



# Q3 2018 Investor Presentation

November 2, 2018



# Disclaimer

**FORWARD-LOOKING STATEMENTS.** The financial results in this presentation reflect preliminary unaudited results, which are not final until the Form 10-Q for the quarter ended September 30, 2018 is filed with the Securities and Exchange Commission. This presentation contains "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Such statements relate to our current expectations, projections and assumptions about our business, the economy and future events or conditions, and specifically include the information found in the slides "Quarterly Financial Performance Highlights" and the reconciliations of non-GAAP measures. They do not relate strictly to historical or current facts. Forward-looking statements can be identified by words such as "aims," "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "likely," "may," "plans," "projects," "seeks," "targets," "will," "would," "could," "should," and similar expressions and references to guidance, although some forward-looking statements may be expressed differently. In particular, these include statements relating to future actions, business plans, objectives and prospects, and future operating or financial performance. Factors or events that could cause actual results to differ may emerge from time to time and are difficult to predict. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results may differ materially from past results and those anticipated, estimated or projected. We caution you not to place undue reliance upon any of these forward-looking statements. Factors that could cause or contribute to such differences, include, but are not limited to: our ability to execute our business plans or growth strategy; our ability to innovate, develop or implement new or enhanced solutions or services; the nature of investment and acquisition opportunities we are pursuing, and the successful execution of such investments and acquisitions; our ability to successfully integrate acquired businesses and realize synergies; variations in our results of operations; our ability to accurately forecast the revenue under our contracts and solutions; our ability to protect our systems from damage, interruption or breach, and to maintain effective information and technology systems and networks; our ability to protect our intellectual property rights, proprietary technology, information processes, and know-how; significant competition relating to our solutions and services; our failure to maintain a high level of customer retention or the unexpected reduction in scope or termination of key contracts with major customers; customer dissatisfaction, or our non-compliance with contractual provisions or regulatory requirements; our failure to meet performance standards triggering significant costs or liabilities under our contracts; our inability to manage our relationships with information and data sources and suppliers; our reliance on subcontractors and other third party providers and parties to perform services; our ability to continue to secure contracts and favorable contract terms through the competitive bidding process; pending or threatened litigation; unfavorable outcomes in legal proceedings; our success in attracting and retaining qualified employees and members of our management team; our ability to generate sufficient cash to cover our interest and principal payments under our credit facility or to borrow or use credit; unexpected changes in tax laws, regulations or guidance and unexpected changes in our effective tax rate; unanticipated increases in the number or amount of claims for which we are self-insured; our ability to develop, implement and maintain effective internal control over financial reporting; changes in the U.S. healthcare environment or healthcare financing system, including regulatory, budgetary or political actions that affect healthcare spending or the practices and operations of healthcare organizations; our failure to comply with applicable laws and regulations governing individual privacy and information security or to protect such information from theft and misuse; our ability to comply with current and future legal and regulatory requirements; negative results of government or customer reviews, audits or investigations; state or federal limitations related to outsourcing of certain government programs or functions; restrictions on bidding or performing certain work due to perceived conflicts of interests; the market price of our common stock and lack of dividend payments; and anti-takeover provisions in our corporate governance documents; and other factors, risks and uncertainties described in our most recent Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission. Any forward-looking statements are made as of the date of this presentation. Except as may be required by law, we disclaim any obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

**NON-GAAP FINANCIAL INFORMATION.** This presentation contains certain non-GAAP measures. These non-GAAP measures, as calculated by the Company, are not necessarily comparable to similarly titled measures reported by other companies. Additionally, these non-GAAP measures are not measurements of financial performance or liquidity under GAAP and should not be considered alternatives to the Company's other financial information determined under GAAP. See slides 6-7 for definitions and reconciliations of certain non-GAAP measures.

**MARKET AND INDUSTRY DATA.** This presentation contains market and industry data and forecasts that have been obtained from publicly available information, various industry publications, other published industry sources and our internal data and estimates. We have not independently verified the information and cannot make any representation as to the accuracy or completeness of such information. None of the reports and other materials of third party sources referred to in this presentation were prepared for use in, or in connection with, this presentation. Our internal data and estimates are based upon information obtained from our customers, our partners, trade and business organizations, publicly available information and other contacts in the markets in which we operate and our management's understanding of industry conditions. Estimates are difficult to develop and inherently uncertain and we cannot assure you that they are accurate. Our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed above.

