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CORPORATE PARTICIPANTS

Jeffrey S. Sherman *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

Robert P. Borchert *HMS Holdings Corp. - SVP of IR*

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

CONFERENCE CALL PARTICIPANTS

Anagha A. Gupte *SVB Leerink LLC, Research Division - MD of Healthcare Services & Senior Research Analyst*

Erin Elizabeth Wilson Wright *Crédit Suisse AG, Research Division - Director & Senior Equity Research Analyst*

James John Stockton *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Research Analyst*

Matthew Dale Gillmor *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Mohan A. Naidu *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Peter Kirk Lukas *CJS Securities, Inc. - Analyst*

Richard Collamer Close *Canaccord Genuity Limited, Research Division - MD & Senior Analyst*

Sean Wilfred Dodge *Jefferies LLC, Research Division - Equity Analyst*

Stephanie July Demko *Citigroup Inc, Research Division - VP & Senior Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the HMS Fourth Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Robert Borchert, SVP of Investor Relations. Sir, you may begin.

Robert P. Borchert - *HMS Holdings Corp. - SVP of IR*

Thank you, Lauren, and good morning, everyone. Joining me are Bill Lucia, our Chairman and Chief Executive Officer; and Jeff Sherman, our Chief Financial Officer.

This call is being webcast and can be accessed via the Investor Relations section of our company website at hms.com.

Today's press release highlighting our financial results as well as an investor slide presentation containing supplemental information are posted on our IR website.

Bill and Jeff will first provide their perspective on our recent financial and operating results and business outlook, and then we'll open the line for questions. (Operator Instructions)

I'd like to remind you that some of the statements we'll make today are forward-looking in nature based on our current expectations and a view of our business as we see it today. Such statements, including those related to our full year 2019 guidance and projections, future financial and operating performance and future business plans and objectives are subject to risks and uncertainties that may cause actual results to differ materially.

As a result, they should be considered in conjunction with the cautionary statements in today's press release and the risk factors described in the company's most recent SEC filings, including our Form 10-K. The financial results in today's press release reflect preliminary results and are not final until our 2018 Form 10-K is filed.

Finally, we may refer to certain non-GAAP financial measures this morning. Reconciliations of these measures to comparable GAAP measures are included in our press release and the accompanying investor presentation posted on our website. With that, I'll now hand the call over to Bill.

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

Thank you, Robert, and thanks to everyone joining our call this morning. 2018 was a year of record revenue growth, expanding margins, balance sheet strengthening and solid execution across the board at HMS. Commercial revenue grew double digits, while Payment Integrity and Total Population Management revenue were both up in excess of 20%.

The leverage in our business model was increasingly evident and cash flow from operations remained strong. As a result, we saw a significant bottom line improvement, including adjusted EBITDA, which was 30% higher than the previous year.

Additionally, during 2018, we continued to improve our implementation process and reached our targeted level of contract inventory. We ramped up the cross-selling activity of our Eliza consumer engagement platform in our first full year of ownership.

We launched Elli our internally developed risk analytics and stratification solution and now have our first commercial customer.

Our investments in and growing use of advanced technologies started paying real dividends, and we maintained a sharp focus throughout the year on customer satisfaction and employee engagement.

Now turning to the year ahead, the macro backdrop for our services remains favorable, and we believe our key assets, robust and market-leading data, advanced analytics, an expansive customer base and our engaged workforce position us well to continue growing our business for many years to come.

We have pointed out on numerous occasions that the upward trajectory of healthcare spending is just unsustainable. And as consumers have taken on increased financial responsibility in recent years, due largely to growth in high-deductible health plans as well as rising copays and deductibles, they have become more receptive to outreach designed to improve their health and reduce costs.

Now all of these financial pressures, combined with the digital self-service experience that consumers have grown to expect in other industries, may finally begin to push healthcare in a similar direction. New care delivery models focused on treating the whole person, including addressing behavioral and social determinants of health and the acceleration by CMS to move Medicaid and Medicare toward value-based reimbursement are additional trends of significance.

We believe estimates of a roughly $30 billion total addressable market for the payment accuracy and Total Population Management services we currently offer are accurate. The ongoing evolution of care delivery settings, performance-based reimbursement models and more consumer-centric program designs will each contribute to projections that our TAM could nearly double over the next decade.

We believe we are well positioned to take advantage of these industry trends, with solutions built to address both current and the future needs of payers, employers, providers and consumers.

