

Healthcare Services Group, Inc. (HCSG)

Value Fit 6 / 10

University of Wisconsin–Milwaukee | Lubar College of Business | Investment Management Certificate Program

Analyst: Andrew Stonestreet Recommendation: BUY

Philosophy Fit 3 / 5
As of: 10/06/2026

WISCONSIN VALUE FUND LENS — Maximize return by buying improving companies at reasonable valuations.

ROIC (FY2026E) vs. cost of equity	1.7% vs 9.3% → Below cost of equity
Change in performance — ΔROIC	0.0 pts vs FY2025A → Flat by construction
Lifecycle phase	Phase I — lowest expectations
Valuation gap — target vs. price	+48.5% → Price below our value



BUSINESS DESCRIPTION

Healthcare Services Group, Inc. engages in the provision of healthcare management, administrative, and operating services. It operates through the following segments: Environmental Services (EVS) and Dietary. The EVS segment involves housekeeping, laundry, linen, and other services. The Dietary segment includes food purchasing, meal preparation, development of menus, and the provision of dietician consulting professional services. The company was founded by Daniel P. McCartney on November 22, 1976 and is headquartered in Bensalem, PA.

INVESTMENT THESIS

Healthcare Services Group provides housekeeping, laundry and dining services to nursing homes, keeps more than 90% of its clients each year and holds net cash with almost no debt. Consensus has EPS rising to \$1.26 in FY2026E, and the stock trades at 16.5x that against a peer median of 38.4x. UBS rates it Buy with a \$30 target (27 July 2026). Our model does not support that yet: FactSet shows a 0.5% FY2025 EBIT margin, ROIC of 1.7% against a 9.3% cost of equity, and an average value of \$6. We hold until reported operating margins move back toward the 6% to 7% UBS forecasts.

MARKET SNAPSHOT

Current Price	\$20.87	Market Cap (\$B)	\$1.4	Beta	0.85
52-Week Range	\$15 – \$25	Inst. Ownership	107.2%	Insider Own.	1.2%
Shares Out. (mm)	72.4	Short Interest (% float)	4.5%	Dividend Yield	0.0%
Consensus L-T Growth	n/a	Payout Ratio	0.0%	Cost of Equity	9.3%
Price Target	\$31.00	Upside to Target	48.5%	Value Range	-\$2 – \$23

VALUATION SUMMARY — equity DCF, FCFE discounted at ke

Method	Value / Share	Upside	Terminal Assumption
Equity DCF – terminal P/E	\$2.42	(88.4%)	30.5x P/E
Equity DCF – terminal P/S	\$22.70	8.8%	0.7x P/S
Equity DCF – terminal P/B	\$0.80	(96.2%)	2.1x P/B
Equity DCF – constant growth	-\$1.94	(109.3%)	2.0% g, 9.3% ke
Average of methods	\$6.00	(71.3%)	Equal-weighted
Analyst price target	\$31.00	48.5%	22x FY2028E EPS of \$1.39 (UBS)

PHILOSOPHY FIT — Five pillars · Score: 3 / 5

		Fit?
1. Fundamental improvement & valuation discipline	ΔROIC 0.0 pts; price is 3.48x our average value	No
2. Investing through company cycles	Phase I; EBIT margin 0.5% → 0.5%	Yes
3. Initial position sizing & risk limits	Half weight at most; add only if EBIT margin recovers	Yes
4. Capital allocation discipline	Net debt/invested capital -31.5%; net debt/EBIT -21.5x	Yes
5. Identifiable catalysts & conservative underwriting	Catalysts: 4Q ramp, Genesis sale. Only P/S clears price	No