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## Q3 2018 Financial Results

# Quarterly Financial Performance Highlights

- Total quarterly revenue was a record \$154.3 million – YTD total revenue was up 16.5%, excluding Q1 Reserve Release<sup>1</sup>
  - Commercial revenue was a quarterly record \$86.7 million – YTD commercial revenue up 24.4%
  - State government revenue of \$59.3 million –YTD state government revenue up 6.1%
  - Coordination of Benefits (COB) revenue of \$105.7 million –YTD COB revenue up 7.6%
  - Analytical services<sup>2</sup> revenue of \$48.6 million, including Payment Integrity (PI) revenue of \$30.2 million, Eliza revenue of \$14.0 million, Essette revenue of \$1.3 million and Medicare RAC revenue of \$3.1 million
- Full year 2018 Revenue Outlook raised to \$595-600 million (was \$575-585 million)
- GAAP EPS of \$0.22 per diluted share included a tax benefit of \$0.03 per share<sup>3</sup>
- Adjusted EPS of \$0.31 per diluted share<sup>4</sup>
- Adjusted EBITDA of \$41.4 million<sup>4</sup> –YTD adjusted EBITDA was up 37.6%
- Capital expenditures were \$6.8 million / YTD total of \$19.4 million

<sup>1</sup> Excludes \$8.4 million of revenue related to the Q1'18 reversal of the Company's reserve liability for open or pending Medicare RAC appeals following expiration of the original Medicare RAC contract on January 31, 2018

<sup>2</sup> Analytical services includes PI, care management and consumer engagement solutions, and Medicare RAC

<sup>3</sup> GAAP EPS for the three months September 30, 2018 includes a cumulative tax benefit of \$0.03 relating to prior open tax years and the current tax year in connection with a realignment of certain state tax apportionments recognized in the quarter

<sup>4</sup> Adjusted EPS and Adjusted EBITDA are non-GAAP measures (see reconciliations on slides 6 and 7)

## Q3 2018 Financial Results

# Quarterly Financial Information

	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Revenue	\$ 113,733	\$ 133,313	\$ 125,673	\$ 148,493	\$ 141,425	\$ 146,791	\$ 154,246
Cost of services:							
Compensation	48,920	51,853	49,012	52,264	56,079	55,188	58,188
Information technology	9,783	11,281	12,067	12,592	12,263	14,240	12,979
Occupancy	3,547	4,230	4,332	5,081	4,383	4,014	3,500
Direct project expenses	10,443	10,101	9,548	11,255	10,083	10,908	10,661
Other operating expenses	7,203	6,562	7,446	7,214	6,565	7,051	8,567
Amortization of acquisition related software and intangible assets	6,286	7,372	8,167	8,568	8,132	9,621	7,942
Total cost of services	86,182	91,399	90,572	96,974	97,505	101,022	101,837
Selling, general and administrative expenses	23,608	27,553	22,240	32,253	31,998	26,532	28,178
Settlement expense	-	-	-	-	-	20,000	-
Total operating expenses	109,790	118,952	112,812	129,227	129,503	147,554	130,015
Operating income	3,943	14,361	12,861	19,266	11,922	(763)	24,231
Interest expense	(2,286)	(2,339)	(3,109)	(3,137)	(2,648)	(3,034)	(2,880)
Interest income	155	33	14	93	120	188	292
(Loss)/income before income taxes	1,812	12,055	9,766	16,222	9,394	(3,609)	21,643
Income taxes	370	5,538	3,394	(9,501)	3,003	(242)	3,069
Net (Loss)/ income	\$ 1,442	\$ 6,517	\$ 6,372	\$ 25,723	\$ 6,391	\$ (3,367)	\$ 18,574
Net (loss)/income per common share -- diluted	\$ 0.02	\$ 0.08	\$ 0.07	\$ 0.30	\$ 0.07	\$ (0.04)	\$ 0.22
Weighted average common shares -- diluted	85,580	85,826	85,730	84,936	85,682	83,231 <sup>1</sup>	85,144
Diluted adjusted EPS <sup>2</sup>	\$ 0.13	\$ 0.16	\$ 0.19	\$ 0.49	\$ 0.22	\$ 0.25	\$ 0.31

*(unaudited, \$ in the thousands, except for per share amounts)*

<sup>1</sup> Q3'18 diluted share count is higher than Q2'18 due primarily to the net loss in Q2'18, which resulted in the basic and diluted share counts being the same in that quarter.

