



Q1 2019 Investor Presentation

May 3, 2019



Disclaimer

FORWARD-LOOKING STATEMENTS. FORWARD-LOOKING STATEMENTS. The financial results in this presentation reflect preliminary unaudited results, which are not final until the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 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 "Financial Performance Highlights," "Financial Guidance for Full Year 2019" 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," "future," "intends," "likely," "may," "outlook," "plans," "potential," "projects," "seeks," "strategy," "targets," "trends," "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, future operating or financial performance and full year guidance and projections. 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; significant competition for our solutions and services; 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; 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 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; 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; 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; anti-takeover provisions in our corporate governance documents; accounting changes or revisions; 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. The Company believes that the non-GAAP measures in this presentation are relevant and provide useful information to the Company's management, investors and other interested parties about the Company's operating performance because the measures allow them to understand and compare the Company's actual and expected operating results during the prior, current and future periods in a more consistent manner. 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 7-11 and 13 for definitions and reconciliations of certain non-GAAP measures.

MARKET AND INDUSTRY DATA. This presentation contains market, industry and government data and forecasts that have been obtained from publicly available information, various industry publications, other published industry sources and our own internal data and estimates. We have not independently verified third-party 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.

Presentation Outline

Q1 Financial Results

4 - 6

- Financial Performance Highlights
- Quarterly Financial Information
- Quarterly Market and Product Revenue

Reconciliation of Non-GAAP Measures

7 - 11

FY 2019 Financial Guidance and Reconciliation

12 - 13

Q1 2019 Financial Results

Financial Performance Highlights

- Total quarterly revenue: \$148.0 million (+4.7% Y-Y; +11.3% *excluding* Medicare RAC reserve release in 1Q'18)
 - Commercial revenue: \$76.3 million (+6.3% Y-Y)
 - State government revenue: \$61.7 million (+13.0% Y-Y)
 - Coordination of Benefits (COB) revenue: \$105.9 million (+15.5% Y-Y)
 - Analytical Services revenue: \$42.1 million (-15.3% Y-Y and +1.9% Y-Y *excluding* Medicare RAC reserve release in 1Q'18), with Payment Integrity (PI) revenue of \$27.7 million (-8.6% Y-Y *excluding* Medicare RAC reserve release) and Total Population Management (TPM) revenue of \$14.4 million (+30.9% Y-Y)
- Net income: \$19.6 million, compared to \$6.4 million in 1Q'18
- GAAP EPS: \$0.22 per diluted share (included discrete tax benefits of \$0.07 per diluted share), compared to \$0.07 per diluted share in 1Q'18
- Adjusted EBITDA¹: \$41.0 million (+17.4% Y-Y), or 27.7% of total quarterly revenue (+300 bps Y-Y)
- Adjusted EPS¹: \$0.35 per diluted share (included discrete tax benefits of \$0.07 per share). Excluding the discrete tax item in 2019 and the Medicare RAC reserve release benefit in 2018, Adjusted EPS for 1Q'19 was \$0.28 per diluted share compared to \$0.17 per diluted share in 1Q'18 (+64.7%)

¹ Adjusted EPS and Adjusted EBITDA are non-GAAP measures (see reconciliations on slides 7 and 8)

Q1 2019 Financial Results

Quarterly Financial Information

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19
Revenue	\$ 141,425	\$ 146,791	\$ 154,246	\$ 155,828	\$ 147,953
Cost of services:					
Compensation	56,079	55,188	58,188	55,438	57,452
Direct project and other operating expenses	16,648	17,959	19,228	20,511	20,199
Information technology	12,263	14,240	12,979	13,946	13,105
Occupancy	4,383	4,014	3,500	4,071	4,079
Amortization of acquisition related software and intangible assets	8,132	9,621	7,942	7,280	4,166
Total cost of services	97,505	101,022	101,837	101,246	99,001
Selling, general and administrative expenses	31,998	26,532	28,178	26,734	29,246
Settlement expense	-	20,000	-	-	-
Total operating expenses	129,503	147,554	130,015	127,980	128,247
Operating income/(loss)	11,922	(763)	24,231	27,848	19,706
Interest expense	(2,648)	(3,034)	(2,880)	(2,748)	(2,849)
Interest income	120	188	292	489	1,114
Income/(loss) before income taxes	9,394	(3,609)	21,643	25,589	17,971
Income taxes	3,003	(242)	3,069	(7,802)	(1,671)
Net Income/(loss)	\$ 6,391	\$ (3,367)	\$ 18,574	\$ 33,391	\$ 19,642
Net income/(loss) per common share -- diluted	\$ 0.07	\$ (0.04)	\$ 0.22	\$ 0.38	\$ 0.22
Weighted average common shares -- diluted	85,682	83,231	85,144	83,983	88,614
Diluted adjusted EPS ¹	\$ 0.22	\$ 0.25	\$ 0.31	\$ 0.48	\$ 0.35