VALUE CRITERIA — 10-Point Checklist · Score: 6 / 10

		Pass?
1. Catalyst / Investment Drivers		Yes
Driver 1 — Revenue Ramp & Pipeline	Management guides third-quarter revenue of \$475mm to \$485mm, about 3% growth, so the fourth quarter must grow in the high single digits to reach mid-single-digit growth for 2026 (UBS, 22 July 2026). Model sales grow 4.3% in FY2026E and 6.2% in FY2027E on FactSet consensus, then fade to 2.0%. Monitor: fourth-quarter revenue and new-account start dates.	
Driver 2 — Dining Cross-Sell	HCSG provides dining in only about half of its environmental client base, and a dining account brings about twice the revenue of an environmental account (UBS, 22 July 2026). Retention stayed above 90% in the second quarter. Monitor: dining growth and the hiring of management candidates, which management calls the limiting factor.	
Driver 3 — Margin Recovery	Cost of services is targeted in the 86% range and SG&A at 9.5% to 10.5% this year, falling to 8.5% to 9.5% over three to five years; steady-state margins are about 9% in dining and 12% in environmental (UBS, 27 July 2026). The model holds EBIT margin at the FactSet FY2025A level of 0.5%, so any recovery is upside to our value. Monitor: bad debt, \$4.3mm in the second quarter.	
What does management say?	Management reiterated mid-single-digit revenue growth for 2026 and expects the same through 2028, citing a growing pipeline, steady occupancy and stable reimbursement. It sees no disruption from the Genesis bankruptcy; the sale to 101 West State Street should close in late third or early fourth quarter (UBS, 22 and 27 July 2026).	

2. Low P/E Ratio							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
EPS (model)	\$0.52	\$0.54	\$0.82	\$1.26	\$1.37	\$1.69	
P/E at current price	40.4x	39.0x	25.6x	16.5x	15.3x	12.4x	
Peer median P/E (FactSet, subject excl.)	38.4x	FY2026E P/E vs. peer median		(57%)			
3. Low Price / Cash Flow							No
FCFE / share	\$0.34	-\$0.16	\$1.58	-\$0.17	-\$0.32	-\$0.40	
Price / FCFE	60.5x	NM	13.2x	NM	NM	NM	
Peer median P/CF (FactSet, subject excl.)	13.1x	Today vs. peer median		+1%			
4. Low Price / Book Value							No
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Book value / share	\$6.15	\$6.78	\$7.05	\$7.57	\$8.21	\$7.48	
Price / Book	3.4x	3.1x	3.0x	2.8x	2.5x	2.8x	
ROE (EOY book)	8.4%	7.9%	11.6%	16.7%	16.7%	1.7%	
Peer median P/B (FactSet, subject excl.)	2.1x	Today vs. peer median		+44%			

5. Financial Soundness							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Total debt (\$mm)	44	16	15	15	15	15	
Net debt (\$mm)	-104	-119	-189	-183	-172	-159	
Total debt / equity (gross)	9.6%	3.3%	2.9%	2.9%	2.9%	2.8%	
Total debt / assets (gross)	5.4%	2.0%	1.9%	1.8%	1.8%	1.7%	
Net debt / invested capital	-19.8%	-20.5%	-31.5%	-29.8%	-27.2%	-24.5%	
Net debt / EBIT	-1.7x	-3.3x	-21.5x	-19.9x	-17.7x	-15.3x	
Tax rate	13.0%	Book equity (\$mm)	510	Net cash \$189mm; debt \$15mm			
6. Positive Earnings Dynamics							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Sales growth	(1.1%)	2.7%	7.1%	4.3%	6.2%	6.6%	
EBIT margin	3.7%	2.1%	0.5%	0.5%	0.5%	0.5%	
EPS growth	12.2%	3.6%	52.5%	54.9%	8.3%	23.5%	
7. Business Strategy & Segment Mix							Yes
Strategy	Housekeeping, laundry and dining services for long-term and post-acute care facilities, plus a growing campus dining business. Growth is organic, paced by developing new managers and cross-selling dining to environmental clients, with bolt-on campus deals of \$10mm to \$50mm and opportunistic buybacks.						
	Two segments, Environmental Services (housekeeping and laundry) and Dietary (dining), all in the United States. Campus passed \$100mm of revenue in 2025, out of \$1,837mm in total, and Genesis has been under 10% of revenue since 2024 (UBS, 22 and 27 July 2026).						
Segment / geography mix							
8. Capable Management & Insider Ownership							No
Insider ownership	1.2%	Inst. ownership	107.2%	Buybacks, % of NOPAT (FY1E)		967.3%	
	Insider ownership is 1.2%, so alignment rests on pay design rather than ownership. Reported institutional ownership of 107.2% is above 100%, which usually reflects filing lags and shares lent to short sellers.						
Insider activity / governance							
9. Valuation — Value Creation (ROIC vs. ke)							No
ROIC (FY1E)	1.7%	Cost of equity (ke)	9.3%	EVA spread (ROIC – ke)		(7.6%)	
Price target / upside	\$31.00	48.5%		Value / share range (low–high)		-\$2 – \$23	
10. Uses of Capital — allocation discipline							Yes
Reinvestment 235% of NOPAT and buybacks 967% in FY2026E. HCSG pays no dividend, so buybacks take the residual; NOPAT is small because EBIT is thin. Detail in the Uses of Capital table below.							
VALUE FIT SCORE — criteria met							6 / 10