Healthcare data has always been an essential asset for HMS, and in this digital health era, it is more important than ever. In our view, however, data is of limited value unless it is curated and easily accessible and actionable.

For example, understanding the health profile of a newly enrolled member can be extremely valuable for a state Medicaid agency, managed care plan or employer. It can enable effective care management and member engagement to begin as early as point of enrollment for high-risk and the high-cost individuals. And predictive analytics to identify future high-risk members is also critical. Such actionable insights are part of our Total Population Management solutions, which also includes comprehensive member engagement and care management modules that address the key goals of: reducing costs, improving health care outcomes and quality and enhancing the individual member experience.

Central to this platform is our successful member engagement solution, Eliza, which deploys sophisticated data science to address medical, behavioral and social determinants of health in a culturally sensitive and multimodal engagement processes.

Our ability to provide personalized engagement and care plans at enterprise scale can drive behavioral change, which, in turn, can lead to healthier outcomes and more satisfied consumers, who are then less likely to change health plans. Many of our health plan clients are seeking new ways to retain valued members.

We do expect 2019 will be another strong year for top line and bottom line growth at HMS, with a continued focus on leveraging our expansive customer base to increase our market penetration, employing technology to develop innovative solutions and boost product yield and, once again, expanding our margins through cost management and process improvements. We have good visibility into the projections and forecasted numbers needed to achieve our 2019 financial outlook.

The investments we have made over the last several years in people, technology, process improvements and innovation provide a solid foundation for the progress we expect in the year ahead as does our continued focus on execution.

Jeff will now provide additional details about our fourth quarter performance and our outlook for 2019. Jeff?

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

Thank you, Bill, and good morning. As Bill mentioned, we delivered a record fourth quarter and full year in terms of total company revenue, and finished 2018 on a high note, with a nice move up in adjusted EBITDA and cash flow.

Payment Integrity revenue, excluding Medicare RAC, increased 32.5% from the fourth quarter of 2017 and was up 21.5% for the full year, as we benefited from greater throughput in the implementations process, expedited customer approvals for new PI edits and applied technology to streamline processes, increase [quota or] productivity and accelerate revenue generation.

We continue to have a strong inventory of sold but not yet implemented PI contracts and a rollout scheduled for 2019 that provides good visibility for our revenue run rate as we move through the year.

Our Total Population Management revenue grew 15.1% in Q4 compared to the prior year quarter and was up 22.3% for the full year.

Remember that the Eliza acquisition was completed in April of 2017, so we have added back the pre-acquisition revenue of approximately $12.6 million to get to a normalized full year growth rate for last year.

Moving to a review of our increasing profitability. Most evident was the inherent leverage in our business model, which generated substantial adjusted EBITDA growth over the course of 2018. It increased 15% in Q4 and was up $31 million or 25% for the year, even excluding the $6.3 million benefit we received from the RAC Reserve Release in the first quarter. The adjusted EBITDA margin expansion of 260 basis points compared to the prior year was driven by a combination of higher-than-average contribution margin on incremental COB and PI revenue, improving leverage and double-digit growth from our TPM solutions and the early-stage benefits of our technology investments that offer both revenue and cost-driven value.

We have significant tax benefits in the fourth quarter, which actually generated a negative tax rate in the period and for the full year. Those benefits related to certain discrete tax items and had an aggregate impact of $0.17 per diluted share in the fourth quarter and $0.19 per diluted share for the full year.

We had a noncash tax benefit in the fourth quarter of last year of $0.25 per diluted share. Excluding the tax benefits in both periods, quarterly adjusted EPS in the fourth quarter of 2018 increased 29% over year -- year-over-year to $0.31 per diluted share.

On a full year basis, excluding the tax benefits from both 2017 and 2018 and the RAC Reserve Release in 2018, adjusted EPS increased more than 46% to $1.04 per diluted share compared to $0.71 per diluted share a year ago.

Our cash flow for the year remains strong, with operating cash flow up 11.6% compared to the prior year at $96.5 million and free cash flow of 23.6% to $66.1 million.

With cash and cash equivalents of almost $180 million at year-end and total net debt of just under 0.4x trailing 12-month adjusted EBITDA, we are very comfortable with our balance sheet strength and liquidity profile as we begin 2019.

Our primary focus for capital allocation in the year ahead is continued technology advancements, enhance our product capability and IT infrastructure as well as acquisitions that complement our Payment Integrity and Total Population Management solution suites.