(Unaudited; in thousands, except for per share amounts)

¹ Diluted adjusted EPS is a non-GAAP measure (see reconciliation on slide 7)

Q1 2019 Financial Results

Quarterly Market and Product Revenue

Total Revenue by Market	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19
State Government	\$ 53.3	\$ 57.9	\$ 51.6	\$ 64.2	\$ 54.6	\$ 58.8	\$ 59.3	\$ 61.2	\$ 61.7
Commercial	55.1	69.4	67.6	77.2	71.8	80.5	86.7	84.2	76.3
Federal/Other	5.3	6.0	6.5	7.1	15.0	7.5	8.3	10.4	10.0
Total HMS Revenue	\$ 113.7	\$133.3	\$ 125.7	\$ 148.5	\$ 141.4	\$ 146.8	\$ 154.3	\$ 155.8	\$ 148.0

Total Revenue by Product	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19
Coordination of Benefits	\$ 88.5	\$ 98.5	\$ 90.1	\$ 105.7	\$ 91.7	\$ 100.8	\$ 105.7	\$ 98.9	\$ 105.9
Payment Integrity ²	\$ 24.6	\$ 26.2	\$ 24.7	\$ 28.9	\$ 38.7 ³	\$ 31.2	\$ 33.3	\$ 40.9	\$ 27.7
Total Population Management	0.6	8.6	10.9	13.9	11.0	14.8	15.3	16.0	14.4
Total Analytical Services	\$ 25.2	\$ 34.8	\$ 35.6	\$ 42.8	\$ 49.7	\$ 46.0	\$ 48.6	\$ 56.9	\$ 42.1
Total HMS Revenue	\$ 113.7	\$133.3	\$ 125.7	\$ 148.5	\$ 141.4	\$ 146.8	\$ 154.3	\$ 155.8	\$ 148.0

(Unaudited; in millions)

² Payment Integrity revenue comprises PI services and Medicare RAC

³ Payment Integrity 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

Reconciliation of Q1 Net Income to Diluted GAAP EPS and Diluted Adjusted EPS

(unaudited; in thousands, except per share amounts)	Three Months Ended	
	March 31, 2019	March 31, 2018
Net Income	\$ 19,642	\$ 6,391
Stock-based compensation expense	10,979	9,494
Amortization of acquisition related software and intangible assets	4,166	8,132
Income tax related to adjustments ⁴	(4,089)	(5,505)
Adjusted net income	\$ 30,698	\$ 18,512
Weighted average common shares, diluted	88,614	85,682
Diluted GAAP EPS ⁵	\$ 0.22	\$ 0.07
Diluted adjusted EPS ⁵	\$ 0.35	\$ 0.22
Discrete tax benefits	\$ 0.07	\$ -
Reserve release benefit	\$ -	\$ 0.05
Diluted adjusted EPS after reserve release and discrete tax benefits	\$ 0.28	\$ 0.17

⁴ 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.

⁵ Diluted GAAP EPS and Diluted Adjusted EPS included discrete tax benefits of \$0.07 per diluted share for the three months ended March 31, 2019 primarily related to the exercise of employee stock options, and \$0.05 related to the reserve release benefit for the three months ended March 31, 2018.