USES OF CAPITAL — full range, as % of cash generated (NOPAT)							
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	Avg 2023–2028
NOPAT before reinvestment (\$mm)	45	27	8	8	8	9	
<i>Uses, as % of NOPAT</i>							
CapEx & acquisitions (Δ NFA)	14.9%	101.3%	(359.4%)	123.8%	175.9%	187.4%	40.6%
Working capital (Δ NWC)	25.0%	(11.0%)	(382.6%)	111.0%	157.8%	168.1%	11.4%
Dividends	—	—	—	—	—	—	—
Share buybacks	0.1%	(14.2%)	638.5%	967.3%	879.5%	957.8%	571.5%
Debt repaid (neg. = borrowing)	(11.6%)	100.8%	18.5%	(1.3%)	(1.8%)	(1.9%)	17.1%
Cash & securities build	57.6%	(43.3%)	891.8%	(78.7%)	(127.3%)	(139.5%)	93.4%
Interest & other (residual)	14.0%	(33.6%)	(706.8%)	(1022.1%)	(984.0%)	(1071.8%)	(634.0%)
Total uses of capital	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Discipline — reinvestment, % of NOPAT	39.9%	90.3%	(742.0%)	234.8%	333.7%	355.4%	52.0%
<i>Dividends + buybacks, % of NOPAT</i>	<i>0.1%</i>	<i>(14.2%)</i>	<i>638.5%</i>	<i>967.3%</i>	<i>879.5%</i>	<i>957.8%</i>	<i>571.5%</i>

COMPS OVERVIEW (current multiples, FactSet)

Peer set from AutoTearSheet-5Page!DI4:DI9. Median is of peers only and excludes blanks.

1. Fourth-quarter ramp. 2026 guidance needs high-single-digit growth in the fourth quarter after about 3% guided for the third; a miss puts the 4.3% FY2026E model growth at risk. Watch new-account start dates.
2. Client credit. Bad debt has historically run 1% to 1.5% of revenue, and Genesis (just over 160 facilities) stays in Chapter 11 until its sale closes. Watch bad debt and Genesis collections.
3. Reimbursement and wages. Lower nursing home reimbursement or wage pressure at client facilities would hurt collections and margins.
4. Model risk. Our value rests on a 0.5% FactSet EBIT margin, and terminal multiples are peer medians of 30.5x P/E, 0.7x P/S and 2.1x P/B, against HCSG's own 24.5x, 0.8x and 2.7x.

Exit discipline: move to Buy only if reported EBIT margin recovers toward 5% and our value clears the price; sell if 2026 revenue growth falls below 3% or bad debt rises above 1.5% of revenue.

Sources: model outputs linked to Auto-FinandValInfo and AutoTearSheet-5Page (FactSet). Information for educational purposes only. Not a recommendation to buy or sell any security.