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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report: **May 14, 2018**
Date of earliest event reported: **May 10, 2018**

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

Virginia	**1-12997**	**54-1000588**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1891 Metro Center Drive, Reston, Virginia	**20190-5207**
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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. ☐

Item 2.02 Results of Operations and Financial Condition.

On May 10, 2018, the Company issued a press release announcing its financial results for the quarter ended March 31, 2018. The full text of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and incorporated by reference into this Item 2.02.

On May 10, 2018, the Company held a conference call with respect to these financial results. The conference call was open to the public. The transcript and slide presentation that accompanied the call are furnished as Exhibit 99.2 and Exhibit 99.3 to this Current Report on Form 8-K and incorporated by reference into this Item 2.02.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits. The following exhibits are being furnished pursuant to Item 2.02 above.

Exhibit No.	Description
99.1	Press release dated May 10, 2018
99.2	Conference call transcript for Earnings Call - May 10, 2018
99.3	Conference call slide presentation for Earnings Call - May 10, 2018

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

		MAXIMUS, Inc.
Date: May 14, 2018	By:	/s/ David R. Francis
		David R. Francis
		General Counsel and Secretary

MAXIMUS News Release

FOR IMMEDIATE RELEASE

CONTACT: Lisa Miles 703.251.8637
lisamiles@maximus.com

Date: May 10, 2018

MAXIMUS Reports Fiscal Year 2018 Second Quarter Results

(RESTON, Va. - May 10, 2018) - MAXIMUS (NYSE: MMS), a leading provider of government services worldwide, today reported financial results for the three and six months ended March 31, 2018.

Highlights for the second quarter of fiscal year 2018 include:

- Revenue of $612.8 million compared to $622.0 million reported for the same period last year
- Diluted earnings per share of $0.84 compared to $0.80 for the same period last year
- Cash flows from operations of $78.7 million and free cash flow of $72.0 million
- Year-to-date signed contract awards of $1.4 billion and contracts pending (awarded but unsigned) of $489.1 million at March 31, 2018
- Sales pipeline of $3.0 billion at March 31, 2018
- Updated fiscal 2018 revenue and diluted earnings per share guidance

For the second quarter of fiscal 2018, revenue decreased 1% to $612.8 million compared to $622.0 million reported for the same period last year. The decrease was due to the expected revenue decline in the U.S. Federal Services Segment from contracts that ended.

Total company operating margin for the second quarter of fiscal 2018 was 11.6% and tempered by $2.3 million of restructuring costs (or $0.02 of diluted earnings per share). The restructuring is part of the Company's ongoing efforts to right-size resources in its U.K. human services business as mainstream employment services programs come to an expected end and governments focus on more specialized health and employment programs supporting people with disabilities and other vulnerable populations.

For the second quarter of fiscal 2018, net income attributable to MAXIMUS totaled $55.5 million (or $0.84 of diluted earnings per share). Diluted earnings per share for the second quarter benefited by $0.02 from the lower provision for income taxes due to a revision to the estimate of the one-time benefit for the reduction in deferred income taxes, resulting from the new tax reform law. This compares to fiscal 2017 second quarter diluted earnings per share of $0.80.

Health Services Segment
Health Services Segment revenue for the second quarter of fiscal 2018 increased 5% to $365.6 million compared to $349.0 million reported for the same period last year. The increase in revenue was driven by organic growth and favorable currency exchange movements. On a constant currency basis, segment revenue growth would have been 2%.

Operating margin for the second quarter of fiscal 2018 was strong at 17.2% compared to 16.2% reported for the prior-year period. Operating margin expansion was driven by solid operational performance in certain contracts including the U.K. Health Assessment Advisory Service that achieved its full year volume targets for contract year three, and to a lesser extent, benefits tied to certain contracts, including the terminated
Fit for Work contract as the Company closed out major elements of the program during the second quarter.

U.S. Federal Services Segment
U.S. Federal Services Segment revenue for the second quarter of fiscal 2018 decreased 20% to $116.3 million compared to $145.4 million reported for the same period last year. As previously disclosed, the lower revenue was largely due to contracts that ended, including non-recurring temporary disaster relief work that ended earlier than anticipated.

Operating margin for the second quarter of fiscal 2018 was 8.5% compared to 12.1% reported for the prior-year period. Operating margin was lower in the second quarter due to a one-time $2.9 million charge to renegotiate a relationship with one of the Company's subcontractors on a large BPO program. Under the new arrangement, MAXIMUS will now assume the majority of this work, which will increase revenue and operating income on this contract in future periods.

Human Services Segment
Human Services Segment revenue for the second quarter of fiscal 2018 increased 2% to $130.8 million compared to $127.7 million reported for the same period last year driven by favorable foreign exchange rates. On a constant currency basis, segment revenue would have decreased 1%.

Operating margin for the second quarter of fiscal 2018 was 2.6% compared to 7.5% reported for the prior-year period. Operating margin was lower than expected due to a contract extension that was not signed during the quarter and lower volumes on a contract outside the U.S. As expected, operating margin was also tempered by a number of new contracts that are in the start-up phase but performing as expected.

Sales and Pipeline
Year-to-date signed contract awards at March 31, 2018 totaled $1.4 billion and contracts pending (awarded but unsigned) totaled $489.1 million. During the quarter, MAXIMUS received notification of award for the Australia Disability Employment Services rebid.

The sales pipeline at March 31, 2018 was $3.0 billion (comprised of approximately $0.7 billion in proposals pending, $0.3 billion in proposals in preparation, and $2.0 billion in opportunities tracking). This compares to a pipeline of $3.2 billion at December 31, 2017. The sequential decline is due to the conversion of the Australia Disability Employment Services rebid into awarded unsigned (contracts pending), as well as the delay of approximately $600 million in requests for proposals (RFPs) that moved out of the pipeline’s six-month horizon.

Balance Sheet and Cash Flows
Cash and cash equivalents at March 31, 2018 totaled $253.2 million. For the three months ended March 31, 2018, cash flows from operations totaled $78.7 million, with free cash flow of $72.0 million.

At March 31, 2018, days sales outstanding (DSO) were 68 and consistent with the prior year.

On February 28, 2018, MAXIMUS paid a quarterly cash dividend of $0.045 per share. On April 11, 2018, the Company announced a $0.045 per share cash dividend, payable on May 31, 2018 to shareholders of record on May 15, 2018.

Outlook
MAXIMUS is updating its fiscal 2018 revenue and earnings guidance. The Company now expects revenue to range between $2.400 billion and $2.440 billion for fiscal 2018. This compares to the Company's previous revenue guidance of $2.475 billion and $2.550 billion. MAXIMUS has revised its guidance because it has not booked sufficient new in-year awards.

As a result of the lowered revenue, MAXIMUS is narrowing its fiscal 2018 earnings guidance and now expects GAAP diluted earnings per share to range between $3.30 and $3.40 for fiscal 2018. This compares to the Company's previous earnings guidance of $3.30 to $3.50.

The Company's guidance does not include any future acquisitions or future legal expenses or recoveries.

"The core of our business is sound and the macro trends remain in our favor. We have a number of initiatives underway to comprehensively determine the best path for long-term growth. We are analyzing current markets where we could play a more meaningful role, taking a fresh look at adjacent markets that hold promise, and continuing to advance our M&A strategy. We have taken immediate steps to best align MAXIMUS for the long term and we will execute our plan over the next 24 months," commented MAXIMUS CEO Bruce Caswell.

