

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

HMSY - HMS Holdings Corp at JPMorgan Global Healthcare Conference

EVENT DATE/TIME: JANUARY 07, 2019 / 7:00PM GMT



JANUARY 07, 2019 / 7:00PM, HMSY - HMS Holdings Corp at JPMorgan Global Healthcare Conference

CORPORATE PARTICIPANTS

William C. Lucia *HMS Holdings Corp. - Chairman, President & CEO*

CONFERENCE CALL PARTICIPANTS

Anne Elizabeth Samuel *JP Morgan Chase & Co, Research Division - Analyst*

PRESENTATION

Anne Elizabeth Samuel - *JP Morgan Chase & Co, Research Division - Analyst*

Good morning. My name is Anne Samuel, and I cover Healthcare IT here at J.P. Morgan. It's my pleasure this morning to introduce HMS. With us are Bill -- CEO Bill Lucia, and CFO Jeff Sherman. We'll be taking questions directly after the presentation at the breakout session across the hall in the Sussex Room. And with that, I'll turn it over to Bill.

William C. Lucia - *HMS Holdings Corp. - Chairman, President & CEO*

Thank you, Anne, and good morning, everyone. I want to thank you for attending our presentation today. This is our obligatory disclaimer you get to read before you fall asleep this evening. So we're really excited to be here today to talk about the value that HMS brings to the health care system. And we truly believe we are better positioned than ever before to deliver increased results to both our customers and our shareholders. So today, we'll cover a little bit about our product suite for those who are not as familiar with our business, and we'll follow that by a focus on competitive differentiators, macro trends, some growth drivers and really what our priorities are for 2019. We really believe we've assembled a compelling product suite that addresses the urgent needs of our customer bases, both in government and in the commercial markets. And these capabilities position us well to meet this dynamic and changing health care landscape and really all of the stakeholders in the health care system, not only to contain cost, which is really what our traditional historical roots were, but to engage consumers to make sure that they achieve higher quality outcomes. We've assembled some significant key assets. And the 3 areas that we focus on, that, we believe, generate \$30 billion total addressable market for HMS are payment errors, so waste and efficiency, and that's really done through our Coordination of Benefits services, primarily to Medicaid and through Payment Integrity looking at the accuracy of claims. And then our Consumer Engagement and Care Management technology, which is really, really focused on getting consumers engaged in assume -- assuring that they have a better outcome and that the risk-bearing entities have an ability to both predict and do something about emerging risk. And we bring to this solution set enormous data. So significant data sets, an extensive suite of proprietary analytics with a number of patents and a significant customer base, very large customer base, a couple hundred health plans, over 40 states and the federal government. So a strong customer base to continue to grow into.

As I mentioned, we're really comprised of 3 major product areas. You can really lump the first 2 together to say it's really about assuring payment accuracy. Our Coordination of Benefits solution was primarily built for Medicaid, though it's applicable in both Medicare and the true commercial market. And we serve both, as I said, over 42 state Medicaid agencies and a couple hundred Medicaid Managed Care plans. And this really makes sure that the Medicaid program is the payer of last resort. So by law -- by federal law, if there is another third party that member has coverage with, they have to pay first. High barriers to entry. We have a database, a National Eligibility Database that is second to none. Over 90% of the covered lives in the U.S. are in that database. And that's what we use with very sophisticated matching logic that's been built over the last 30 years. And to that we apply machine learning and it continues to get better. The ROIs on this business serve -- to our clients are 10 to 15 to 1, so significant stickiness in this marketplace. And Payment Integrity is just an extension of that, but it's really looking at the accuracy of the claim paid, and it could be from a clinical perspective where they've quoted the wrong DRG and for the services that were rendered all the way to contract between a provider and a payer and the payer did not pay in accordance with the contract and now we're recovering those dollars. And both of these services, both Coordination of Benefits and Payment Integrity, are done on a prospective basis and on a retrospective basis. With -- on COB, a little more than half of the revenue comes from prospective and little less than half on retrospective and really the reverse on the Payment Integrity side.

And then lastly, on our newest line of business that we have assembled through both acquisitions and build, internal build is really our Total Population Management segment. And we distinguish ourselves there from pop health because we really are looking at the total population, but being able to impact outcomes at scale, but at an individual level. So we're really focused on care enablement in this sector and really making sure

2



JANUARY 07, 2019 / 7:00PM, HMSY - HMS Holdings Corp at JPMorgan Global Healthcare Conference

we move the needle on outcomes, and you'll hear more about that later. But it does also bring down cost and rise quality. So really what we believe we have assembled is probably the most comprehensive solution for entities that are taking risk, whether it's a large payer, the government or an employer.

