>Operating Income</b>			
U.S. Federal Services	\$ 74.1	\$ 54.7	35 %
U.S. Services	47.0	31.8	48 %
Outside the U.S.	(15.2)	(11.2)	nm
Other	(24.0)	1.9	nm
<b>Adjusted Operating Income (Non-GAAP)</b>	<b>\$ 81.8</b>	<b>\$ 77.2</b>	<b>6 %</b>
Intangibles amortization	(23.4)	(22.7)	3 %
<b>Total Operating Income</b>	<b>\$ 58.4</b>	<b>\$ 54.6</b>	<b>7 %</b>
<b>Operating Margin %</b>	<b>4.9 %</b>	<b>4.8 %</b>	
<b>Adjusted Operating Margin %</b>	<b>6.9 %</b>	<b>6.9 %</b>	
Interest expense	\$ 21.0	\$ 10.8	95 %
Effective Tax Rate	15.1 %	24.1 %	
Net Income	\$ 30.9	\$ 31.3	(2)%
<b>Diluted EPS</b>	<b>\$ 0.50</b>	<b>\$ 0.51</b>	<b>(2)%</b>
<b>Adjusted Diluted EPS (Non-GAAP)</b>	<b>\$ 0.78</b>	<b>\$ 0.78</b>	<b>- %</b>

- Strong organic revenue growth and margin improvement in U.S. Federal and U.S. Services segments driven by unprecedented demand for clinical assessments for veterans and start to unwinding effort for Medicaid redeterminations
- Q3 FY23 earnings impacted by approximately \$22 million expense for previously disclosed cybersecurity incident
  - Reduced earnings by \$0.26 per share; detriment included in adjusted earnings per share which only excludes intangibles amortization
  - Absent incident costs, Q3 FY23 adjusted OI% would have been 8.7% and adjusted EPS would have been \$1.04
- A larger than anticipated loss in Outside the U.S. this quarter was driven by macroeconomic factors that caused decline in expectations on segment's employment services contracts
- Q3 FY22 had less interest expense due to lower interest rates
- Tax rate favorability this quarter from discrete items benefitted Q3 FY23 diluted EPS by \$0.06

# U.S. Federal Services Segment

- Revenue increased 11% which was all organic and due to volume growth in both the Veterans Evaluation Services (VES) business and student loan servicing work
- Segment margin of 12.7% for Q3 FY23 was slightly better than anticipated and resulted from strong delivery by VES on ramping PACT Act volumes

(\$ in millions)	Q3 FY23	Q3 FY22	% Change
<b>Revenue</b>			
U.S. Federal Services	\$ 584.0	\$ 525.5	11 %
<b>Operating Income</b>			
U.S. Federal Services	\$ 74.1	\$ 54.7	35 %
<b>Operating Margin %</b>	<b>12.7 %</b>	<b>10.4 %</b>	

# U.S. Services Segment

- Revenue increased 12% which was all organic and driven by contributions new work wins last year as well as an uptick from start of Medicaid redetermination volume
- Segment margin of 10.5% for Q3 FY23 was consistent with expectations for an improving trend in this segment across remainder of FY23
- Reminder: the pause to redeterminations had resulted in depressed margins in this segment, and a full period of conducting redeterminations is expected next quarter

(\$ in millions)	Q3 FY23	Q3 FY22	% Change
<b>Revenue</b>			
U.S. Services	\$ 449.1	\$ 399.3	12 %
<b>Operating Income</b>			
U.S. Services	\$ 47.0	\$ 31.8	48 %
<b>Operating Margin %</b>	<b>10.5 %</b>	<b>8.0 %</b>	

# Outside the U.S. Segment

- Revenue decrease of 23% is attributable to organic contraction totaling 17% due to last year's Australia rebid outcome and a \$14.4 million reduction due to lower estimates for future period outcomes-based payments on the employment services programs (predominantly the U.K.)
- Last quarter's divestitures reduced revenue by ~5% and currency was a ~2% headwind
- Loss of \$15.2 million in Q3 FY23 driven by the \$14.4 million revenue reduction and was much greater than anticipated
- Reiterate commitment to shaping this segment to be strategically-aligned and to drive consistent profitability

(\$ in millions)	Q3 FY23	Q3 FY22	% Change
<b>Revenue</b>			
Outside the U.S.	\$ 155.7	\$ 200.9	(23)%
<b>Operating Income/(Loss)</b>			
Outside the U.S.	\$ (15.2)	\$ (11.2)	nm
<b>Operating Margin %</b>			
	<b>(9.8)%</b>	<b>(5.6)%</b>	

# Cash Flows & Debt

## Cash Flows & DSO

\$ in millions	Q3 FY23	YTD FY23
Cash (used in)/provided by operating activities	\$ (5.3)	\$ 169.8
Purchases of property and equipment and capitalized software costs	(25.1)	(58.9)
Free cash flow	\$ (30.4)	\$ 110.9