Conference Call and Webcast Information
MAXIMUS will host a conference call this morning, May 10, 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 May 24, 2018. Callers can access the replay by calling:

877.660.6853 (Domestic)/+1.201.612.7415 (International)
Replay conference ID number: 13679058

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 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 March 31,		Six Months Ended 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

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

	March 31, 2018	September 30, 2017
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 253,227	$ 166,252
Accounts receivable — billed and billable	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	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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Cash flows from operations:				
Net income	$ 55,106	$ 53,097	$ 115,058	$ 99,426
Adjustments to reconcile net income to cash flows from operations:				
Depreciation and amortization of property, equipment and capitalized software	13,355	15,405	27,074	29,967
Amortization of intangible assets	2,603	3,386	5,321	6,788
Deferred income taxes	(14,886)	(11,631)	(9,179)	(5,721)
Stock compensation expense	5,922	5,345	11,324	10,234
Change in assets and liabilities:				
Accounts receivable — billed and billable	25,859	(4,657)	(18,522)	10,030
Accounts receivable — unbilled	(10,265)	(1,447)	(4,730)	(3,445)
Prepaid expenses and other current assets	2,507	1,267	8,526	7,512
Deferred contract costs	381	954	1,794	998
Accounts payable and accrued liabilities	(14,558)	(3,144)	(3,171)	(17,719)
Accrued compensation and benefits	14,197	10,944	(15,391)	(6,293)
Deferred revenue	(11,384)	(5,757)	(23,789)	(15,853)
Income taxes	8,992	3,813	18,634	20,715
Other assets and liabilities	872	(1,867)	3,620	209
Cash flows from operations	78,701	65,708	116,569	136,848
Cash flows from investing activities:				
Purchases of property and equipment and capitalized software costs	(6,661)	(5,207)	(13,175)	(12,975)
Acquisition of part of noncontrolling interest	(157)	—	(157)	—
Proceeds from the sale of a business	—	—	—	385
Other	138	175	183	218
Cash used in investing activities	(6,680)	(5,032)	(13,149)	(12,372)
Cash flows from financing activities:				
Cash dividends paid to MAXIMUS shareholders	(2,935)	(2,917)	(5,865)	(5,837)
Repurchases of common stock	—	(91)	(1,038)	(28,858)
Tax withholding related to RSU vesting	—	(12)	(8,529)	(9,267)
Borrowings under credit facility	65,000	70,000	124,683	135,000
Repayment of credit facility and other long-term debt	(76,596)	(104,761)	(124,752)	(184,828)
Other	(2,130)	—	(2,130)	(1,145)
Cash used in financing activities	(16,661)	(37,781)	(17,631)	(94,935)
Effect of exchange rate changes on cash and cash equivalents	962	2,200	1,186	(878)
Net increase in cash and cash equivalents	56,322	25,095	86,975	28,663
Cash and cash equivalents, beginning of period	196,905	69,767	166,252	66,199
Cash and cash equivalents, end of period	$ 253,227	$ 94,862	$ 253,227	$ 94,862

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

	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 (3)	$ 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 (4)	(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."

(2) Other costs and credits relate to SG&A balances that do not relate directly to segment business activities. During 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 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 $1.3 million and $2.5 million during the three and six months ended March 31, 2018, respectively.

(4) During fiscal years 2018 and 2017, we incurred costs in restructuring our United Kingdom human services business.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Cash flows from operations	$ 78,701	$ 65,708	$ 116,569	$ 136,848
Purchases of property and equipment and capitalized software costs	(6,661)	(5,207)	(13,175)	(12,975)
Free cash flow	$ 72,040	$ 60,501	$ 103,394	$ 123,873

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Operator: Greetings, and welcome to the MAXIMUS Fiscal 2018 Second Quarter Conference Call. At this time, all participants are in a listen only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Lisa Miles, Senior Vice President of Investor Relations for MAXIMUS. Thank you, Ms. Miles. You may begin.

Lisa Miles: Good morning, and thank you for joining us. With me today is Bruce Caswell, President and CEO, and Rick Nadeau, Chief Financial Officer. I'd like to remind everyone that a number of statements being made today will be forward-looking in nature. Please remember that such statements are only predictions. Actual events and results may differ materially as a result of risks we face, including those discussed in Exhibit 99.1 of our SEC filings. We encourage you to review the information contained in our earnings release today and our most recent Forms 10-Q and 10-K filed with the SEC. The company does not assume any obligation to revise or update these forward-looking statements to reflect subsequent events or circumstances except as required by law.

Today's presentation may contain non-GAAP financial information. Management uses this information in its internal analyses of results and believes 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. For a reconciliation of non-GAAP measures presented in this document, please see the company's most recent quarterly earnings press release.

And with that, I'll hand the call over to Rick.

Rick Nadeau: Thank you, Lisa.

This morning, MAXIMUS reported second quarter results with total company revenue of $612.8 million. As expected, total company revenue for the second quarter of fiscal 2018 decreased compared to the same period last year, primarily due to lower revenue in the U.S. Federal Services Segment from contracts that ended.

Total company operating margin for the second quarter was 11.6%. This was tempered by restructuring costs of $2.3 million or approximately $0.02 of diluted earnings per share. The restructuring is part of our ongoing efforts to right-size resources in our UK human services business.

As mainstream employment services programs come to an expected end, we are pivoting toward providing a more holistic set of health and employment services to vulnerable populations with disabilities in complex health conditions.

Better than expected income tax rates in the quarter offset the aforementioned restructuring costs. As a result, diluted earnings per share were $0.84 for the second quarter of fiscal 2018.

I will now speak to segment results, starting with the Health Services Segment. Second quarter revenue for the Health Services Segment increased 5% compared to the same period last year, driven by organic growth and favorable currency exchange rates. The health segment delivered a strong operating margin of 17.2% in the second quarter. While we had a couple of items that bolstered operating margin in the quarter, the health segment benefited from solid operational performance in some core contracts. Most notably, the U.K. Health Assessment Advisory Service achieved full year volume targets for contract year three and earned the related incentive payments. As a reminder, the three year base contract ended in February, and we started the two year option period on March 1, which will reset contract margins at a lower level.

We also recorded some revenue and profit pickup from a couple of contracts that provided an uplift to the operating margin in the second quarter. This includes revenue and profit from the termination of the Fit for Work contract as we closed out major elements of that program in the second quarter.

Lastly, it is important to bear in mind that the health segment is a sizeable portfolio of contracts with a broad range of revenue and contribution margins at varying stages of contract maturity. As a result, the composition of the portfolio mix and maturity of the contracts can lead to fluctuations in the segment margin from period to period.

I will now speak to the results from our U.S. Federal Services Segment. As expected, second quarter revenue for the segment decreased compared to the same period last year. As we disclosed last quarter, the primary driver is contracts that reached their natural and expected conclusion. This includes non-recurring and temporary work. It also includes contracts that were re-procured under small business set-asides, meaning MAXIMUS was no longer eligible to bid and some rebid losses.

As Bruce mentioned last quarter, we have amplified our business development and sales efforts as we continue to see the U.S. federal market as a long term growth area for MAXIMUS. We recently added two new seasoned executives to follow and shape opportunities driven by emerging customer priorities. Our new sales and capture leads come to us with decades of wide ranging federal contracting experience, particularly with civilian customers and in technology spaces.

During the quarter, we took the opportunity to renegotiate a relationship with one of our subcontractors on a large BPO program where we serve as the prime contractor. Under the new arrangement, MAXIMUS will now assume the majority of the scope of work that was historically performed by the subcontractor. The long term economics of the deal are compelling, and it will increase our revenue and operating margin on this contract in future periods.

In conjunction with this new arrangement, we recorded a one-time $2.9 million charge in the second quarter of fiscal 2018, but the net full year impact is projected to be less than $1 million. As a result, second quarter operating margin for the U.S. federal segment was 8.5%. Excluding the contract renegotiation charge, operating margin for the U.S. federal segment would have been 10.9%.

For the Human Services Segment, second quarter revenue increased 2% over the prior year, driven by favorable foreign currency exchange rates. Second quarter operating margin was lower than expected at 2.6% for the Human Services Segment. This was principally due to two items. The first was the timing of a contract extension that was not signed at March 31st. Accordingly, we did not recognize the $1.8 million of associated revenue during the second quarter. Once the extension is signed, we will recognize revenue and profit in future periods.

We also had lower than expected volumes on a small contract outside of the U.S. We took action to ensure that we have the right level of resources going forward, and we expect improvements in future periods.

As we have previously discussed, we also have a number of new programs in the startup phase that are currently performing as expected but are tempering the segment's operating margin this year. It is important to consider the Human Services Segment in the broader context of a robust global economy. Low unemployment rates in many of our geographies have resulted in lower volumes for many of our employment services contracts.

Employment services represents approximately 75% of the segment's portfolio, which has created challenges in maintaining segment revenue and profit levels. In addition to the low unemployment levels, our government clients are also reshaping how these contracts are structured. As a result, the current environment for this segment is more reflective of a mid-single digit operating margin.

I will now discuss the balance sheet and cash flow items. In the second quarter, MAXIMUS delivered cash flow from operations of $78.7 million and free cash flow of $72.0 million. Days sales outstanding were 68 days at March 31st, which is in line with our expectations and consistent with the prior year. At March 31st, we had cash and cash equivalents of $253.2 million.

With Bruce taking the reins as CEO, our capital allocation strategy remains unchanged. We have been good stewards of capital, and we remain committed to a disciplined approach to acquisitions. Over the past 12 months, we have looked at a number of properties that sold at valuations that we consider to be too lofty. We firmly believe we made sensible decisions and we are not being overly selective.

As Bruce will discuss in more detail later on, we are taking a fresh look at our longer term growth strategy. This will inform and shape our thinking as we continue to look for acquisition candidates and pursue ways to incorporate new growth platforms and new adjacencies.

