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HMSY - Q2 2019 HMS Holdings Corp Earnings Call

EVENT DATE/TIME: AUGUST 02, 2019 / 8:30AM ET

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the HMS Second Quarter 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

It is now my pleasure to introduce SVP of Investor Relations, Robert Borchert.

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

Thank you, Andrew, 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, is posted on our IR website as well. Bill and Jeff will first provide their perspective on our recent financial and operating results and business outlook, and then we will open the line for questions. (Operator Instructions)

I'd like to remind you that the financial results reported today and in this morning's press release are preliminary and are not final until our Form 10-Q for the second quarter ended June 30, 2019, is filed. Some of the statements we will make today are forward-looking in nature based on our current expectations and in view of our businesses as we see it today. Such statements, including those related to our updated full year 2019 guidance, 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.

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 posted to our website.

With that, I'll now turn the call over to Bill.

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

Thank you, Robert, and good morning everyone. HMS delivered another solid quarter of performance as we continue to execute on our long term strategy to help our clients reduce costs and improve health outcomes.

Our second quarter revenue increased more than 14% compared to the same period a year ago and was up 7.4% when you exclude the Medicare RAC Reserve Release of $10.5 million we recorded this quarter.

Adjusted EBITDA was up 18.8%, excluding the Reserve Release and we generated record operating cash flow as we continue to experience the financial leverage and cash flow dynamics we expect from our operating model.

Our revenue performance was led by a more than 4% increase in Coordination of Benefits and almost 24% growth in our Payment Integrity service line, excluding the Reserve Release.

We continue to innovate in both our COB and PI business lines. In COB, the 9.6% year-to-date revenue growth was driven by enhanced analytics, improving yield as well as new product introductions like our real-time insurance verification solution we noted last quarter.

We continue to add talent and expertise that are driving new strategies to accelerate the pace of savings opportunities for our clients. We're also advancing our use of machine learning, natural language processing and other advanced technologies, all in an effort to drive faster savings for our clients, reduced provider abrasion, while lowering our operating costs.

We have renamed our newest solution set Population Health Management to better align with market nomenclature. This quarter, we had a challenging comp in PHM due to sizable special projects in Q2 last year. On a year-to-date basis, however, PHM revenue was up 9.3% from year ago.

We continue to see momentum in this business line and currently expect strong revenue growth on an annual basis as we introduced new and enhanced solutions and expand our share of wallet with clients by continuing to deliver significant value and ROI.

From a product innovation perspective, we formally launched our Crisis Management Outreach Program that helps our customers efficiently communicate and share crucial health and safety information with consumers before and during a natural disaster, prescription recall or other public health event.

Payers and other entities, such as retail pharmacies and pharmacy benefit managers, can now communicate efficiently, effectively and compassionately with thousands and even millions of consumers as fast as possible about their coverage and access to care. This is accomplished through SMS text messaging, e-mail, interactive voice response and live agents during emergencies and public health events.

In short, we can help move health care and government organizations from a reactive stance on crises to one that is proactive, where they take an active role in managing their population's health, safety and well-being.

We also continue to expand our predictive and prescriptive analytics capabilities to include behavioral and social determinants of health to ensure we are offering solutions to enable our clients to treat the whole person.

Separately, we recently announced a major international initiative to tackle some of health care's toughest challenges. The Digital Health Cooperative Research Centre is a partnership between the Australian government, universities and businesses to undertake research projects that will lead to significant advances in digital health solutions.

HMS is a lead corporate partner in this initiative and we are helping to ensure researchers have a significant volume of de-identified claims data to access and analyze. We are working with major universities in Australia and in the U.S. Our work with Stanford University is focused on identifying potential risk factors for opioid abuse and misuse, which is an international health care crisis.

We have also partnered with Southern Methodist University on the development of a predictive analytics model to reduce the rate of hospital readmissions, a challenge that drives significant costs in our healthcare system. These 2 initiatives could provide benefits to payers, providers, and patients.

HMS is committed to this vital research for the long haul, not only because of its potential to fuel our product development and innovation pipeline, but because the core purpose of our work is about helping real people with real health issues.

Adding talent and expertise is key to enhancing our business. In Population Health Management, our new Chief Analytics Officer has more than 20 years of informatics and technology experience with executive leadership roles at major healthcare companies and now leads clinical analytics, health engagement design and data science.