Our principal focus for 2019 is to continue executing to the fullest on our existing business, so our disciplined and rigorous standards for any potential acquisition or partnership are unchanged.

Turning now to our financial guidance for the year ahead. We expect 2019 total company revenue of $640 million to $650 million, which is roughly 8% to 10% growth compared to last year. This is based on projected double-digit growth in analytical services, which includes Payment Integrity, Medicare RAC and Total Population Management; and low to mid-single-digit growth in Coordination of Benefits.

The percentage growth is based on 2018 revenue of $589.9 million, which excludes the Medicare RAC Reserve Release of $8.4 million.

It will be a fairly typical year in terms of the total number of TPL re-procurements for our state Medicaid business, but none of our top 10 states are expected to conduct an RFP process.

We expect the usual sequential decline in total revenue from the fourth quarter, which is generally the highest revenue quarter each year as it was last year.

First quarter revenue is expected to be approximately $10 million to $14 million lower than the fourth quarter total of $155.8 million.

We are expecting adjusted EBITDA to continue to grow at a rate faster than revenue. For 2019, we are projecting full year adjusted EBITDA of $170 million to $175 million, which represents growth at 9% to 12% over the year just concluded.

As with revenue, we are normalizing the 2018 adjusted EBITDA for comparison purposes to exclude the $6.3 million impact of the Medicare RAC Reserve Release. We are only in the early innings of deploying machine learning, robotics and other technology solutions that further our process automation efforts and continue to increase efficiencies. The benefits of technology are playing a key role in our cost management initiative and are also key drivers of yield improvements across our business.

One important note is that we expect our full year acquisition-related amortization expense to decline by approximately $16 million as the amortization related to our 2011 acquisition of Health Data Insights diminishes substantially in 2019.

Moving now to net income. We are projecting $64 million to $70 million for the year. And the year-over-year increase in that income will be due primarily through projected revenue growth and margin expansion through operating leverage.

Capital expenditures this year will move somewhat higher to a range of $35 million to $40 million as we continue to invest in our IT infrastructure, build our Big Data environment and support the ever-present focus on data security.

Additionally, we anticipate incremental capitalized software expenses as we continue to develop innovative solutions for our customers.

We've provided some additional details on our outlook for the year ahead in our press release and the investor presentation posted this morning on our IR website, which will help address more detailed modeling questions.

We anticipate strong performance, again, in 2019 and believe the progress we made throughout 2018 positions us well to achieve our full year objectives.

Bill now offer some concluding remarks and then we'll be ready for questions. Bill?

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

Thanks, Jeff. Achieving our financial performance goals in 2019 rests on a strategic framework which includes 4 pillars. First is continuing to expand margins and profitability. We do this by maintaining a focus on product yield enhancements and process improvements, diligently managing our operating expenses and broadening our use of technology tools such as robotic process automation and machine learning.

Next is increasing sales through expansion of our extensive customer relationships and capturing new logos. Cross-selling our Payment Integrity and Total Population Management solutions is another key component of this strategy. We will always seek to be the first call our customers make when looking for solutions to the challenges they face.

Third is taking our growth strategy to the next level by continuing the development and introduction of new products into the markets we serve. We'll also pushed further into markets where we are relatively less penetrated such as self-insured employers, PBMs and other risk-bearing entities. We also continue to identify and conduct diligence on acquisitions to supplement our organic growth.

And finally, we recognize that everything we have achieved is dependent upon our colleagues and the culture we have built at HMS. This includes our people on the front lines who interact with customers and other stakeholders, together with the HMS leadership team and those in our offices across the nation who keep operations functioning at peak levels. As a result, we will continue to focus on engaging our entire workforce, rewarding and retaining best performers and recruiting top talent as we grow.

In closing, I want to thank everyone at HMS for their hard work during 2018. I also want to thank our customers for giving us the opportunity to serve them. We are proud of our achievements last year, which were significant by any measure, and we have now turned to our attention to achieving our 2019 goals.

With continued focus on the strategic framework I just outlined and the full support from our Board of Directors, I am confident we are up to the task.

Operator, we are now ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Sean Dodge with Jefferies.

Sean Wilfred Dodge - *Jefferies LLC, Research Division - Equity Analyst*

Maybe starting with Total Population Management, we saw some progression revenue in the quarter. And Bill, you mentioned having your first commercial client now in place. I guess, could you maybe talk a little bit more about the pipeline or demand you're seeing there? And then how we should think about revenue from Total Population Management ramping over the coming year or maybe coming couple of years?