From a big picture perspective, our primary goal is for an acquisition to contribute to our long term organic growth or create a new growth platform for MAXIMUS. A good example is the 2013 Health Management acquisition, which gave us the qualifications and skill sets that enabled us to bid on the Health Assessment Advisory Service, our largest assessment contract to date. It ultimately helped us reach a strategic goal of running clinical BPO at scale.

We look for transactions that are no more than two adjacencies from our core and have a reputation for quality, sustainable revenue growth and sustainable net margins of at least high single digits. We have an active M&A process, and the team is regularly evaluating potential properties in our core and adjacent markets. While we continue to keep our quarterly dividend and opportunistic share buybacks in the mix, we would like to have capital available for M&A.

I will wrap up my comments with our updated guidance. At the beginning of the fiscal year, we disclosed that we had 94% of the midpoint of our forecasted fiscal 2018 revenue already covered by backlog, option periods and expected extensions. This means we had a gap of 6% that we needed to cover in order to hit the midpoint of our fiscal 2018 revenue guidance range of $2.475 billion to $2.55 billion.

Last quarter, we reduced revenue expectations for our U.S. federal segment due to the factors I previously mentioned. At that time, based on our recent history, we thought it was still early enough to backfill the gap with in-year awards. Since our last call, we have not won sufficient new work to backfill the in-year gap.

I would like to put our downward revision in a bit more context. First, we continue to see procurement delays at all levels of government, including markets outside the US. In this quarter alone, we had more than $600 million of contract value come out of our six month pipeline horizon due to delays. Second, we are also seeing more bids come under protest and more contracts extended with incumbents, including ourselves. This is an indicator that contractors are working even harder to protect their base businesses. In some cases, protests and extensions have been in our favor, but in other cases, it has worked against us.

Third, while we have been winning new work, it has been more than offset by erosion. Before considering these effects, we estimate that we will generate approximately 8% revenue growth for fiscal 2018 over last year. This includes work from new programs, contract expansion and increased scope on existing contracts. A strength of our business model is that the majority of our revenue is recurring, but some revenue ends and does not reoccur. In years past, we have successfully overcome this effect with new work wins. This year, we have not won the same level of new work required to overcome erosion and grow on top of that.

Because of these dynamics, we now expect revenue for fiscal 2018 to range between $2.4 billion and $2.44 billion. This includes our outlook for the U.S. Federal Services Segment, which we now expect will contribute approximately $475 million for fiscal 2018. On the bottom line, we are narrowing the range and now expect diluted earnings per share to range between $3.30 and $3.40.

We continue to expect cash flow from operations for fiscal 2018 to be in the range of $225 million to $275 million and free cash flow to range between $195 million and $245 million, both with a bias toward the top end.

Lastly, MAXIMUS plans to adopt the new revenue recognition standard on October 1, 2018, which is the start of our fiscal year 2019. We do not anticipate that the new standard will create or reduce revenue, but it will change the timing of when some revenue is recorded. We do not anticipate that this change will be significant, but our analyses are not complete.

Thank you for your continued interest. I will now turn the call over to Bruce.

Bruce Caswell: Thank you, Rick, and good morning, everyone. I'm now 40 days into the job and honored to be speaking to you today as CEO. With the guidance update, I want to open my remarks with the assurance that I am deeply committed to making sure we, one, continue to execute well and deliver value on our existing work that serves as the foundation for future growth, two, remain focused on technology driven innovation, particularly in the areas of clinical solutions and digital transformation, and three, make sure we are in the right markets with the right solutions at the right time.

MAXIMUS has a proven track record of growth, a team of seasoned operators and a portfolio of contracts that generates meaningful cash flow. We have earned a reputation as a trusted long term partner who delivers outcomes that matter.

As Rick mentioned, we are presently in an environment that's more challenging than in prior years but also one that we're well equipped to address. The job before us to determine how we best position MAXIMUS for the future.

I am leading a plan to help us comprehensively examine the best market paths for MAXIMUS for long-term growth. As we've discussed before, our markets are changing, and we must be positioned to capitalize on these changes. For example, we see the convergence of health and human services programs in employment programs serving job seekers with disabilities and health conditions as well as work requirements for health benefit programs like Medicaid. To accelerate our efforts, we are objectively analyzing our current markets where we think we should be playing a more meaningful role through augmented service offerings.

Further, we are taking a fresh look at new adjacent markets, particularly those impacted by macro trends that we believe can drive future demand. This includes demographic trends such as aging populations and more people with complex health conditions where MAXIMUS could offer clinical BPO at scale. It also includes economic trends such as constrained budgets and the reshaping of social welfare programs where we can offer greater efficiencies underpinned by technology.

As Rick noted, we believe acquisitions play a key role in bringing us enhanced capabilities as well as providing access to new adjacent markets and geographies and ultimately creating new platforms for growth. But, I want to emphasize that we don't want to acquire merely to grow revenue. As we evaluate potential acquisitions to move forward in a strategic and thoughtful way, we are mindful that acquisitions must create long term shareholder value.

We are taking measured and prudent steps toward executing our plan over the next 24 months. During this time, we'll be bringing new talent on board, executing on our digital strategy and striving to increase our clinical footprint. As we navigate the current procurement environment, we will work to best align the company for growth in the long term.

I'd now like to provide a progress update on the two fronts I shared on last quarter's call, clinical evolution and digital transformation. Starting first with clinical evolution, we continue to believe there will be long-term demand for BPO services with a clinical dimension. I am pleased to share that we recently signed a new clinical related win for Preadmission, Screening and Resident Review (PASRR) level two evaluations. The three-year contract with the California Department of Health Care Services has a total contract value of approximately $18 million. The win is confirmation that the core capabilities we acquired from Ascend are key to our future and a solid addition to our growing portfolio of assessments and appeals work.

These level two PASRR assessments, which are carried out by MAXIMUS health care professionals, determine the appropriate placement for individuals who have a mental illness and/or an intellectual disability. This could be in a nursing facility or in the community. The assessments also identify the set of services they need in order to maintain or improve their functional living. Our teams of health care professionals, such as those performing PASRR assessments tend to bring a higher skill set and longer tenure.

By up-skilling the composition of our workforce over time, the additional knowledge and stability strengthens our competitive position and creates a sticker service offering.

In addition, our accomplishments under the U.K. Health Assessment Advisory Service serve as a strong proof point that we can successfully provide clinical BPO solutions at scale. Both an up-skilled workforce and demonstrated ability to provide clinical services at scale become important differentiators as we pursue new opportunities that address wider demographic challenges.

Moving on to digital transformation, we've been successfully implementing digital enhancements into our operations regularly. We are actively identifying areas within our existing portfolio of contracts where we can achieve additional operational and cost efficiencies through techniques such as robotic process automation, or RPA, and machine learning. We are currently implementing RPA in nearly a dozen projects and have several other initiatives in the works.

Another example, while still in the early stages, relates to the application of augmented intelligence techniques to workflow automation in the assessments area. Our clients value our ability to leverage these types of digital capabilities that create more efficiencies and improve quality and service delivery.

We are also beginning to see interest in our clinical and digital solutions increasing across our current geographies. This includes digital initiatives to drive caseloads for our new disability employment work in Australia and the deployment of our digital wellbeing solutions beyond our current footprint.

With so much activity underway, having the right leaders at the helm is important. In order to further strengthen our management bench, we're making progress with adding a new Chief Medical Officer and a new Chief Digital Officer.

Let's now move on to new awards. For fiscal 2018, year-to-date signed awards totaled $1.4 billion at March 31st. During the second quarter of fiscal 2018, we were also notified of award on another $489 million worth of contracts that have not yet been signed. The lion's share of this awarded but unsigned value is the Australia Disability Employment Services rebid. The five-year performance-based contract has estimated revenue ranging between $250 million and $300 million. Under the contract, MAXIMUS will continue to help individuals with disabilities, injuries or health conditions prepare for, find and keep sustainable employment.

Now I'll turn to pipeline. Our pipeline at March 31st was $3 billion compared to the $3.2 billion reported last quarter. The sequential decline is due to the conversion of the Australia rebid into awards as well as the delay of RFPs that moved out of the pipeline's six month horizon that Rick mentioned.

Of the current pipeline, approximately 60% is tied to new work compared to 55% last quarter. The current pipeline also contains opportunities across all three segments in all of our major geographies.

In conclusion, we are taking meaningful action to address this period of slower growth and fewer procurement opportunities and are using this time to take the necessary actions to set up future growth. We're protecting the base by offering innovative, relevant and value-added services, increasing our scope to remain sticky and securing longer-term extensions when it makes sense for MAXIMUS and our clients. Future growth will require more than the same solutions for the same customers in the same markets. We will continue to advance our plans for new solutions, adjacencies and platforms as markets evolve over time. This could include acquisitions, new service offerings or entry into additional geographies or all of the above. We have to remain nimble so that we can move one or more adjacencies as we pursue new paths.