And our new VP of Data Engineering and Analytics has 20 plus years of experience in analytics and artificial intelligence with leadership roles at several Fortune 500 companies. He will drive strategies in artificial intelligence, machine learning and analytics, across all lines of our business. We expect these new leaders and their teams to have an immediate impact on furthering our abilities to drive innovation and improve operating performance.

Jeff will now provide additional detail on our second quarter performance, Jeff?

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

Thank you, Bill, and good morning. Q2 was another solid quarter for HMS in terms of total company revenue, adjusted EBITDA, adjusted EPS and cash flow. As Bill mentioned, in the second quarter, total revenue was up 7.4% when you exclude the Medicare RAC Reserve Release in Q2 of 2019. This was driven by 4.3% growth in Coordination of Benefits revenue, and a 23.7% increase in Payment Integrity revenue, again, excluding the Reserve Release. The remaining balance sheet amounts from the original Medicare RAC contract have now been released, which resulted in the recognition of $10.5 million in net revenue this quarter.

As we've said in the past, our business model has the potential for some quarter-to-quarter revenue variability. And year-to-date, COB revenue was up 9.6% compared to the same period a year ago. PI was up 8%, excluding the Reserve Releases and PHM revenue increased 9.3% during the same period.

In PHM, we continue to see traction with our cross-selling initiatives, driving the sales pipeline for our consumer engagement capabilities. At the same time, we are working to balance our sales efforts between the signing of longer term recurring revenue agreements with the near term benefit of transaction-oriented services and revenue.

Our overall business model and increasingly diversified revenue streams continue to show strong operating leverage. Adjusted EBITDA increased 18.8% compared to the second quarter of last year, with margins up 280 basis points to 30.1%, excluding the Medicare RAC Reserve Release benefit. This was driven by the continuing impact of our technology investments that drive both revenue yield and operating efficiencies as well as the continued management of operating expenses overall.

Second quarter 2019 adjusted EPS, excluding the Reserve Release benefit, was $0.34 per diluted share and was driven by the operating leverage I noted earlier. Our cash flow remained strong with operating cash flow of $49.6 million in Q2 compared to $9 million in the second quarter of 2018, and free cash flow of more than $45 million in this year's second quarter. With cash and cash equivalents of $269 million and total debt of $240 million at June 30, 2019, we continue to have a very strong balance sheet and liquidity profile.

As we remain principally focused on executing on our existing business strategy at a high level, our capital allocation strategy continues to be geared towards investing in our IT infrastructure and enhancing our product capabilities.

At the same time, we remain active in our efforts to identify potential acquisitions to complement our Payment Integrity and Population Health Management solution suites. We will remain disciplined in our approach to M&A and we'll move forward with the transaction as it meets our strategic and financial criteria.

Today, we announced our updated full year 2019 financial guidance to take into account the $10.5 million in revenue for Medicare RAC Reserve Release this quarter as well as our year-to-date adjusted EBITDA, effective tax rate and net income performance.

We now expect 2019 total company revenue of $650 million to $660 million, including the Reserve Release. On a year-to-date basis, our revenue growth, excluding the Reserve Releases from both years was 9.2%. This is consistent with our original guidance range of 8% to 10% growth. We're now projecting full year adjusted EBITDA of $185 million to $190 million, which represents growth of 14% to 17% over 2018. As with revenue, we are including the Reserve Releases in both years.

We continue to add new talent and analytics expertise to further capitalize on the technology investments we've made over the last 2 years. We are seeing both revenue yield and expense management benefits, and currently expect them to continue.

Moving on to net income. We're now projecting $85 million to $90 million for the year, which is approximately 30% higher than previous guidance. This is due primarily to year-over-year revenue growth, the Reserve Release benefit, margin expansion through operating leverage and a slightly lower projected full year effective tax rate. Additional details on our revised outlook for the year were provided in this morning's press release, now posted on our IR website, which will help address more detailed modeling questions.

So, overall, we believe our second quarter performance positions HMS well to achieve our raised full year objectives, and anticipate revenue will step up throughout the remainder of 2019, consistent with our full year guidance.

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

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

Thank you, Jeff. HMS continues to be well positioned for future success with access to market-leading data assets, and a broad solution suite that drives down unnecessary costs and positively impacts patient outcomes.

We truly appreciate the hard work and commitment of all of our employees, and the long term support of our customers, shareholders and our Board of Directors. We look forward to sharing our future activities and accomplishments with you in the months to come as we continue to employ data, technology and analytics to benefit the entire healthcare system.