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

So Sean, when I mentioned the first commercial client, that was for Elli. The rest of the TPM solutions Essette and Eliza have a large and growing commercial customer base. So the TPM solution, the first area of growth we focused on over the last 1.5 year was really selling the Eliza solutions into HMS' existing customer base, so we're seeing real traction there. And we're expecting the TPM product line to be our fastest growing product line over the next several years. It's starting from a smaller base, but adoption in the market is happening at a rapid pace. And we're one of the, if the only entity, we believe, that has put the 3 types of products together to identify high and emerging risk, engage that high and emerging risk and then manage it through the Essette platform. So those 3 products integrated together, we think, is one-of-a-kind. So we're expecting that to be our fastest-growth area.

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

And I would just add Sean, this is Jeff. And when we said analytical services is -- it's going to grow double digits for the year, but we're not giving individual product line growth projections. But certainly, TPM is going to be a driver of the analytical double-digit revenue growth we're expecting in 2019.

Sean Wilfred Dodge - *Jefferies LLC, Research Division - Equity Analyst*

Okay. And then Jeff, you mentioned being in the early stages of realizing the benefits of using technology to drive margins. When I look at the midpoint of the EBITDA guidance versus what you earned in '18, excluding the Reserve Release, the guide implies something like 25 basis points of margin expansion. Is that the pace we should expect the model to generate over the longer term? Are there some investments or some ramping that's happening this year that's not necessarily indicative of what you're kind of expecting the longer-term trend to be?

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

No. I think, we've seen margins expand in recent quarters and year, primarily as a result of the cost control initiatives we put in place over the last few years, including the benefits of technology, and we are experiencing those benefits across all of our businesses. And also, just the inherent leverage in our business model, with incremental revenue coming in at meaningfully higher-than-average contribution margins. So we had some big onetime items both last year and in the year ahead, as I've just mentioned, on amortization expense. So we thought it would just be cleaner to guide to -- an increase in adjusted EBITDA versus giving specific adjusted EBITDA margin guidance, but we do certainly expect some margin expansion for the year. And I think finally, it is important to note, as I mentioned in my prepared remarks, we saw a 260 basis point increase in adjusted EBITDA margins in 2018, so any growth would be on top of that. I think the bottom line is, over time, we think our investments that we've made in technology and the inherent leverage in our business model will see margins expand, but wanted to guide more toward the adjusted EBITDA number in 2019 just given some of the puts and takes.

Operator

Our next question comes from Anagha Gupte with SVB Leerink.

Anagha A. Gupte - *SVB Leerink LLC, Research Division - MD of Healthcare Services & Senior Research Analyst*

So I'll move to the guidance. The first question is on the margins, where you have seen really strong margin expansion. You're doing all the AI and machine learning that's driving throughput. The guidance reflects more conservative view. Do you see any drivers of upside to that?

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. I think, Ana, as I've just said, I think the investments that we have made and the work we continue to do with our technology investments to improve efficiencies could have a favorable impact on margins. Again, coming off a strong 2018, we certainly think we have room to expand margins. Our guidance really reflects what we think our best expectation is knowing what we know today on our performance for 2019. And we have completed a very detailed bottom-up budgeting process, and I think -- we think it's a realistic view today. But certainly, there's opportunity to improve that over the year, if things go our way.

Anagha A. Gupte - *SVB Leerink LLC, Research Division - MD of Healthcare Services & Senior Research Analyst*

Then going to the revenue guide as well, you had a very solid performance in Payment Integrity and PM. Going into '19 and then any kind of directional color as well into '20 from a PI perspective. I think the -- it looks like it's a lot of new logo opportunity for you with potential disruption in competitors from the PM standpoint as well as there's a lot of talk you've had about the sales cycle and going to market across the 3 pillars of that strategy. Do you see that growth accelerating into '19 and then into '20? And is this a guide where you have it right now? What might change that or drive upside as the year progresses?

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. I think, in general, we believe our current business model with our existing solution suite is capable of growing double-digit organic revenue over time, and the top end of our guidance for 2019 would get us there. But as we indicated, we've guided to growth numbers for which we believe we have good visibility, and that puts us in the 8% to 10% range based upon what we know today after adjusting for the Medicare Reserve Release. If you normalize 2 things, we had revenue growth of almost $77 million in 2019. If you normalize for 2 things, the Medicare RAC Reserve Release and full year Eliza revenue for 2017, our normalized EBITDA -- our normalized revenue growth for 2019 was over 10%, it was about 10.6%. So certainly, we delivered double-digit organic revenue growth in 2018, and the top end of our guidance in 2019 would get us to that double-digit range as well. I think if we can achieve that revenue growth, which we believe we have good visibility in, and get the leverage that we've been seeing in 2018 in terms of throughput to the bottom line, that positions us well to continue the grow the earnings of the company.