We have a long history of delivering sustainable top line and bottom line growth and creating shareholder value. We are executing an actionable plan in order to return to growth. The management team is sharply focused on analyzing current markets where we could play a more meaningful role including providing more clinical solutions at scale. Taking a fresh look at new adjacent markets that hold promise, including further expansion in current geographies, making sure we have the right resources in place for the future. This includes some of the new sales, technical and clinical talent we are bringing in. And of course, we will continue our focus on solid execution.

Organizations much change over time, and this may mean taking us in slightly different directions to shape and meet demand and drive future growth. The core of the business is sound. Our overarching thesis remains relevant. We continue to see evidence that the long-term macro trends remain in our favor as governments seek better solutions to serve aging populations, people with more complex health care needs and barriers to sustainable employment as well as addressing rising caseloads within budget constraints.

And with that, we'll now move on to Q&A. Operator?

Operator: Thank you. We will now be conducting a question and answer session. If you would like to ask question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. We ask that you limit your follow up questions to one so that others may have an opportunity to ask questions. You may reenter the queue by pressing star, one. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question is from Charlie Strauzer with CJS Securities.

Charlie Strauzer: Hi, good morning.

Lisa Miles: Morning, Charlie.

Charlie Strauzer: So, if we can talk about the big news today on the kind of lower--can we talk a little bit more about why some of these procurements were pushed out to the right, and what are the implications for kind of the second half of this year, as well?

Bruce Caswell: Great. Hey, Charlie, it's Bruce Caswell, and I will direct that question to Rick Nadeau.

Rick Nadeau: Yeah, hey, thanks, Charlie. As I mentioned in my prepared remarks, and we disclosed at the beginning of the year that we had approximately 94% of the mid-point of our backlog options and extensions that were covered in our mid-point of our guidance. That really means that we had a gap of about 6% in order to reach that mid-point of guidance. The gap was largely back loaded, as you would expect. Having not won sufficient awards to create in your revenue, the resulting effect is lower revenue in the second half of the year as compared to the first half, as you indicated.

Charlie Strauzer: Great. And also, what does that kind of imply for more next year, as well?

Bruce Caswell: Sure, Charlie, it's Bruce. I'll go ahead and take that one. I do need to begin by reminding everyone that we'll provide our formal guidance on FY19 in November as we normally do. But, with that said, we do have a $3 billion pipeline. As we talked about earlier, 60% of that is new work. We've been actively marketing and shaping those opportunities, and we have a series of bids out there that could positively impact FY19.

Our new work win rates are healthy, and that's an important point. So, the key here is getting the pipeline that we have to progress through to the point of adjudication, so having fewer deals that are delayed or canceled as we've been seeing. Pipeline also expands our business lines and geographies, and it's reflective of our focus on clinical services and digitally enabled business process outsourcing, which I view as a very good sign.

Each year, we want to do more important work for our customers. We strive to add greater value, provide stickier solutions. We talked a little bit about that little earlier. Our pivot over the last several years to become more clinical is an effort--and an effort to do more clinical BPO at scale is one example of that. And we have a book of business now that's approaching nearly $0.5 billion related to the assessments and appeals work that we do globally. We think that there's whitespace out there in that area that has yet to be filled, and we're taking steps to go and address that.

I'm also pretty pleased, Charlie, that we're seeing proof points and confirmation of this strategy in some of our recent wins. And as I mentioned in my prepared remarks, I'm leading a comprehensive review of the overall business and making appropriate course changes so that we can best align MAXIMUS for future long-term growth.

These efforts are tied to FY19, to get back to your question, and frankly, they're tied to the next three to five years as we position MAXIMUS for the next phase of growth and really drive long-term shareholder value.

Lisa Miles: Thank you, Charlie. Next question please.

Operator: Our next question is from Matthew Gillmor with Robert Baird.

Matthew Gillmor: Hey, thanks for taking the question. I wanted to ask about the non-U.S. procurement cycles. We've talked about the U.S. a lot in the past, and I think you mentioned, outside of the U.S., there was also some slowdown and maybe the 600 million of pipeline push out was related to international. I can't remember if you said that or not but, I just wanted to get some flavor for the dynamics outside of the U.S. and what's causing that slowdown?

Bruce Caswell: Sure, Matt, let me start with that, and if Rick would like to add to it on the back end, he will. We did mention that $600 million of opportunity came out of the pipeline, and we also mentioned that, in our markets, we're seeing--we're taking action, but also, incumbents are taking action to seek extensions to contracts, and we benefit from that when we're successful in securing multi-year sole source extensions that really solidifies the base, gives us a great foundation to then go move into these adjacent markets that we mentioned.

But, at the same time, the competition looks at this, and in some particular government areas outside of the United States where there are other uncertainties--you could use Brexit as an example creating uncertainty in a current market, you could use upcoming elections. We always see election cycles cause organizations to kind of lock down and not advance procurements and move more in favor of extensions or options. Some of the opportunities, one in particular that I can think of that comprises a significant component of that $600 million, moved out because the program was extended for another year or so. So, we'll see that procurement. It'll come back in, rest assured. But, it's just a function of the environment which that procurement is being considered.

Rick, would you want to add anything?

Rick Nadeau: I was just going to say, you're right, a portion of that $600 plus million really is international in that one big program you talked about.

Matthew Gillmor: Okay, that's helpful. And then the follow-up on the strategy refresh, you talked about reassessing adjacent markets, and I think with the M&A commentary, you talked about looking at opportunities that would be two adjacencies from the core, and I was hoping you could give us a flavor for sort of what a two adjacency business would look like just so we can get some sense for the opportunities that you're considering?

Bruce Caswell: Sure. Well, I'll give you--why don't I just give you some color on some of the areas of clinical evolution and digital transformation. As I kind of go through that, we can talk about where they fit from an adjacency perspective just to give you a sense. One of the points I made earlier was that we think that this whole area of assessments continues to be kind of underpenetrated by MAXIMUS. There are assessments that have a functional component, often have a functional component, medical or clinical component and mental health component that are done by many governments, not only to determine for example eligibility for disability benefits as we do in the United Kingdom, but also eligibility for benefits say for example for veterans. And this is a whole area where we think the capabilities that we've built that can now be evidenced by operating the HAAS program at scale can make a big difference in making us a very credible prime contractor in some of these areas.

Occupational Health and Fitness for Duty is another area that is an adjacency, and it's an adjacency because it likely would be for new customers. I mean, you could think of Fitness for Duty as something that you see defense departments or ministries of defense on a global basis want to assess, not only for their active duty military, but for their reserves. And that's an area of occupational health in which we currently don't participate.

Further, in our commercial Occupational Health business, primarily in the United Kingdom, we're seeing more and more demand for wellness and wellbeing solutions, and the way to think about that is, if an employer can make offerings to their employees that can prevent them from becoming short-term disabled in the first place and they can work upstream from that event through greater wellness programs and wellbeing programs, they can obviously preempt that disability event, and you can bypass the entire return to work process.

Further, a number of nations are focused on non-communicable chronic disease conditions like diabetes and other things, and that's an area that certainly is an adjacency for us, but it's a comfortable one in the sense that the types of programs that will be implemented that would include outreach, consumer engagement, and in some instances, the provision of the actual training or wellbeing services and monitoring of results are a great fit for us. And we believe that there will be framework type procurements that will come to market over the course of the next couple of years to address that.

So, in addition that we also have spoken before about work we're doing in the tele-assessment and tele-care space that is a nice fit for long-term services and supports, and that is a great way to kind of bridge the digital transformation. Most of the digital transformation work that we've been doing has been inwardly focused because we have a lot of opportunities, lot of low hanging fruit, if you will, to automate routine processes across our projects using robotic process automation and other machine learning capabilities, and we're certainly going after that. I mentioned that we've got just short of a dozen projects already in various stages of being developed and implemented.

At the same time, there are other technologies like artificial intelligence or augmented intelligence that will have an impact on the way we work through decisioning some of these areas I mentioned earlier like assessments and appeals. They can have a catalytic effect, if you will, on productivity in those spaces.

Over time, I think we'll also expand the type of digital offerings that we bring to market that are really kind of the--leading the solution, if you will, but they're the tip of the sphere of the BPO solution. And I'm very pleased to report that we recently won a new program in the United Kingdom for a new department entirely, and you know, historically, we've done a lot of work for the Department for Work and Pensions. But, we've pivoted, so that would be an adjacency, to a new department, and we'll provide a program that will assist vulnerable students in engaging in full-time education through applying for and receiving grant support.