- DSO of 61 days at June 30, 2023 was within target range of 60 – 70 days and represented increase from 56 days in the prior quarter, thereby increasing working capital
- Q3 FY23 had a timing impact from an additional payroll cycle; improvement to cash flows in Q4 FY23 are expected
- CAPEX is increasing due to investment in systems anticipated to provide enhanced efficiency

## Debt

- At June 30, 2023, the ratio of debt, net of allowed cash, to EBITDA on TTM basis, as calculated in accordance with credit agreement, remained at 2.5x as compared to the prior quarter; at June 30, 2023, total debt was \$1.32 billion
- Priority for Q4 FY23 is further debt reduction and enabled by projected cash flows; on-track to finish FY23 below 2.5x

# Updated Fiscal Year 2023 Guidance

	Prior Guidance	New Guidance	New Guidance <i>Excl. Cybersecurity Incident</i>
Revenue <i>midpoint</i>	\$4.85B - \$5.0B \$4.925B	\$4.875B - \$4.975B \$4.925B	\$4.875B - \$4.975B \$4.925B
Adj. OI <i>midpoint</i>	\$415M - \$440M \$428M	\$387M - \$401M \$394M	\$409M - \$423M \$416M
Adj. EPS <i>midpoint</i>	\$4.00 - \$4.30 \$4.15	\$3.74 - \$3.94 \$3.84	\$4.00 - \$4.20 \$4.10
FCF <i>midpoint</i>	\$225M - \$275M \$250M	\$190M - \$230M \$210M	\$212M - \$252M \$232M

- Tightening revenue guidance range around unchanged midpoint of \$4.925B, which represents approximately 6.5% growth over FY22
- Adjusted operating incoming guidance includes the approximately \$22 million from the cybersecurity incident; excluding the incident, guidance is modestly lower driven by the Q3 FY23 loss in Outside the U.S.
- Adjusted EPS guidance includes the approx. \$0.26 per share impact from the cybersecurity incident. Excluding the incident, guidance would have been tightened; reflects improvement to the full-year tax rate
- Free cash flow updated guidance follows similar pattern of adjusted operating income. FY23 CAPEX expected to be approximately \$85 million
- Q4 FY23 implied adjusted EPS, estimated to range between \$1.22 to \$1.42 per share, driven by U.S. Federal Segment momentum and full period of Medicaid redeterminations in U.S. Services Segment
- FY23 segment margin and other projections:
  - U.S. Federal Segment: 10 – 11%, bias towards low-end
  - U.S. Services Segment: 9 – 11%
  - Outside the U.S.: loss position, just below breakeven expected for Q4 FY23
  - Interest expense: \$82 million – \$85 million, bias towards low-end
  - Effective income tax rate: 23.0% – 23.5%
  - WASO: 61.4 million – 61.5 million

	FY23 Guidance Reconciliation	
	Low End	High End
(\$ in millions except per share items)		
Operating income	\$ 293	\$ 307
Add: amortization of intangible assets	94	94
Adjusted operating income	\$ 387	\$ 401
Diluted EPS	\$ 2.59	\$ 2.79
Add: effect of amortization of intangible assets on diluted EPS	1.15	1.15
Adjusted diluted EPS	\$ 3.74	\$ 3.94
Cash flows from operating activities	\$ 275	\$ 315
Remove: purchases of property and equipment and capitalized software costs	(85)	(85)
Free cash flow	\$ 190	\$ 230



# Fiscal Year 2024 Early Thoughts

- Current line of sight suggests topline organic growth of mid-single digits over FY23
- FY24 earnings expected to show meaningful lift over FY23; Q4 FY23 earnings anticipated to be good proxy for the business next year
- Consider redetermination dynamic: elevated Medicaid rolls are expected to drive further growth in redetermination volume in U.S. Services in the first half of FY24, with a settling down to steady state levels in the back half of FY24
- FY24 guidance to be provided on November year-end call per normal practice

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# Fiscal 2023 Third Quarter Earnings Call

**Bruce Caswell**

President & Chief Executive Officer

August 3, 2023

# Executing on Programs of National Policy Significance

- Supporting Medicaid Redeterminations
- Delivering enhanced benefits to our Veterans
- Servicing Federal student loans returning to repayment

# Return-to-Repayment

## Background

- We act as a servicer of Federal direct loans – working under the rules and oversight of the Department of Education, Federal Student Aid (or FSA) – and not as a loan originator
- The suspension of federal student loan payments, interest, and collections has ended, with payments beginning again in October 2023

*Maximus teams are preparing to deliver on this unprecedented event in a thoughtful and well-organized manner.*

## How our teams are preparing:

- **Communication with borrowers is key.** For the loans we service, Maximus is supplementing FSA communications with more ‘get ready for repayment’ information.
- **Hiring and training** in July to support the increased demands as borrowers enter repayment, and will continue through August, well in advance of first billing notices being sent in September.
- Maximus continues to develop solutions, including Chat Bots, Web Chat, and Web information, to support **greater opportunities for borrowers to self-service**, thus creating reductions in call volumes and staffing demands.