Operator

Our next question comes from Mohan Naidu with Oppenheimer.

Mohan A. Naidu - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Bill, I wanted to ask you on the Elli, risk analytics model there. On the first commercial customer, what was the driver or the pain point for that customer to seek out Elli? And what are they using it for?

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

So they really are using it to identify what I would almost call hidden risk. And the client was -- we were able to show the client through this advanced analytics platform members that they did not have in care management but desperately needed in care management. And I'll just take a second to do a comparison against what's in the market. Typically, what's in the market is products that show people who are high risk because they're already incurring high costs. But the absence of costs or visits can be just as impactful with someone who has a chronic disease that's not manageable, does not have a primary care physician and uses the ER twice a year and sometimes ends up in a hospital admit. And those are not always the people that flow to the top of the queue to be managed by the nurse case managers. So that's what we were able to show them. The nice fact of closing this account is that, while they are a managed care plan in Louisiana, they are part of a large national payer, who of course is in Medicaid, Medicare and commercial. So we see upward potential with that customer. And as I said in the past, Elli is gone from a per member per month -- is sold on a per member per year basis, and we have multiple plug-in solutions that a client can buy from that, including our opioid analytics solution and our predictive analytics solution. This plan was a part of the initial pilot in the state of Louisiana, so they got to use the system early on at no cost, and we're able to kick the tires.

Mohan A. Naidu - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

That is very encouraging. Thanks for the details, Bill. Jeff, if I can ask one question on the implementations on the PI contracts in the pipeline. Anything unusually complex or larger than usual this year that you have in the guidance?

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

No. I think, as I mentioned, as we were exiting 2017, we said we had roughly 4 quarters for the implementations. And we said we'd get to a more normalized level as we work through 2018, and we believe we're at that normalized level for both COB and PI implementations. It is important to note, on the TPM side, particularly with Eliza, which is the largest revenue segment, we have a much smaller or much faster sale to revenue conversion there. Implementation -- a sale implementation could actually take place in 30 or 60 days on the Eliza component of our business. And so most of our implementation pipeline or the vast majority is going to be for our COB and PI customers.

Operator

Our next question comes from Jamie Stockton with Wells Fargo.

James John Stockton - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Research Analyst*

I guess, maybe first, Jeff, the -- I think you said down $10 million to $14 million sequentially in Q1. Is that basically just seasonality for the COB business? And maybe the TPM business as well?

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. We -- I think our general trend, Jamie, is to see Q4 be the strongest quarter in the year, Q1 be the lowest revenue quarter and then the revenue builds throughout the year. We have many of our commercial customers that are pushing for year-end results, which tends to help Q4 as well. On the TPM side, particularly with Eliza, more of the closing gaps in care component of the business tends to happen in the back half of the year, so that's -- their revenue pattern actually flowed with HMS pre-Eliza revenue model as well. So yes, generally, just the seasonality, where we see big Q4, it drops off suddenly Q1 and then builds through the rest of the year.

James John Stockton - *Wells Fargo Securities, LLC, Research Division - Director & Senior Equity Research Analyst*

Okay. And then maybe the non-GAAP SG&A number, it's bounced around a decent amount. It came in pretty tight, it felt like this quarter, which, obviously, really helped profitability in addition to the strong top line. Anything unusual in Q4 that we should think about that caused that to be a lower number on a relative basis I guess? Or is that a reasonable kind of jumping off point for 2019?

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

Yes, I think it's in a reasonable range. We see some variability from quarter-to-quarter. In comparison to Q4 of last year, recall, we had a weak Q3 in 2017, adjusted our bonus accrual down. We had a stronger Q4, so we saw some increase in bonus accrual. So on the year-over-year basis, a big component of the variance is just a higher bonus accrual in Q4 of '17 because there was some catch up versus Q4 of '18. Then obviously we've had some large onetime items impact SG&A throughout the year. But on balance, I think Q3 and Q4 are reasonable starting point as you look at 2019. And one other thing I would note is just for modeling purposes, keep in mind, as with 2018 Q1, we're expecting our stock comp expense to be at about $22 million, roughly half of that we expect is going to hit in Q1 when we give grants just based upon our plan in retirement-eligible executives, where most of that will get -- will hit in Q1, so we have to expense it in Q1. So just from a modeling perspective, about half of our stock comp, we expect, will hit in Q1 of '19.