Reconciliation of Q1 Net Income to EBITDA and Adjusted EBITDA

(unaudited; in thousands, except percentages)	Three Months Ended	
	March 31, 2019	March 31, 2018
Net Income	\$ 19,642	\$ 6,391
Net interest expense	1,735	2,528
Income taxes	(1,671)	3,003
Depreciation and amortization of property and equipment and intangible assets	10,269	13,466
Earnings before interest, taxes, depreciation and amortization (EBITDA)	29,975	25,388
Stock-based compensation expense	10,979	9,494
Adjusted EBITDA	\$ 40,954	\$ 34,882
% of Revenue	27.7%	24.7%

Reconciliation of Trailing Twelve Months Net Income to EBITDA and Adjusted EBITDA

(unaudited; in thousands)	Trailing Twelve Months Ended	
	March 31, 2019	March 31, 2018
Net Income	\$ 68,240	\$ 45,003
Net interest expense	9,428	10,973
Income taxes	(6,646)	2,434
Depreciation and amortization of property and equipment and intangible assets	54,399	52,974
Earnings before interest, taxes, depreciation and amortization (EBITDA)	125,421	111,384
Stock-based compensation expense	22,992	28,251
Settlement Expense	20,000	-
Adjusted EBITDA	\$ 168,413	\$ 139,635

Reconciliation of Q1 Net Cash Provided by Operating Activities to Free Cash Flow

(unaudited; in thousands)	Three Months Ended	
	March 31, 2019	March 31, 2018
Net cash provided by operating activities	\$ 23,128	\$ 14,737
Purchases of property and equipment	(369)	(791)
Investment in capitalized software	(3,621)	(4,963)
Non-GAAP free cash flow	\$ 19,138	\$ 8,983

The Company believes that the non-GAAP free cash flow financial measures in this presentation provide useful information regarding how much cash flow is available, after purchases of property and equipment and investment in capitalized software, to be used for working capital needs or for other opportunities. It should not be inferred that the entire Non-GAAP free cash flow amount is available for discretionary expenditures. These non-GAAP measures may not be comparable to similarly titled measures used by other companies.

Reconciliation of Q1 Total Debt to Net Leverage Ratio

(unaudited; in thousands)	March 31, 2019		March 31, 2018	
Total Debt (revolving credit facility) ⁶	\$	240,000	\$	240,000
Cash and cash equivalents		(214,463)		(83,898)
Total net debt	\$	25,537	\$	156,102
Net income ⁷	\$	68,240	\$	45,003
Adjusted EBITDA ⁸	\$	168,413	\$	139,635
Net leverage ratio⁹		0.15		1.12

⁶ Total Debt consists of the outstanding principal balance under our senior secured revolving credit facility as of the dates shown

⁷ Trailing twelve months Net Income

⁸ Trailing twelve months Adjusted EBITDA

⁹ The Company's net leverage ratio is calculated by dividing total net debt as of the date shown by trailing twelve months' Adjusted EBITDA

Financial Guidance for Full Year 2019

	FY19 Guidance (in millions)	Change
Total Revenue	\$ 640 - 650	8.4 - 10.2% ¹⁰
Net Income	\$ 64 - 70	27.2 - 39.2% ¹¹
Adjusted EBITDA	\$ 170 -175	9.0 - 12.2% ¹²

¹⁰ Reported 2018 revenue included \$8.4 million related to the Reserve Release in the first quarter of 2018. Including the Reserve Release, total revenue growth is expected to be 7.0-8.6% in 2019. Excluding the Reserve Release, total revenue growth is expected to be 8.4-10.2% in 2019.

¹¹ Reported 2018 net income included \$4.7 million related to the Reserve Release in the first quarter of 2018. Including the Reserve Release, net income growth is expected to be 16.4-27.3% in 2019. Excluding the Reserve Release, net income growth is expected to be 27.2-39.2% in 2019.

¹² Reported 2018 adjusted EBITDA included \$6.3 million related to the Reserve Release in the first quarter of 2018. Including the Reserve Release, adjusted EBITDA growth is expected to be 4.7-7.8% in 2019. Excluding the Reserve Release, adjusted EBITDA growth is expected to be 9.0-12.2% in 2019.

Reconciliation of Projected 2019 Net Income to Projected 2019 EBITDA and Adjusted EBITDA

(unaudited; in millions)	Twelve Months Ended December 31, 2019	
	Estimated Range	
	Low	High
Net Income	\$ 64	\$ 70
Net interest expense	12	12
Income taxes	28	27
Depreciation and amortization of property and equipment and intangible assets	44	44
Earnings before interest, taxes, depreciation and amortization (EBITDA)	148	153
Stock based compensation expense	22	22
Adjusted EBITDA	\$ 170	\$ 175



Moving healthcare forward.



[hms.com](https://www.hms.com)

© HMS 2019