That entire solution is based on a self-service digital platform, supported by a multichannel contact center. And those are two digital capabilities, if you will. And multi-channel contact centers, for example, can include chat, they can include co-browsing, they can include human assisted IVR technologies, combined with pretty sophisticated mobile app capabilities and web portals that can change the consumer experience dramatically for government programs.

So, those are other examples of adjacencies, and in that instance, the digital transformation play is already seeing evidence of success for us.

Matthew Gillmor: Okay, thanks very much.

Lisa Miles: Next question, please.

Operator: Our next question is from Dave Styblo with Jefferies.

Dave Styblo: Hi there, good morning. Bruce, this one's for you to just stay on the longer-term strategy - I guess over the 24 months, I'd be interested in hearing why it's an assessment over that period of time as opposed to 12 months, what was dictating the timing around that, and were all set and done with that two years from now, what do you sort of hope to achieve with that? Is it something where the portfolio may look dramatically different than what it is today, is it really just advancing a lot of the growth opportunities that you just highlighted a minute ago? I'm thinking of things like the human services business where you guys now you're talking about that business structurally being more challenged in the mid-single-digit margin. Does that even make sense to being any more, is that a good business, or should we not be surprised if that is divested over time? Just trying to get a more granular sense. And then do you expect at that point to revise your long-term financial targets?

Bruce Caswell: Okay, Dave, a lot of questions there. Let me try and unpack it a little bit. First of all, I want to be clear that the study itself is not a 24 month endeavor. We're well underway with the study and the analysis, and in fact the work we're doing began with top of the funnel had over 225 potential adjacent new market areas that we've continued to refine and filter and boil down, if you will, to a much smaller subset. And we're in the process of prioritizing those and putting plans together as to how we will execute on them.

For competitive reasons, I don't want to go into a lot of the details of what those specific market areas are, and I think I've provided a great deal of color already in the last answer in some potential areas, but there certainly are others. And I'm excited about that work. It's yielding some great results.

My expectation is that, over the course of the next 24 months, we will implement that plan, and we will absolutely see benefits from that plan along the way. There will be milestones, measurable milestones and tangible results that we'll see from that, some areas returning--returns to us sooner than others.

So, just to be clear, I'm expecting that, over the course of next 24 months, we continue to make that pivot, and we continue to move into some of those new adjacencies and that we will see the results of those efforts.

So, with that said, you asked a question about the current human services business, and our perspective on the margins there - the human services business is a portfolio of other--of businesses across a number of business lines. One of the areas that Rick mentioned, the employment services business, is feeling downward pressure, primarily these days due to the very strong economic conditions we find in the markets in which we operate. With unemployment as low as it is, the volume of referrals that we're seeing on our programs has been significantly depressed.

But, does that mean that you no longer want to be in the employment services business? I would quite frankly suggest, no, I think employment services is a core competency that we're seeing demand for, and a number of the programs--if we think about what's being called welfare reform 2.0 domestically and the movement to add work requirements not just to the Medicaid program but through the President's Memorandum in April, other programs like SNAP, which is the food stamp program and other similar programs, it's a competency that no other company in the market has like MAXIMUS where we can combine our eligibility, health, and employment work together.

In fact, I'm thrilled that we were recently awarded--I won't name the state but we were recently awarded some business to provide employment and training services to the food stamp population, which has been a requirement under federal law for some time for able-bodied adults without dependents. But, that requirement was waived during the economic downturn, and now that the economy is booming again, it's a requirement for I think 33 states. So, we've been awarded that business, and that will be the platform for providing work requirement employment services for Medicaid. So, it's a perfect example.

These areas--and if you look at the United Kingdom, the Work and Health Programme are converging. So, it's important to have a human services competency. That said, we will take a very appropriate and prudent look at all of the components of that portfolio, and there may be businesses that will decide are excellent just to continue to operate and run because they provide reasonable economic returns for us, don't take a lot of management time and attention, and there may be other businesses that we'll choose to disposition in an alternate fashion. So, I think we're taking an appropriate and balanced view of things.

Dave Styblo: That's helpful, thanks. And then just on the pipeline, so in the bridge there, I guess it's down a couple hundred million to 3 billion. Are you able to say how much of that was Australia moving out? And then as I think about the bridge, you've got 600 million of delays that have moved out of that window that you talked about, but you must have backfilled some of that, it seems, because your new work has remained pretty stable with about $1.8 billion of pipeline there. Can you talk about, if I'm right about that, what sort of backfilled the activity that got pushed out?

Bruce Caswell: Yeah, I'm going to ask Rick to take that?

Rick Nadeau: Yeah, let me give you a couple of data points. I think that the new work pipeline portion of that pipeline is actually up, and I think that that is a positive. So, yes, we did talk about more than $600 million that moved to the right, and we did get really good backfill on that. And actually, the portion of the pipeline that's new work pipeline is up period-to-period.

And, yes, your premise on the international is right. I would say roughly less than half but a pretty significant number of that $600 million really related to that international program that moved to the right.

Lisa Miles: Next question, please?

Operator: Our next question is from Jamie Stockton with Wells Fargo.

Jamie Stockton: Hi, good morning. Thanks for taking my questions. I guess maybe the first one is just a big picture on capital allocation. I know--I think Rick said that there weren't going to be any big changes, but we've seen a number of quarters where the cash is building on the balance sheet. It sounds like a lot of the assets that you guys are looking at are more pricey than what you would like to pay. So, I guess I'm wondering if--just in general what's your temperature on getting more aggressive with buybacks? And then maybe related to that, what are your thoughts around in this period of kind of slower growth maybe setting some sort of goal for earnings growth that, hey, if we're not going to get there through the top-line or what's going on with margins, we'll pull the buyback lever to achieve it?

Bruce Caswell: So, Jamie, this is Bruce. I'm going to ask Rick to take, that and I may reserve the right to add a little color commentary at the end.

Rick Nadeau: Certainly, Bruce. Yeah, thanks. I mean, I think the bottom-line is that we are committed to sensible uses of cash, and we will remain disciplined in the way that we deploy cash. I think we--as I said, I think we have been and will continue to be committed to being good stewards of capital. I mean, I think that what we've seen is what I would call lofty valuations and acquisitions that we've passed on, and I think we've done the right thing. Those were the right decisions that we made. I think that you can ask questions about whether or not we've been too choosy. I think, really, we've followed a couple of things that we passed on in the marketplace afterwards, and we remain committed to our view that we did the right thing with respect to evaluations.

Look, our preference would be to use M&A--to use our capital for M&A as we go into the new adjacencies and new growth platforms that Bruce has talked about. We talk about dividends, we talk about share buybacks continuously, but I think at this point, we want to continue to use share buybacks opportunistically. And I think that we talk about the dividends, but I think that at this point, we are comfortable with the current level of the quarterly dividend that we have. Bruce?

Bruce Caswell: And I would, just to take the second part of your question, in a period of constrained opportunity and from a pipeline standpoint and therefore putting pressure on top-line growth, absolutely, we're focused on bottom-line and how over time we can continue to deliver bottom-line returns - hence, the number of the programs that we've mentioned earlier including things like Robotic Process Automation, ways to more appropriately automate labor-intensive processes. As Rick will tell you, substituting that type of capital for labor capital is not a bad move in our business, in a BPO business. That'll be our focus, and so, yeah, you can guarantee we'll focus on our EPS growth during this period where the top-line remains a bit constrained.

Jamie Stockton: Okay, thank you.

Operator: Our next question is from Frank Sparacino with First Analysis.

Rick Nadeau: Hey, Frank.

Frank Sparacino: Hi, guys. Hi. First question - on the U.S. federal services side of things, can you may be just parse out what you think is internal execution versus the macro environment, particularly, Bruce, in light of some of your peers starting to report some improvement from a macro perspective?

Bruce Caswell: Sure, I'd be happy to do that. Let me start first of all with the peers. And I did appreciate your note and a lot of great details in there. We've looked at the public press announcements from a number of those contractors and asked ourselves are those deals that we could've, would've, should've bid on. And the short answer is they're really in sectors that don't overlap with our core offerings.

Many of those peers that are--or they're peers in the sense that their federal government contractors, are more defense oriented, and they're benefiting from a significant surge in defense spending in the current budget. And importantly, the solutions that they develop and deliver are highly technical, often very scientific, and much more oriented toward mission support obligations for those agencies. So, while I can't speak in detail to those other companies, I think there's an important difference between their businesses and why they're seeing some cracking in the ice and thawing because of the surge in spending in those areas as opposed to in our markets.