Data drives health care. Data drives the decisions that are made in health care. Unfortunately, it's not always easily accessible. But we have amassed significant data across the entire landscape of health care, and I think it's important. I won't read the numbers on the slide, but the data that we have been able to amass, we've been able to monetize and take action for our clients is significant. And again when you have ROIs of 10 to 15 to 1, it makes your business very sticky. And that's what we believe is why we have long-term clients, some 20 to 30 years, and that they -- our customer retention rate is well over 95%. This data, of course, is used across our customer base. So the longer we get to amass this data, we can use it across all of our product lines. And just think about tracking a member in the U.S. through the entire health care system through HMS' data and being able to apply all of the kinds of services that we apply today.

I think what is probably one of the most significant drivers of -- what's unique about HMS is that we've focused on actionable analytics. So there's a lot of analytic players in the health care space competing for market share, particularly with health plans. But we went about it differently and we said, "Look, whatever we do and we build from an analytic perspective, there has to be an action that we can take or our client can take." So you'll see that throughout our business, both in the Coordination of Benefits business, where we not only continually, both through data sciences but machine learning, enhance the ability to match member data, which you would think is easy, but it's really not that easy, and all the way to being able to identify potential fraud or where there is having the national knowledge to be able to look at a hospital on behalf of the state, the Medicare program and 50 health plans and say this hospital is a hospital that's really going to up quote a DRG. So when you amass that kind of data and you apply these advanced analytics, you're really cooking with gas and we've done it across the spectrum.

I think the other thing that's really important about us is scale. We really have national presence, both at the state level, as I said over 40 Medicaid agencies, eligibility for almost 300 million individuals across the nation. And the largest database of Medicaid claims and eligibility in the nation. So it's more accurate and more complete than what's housed at CMS. And we've had -- we've won a lot of awards, but I would say we just have a really award-winning in-house expertise from a technology perspective. We are HITRUST-certified, which is really important in protecting personal health information and becoming a real requirement from the largest health plans in the nation. And we really continue to be a leader with leading the edge in terms of development of new initiatives and products, which we'll talk about shortly. And we really couple this with a real high-performance culture that we've been focused on for a number of years now. And what that really does in our organization is we have the graphs to kind of show, we're not showing them today, but that -- we've increased employee engagement dramatically over the last 3 to 4 years. And those more engaged employees have achieved higher net promoter scores from our customers. At the same time, we have, as our outside vendor would say, higher Net Promoter Scores for a service business probably double that than any services company. And what this really does is leads to driving more revenue, people focused on the bottom line and then agility in innovation and developing new products that we'll talk a little bit about.

So we're really position to take advantage of both what we built, but also the macro trends in the industry. And these are really the major trends that we track. But I think that this is really the key to where we are well positioned for the future of health care. Our -- clearly, the whole health care system is with rising and unsustainable growth in cost. And that's really in our DNA, and we have really focused on that our entire existence from the time we built the company. But we've really moved into this area that has dramatically improved the total addressable market we face. We used to talk about impacting \$160 billion of payment errors. Well now we're really focused on the \$1 trillion of wasted or inefficient spend, and this drive towards the consumerization of health care. So the largest health plans in the nation a couple of years ago told us, we really need to focus on the consumer down to the member level. And that drove our actions to go out and build and buy the analytics and engagement tools, so that we really could impact that consumer, that individual consumer, but doing at scale. I think we're one of the few companies that really does have a very 360-degree view of the health care system. And the nice thing about our technologies and our services are really that they're so sticky. And once you're integrated, it's really hard to break away. I mean, if you're getting 10 to 15 to 1 ROI, we're inter -- we have the interoperability to the EHRs for our Care Management technology. It's really a very sticky business.