Operator

Our next question comes from Erin Wright with Crédit Suisse.

Erin Elizabeth Wilson Wright - *Crédit Suisse AG, Research Division - Director & Senior Equity Research Analyst*

You talked 2 potential acquisitions as part of your capital deployment strategy. Can you speak to what potential acquisitions or partnerships could look like? And how the pipeline is shaping up?

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. I think we continue to look for acquisitions. As I said in my prepared remarks, we're really focused on Payment Integrity and Total Population Management or companies that can help drive our analytical performance across all of our businesses. We've had a fairly active pipeline. It's hard to predict the timing of acquisition. And I think we have taken a very rigorous and disciplined approach, so we do expect that we'll be doing acquisitions over time. We're coming up now on almost 2 years since our last acquisition of Eliza. And I think together, Eliza and Essette position the company well to move into the TPM space more aggressively. So we think there's good opportunities out there. It's hard to predict timing. But we are focused on deploying our free cash flow for acquisitions as we go into 2019. But again, as we said in 2018 also, we're going to maintain our focus on core execution in our business to make sure we're delivering the operating results that ultimately help fund that, the M&A strategy.

Erin Elizabeth Wilson Wright - *Crédit Suisse AG, Research Division - Director & Senior Equity Research Analyst*

Okay, great. And then just thinking about population health, there seems to be a lot of assets or capabilities that could fit under that sort of umbrella. And are there capabilities that you're interested in? What are some of the biggest gaps your customers face from the population management member engagement perspective?

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

Well, I think the challenge that our customer face is they don't have integrated solutions, which is why we acquired and built -- acquired with Eliza and Essette and built Elli. Because the 3 solutions together are much more integrated and an elegant solution to the challenge then a nurse case manager looking at 4 different screens. And that was really the driver for us building the solutions we have. Now we plugged in predictive analytics, we built an opioid analytics panel. We will continue build out additional analytics suites to roll under the umbrella of our Total Population Management services. I think our engagement solution is probably the leader in terms of both the number of engagements that we perform as well as the multimodal engagement design as well as the behavioral science that's built into it. But we'll be looking at other products that could help boost that entire suite. And then we'll be working a lot on brand this year to make sure that the entire market knows us as an analytics company, which of course, previously, they know us more as a cost-containment company. So that'll be a big push in 2019.

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. And I think I would add, we're looking for companies that have capabilities that could help patients, access care more effectively, which ultimately helps bend the cost curve. So there's a fair amount of technology-type companies helping to do that in the ecosystem.

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

Yes. We'll be focused a little bit more on what we call care enablement than just care management.

Operator

Our next question comes from Richard Close with Canaccord Genuity.

Richard Collamer Close - *Canaccord Genuity Limited, Research Division - MD & Senior Analyst*

I offer welcome to Robert. So Bill, maybe on the comments on growth to the next level, new products you just talked a little bit about. And then you mentioned newer markets, employers, PBMs, other risk-bearing entities. Can you dig in on this a little bit? I am curious, any more details with respect to maybe timing? Is there an active pipeline currently? And then is anything baked into your revenue guidance in terms of these new potential customers or new markets, I should say?

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

Well, I'll let Jeff ask that -- answer the end of the question. But that -- we are -- we have an active pipeline of large self-insured employers. We have closed some Payment Integrity work there. We're now launching both commercial COB and our Total Population Management, particularly a smaller set of the Eliza engagement campaigns that resonate with employers. So in last year, we did market research. We worked with the large benefit advisory firms who are the primary distribution system for our products to large employers, but not solely, we also do some direct sales, for the employer market, which we've been and doing independent audits for many, many years now. And then while we searched some PBMs through Eliza, we believe that the opportunity is greater, and so we're focused on expanding those sales to entire PBM marketplace. And then really any entity that is risk bearing, and this includes providers, large IPAs, who are already users of the Essette platform, ACOs, could be -- and other, I would say, tangential healthcare payers, like workers comp payers, any of those are potential users of the Eliza engagement services because we have to think a little broadly about those services are really get a member to change -- do the next best thing. So for them to get them to do something that's going to change their behavior and either get a service, get a preventative service done, but something along that care path continuum. So anybody who's concerned about that or wants to incent a member to do something, we have the platforms to do that. That's why we think it's a much more broader product marketplace than what we've had traditionally considered government and commercial payers. And then lastly, while there isn't a strong pipe today, we expect that state governments will be buyers of this -- of the same TPM solutions and are gearing up for that this year.