And another dynamic - you'd ask how much of this is kind of internal execution. Well, look, we've said we recognize that we needed to step up our game from a sales perspective in the federal organization, so we took actions to do that, and we're really thrilled to have two new very senior executives. Allison Patrick recently joined us from Accenture, and she was the Managing Director and Sales Leader for Accenture Federal, and she is just bringing a great deal of experience in this marketplace. Previously to that, she was at SAIC in the Federal Civilian Customer Group, and she also spent eight years at SRA International. So, she's no stranger to the Washington marketplace and federal contracting, and we're thrilled to have her leading our sales efforts.

We've also stepped up our efforts in the capture area, and we've brought in a great executive from General Dynamics, Denise Moscatello, who joined us. And she's leading the capture area for our health solutions in federal.

So, I'm very optimistic that, with these new significant additions to our sales team, we can ensure that we're optimizing what pipeline there is out there. And then I would finish by saying we reported last quarter that, through really the Acentia acquisition, we were able to build the capabilities to then qualify for two new major government contract vehicles, the GSA IT 70 vehicle and the Alliant 2 vehicle. And I think we may have mentioned Alliant 2 - we wouldn't expect to see deal flow through that vehicle till probably late summer early fall of this year, because inevitably, when a vehicle has a $50 billion cap and there's 60 awards, there's going to be protests and just mechanics of getting that vehicle in place. But, we expect agencies to start making use of that as we turn the corner into the next fiscal year, so we'd see deal flow out of that.

So, I think we're addressing both dimensions, the execution and also everything that we can do to optimize the vehicles that we have.

Frank Sparacino: That's helpful, thank you. And then just a follow-up, when you look at the transformation maybe over the next couple of years, as you get more toward clinical BPO and some of the digital capabilities, how does that change the long-term operating margin profile that we've known, which has historically been 10% to 15%?

Rick Nadeau: Yeah, this is Rick. I think that that's a great question, and Bruce put it well when he said what you're really doing is you're substituting capital for labor. And when you do that, you should see margin expansion, and we do expect to see margin expansion. I mean, I think that that really should allow us to go to the top end of those ranges. As you know, with our health business, we've been at the top end of that range, and I think that we should be able to continue to find margin expansion.

I mean, I wouldn't want to kid you and tell you we're going to go to anything like 30% operating income margins or anything like that. But, yes, I mean, using capital in place of labor should make us more efficient and should help us do that.

I think the great thing about technology and innovation, though, is that it also helps us improve the quality of our services and really helps us create some opportunities to deliver more value to our customers. They are key differentiators, and I think they make--they put a distance between us and our competitors. So, that's really--I think that's the good news story. Of course, our competitors don't sit around and watch us do this without reacting, so with the constant pressure on our part and we're working hard here every day to try to do things in a smarter fashion.

Frank Sparacino: Thank you, guys.

Lisa Miles: Thanks, Frank. Next question please?

Operator: Our next question is from Richard Close with Canaccord Genuity.

Richard Close: Great. Just as a follow-up to that, with respect to the margins, you talk about the HAAS resetting - Rick could you just give us a little bit of directional in terms of how much the margin resets there?

Rick Nadeau: Sure. Richard, as you remember, we finished the third year on February 28 of 2018. Throughout the life of that contract, we improved margin over time, and we were toward the upper end of our normal range when we finished that.

When you have a reset on a program like that, you wind up having to give back a little bit to the customer. They have program imperatives that they have. And I would say that you would tend to go more down toward the middle, maybe even a little bit below the middle of that range.

But, then you start the process all over again, and we continue to introduce technology and innovation. And so, over time, we'll ride the wave back up as we work back toward the upper end of that operating income margin. That's the job of management is to constantly improve. So, I think that answers your question?

Richard Close: Sure. And then on human, you talk about this $1.8 million you did not recognize. When does that get recognized, and did you already incur the expenses, so does that $1.8 million just drop down to operating income?

Rick Nadeau: The answer to the second half of the question is yes. We have to record the costs as we incur them. And the revenue and therefore the associated profit come in at one point. I mean, so basically, the revenue comes in with 100% margin because the costs have already been incurred on it.

We were hoping to get that extension signed by March 31. We continue to work on the program. We will record revenue at the point that it comes in. I expect it to come in in the third quarter. If it doesn't, it should come in in the fourth quarter. We're not concerned about it ultimately getting signed. It's just a matter of timing.

Richard Close: Okay, thank you.

Rick Nadeau: Yes.

Lisa Miles: Thanks, Richard. Next question please?

Operator: Our last question comes from Brian Kinstlinger with Alliance Global Partners.

Brian Kinstlinger: Hey, great. Thanks so much, guys. Obviously, we've talked about the human services margins with the economy, so I guess I'm curious, given the solid economy, are you not able to adjust the cost structure given the volumes are so much lower so you can maintain profitability? And if not, what does a normalized margin look like in this economy?

Rick Nadeau: Yeah, that's a great question. This is Rick. Really, I think volumes matter in the context of where we can operate within our normal ranges. When volumes are really good, we can have really good margins. Now the great thing about the business is that, as the volumes are constrained, we still make money. I think at this particular point, a normalized margin for our human services business is probably 7% or so. Now, we've operated above that.

I can go back and look at the 10-year history, which I did looking at the call, and there have been times when we've been in a double-digit situation, and there are times now where we're a little bit more constrained. But, I think it reflects the fact that, in a full employment economy around the areas of the world that we operate, that we're going to be working hard to stay in that high-single-digit area like 7%. When volumes--when unemployment rates are higher, volumes are better, we're going to do better from an operating income margin standpoint.

But, yes, it is a variable cost model. It's just that we operate at a more efficient way and use our direct--our--we absorb our indirect costs in a more efficient fashion.

Brian Kinstlinger: Got it. My second question is I'm a little confused on the HAAS reset margins. It sounds like a couple hundred basis points. So, you're getting--is all that based on price, you drop prices that much to retain the contract and then you have to try to regain that inefficiency?

Rick Nadeau: I don't dispute your notion that the margins are going down. I think, yes, I mean, I think you agree to price reduction, but you also in the context of that need to learn how to operate your business in a more efficient way, too. Constantly, you're working on technology and innovation over time. So, let's say I begin the program and I work it out for three years. At the end of that three year period, I should be able to be operating in a more productive fashion. The workforce that I have out there are able to handle more volumes.

What you're--at the point that you have to reset some of this, the customer is saying, hey, we think--we have a sense that you're making margins above what we'd really like, we want to do this for the program, etc., etc. And you make some concession in order to keep the business and to keep it out of a re-compete type of situation. So, you get the option exercise.

So, at that particular point, you sit down, and the operators say, hey, I'm going to do this with the way that we move data around, or we might figure out some way to build a better mousetrap at that point, if you will. So, it's an efficiency and effectiveness type of thing.

I want to go back to the prior question and just make one slight clarification. In the Human Services Segment, also, I mean, volumes matter, but I think also that you have the--over time, you've had the customers changing the structure of some of those contracts, and they've made them more performance-based. And I think when they become more performance-based, they will become more variable based on volumes. I think that you'll wind up having more return possibilities, but obviously, when the volumes aren't as high, I think you're going to have a little bit more difficult time going to the high end of the margin range. That makes sense?

Brian Kinstlinger: Yep. Thank you.

Lisa Miles: Thanks, Brian. Next question please?

Operator: We do have one final question from Rohan Abrol with KeyBanc Capital Markets.

Rohan Abrol: Hi, everyone.

Bruce Caswell: Good morning.

Rohan Abrol: Just wanted to touch on Revitalised and kind of see how that acquisition's performed thus far with respect to your internal expectations and maybe how should we think about the evolution of actually using that asset as a springboard for expansion into some of the tele-assessment, tele-monitoring capabilities you referenced earlier?

Bruce Caswell: Hi, Rohan, it's Bruce. I'm really pleased to report that the Revitalised acquisition has gone quite well, and it is performing absolutely to our expectations when we combined with them. Great company, great assets, and we've seen some nice wins in the core business of wellbeing applications that--and wellbeing services that they provide to our core commercial occupational health business. And we're seeing strong demand in that business for those types of services. So, real good confirmation that it was a nice acquisition to do.

As you very well noted, another great benefit of combining with Revitalised is that they bring a technology platform that lends itself quite well to the tele-health, tele-assessment kind of tele-care space. And so, we've been making good progress in that area. We've achieved what we define as a minimum viable product in that space using that technology, and I think the next stage will obviously be to figure out how we bring that into certain market segments. There are logical ones. One that I mentioned earlier is long-term services and support where that type of capability can be of use and also assessments.