# Updates on Core Programs

## Medicaid Redeterminations

- Medicaid eligibility and enrollment teams have been preparing for the unwind phase, which commenced in April of this year
- The unprecedented nature of this unwind phase makes it inherently difficult to forecast eligibility redetermination volumes, as many beneficiaries have never been through the process previously
- With each month that passes, we are learning and adjusting program forecasts in an educated manner
- Early review of July data shows volume activity for the fourth quarter is trending upward, giving us confidence in the volumes moving into FY24

## Veterans Evaluation Services (VES)

- Volumes in the quarter met our high expectations for forecasted exams
- The increased volumes from the PACT Act are anticipated to continue ramping upward through Q4 of the current fiscal year and be sustained throughout FY24
- Solid performance on this contract demonstrates that our core business is doing well, and we are continuing to deliver on the goals we laid out in 2022





# Innovation Woven into our Strategic Direction

- Innovation goes beyond cost savings and margin enhancement to creating differentiating capabilities in our highest-value programs
- Examples include innovations we have developed and patented by which we can intake, index, and categorize large volumes of unstructured data and use machine learning to enable more efficient navigation of these files by our clinical assessors
- Identified use cases for Artificial Intelligence (AI), some of which are in the piloting phase, where the technology is used to support our CSRs – improving the quality of calls by providing more timely feedback and quality assurance



The AI Governance Board will ensure AI aligns with existing and future legal and regulatory frameworks, our client expectations and requirements, organizational values and ethical considerations, and business objectives.

# Cybersecurity Incident Impacting Hundreds of Companies

- As previously disclosed, MOVEit is a third-party application that is used by our project teams to share our government customers' data
- The MOVEit vulnerability that was exploited was a critical “zero-day” vulnerability; because the vulnerability wasn't known, there was no patch or remediation option available to companies like Maximus prior to the exploitation of the vulnerability.
- We investigated the incident promptly with expert assistance and took remedial steps to address the reported vulnerabilities
- Data privacy and security remain a top priority, and we are committed to protecting the data entrusted to us
- We have been working with the subset of our customers who were using the impacted application as part of their workflows and continue to provide updates and support to them as our investigation proceeds.

# Recent Wins Continue to Deliver on Strategy

- Largest provider of the new **Functional Assessment Services**, or FAS, contract due to launch in the United Kingdom in FY24; \$1 billion over five years
- Maintains our position as a leading provider of health assessments to the U.K. government
- As discussed last quarter, awarded the **IRS Enterprise Development, Operations Services** (or EDOS) contract in our Federal Segment
- Worth up to \$2.6 billion to the awardees over 7 years for the resulting task orders, the awards from which are expected to contribute in our FY24 and beyond

Successful rebid year provides stability and line of sight to our revenue and earnings for FY24 and beyond:

- USAC Lifeline and Affordable Connectivity Program Business Process Outsourcing contract, valued at \$92 million over five years including option periods
- Two-year extension for our Service BC Contact Centre contract, with a one-year option to extend to 2026



# New Awards & Pipeline

- As of June 30, our book-to-bill ratio was approximately 2.2x (TTM basis)
- Normalized for CCO, which will no longer be part of the calculation next quarter, the TTM book-to-bill would be 1.1x

New Awards (YTD)	June 30, 2023
Signed Contracts	\$4.3 billion
Unsigned Contracts	\$3.1 billion

<b>\$32.1B</b> total pipeline of sales opportunities	<b>80%</b> new work
	<b>62%</b> U.S. Federal Services Segment



# Maximus Named to Forbes' 2023 Best Employers for Diversity List

- Our #13 ranking is a significant improvement from 2022
- We continue to take steps to integrate DE&I into the important work we do each day, strengthening the fabric of our company
- Enthusiastic response and engagement of thousands of our employees, as evidenced by their participation in the six Employee Resource Groups (ERGs) we've launched over the last year



*The Forbes recognition is validation of the success of this journey thus far. Congratulations and thank you to the Maximus DE&I team!*

# Closing Remarks

With FY23 nearing its end, and FY24 on the horizon:

- The success of our rebids this year has created a solid foundation for the future
- Our focus is on new work in the form of competitive wins and scope expansion of existing contracts
- We remain focused on executing our three-to-five-year strategy and achieving mid-single-digit organic growth
- Innovation will be one of many tools utilized, without substituting for benchmarking, operational analysis, process optimization, and performance management
- The way we structure and operate the business must continue to evolve in concert with our growth and execution of our strategy



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