<sup>2</sup> Diluted adjusted EPS is a non-GAAP measure (see reconciliation on slide 6)

## Q3 2018 Financial Results

# Quarterly Market and Product Revenue

Total Revenue by Market	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
State Government	\$ 50.7	\$ 57.6	\$ 53.0	\$ 57.7	\$ 53.3	\$ 57.9	\$ 51.6	\$ 64.2	\$ 54.6	\$ 58.8	\$ 59.3
Commercial	56.0	53.5	57.9	62.9	55.1	69.4	67.6	77.2	71.8	80.5	86.7
Federal (including Medicare RAC) / Other	13.1	10.4	12.0	5.0	5.3	6.0	6.5	7.1	15.0	7.5	8.3
<b>Total HMS Revenue</b>	<b>119.8</b>	<b>121.5</b> <sup>1</sup>	<b>122.9</b> <sup>1</sup>	<b>125.6</b>	<b>113.7</b>	<b>133.3</b>	<b>125.7</b>	<b>148.5</b>	<b>141.4</b>	<b>146.8</b>	<b>154.3</b>
Total Revenue by Product	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Coordination of Benefits	\$ 82.9	\$ 89.7	\$ 86.3	\$ 95.0	\$ 88.5	\$ 98.5	\$ 90.1	\$ 105.7	\$ 91.7	\$ 100.8	\$ 105.7
Analytical Services <sup>2</sup>	36.9	31.8	36.6	30.6	25.2	34.8	35.6	42.8	49.7 <sup>3</sup>	46.0	48.6 <sup>4</sup>
<b>Total HMS Revenue</b>	<b>\$119.8</b>	<b>\$121.5</b> <sup>1</sup>	<b>\$122.9</b> <sup>1</sup>	<b>\$125.6</b>	<b>\$113.7</b>	<b>\$133.3</b>	<b>\$125.7</b>	<b>\$148.5</b>	<b>\$141.4</b>	<b>\$146.8</b>	<b>\$154.3</b>

(Unaudited, \$ in millions)

<sup>1</sup> As revised. Refer to "Part IV, Item 15. Consolidated Financial Statements and Supplementary Data, Notes to the Consolidated Financial Statements" and note 16. "Quarterly Financial Data (Unaudited)" on page 86 in the Company's 2017 Form 10-K for details. (see [https://www.sec.gov/Archives/edgar/data/1196501/000117184318001503/f10k\\_022318p.htm](https://www.sec.gov/Archives/edgar/data/1196501/000117184318001503/f10k_022318p.htm))

<sup>2</sup> Analytical services includes PI, care management and consumer engagement solutions, and Medicare RAC

<sup>3</sup> Analytical services revenue in Q1 2018 included an \$8.4 million Medicare RAC reserve release related to the reversal of the Company's reserve liability for open or pending Medicare RAC appeals following expiration of the original Medicare RAC contract on January 31, 2018