This slide really goes without me talking much about it other than to say that the true market drivers in health care, of course, is the growth in spend and the growth in enrollment in the programs. Medicare alone, it's a well used phrase, but we all know that there's about 10,000 baby boomers that age in the Medicare on a daily basis, and that cost driver for Medicare is just unsustainable. So our service is both on the cost-containment side, making sure payments are accurate, where the right payer is paying, all the way to make sure that, that Medicare member is managed so that



JANUARY 07, 2019 / 7:00PM, HMSY - HMS Holdings Corp at JPMorgan Global Healthcare Conference

the outcomes are better, that the quality scores are higher, that their -- that a Medicare Advantage Plan is reimbursed at a higher rate from the federal government and that their quality is improving, is all very important.

But each one of these markets is growing and the market that we will be spending more time and have launched product into this year is the employer market. Because employers and employees or members are continually left holding the financial bag in the health care system. So we're starting to see a nice pickup in the employer market as well.

I talked about this total addressable market. We believe it's about \$30 billion market. We think it's about 80% untapped. But if you look at the growth over the next -- just the next 8 years, we're talking about a market that grows significantly. And again we're attacking that \$1 trillion of waste in the system, not just payment errors, but inefficient spend, overutilization, underutilization, which impacts outcomes and the quality of care that a person receives. We're really pushing towards growth in a new way, and that's really based on a real baseline that we achieved in 2018. So while we haven't published our full year 2018 numbers, that will happen in February, year-to-date through Q3, we've grown very strong, and it's really set the stage for significant growth in 2019 as well. This year, we kind of measured about our guidance, but twice this year, we raised our guidance both at the revenue level and on the bottom line. And we'll continue to see growth both -- in both revenue growth through this diversified product portfolio that we have, but also more incremental dollars from each dollar of revenue go to the bottom line as well as the focus we have on new technologies, which we'll talk about.

So we're really -- our CapEx or our capital allocation is focused on investing back in the business, typically in technology, though you'll see us investing in broadening our sales team this year, but it's also on M&A. But we have the significant cash flow from operations to be able to fund our growth. And the focus on using technology and all of these technologies and they are buzzwords, right, everybody uses them, but all of these were in the early innings, but we are deploying each one of these. And we're deploying them both to make sure that, as we have findings that are errors in Payment Integrity, that they are accurate, so we don't bother a provider with a medical record request, and we shouldn't be, and we're doing it all the way down to being able to automate functions or automate processes in the company that's helping us keep our labor costs flat. In fact, our labor has been, as a percentage of revenue, has actually been going down the company. So we're doing some pretty interesting things with AI and machine learning across all of our product lines. And we expect to continue to do that, and that's where you'll see our CapEx investments internally.

And then our fastest-growing product line. While it's our smallest line of business, but it's the fastest-growing is Total Population Management. And that is newer to us, but it was a natural extension for us because of our -- just because of the massive amount of data we have from our clients and the ability to mine that data and look for opportunities and from what our clients told us. The consumerism in health care, they had to have a solution for that, and that's really ROIs initiative. Analytics, tons of analytics in the market, but Elli really focuses on the emerging population and then it's perspective. It's looking at predictive and saying, if you don't do something now in 2 years, these people are going to be your high-risk patients. And that's very critical to a health plan to get in front of that. And then lastly Essette is the tool that really helps you manage all those services under one umbrella. So with those 3 integrated, we believe, we're the only company that has that. There are players in each of these niches, but with an integrated opportunity here, we're really being able to drive value in what was traditionally a overutilized term of pop health.

Elli is the product we actually built internally, and it was originally built to track Medicaid members that they moved around from health plan to state to health plan. What's very interesting is that the clients that have seen this product have found their own use case for -- use cases for it. But in reality, it's the product that's able to pull all the data historically and it comes pre-delivered with clinical algorithms that say these are the highest risk people that you should be focused on. And interestingly enough, most of the clients who look at it are not focused on those people for some reason or another. Not only are these the people that you have to focus on, but these are the people, as I said, very critical to a health plan; and think about a Medicaid plan with thin margins, very, very critical to get in front of the patient before they become a train wreck 2 years from now. And so that's really what Elli does for them as well as comes -- also comes with a pretty extensive opioid analytics tool, which is very important, of course, to tackle the opioid abuse problem in our nation.