Often, the real constraint to being able to do tele-based assessments is more from a policy perspective than a technology or operational perspective. So, we see some good indications that we'll be able to make broader use of that platform, and I'm eager also to see how we can bring that to customers outside of just the United Kingdom. There's some nice demand occurring in other geographies for that very type of solution – so all in all, very pleased.

Rohan Abrol: I appreciate those comments. And since you did reference the policy standpoint, is that more related to reimbursement or just overall just kind of like opening the floodgates?

Bruce Caswell: It's actually more related to kind of the historical thinking that, if an assessment is going to be done correctly, it has to be done face-to-face. Kind of a different mindset, right - you have to have a clinician in the room with the individual kind of face-to-face. And so, it's that aspect of policy. It doesn't really relate to reimbursement at all.

Rohan Abrol: Okay, thank you.

Lisa Miles: Thank you, Rohan.

Operator: Ladies and gentlemen, we have reached the end of the question-and-answer session and are out of time for today's call. MAXIMUS thanks you for your time and participation. You may disconnect your lines at this time.


MAXIMUS
Fiscal 2018
Second Quarter
Earnings Call
Rick Nadeau
Chief Financial Officer
May 10, 2018

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.

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

A number of statements being made today will be forward-looking in nature. Such statements are only predictions and actual events or results may differ materially as a result of risks the Company faces, including those discussed in Exhibit 99.1 of our SEC filings. We encourage you to review the information contained in our earnings release and our most recent Forms 10-Q and 10-K filed with the SEC. The Company does not assume any obligation to revise or update these forward-looking statements to reflect subsequent events or circumstances, except as required by law.

Total Company Results – Second Quarter of FY 2018

($ in millions, except per share data)	Q2 FY18	Q2 FY17	% Change
Revenue			
Health Segment	$ 365.6	$ 349.0	5%
U.S. Federal Segment	116.3	145.4	(20%)
Human Segment	130.8	127.7	2%
Total	$ 612.8	$ 622.0	(1%)
Operating Income			
Health Segment	$ 63.0	$ 56.5	11%
U.S. Federal Segment	9.8	17.6	(44%)
Human Segment	3.4	9.6	(65%)
Segment Income	$ 76.2	$ 83.8	(9%)
Intangibles amortization	(2.6)	(3.4)	
Restructuring costs	(2.3)	-	
Other	-	(0.1)	
Total	$ 71.3	$ 80.3	(11%)
Operating Margin %	11.6%	12.9%	
Income tax expense	$ 17.5	$ 26.9	
Income tax rate	24.1%	33.6%	
Net Income attributable to MAXIMUS	$ 55.5	$ 52.5	6%
Diluted EPS - GAAP	$ 0.84	$ 0.80	5%

- As expected, Q2 FY18 revenue decreased primarily due to lower revenue in the U.S. Federal Services Segment from contracts that ended
- Operating margin for Q2 FY18 was 11.6% and tempered by restructuring costs of $2.3M (or approximately $0.02 of diluted EPS)
  - Ongoing efforts to right-size resources in U.K. human services business
  - Mainstream employment services programs ending; we are providing a more holistic set of health and employment services to vulnerable populations with disabilities and complex health conditions
- Better than expected income taxes in the quarter offset the restructuring costs; as a result diluted EPS were $0.84

Health Services Segment

($ in millions)	Q2 FY18	Q2 FY17	% Change
Revenue			
Health Services	$ 365.6	$ 349.0	5%
Operating Income			
Health Services	$ 63.0	$ 56.5	11%
Operating Margin %	17.2%	16.2%	

Q2 FY18 Revenue

- Increase driven by organic growth and favorable currency exchange rates

Q2 FY18 Operating Margin

- Strong margins in the quarter. A couple of items bolstered operating margin and segment benefitted from solid operational performance in some core contracts
  - U.K. Health Assessment Advisory Service (HAAS) achieved full-year volume targets for contract year three and earned the related incentive payments
  - HAAS three-year base contract ended in February; two-year option period started March 1, which reset contract margins at a lower level
- Recorded revenue and profit pick-up from a couple of contracts that provided an uplift to operating margin; includes revenue and profit from the termination of Fit for Work contract as we closed out major elements of that program

Health Segment Summary

- Sizeable portfolio of contracts with a broad range of revenue and contribution margins at varying stages of maturity
- As a result, composition of portfolio mix and maturity of the contracts can lead to fluctuations in segment margin from period to period

U.S. Federal Services Segment

($ in millions)	Q2 FY18	Q2 FY17	% Change
Revenue			
U.S. Federal Services	$ 116.3	$ 145.4	(20%)
Operating Income			
U.S. Federal Services	$ 9.8	$ 17.6	(44%)
Operating Margin %	8.5%	12.1%	

Q2 FY18 Revenue

- As expected, revenue decreased primarily due to contracts that reached their natural and expected conclusion; includes non-recurring and temporary work, contracts re-procured under small business set-asides (meaning MAXIMUS was no longer eligible to bid) and some rebid losses

Amplified Business Development and Sales Efforts

- View the U.S. Federal market as a long-term growth area; added two new seasoned executives to follow and shape opportunities driven by emerging customer priorities; they bring decades of wide-ranging federal contracting experience, particularly with civilian customers and in technology spaces

Subcontractor Renegotiation

- Took the opportunity to renegotiate a relationship with a subcontractor on a large BPO program where we serve as the prime; MAXIMUS will now assume the majority of the scope of work historically performed by the subcontractor
- Long-term economics are compelling; will increase revenue and operating margin on this contract in future periods
- Recorded a one-time $2.9M charge in Q2 FY18 to complete the renegotiation, but net full-year impact is less than $1M

Q2 FY18 Operating Margin

- As a result of the renegotiation, operating margin was 8.5%; excluding this cost, operating margin would have been 10.9%

Human Services Segment

($ in millions)	Q2 FY18	Q2 FY17	% Change
Revenue			
Human Services	$ 130.8	$ 127.7	2%
Operating Income			
Human Services	$ 3.4	$ 9.6	(65%)
Operating Margin %	2.6%	7.5%	

Q2 FY18 Revenue

- Increase driven by favorable foreign currency exchange rates

Q2 FY18 Operating Margin

- Lower than expected principally due to two items:
  1. Timing of a contract extension that was not signed at March 31; did not recognize the $1.8M of associated revenue; once extension is signed, will recognize revenue and profit in future periods
  2. Lower-than-expected volumes on small contract outside of the U.S.; took action to ensure the right level of resources going forward and expect improvements in future periods
- As previously discussed, new programs in start-up phase are currently performing as expected, but tempering segment operating margin this year

Human Services Summary

- Low unemployment rates in many of our geographies resulted in lower volumes for many of our employment services contracts; employment services is ~75% of the segment's portfolio, which has created challenges in maintaining segment revenue and profit levels
- Government clients are also reshaping how employment contracts are structured
- As a result, the current environment for this segment is more reflective of a mid-single digit operating margin

Cash Flows, DSOs, and Cash

$ in millions	Q2 FY18
Cash flows from operations	$78.7
Cash paid for property, equipment & capitalized software	($6.7)
Free cash flow	$72.0

Days Sales Outstanding (DSO)

- 68 days at March 31, 2018, in-line with our expectations and consistent with the prior year

Q2 FY18 Balance Sheet

- Cash and cash equivalents totaling $253.2M at March 31, 2018

Capital Allocation

- Strategy remains largely unchanged; as good stewards of capital, we remain committed to a disciplined approach to acquisitions
- Over the past 12 months, looked at a number of properties sold at valuations that we considered too lofty; we believe we made sensible decisions and are not being overly selective
- Our fresh look at our long-term growth strategy will inform and shape our thinking as we seek acquisition candidates and pursue ways to incorporate new growth platforms and adjacencies
- Goal is for an acquisition to contribute to long-term organic growth or create a new growth platform. Example: Health Management gave us qualifications and skillsets to bid on HAAS and helped us reach a strategic goal of running clinical BPO at scale
- Seek transactions no more than two adjacencies from our core, and have a reputation for quality, sustainable revenue growth, and sustainable net margins of at least high single digits
- Have an active M&A process with regular evaluations of potential properties in our core and adjacent markets
- Continue to keep quarterly dividend and opportunistic share buybacks, but would like to have capital available for M&A

Updated Guidance Crosswalk

- At beginning of FY18, had 94% of forecasted FY18 revenue range (based on midpoint of $2.475B to $2.550B) covered by backlog, option periods and expected extensions; this means we had a 6% gap that we needed to cover to achieve the mid-point of the forecasted range
- Last quarter, we reduced revenue expectations for the U.S. Federal Services Segment and stated a bias toward the lower half of our FY18 revenue range of $2.475B to $2.550B
- At that time and based on recent history, thought it was early enough to backfill the gap with in-year awards
- Since our last call, have not won sufficient new work to backfill the in-year gap