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

And then just from a 2019 revenue perspective, Richard. On the -- from a new product perspective, you should expect we have revenue in the millions, but not tens of millions with regards to new products. And certainly, as we move into the implorer side, where we had visibility in to close or pending sales, we incorporated those into our revenue guidance for 2019.

Richard Collamer Close - *Canaccord Genuity Limited, Research Division - MD & Senior Analyst*

Okay. And a follow-up, I guess, on Sean's question earlier on population health management. Just looking at, I think, it was 15% growth you said in the quarter. I'm just curious whether your thoughts -- did this come in above or below your expectation? Was there anything maybe in the quarter that did not hit that you were anticipating? Just any thoughts in and around that.

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. I'd say, on average, TPM was in line with our expectations for the quarter. There wasn't anything unusual, other than what we would say our expected ramp in Q4 that I talked about a little bit earlier in the call. And I think again, I would remind everyone, we are -- with both our Essette products, we analyze that we are moving more toward a recurring revenue model, over time, so a PMPM or PMPY model. But that's going to take time. We're not going to be selling, we don't believe, on the Eliza side, a PMPM subscription model to a new customer. We're going to start transactional and evolve into PMPM over time. But we are -- we did see traction and saw growth in that in 2018, and we're certainly focused on driving more of that. Essette, we have much more moved to a PMPM model where, historically, it was a perpetual license model. So I do think that will give us more visibility, more predictability and we believe more stickiness with our TPM revenue over time.

Operator

Our next question comes from Matthew Gillmor with Robert Baird.

Matthew Dale Gillmor - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I wanted to follow-up on that technology investment discussion. It seems like you're getting really great returns on these investments, and you mentioned you're still in the early innings. Can you talk about the priorities for the next round of investments? And I was hoping you could maybe provide an example just to help us conceptualize it? And I think in the past you've talked about including -- improving claim selection with PI. But curious, if there's other examples you can provide that, sort of, help us understand what's going on beneath the surface.

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

Well, I'll start, and then Jeff can add some additional color up. I guess, I'll take the TPM solution. So some of the technology that we have embedded in the solution on machine learning, and we will continue to tune, is that because we've done outreach to -- we've probably done over 50 million outreaches, in fact, many more than that. But let's say, 50 million consumers across the nation, many more outreaches. We learn from every outreach about a specific consumer, there demographics and attributes, the social determinants of health that we've gathered about people. And then the machine learning is used to continue to determine the best way, time and mode in which to engage a consumer to have them change their behavior, which we call propensity to engage. And so like we've talked for many years in our cost-containment products, where there's a yield management or a yield component to improve yield, in TPM, particularly Eliza, the propensity to engage is the area that we continue to tune up through machine learning. So you'll see us continue to do that with our behavioral sciences and the technology learning more about the consumers and the best ways to engage them to raise that propensity to engage, which provides better outcomes for our clients. Jeff, you want anything to add on that?

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. I think we're also investing in Big Data environment in order to achieve a variety of benefits, streamlining our data, enterprise-wide data platforms, which will allow us to conduct more sophisticated analytics. We had challenges in the past just given the sheer size and complexity of the data that we had to do robust analytics. So the speed with which we can now analyze large amounts of data is allowing us to increase productivity and improve yield. And we're also working with a group of customers to aggregate data cross payers for a variety of purposes. So the Big Data investments we think help streamline from a cost perspective, also drive our revenue. And then some of the other technology investments we've made continued to help to improve on the productivity side, including robotic process automation. And so I think we are just really becoming more sophisticated in our approach there and believe we have more runway to go as we go out 2019 and 2020 and beyond of really capitalizing on both the top line and bottom line opportunities that those investments are yielding us.

Matthew Dale Gillmor - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Great. And then as a follow-up, I wanted to ask about the Medicare RAC revenue, it was up a little bit sequentially this quarter. And I was curious, if there was any sort of improvement or anything that report in terms of the dialogue with CMS on that front?