And then Eliza really has been the goldstar product line in member engagement in the health care industry from a payer perspective. It really started out as a IVR solution with probably about a dozen patents about the use of IVR to outreach to patients, but it's expanded to be a multimodal business. So we do either text, e-mails, live agent calls, anything that will reach. And we know, based on the consumer data we have, the type of mode that you will respond to. And that's very important because a health plan client doesn't want us to have these false positive kind of interactions



JANUARY 07, 2019 / 7:00PM, HMSY - HMS Holdings Corp at JPMorgan Global Healthcare Conference

with their members and they can't do this at scale. It's really hard for them to do this at scale. And think about it, if you're a mid-sized health plan, can you hire the behavioral analyst, the advertising people, who really know how to get those specific words in front of you for you to drive action. And that's really what we're doing. We're getting the patient to drive action. It improves a health plan's HEDIS scores or star ratings, but it also improves outcomes. So it makes sure that, that kid with asthma gets a flu shot. And while these services are used by many, many plans, PBMs, care service providers, IPAs, they're also 8 of the top 10 health plans used the Eliza service before we acquired them. And that was a real validation that even the plans that can go out and hire significant number of behavioral scientists can't still pull out that data together, do the analytics and do the engagement and outreach at scale.

And I'd say that the most important thing here is that this -- the health plan market particularly, but even in our state market, they're really moving towards enterprise relationships. So everybody worries about a breach. And you hear about them, you read about them in the newspaper. They're worried about giving their data to too many different service providers. And so as HMS amasses, even more products and services either through acquisition or build through our innovation efforts, we're able to take those services and apply them across a very large customer base, and having the financial stability very low leverage to be able to continue to invest back in the business and continue to buy more of those product lines to offer this customer base. It's a very scalable business model. I've touched about this before. We have visibility in 2019 of 80% to 85% of our revenue when we go into budgeting process; and by the time we release our guidance for the year in February, it's even stronger. We have very high customer retention, as I said, over 95%, probably much higher than that in customer and revenue retention. And strong -- very strong sales momentum because of the factors I've talked about before in the market. And we're really starting to see the operating leverage in the business. We had guided to 1% -- 0.5 to 1 point of -- 50 to 100 basis points of margin improvement. And we actually did about 200 basis points to 250 basis points year-to-date in 2018. So you'll see us continue to focus on margin improvement, and the technology investments we're making are really helping there.

I think one of the things that distinguishes ourselves also against some of our competition in this space is just a really strong balance sheet. We have very low leverage, less than 1x net cash. At the end of Q3, we had \$125 million in cash, relatively low CapEx, though that is an area that we have spent more money on technology. And then we have a dedicated team in process to constantly look out in the marketplace and see what else are we going to plug into our products and service lines that's going to make us even stickier and provide more value to our customers. So a very strong M&A process. And it's been about 18 months, I think, since we've done an acquisition. So we're very active in the market. And we think that we have a big chassis to be able to bolt on new products. And as we embark on 2019, we really have the ample opportunity to sustain the growth that we saw in 2018. So 2017 was a year of really focusing on rebuilding the company, 2018 was all about core execution. 2019 is really going to be focusing on expanding our margins and profitability, as we talked about, really going across the board from a growth strategy perspective, not only in all of our markets, but in some of the newer markets that we're focused on, ACOs, pharmacy benefit managers and particularly employers. These were areas that were little underpenetrated, but areas where we actually have good some traction at this point. And then cross-selling, about 80% of our business, our new sales revenue comes from existing customers with a large customer base. That's a great thing and a great opportunity. But we'll be focusing on new logos in 2019, primarily in our Payment Integrity and Total Population Management space. And then innovation. I mean, by driving a culture of performance and really investing in our people, we're really focused on a culture of agility and innovation, which are really important in this rapidly changing market that our customers are facing.

I think I've touched on most of this. But there are significant growth drivers from a macro perspective. And it's just the growth of the health care system, the costs that are being -- that are escalating. And we really don't think there's anyone better positioned to actually bend the cost curve than HMS, not only with the data that we've amassed, but this national presence and all the tools that we've either built or bought along the way. And this 360-degree view of health care is significantly different than a vendor that's just focused on payment accuracy or just focused on population health. We're looking at it from all angles of the health care system. And of course, we have data from anything from lab data to pharmacy, to hospital, to provider and then behavioral data about consumers in the system. So we think at this point, we're -- as I said earlier on, we're better able to improve and increase the results for our shareholders and our customers than we've ever been before. And I think you'll see us continue to apply innovation to bring new product to market.

Thank you for your attendance today, and we'll have a Q&A session in the Sussex Room. Thank you.



JANUARY 07, 2019 / 7:00PM, HMSY - HMS Holdings Corp at JPMorgan Global Healthcare Conference

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.