We're now ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jailendra Singh with Credit Suisse.

Jailendra P. Singh - Crédit Suisse AG, Research Division - Research Analyst

I actually want to follow up on the performance in the Payment Integrity segment in second quarter, maybe talk about how much of this strong growth there was driven by a certain projects rolling from Q1 to Q2? I mean, last quarter you talked about payers turning off the service in Q1. Did you see those business coming back in Q2?

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

Yes, what we said last quarter was, we had some edits that we had submitted for approvals to our customers that did not get approved as quickly as we thought. I think, particularly with Payment Integrity, as it does continue to be lumpier from quarter-to-quarter, we don't give quarterly guidance for that reason. And so I think we expected the revenue to come back in Q2 based upon our Q1 results. And with year-to-date growth of 8% in Payment Integrity, we still see it as a good grower for the year. So I think, overall, our performance in Payment Integrity is -- on a year-to-date basis -- close to what we expected and still see growth in the back half of the year.

Jailendra P. Singh - Crédit Suisse AG, Research Division - Research Analyst

Then on the Population Health Management business, I know this is still a small part of business today, but you guys have been talking about that is the largest potential market opportunity. But if you look at the trends over the past 4, 5 quarters, we haven't seen much sequential uplift in that segment. Just wondering if you can give some color around how should we think about the growth in that business going forward? And what gives you confidence that we should be seeing some progress there in second half and next year?

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

Yes, there's been no change in the market opportunity and outlook for PHM solutions and we currently expect our PHM revenue will see strong growth on an annual basis for the foreseeable future. We did say this quarter we had a challenging comp due to a sizable special project in Q2 of last year, but we are up 9.3% year-over-year and continue to see traction with our cross-selling initiatives, driving our sales pipeline. And we are working to balance our sales efforts between the signing of longer term recurring revenue agreements with the near term benefit of transaction-oriented services as I said in my prepared remarks.

So I think we continue to see a big opportunity. We have noted, as we move more into the subscription model sales approach that takes longer. But when we achieve those sales, it will be sticky revenue for a longer period. And so I think the focus is balancing those 2 dynamics of longer term recurring revenue with the more transactional revenue work that we do.

Operator

And our next question comes from the line of Vikram Kesavabhotla with Guggenheim Securities.

Vikram Kesavabhotla - Guggenheim Securities, LLC, Research Division - Analyst

I want to follow up on the margins this quarter, obviously a strong profitability quarter. And so curious if you can give us some color on what the main sources of operating leverage have been? And if there's anything specific that's been driving more accelerated expansion this year versus what you'd expect to see on normalized basis?

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

Yes. I would say this quarter and for the first half, really demonstrates what we believe is the inherent operating leverage in our business model. We've said an incremental dollar of revenue in COB and Payment Integrity comes in at quite a bit higher margins overall than the company's blended average. And so with the strong revenue growth in both of those segments, that's having a positive impact on our margin performance. And we've also said that continuing investments that we're making in technology, both to drive our revenue yield and increased operating efficiencies are having a positive impact on margins as well.

So we've said in the past and continue to believe, we're still in the early innings of capitalizing on those investments. We are continuing to ramp up our technology spend, and still see a lot of potential value in the future.

As Bill noted, we're continuing to bring on people that help with both the analytics side of our business and with artificial intelligence and machine learning. So I think we're learning as we go here. But I would still characterize it as really in their early innings of capitalizing on those benefits and expect to see the ability to expand margins over time for the foreseeable future.

Vikram Kesavabhotla - Guggenheim Securities, LLC, Research Division - Analyst

And then on the COB side, obviously, you guys had a great first quarter and then 4% this quarter. I'm curious if the expectation for the full year is still low to mid-single digit revenue growth? And if you can give us some color on the factors the impact that business on a quarterly basis and how we should be thinking about the second half of the year?

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

Yes. So, overall, we've given our revenue guidance for the year. We have a portfolio of products that can balance into that revenue guidance. So I'm not going to try to update specific line items for revenue guidance for the year on this call. But we do see with COB variability as well from quarter-to-quarter, it's hard to predict timing sometimes, our ability to get information that we need or get information from our customers. But I would say we're certainly pleased with almost double digit growth in COB for the year and still expect it's going to contribute to growth for the year.

Operator

And our next question comes from the line of Donald Hooker with KeyBanc.