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

We expect the RAC revenue to grow double digits in 2019 when we exclude the Reserve Release. I think we're continuing to expect that over time, we'll get more edits approved in our ability to do work. We'll continue to increase. But we're also still pushing to have the ADR limits increased. We think moving from 0.5% to 1% or to 1.5% or even 2%, where they were historically, would provide meaningful savings to the Medicare trust fund. So that is not something that we have stepped away from, from a government relation standpoint. We still think there is significant savings there. That number is going to go up and down as well. But I think as we are getting more edits approved, we expect to see good growth in 2019 under the Medicare RAC program.

Operator

Our next question comes from Charlie Strauzer with CJS Securities.

Peter Kirk Lukas - *CJS Securities, Inc. - Analyst*

It's Pete Lukas for Charlie. I apologize, you guys have covered most of the question, so I'll let you move along.

Operator

Our next question comes from Stephanie Demko with Citi.

Stephanie July Demko - *Citigroup Inc, Research Division - VP & Senior Analyst*

I just had a quick one on PI. You've seen 2 very strong quarters in a row now, while one of your peers have seen a reversal. Is it safe to assume some sort of share shift has happened? Or is there another driver that I'm missing?

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

I think it's too early to say that. I think the -- what we've been able to do, and we said going into '18 and of course it continues to be a focus in '19, is (inaudible) focus on execution. So we are doing a better job of executing in the PI product line. As Jeff mentioned, we're adding automation to reduce our false positives. So that where there is less -- provider abrasion. And we continue to build new edits and algorithms and have an entire team focused on that. So I think that's really where you've seen the strong performance, was execution improvement. And then of course, some sales and expansion sales that have added to that.

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. And we still look at this as a $5 billion to $6 billion total adjustable market, Stephanie. And we think there's considerable whitespace to be had in the Payment Integrity side. We think probably $1.5 billion roughly is being captured today based on what we know about public and private companies. And so I think there's just a total adjustable market opportunity that we're doing a better job of capitalizing and capturing with our existing customer base.

Stephanie July Demko - *Citigroup Inc, Research Division - VP & Senior Analyst*

Understood. So as you add in some of these new capabilities that kind of expand on your book of analytics, are you seeing your product for PI move up in the rank as you talked to these payers at year-end?

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

I think there's always movement down and up across as it's turned on and off, providers that are turned on and off, which is another thing we closely monitor. So it's really hard to say that we're definitely going to move upstream. In fact, sometimes it's better to be second or even third past because of the fees that we'll get for doing that and still finding significant dollars. So I think the movement is a little less and kind of much more stable. But for us, we still have a significant growth opportunity to sell PI into our COB customers. So that's our -- one of our biggest focuses for 2019.

Stephanie July Demko - *Citigroup Inc, Research Division - VP & Senior Analyst*

And the last one out of me. I do left out if I didn't ask something on the EBITDA margin also. I know this has been asked a bunch of times. But how much of it is planned investment versus conservatism, now assuming as much expansions you saw this year?

(technical difficulty)

Operator

(Operator Instructions) And pardon me, Ms. Demko, if you wanted to repeat your question.

Stephanie July Demko - *Citigroup Inc, Research Division - VP & Senior Analyst*

Just one last one on the margins. Hope everything's good on the connectivity side. So I just want to ask a little bit more on the margin. You guys do have some planned investments, you've mentioned them a few times. But you have seen some pretty significant expansion year to date. Is this just a chunkier planned investment that's preventing you from seeing greater margin expansion in '19? Or is there just conservatism built into the guidance?

Jeffrey S. Sherman - *HMS Holdings Corp. - Executive VP, CFO & Treasurer*

Look, I think Stephanie, as I said, we saw big margin improvement in 2018. And we gave a range of revenue and EBITDA. And you don't necessarily have to take the low EBITDA range with the lower revenue range, there's a range of outcomes. With the revenue and EBITDA range that we gave, we do expect to see margin expansion in 2019. But given the strong performance in 2018, with -- and the moving parts, we felt more comfortable just guiding to revenue and adjusted EBITDA as we looked at our guidance in 2019.

Operator

And I'm not showing any further questions in the queue.

Robert P. Borchert - *HMS Holdings Corp. - SVP of IR*

Can you wait 1 second? We wanted to see if anyone pops back into the queue.

Operator

(Operator Instructions) And I'm showing no further questions still.

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

All right. Well, I want to thank everybody for your continued interest in HMS, and we look forward to speaking to you on our first quarter 2019 conference call. Have a wonderful day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a wonderful day.