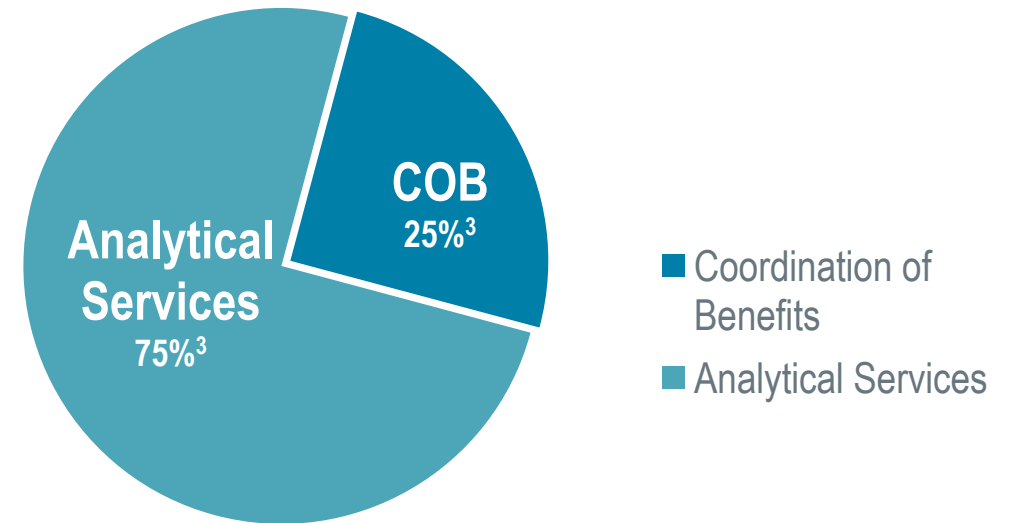
<sup>4</sup> Analytical services revenue in Q3 2018 includes quarterly revenue for PI of \$30.2 million, care management and consumer engagement of \$15.3 million, and Medicare RAC of \$3.1 million

## Commercial Business

# Q3 2018 Commercial Sales

- New business: products sold to new commercial members covering approximately 1.5 million lives<sup>1</sup>
- Additional business: products sold to current commercial customers covering approximately 5.3 million lives<sup>2</sup>

## Q3 Sales by Product



<sup>1</sup> New business includes sales to either a new customer or a new category of members (e.g. Medicare, Medicaid or ASO) for an existing customer

<sup>2</sup> Additional business reflects new product sales to a customer population already covered by other HMS products. In some instances both COB and analytical services solutions were sold to the same customer life in the quarter, but such sales are only counted once for purposes of this calculation

<sup>3</sup> Relative percentage of COB and analytical services solutions based on projected revenue for the first twelve months