Revision Context

1. Continue to see procurement delays at all levels of government (including markets outside U.S.); in Q2, $600M+ of contract value delayed and came out of six-month pipeline horizon
2. More bids coming under protest and more contracts are being extended with incumbents, an indicator that contractors are working even harder to protect the base; some protests and extensions worked in our favor, others against us
3. New work won has been more than offset by erosion; excluding the erosion, estimate ~8% revenue growth for FY18 vs. FY17; this includes work from new programs, contract expansion and increased scope on existing contracts

Strength of our Business Model

- Majority of our revenue is recurring, but some revenue ends and does not reoccur
- In years passed, we have successfully overcome erosion with new work wins
- This year, we have not won the same level of new work required to overcome erosion – and grow on top of that
- Because of these dynamics, we are updating guidance

Revenue and EPS Guidance Ranges

Fiscal 2018 Guidance			
	New	Old	Notes
Revenue	$2.400B - $2.440B	$2.475B - $2.550B (with bias toward lower half of range)	Incorporates new outlook for U.S. Federal Services Segment (now expect revenue of ~$475M for FY18)
GAAP Diluted EPS	$3.30 - $3.40	$3.30 - $3.50	Narrowed
Cash flow from operations	$225M - $275M	$225M - $275M	No change, bias toward top end of range
Free cash flow	$195M - $245M	$195M - $245M	No change, bias toward top end of range

New Revenue Recognition (ASC 606)

- MAXIMUS plans to adopt new revenue recognition standard on October 1, 2018 (start of FY19)
- Do not anticipate new standard will create or reduce revenue, but will change the timing of when some revenue is recorded
- Do not anticipate that this change will be significant but our analyses are not complete


MAXIMUS
Fiscal 2018
Second Quarter
Earnings Call
Bruce Caswell
President &
Chief Executive Officer
May 10, 2018

Introduction

- Forty days in as CEO; with the guidance update, I am committed to making sure we:

    1. Continue to execute well and deliver value on our existing work that serves as the foundation for future growth
    2. Remain focused on technology-driven innovation, particularly in the areas of clinical solutions and digital transformation
    3. Make sure we are in the right markets with the right solutions at the right time

- MAXIMUS has a proven track record of growth, a team of seasoned operators, and a portfolio of contracts that generates meaningful cash flow

- We have earned a reputation as a trusted long-term partner who delivers outcomes that matter

Long-Term Growth Strategy Update

Leading a plan to comprehensively examine best market paths for MAXIMUS for long-term growth

Current Markets

- Our markets are changing; we must be positioned to capitalize on these changes
- Convergence of health and human services programs (such as employment programs serving jobseekers with disabilities and health conditions, and work requirements for health benefit programs like Medicaid)
- To accelerate our efforts, we are objectively analyzing current markets where we should be playing a more meaningful role through augmented service offerings

New Adjacent Markets

- Taking a fresh look at adjacencies, particularly those impacted by macro trends that can drive future demand, including:
  - demographic trends (like aging populations and more people with complex health conditions) where we could offer clinical BPO at scale
  - economic trends (such as constrained budgets and the reshaping of social welfare programs) where we can offer greater efficiencies underpinned by technology

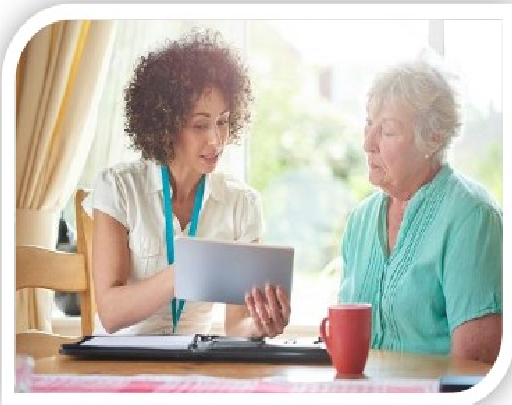
Acquisitions

- Acquisitions play a key role in bringing enhanced capabilities, providing access to new adjacent markets and geographies, and ultimately creating new platforms for growth
- Don't want to acquire merely to grow revenue
- We evaluate potential acquisitions in a strategic and thoughtful way; we are mindful that acquisitions must create long-term shareholder value

Executing our Plan

- We are taking measured and prudent steps toward executing our plan over the next 24 months
- During this time, we will be bringing new talent onboard, executing our digital strategy, striving to increase our clinical footprint
- As we navigate the current procurement environment, we will work to best align the Company for growth in the long term

Clinical Evolution



We continue to believe there will be long-term demand for BPO services with a clinical dimension

PASRR Contract Win

- Signed a new clinical-related win for Preadmission Screening and Resident Review (PASRR) Level II Evaluations
- Three-year, $18 million contract with California Department of Health Care Services
- Confirmation that the core capabilities acquired from Ascend are solid additions to our growing portfolio of assessments and appeals
- Level II PASRR assessments determine the appropriate placement (such as a nursing facility or in the community) for individuals who have a mental illness and/or an intellectual disability
- These assessments also identify the set of services they need in order to maintain or improve their functional living

Clinical Workforce

- Our health care professionals, such as those performing PASRR assessments, tend to bring higher skill sets and longer tenure
- By upskilling the composition of our workforce over time, additional knowledge and stability strengthens our competitive position and creates a stickier service offering
- Our accomplishments with the HAAS contract serve as a strong proof point that we can successfully provide clinical BPO solutions at scale
- An upskilled workforce and demonstrated ability to provide clinical services at scale are important differentiators as we pursue new opportunities that address wider demographic challenges

Digital Transformation

Implementing digital enhancements into our operations regularly

Robotic Process Automation (RPA) & Machine Learning

- Currently implementing RPA in nearly a dozen projects and have several other initiatives in the works

Workflow Automation

- Application of augmented intelligence techniques to workflow automation in the assessments area
- Clients value our ability to leverage these types of digital capabilities that create more efficiencies and improve quality and service delivery

Clinical and Digital Solutions

- This includes digital initiatives to drive caseloads for our new disability employment work in Australia and the deployment of our digital wellbeing solutions beyond our current footprint

Leading the Transformation

- With so much activity underway, having the right leaders at the helm is important; to further strengthen our management bench, we are adding a new Chief Medical Officer and a new Chief Digital Officer

New Awards & Sales Pipeline

New Awards	March 31, 2018
YTD Signed Contracts	$1.4B
Additional Unsigned Contracts	$489M

- Largest share of awarded but unsigned is the Australia Employment Services rebid
  - Five-year performance-based contract
  - Estimated revenue range of $250M to $300M
  - Under the contract, we will continue to help individuals with disabilities, injuries or health conditions prepare for, find and keep sustainable employment

Sales Opportunities	March 31, 2018
Total Pipeline*	$3.0B

* Reported pipeline only reflects short-term opportunities where we believe a request for proposal will be released within the next six months and new work opportunities that are capped at $150M TCV

- Compared to $3.2B reported last quarter; sequential decline due to the conversion of the Australia rebid into awards, as well as the delay of RFPs that moved out of the pipeline's six-month horizon
- Of the current pipeline, approximately 60% is tied to new work, compared to 55% last quarter
- Current pipeline also contains opportunities across all three segments and all of our major geographies

Conversion of sales pipeline into future revenue growth depends on win rates, timing of awards, and how quickly the contracts ramp up

Conclusion

- Taking meaningful action to address period of slower growth and set up future growth
- Protecting the base business with innovative, relevant and value-added services; increasing scope to remain sticky, and securing longer-term extensions
- Future growth will require more than the same solutions for the same customers in the same markets. Advancing our plans for new solutions, adjacencies and platforms as markets evolve over time; this could include acquisitions, new service offerings or entry into additional geographies – or all of the above
- Long history of delivering sustainable top line and bottom line growth and creating shareholder value
- We are executing an actionable plan in order to return to growth and focus on:
  - Analyzing current markets where we could play a more meaningful role (including clinical solutions at scale)
  - Taking a fresh look at new, adjacent markets that hold promise
  - Making sure we have the right resources for the future (including new sales, technical and clinical talent)
  - And of course we will continue our focus on solid execution
- Organizations must change over time; this may mean a slightly different direction to shape and meet demand, and drive growth. The core business is sound, we are executing well and our overarching thesis remains relevant
- We see evidence that the long-term macro trends remain in our favor as governments seek better solutions to serve aging populations, people with more complex health care needs and barriers to sustainable employment, as well as addressing rising caseloads within budget constraints