Donald Houghton Hooker - KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst

So I wanted to maybe ask about the COB business -- the legacy COB business, which on a rolling 4 quarter basis looks like it was up about 7% and doing very well. I think in the past, you guys have talked about kind of a lower mid-single digit growth there. But it seems like you guys have been trending above that for a while. And I was wondering if maybe we should start thinking about a higher growth rate there.What is your commentary there?

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

Yes. I think we had talked about these technology investments that we are making. Our investments in Big Data. Just the sheer size and complexity of the amount of data that we get to manage on a daily, weekly, monthly basis is enormous. And so certainly applying advanced analytics and advanced data technologies to that, we're seeing yield benefit from that. And so I think that's been a positive driver.

I'd say we also have, as we looked at the COB marketplace in total addressable market, we're also introducing new products, as Bill mentioned in his prepared remarks. So it's an area where we've been in the business for a long time. I think we are innovating in it, as well as continuing to drive more value from the existing population of claims data that we have. So I think it's a combination of both of those things. And we certainly see that capacity to continue to expand more there.

Donald Houghton Hooker - KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst

And maybe just a follow up question on Payment Integrity space. I think in the past you guys have talked about maybe going after employers and maybe trying to extend yourselves into new areas like ambulatory settings. Can you update us on any initiatives or if not, that's fine too, but any initiatives kind of extending into some of those newer areas?

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

Yes. That's the deal. So we do distribute primarily prepaid clinical audits, though, we'll also do retrospective audits for larger employers and for the most part through benefit consulting organizations that find employers.

So as you probably know, employers are in many ways holding the bag financially. Their administrators do a certain amount of work for them, but not always the kind of the things that we offer. So we see that as a growing market opportunity. The implementations are a little more complex, because we're implementing with a large administrator or TPA -- sometimes several. But the opportunity is significant. So we've just rolled it out. We have a couple of employers under contract that are either implemented or in the implementation phase. We also believe that our other products are attractive to them, so we will be starting to introduce our PHM product line, particularly a segment of our Eliza consumer engagement tools to employers.

In terms of expanding the Payment Integrity, what I would consider audit set, we have this year and last year -- but we've been heavily focused on this year expanding more broadly, so that we're pursuing claim types and/or places of service that we've not pursued as aggressively in the past. And so that's all part of our ongoing development innovation to bring new audit strategies to our clients.

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

And PI is also an area where we're continuing to deploy advanced technologies to both improve our ability to select claims that have a higher probability of errors, as well as create operating efficiencies and how we work claims by using technology to make our whole process more efficient.

Operator

And our next question comes from the line of Ryan Daniels with William Blair.

Ryan Scott Daniels - William Blair & Company L.L.C., Research Division - Partner and Healthcare Analyst

Bill, may be one for you. Just on the M&A environment. Obviously, your cash balance continues to build up quite nicely, but you haven't done any transactions. So I'm curious if you're not finding the assets that meet your strategic objectives, or if it's just the pricing you're seeing in the market place today that's driving it outside of your financial parameters?

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

Thank you, Ryan. In reality, we're active -- in fact, very active. We always have a portfolio of candidates that we're looking at. We're aligning our strategic objectives for M&A along with the objectives for our client, so the solutions they're seeking, as well as the advancement of each one of our product lines, whether it's Coordination of Benefits, Payment Integrity or Population Health Management. But we're very specific, in terms of the right fit from a product and technology perspective and the right financial fit.

So you're right. We are finding some properties that we don't believe command the valuation that they're asking. And then of course, again, we're always in the process of looking at companies. So, I think, as we've said and we'll continue to say, it's a primary use of our capital.

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

Yes. And Ryan, this is Jeff. I think we continue to take a very disciplined approach. And adding to what Bill has said, we've looked at a lot of companies and for a variety of reasons, they just haven't added up to the right fit for HMS. And so we are committed to deploying our capital in a efficient and strategic way, so we'll maintain that disciplined approach. But we do think there is properties that make sense for us if we can get them at the right price to make the economics work for us.

Ryan Scott Daniels - William Blair & Company L.L.C., Research Division - Partner and Healthcare Analyst

And then maybe a different topic as my follow up. You talked a lot about new and enhanced solutions across some of the businesses. And I'm curious what kind of investments you're making outside of the leadership in the customer-facing organization to kind of help promote products. I know it can be a smaller group of buyers, but still curious if there's going to be any forward investments in the sales team or the organization there?