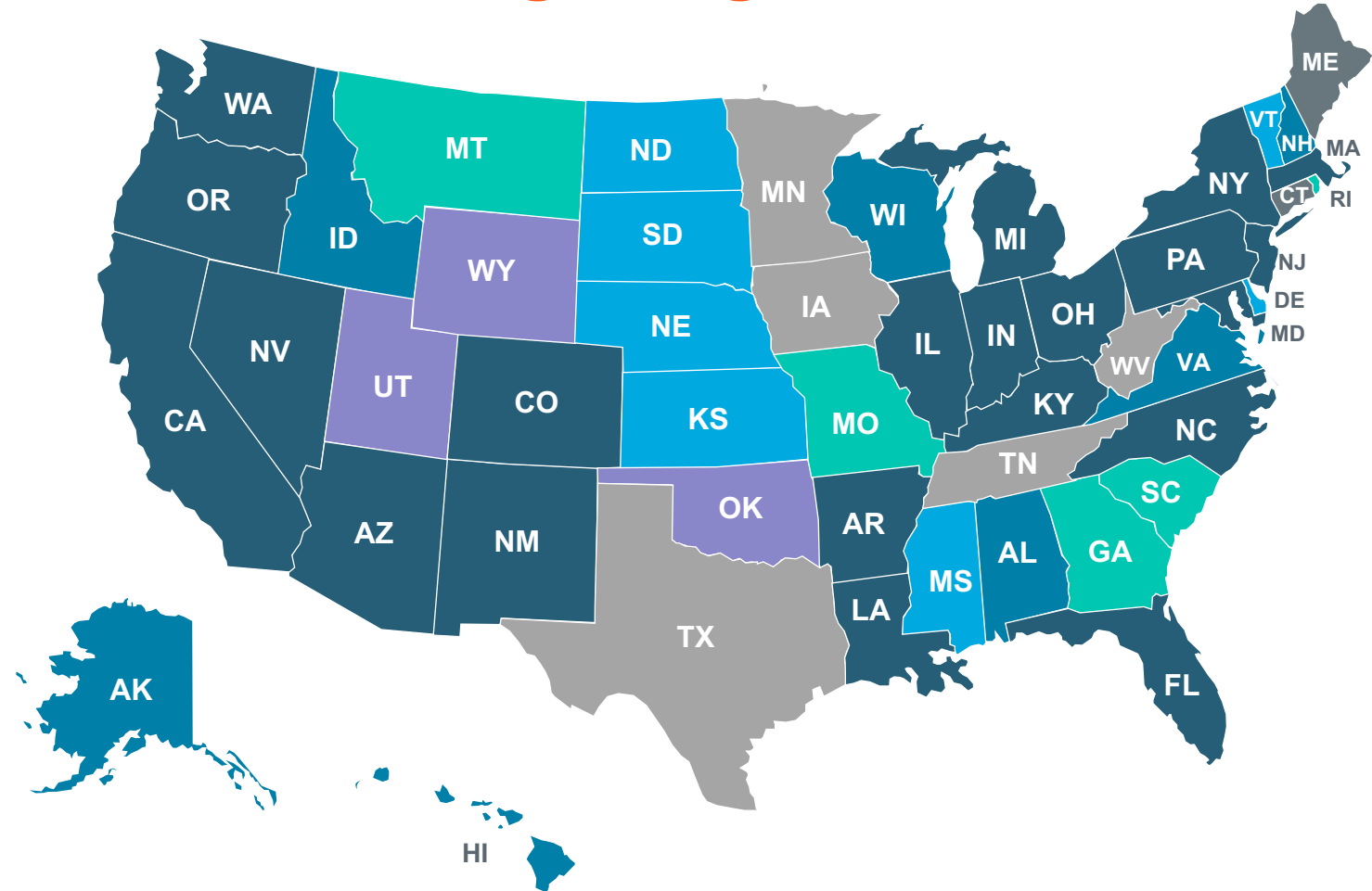
Data as of September 30, 2018

## State Government Business

# New Medicaid Enrollment Through August 2018<sup>1</sup>

~13.4M of ~15.5M  
new CMS-reported<sup>1</sup>  
Medicaid lives are in  
HMS customer  
eligibility files

- 250,000 or more (21)
- 100,000 – 249,000 (10)
- 30,000 – 99,999 (7+DC)
- 1 – 29,999 (7)
- No growth (3)
- No data reported (2)



<sup>1</sup>CMS Medicaid & CHIP: August 2018 Monthly Applications, Eligibility Determinations and Enrollment Report, October 24, 2018. This analysis compares Medicaid enrollment of ~15.5 million lives reported through 8/31/18 to enrollment as of 10/1/13, which was the beginning of Marketplace open enrollment and the CMS baseline for measuring expansion



# Reconciliation of Net (Loss) / Income to GAAP EPS (Diluted) and Adjusted EPS (Diluted)

As summarized in the following table, diluted earnings per share adjusted for stock-based compensation expense, settlement expense, amortization of acquisition related software and intangible assets and for the related taxes (adjusted EPS) was \$0.31 for the third quarter of 2018

	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Net (Loss)/ income	\$ 1,442	\$ 6,517	\$ 6,372	\$ 25,723	\$ 6,391	\$ (3,367)	\$ 18,574
Stock-based compensation expense	5,386	3,994	7,381	7,382	9,494	4,714	3,437
Settlement expense	-	-	-	-	-	20,000	-
Amortization of acquisition related software and intangible assets	6,286	7,372	8,167	8,568	8,132	9,621	7,942
Income tax related to adjustments <sup>1</sup>	(2,323)	(4,319)	(5,815)	80	(5,585)	(10,404)	(3,186)
Sub-total	10,791	13,564	16,105	41,753	18,432	20,564	26,767
Weighted average common shares, diluted	85,580	85,826	85,730	84,936	85,682	83,231 <sup>2</sup>	85,144
Diluted GAAP EPS	\$ 0.02	\$ 0.08	\$ 0.07	\$ 0.30 <sup>3</sup>	\$ 0.07	\$ (0.04) <sup>5</sup>	\$ 0.22 <sup>6</sup>
Diluted Adjusted EPS	\$ 0.13	\$ 0.16	\$ 0.19	\$ 0.49	\$ 0.22	\$ 0.25	\$ 0.31
Federal tax legislation impact	\$ -	\$ -	\$ -	\$ 0.25	\$ -	\$ -	\$ -
Diluted Adjusted EPS after federal tax legislation	\$ 0.13	\$ 0.48	\$ 0.40	\$ 0.24 <sup>4</sup>	\$ 0.22	\$ 0.25	\$ 0.31

(Unaudited, \$ in thousands)

The Company believes that the non-GAAP financial measures in this presentation provide useful information to the Company's management, investors and other interested parties about the Company's operating performance because it allows them to compare the Company's operating results during the current and prior periods in a more consistent manner. The non-GAAP measures presented may not be comparable to similarly titled measures used by other companies.

<sup>1</sup> Tax effect of adjustments is computed as the pre-tax effect of the adjustments multiplied by the forecasted adjusted annual effective tax rate at period end

<sup>2</sup> Q3'18 diluted share count is higher than Q2'18 due to the net loss in Q2'18, which resulted in the basic and diluted share counts being the same in that quarter

<sup>3</sup> Diluted GAAP EPS for the three months ended December 31, 2017 includes a non-cash tax benefit of \$15.1 million or \$0.18 per diluted share due to the revaluation of the company's deferred tax balances pursuant to the tax rate reduction included in the federal tax legislation enacted in December 2017

<sup>4</sup> Diluted adjusted EPS for the three months ended December 31, 2017 includes a non-cash tax benefit of \$0.25 due to the revaluation of the Company's deferred tax balances pursuant to the tax rate reduction included in the federal tax legislation enacted in December 2017

<sup>5</sup> Diluted GAAP EPS for the three months ended June 30, 2018 included an expense of \$20.0 million related to the previously announced settlement on June 27, 2018 of litigation in connection with the earn-out portion of the purchase price for an acquisition the Company completed in 2010

<sup>6</sup> Diluted GAAP EPS for the three months ended September 30, 2018 includes a cumulative tax benefit of \$0.03 relating to prior open tax years and the current tax year in connection with a realignment of certain state tax apportionments recognized in the quarter

# Reconciliation of Net (Loss) / Income to EBITDA and Adjusted EBITDA

As summarized in the following table, earnings before interest, taxes, depreciation and amortization, stock-based compensation expense and settlement expense (adjusted EBITDA) was \$41.4 million for the third quarter of 2018.

	Three Months Ended		
	September 30, 2018	June 30, 2018	September 30, 2017
Net (Loss)/ income	\$ 18,574	\$ (3,367)	\$ 6,372
Net interest expense	2,588	2,846	3,095
Income taxes	3,069	(242)	3,394
Depreciation and amortization of property and equipment and intangible assets	13,688	16,066	13,879
Earnings before interest, taxes, depreciation and amortization (EBITDA)	37,919	15,303	26,740
Stock based compensation expense	3,437	4,714	7,381
Settlement expense	-	20,000	-
Adjusted EBITDA	\$ 41,356	\$ 40,017	\$ 34,121

(Unaudited, \$ in thousands)

As summarized in the following table, earnings before interest, taxes, depreciation and amortization, stock-based compensation expense and settlement expense (adjusted EBITDA) was \$116.3 million for the nine months ended September 30, 2018, including the first quarter net benefit of \$6.3 million related to the Reserve Release.

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Net Income	\$ 21,598	\$ 14,331
Net interest expense	7,962	7,533
Income taxes	5,830	9,302
Depreciation and amortization of property and equipment and intangible assets	43,220	36,546
Earnings before interest, taxes, depreciation and amortization (EBITDA)	78,610	67,712
Stock based compensation expense	17,645	16,761
Settlement expense	20,000	-
Adjusted EBITDA	\$ 116,255	\$ 84,473

(Unaudited, \$ in thousands)

The Company believes that the non-GAAP financial measures in this presentation provide useful information to the Company's management, investors and other interested parties about the Company's operating performance because it allows them to compare the Company's operating results during the current and prior periods in a more consistent manner. The non-GAAP measures presented may not be comparable to similarly titled measures used by other companies.



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