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

Yes. We are continuing to invest in both the sales team, but also additional subject matter experts who can help in the sales process. We have a rather complex business, and actually our clients have some complex problems we're solving. So we're constantly adding more and upgrading our sales, account management teams in all of our markets, and we're definitely bringing more SMEs in. And in the last year, we launched an advisory services component of our business, which is actually contributing to revenue in a bigger way this year, and we expect it to continue to grow. And that I kind of say is the tip of the spear to help us understand these complex problems clients are facing, and then help them better use the products and services we deliver them. So all of that is being invested and we are doing some investment this year, and will continue to do so.

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

I mean, I think, if you looked at our overall customer footprint being in over 40 states, in 22 of the 25 largest health plans and then the work we do with CMS and the Veterans Administration. Our starting point is a very broad customer footprint, and so selling more into those existing customers continues to a critical focus of ours.

And then on the PHM side, we've said in the past, historically Essette and Eliza when we acquired those businesses had entirely sold into the commercial marketplace and we are having a lot more dialogue with states on our PHM solution suite in the state market. We've said that was going to be a longer sales process as the state market is, but we are beginning to see more interest and traction on that front as well.

Operator

And our next question comes from the line of Mohan Naidu with Oppenheimer.

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

Bill, first on the crisis management program that you talked about. This sounds like it's built on top of Eliza. What is new in this offering versus what Eliza was doing before?

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

Well, it's actually leveraging all of the same analytics, the machine learning and all of the strategy and behavioral science about how to reach out to individuals and what modality and outreach they'll respond to. But what we found was, we had a couple of clients who really used this extensively during natural disasters. They got excellent feedback from their members and so we decided to roll this out more broadly. And more broadly means that it really -- we can really use this for any type of natural disaster, public health disaster, or other crisis that a health plan, PBM, pharmacy chain if its managing recalls, because they're responsible for doing the outreach, or even broader and public health and state government.

So we have just started to talk to state government about the opportunity here, because they struggle with -- as you know, they struggle with being able to reach all of their constituents. And if they do have a database of contacts that they can feed us and demographic data, we can do the same exact type of outreach. In fact, enhance their data with cellphone numbers that they don't already have, and reach people in advance of a crisis, advance of flooding, whatever it might be, to be able to get them to realize what their health benefits are, to give them instructions on how to be safe during the crisis. So it's a pretty broad reaching tool.

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

Any update on the real-time verification product. I thought there were couple of states, and a federal contract that could be possible -- that could be a possibility in second half of this year?

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

Yes. So we have been working with the federal government on -- through special enrollment periods and are hoping to get additional funding for that, because we had used all the funding that they had budgeted. We did go live with another state exchange and we're also using that product in other markets as we enter a new market. So there are only about a half a dozen of reasonably sized exchanges in the nation to sell to. But, of course, we'll be talking -- if we're not already, we will be talking to each of them. But we did go live in Q2 with another state exchange.

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

From the federal government, Bill, is the expectation that you will be able to get into the open enrollment as we move from special enrollments?

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

We'd love to. It depends on if they -- they deem it's something that they want to implement. We are talking to them about it. But --

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

Yes, we are having those discussions. At this point, given the timing, that's more likely a 2020 phenomenon, Mohan, just given the timing and how they work. But we are working to secure additional funding for the special enrollment period.

Operator

And our next question comes from the line of Jamie Stockton with Wells Fargo.

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

I guess, maybe to follow up on something, I think, Ryan was asking about earlier with the Population Health Management platform. What is the timing you think of the state opportunities? Is that something that we should be thinking about as maybe a 2020 or 2021? Jeff, I think you said, this is something we're working on, but it's not imminent. Just any color there would be great?

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

I would say, we start seeing revenue in 2020. But -- like with any new product in a new market for us. But a new initiative being sold into a market, you'd see that ramp over a number of years. The initial states we've had discussions with have been very positive. Like in our commercial market, sometimes when we sell a health plan, we sell with a small project, we get through proof-of-concept. They realize that, yes we were able to move the needle on a specific the key score. States do the same way.

So the nice thing about the states is, many of our contracts that allow for additional services underneath the contract as long as the vendor and the State agree on it. Many have very low source limits. So there could be some proof-of-concept projects that we can even deploy as early as this year, because it's really pretty quick to get up and running from the time we sign a contract and get our data, which we may already have the data for that client, depending on what the job is that they need. It could be 30 days to get the proof-of-concept out the door. And so, but we're really expecting a 2020 impact on state revenue, and then climbing from there.

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

And then maybe one other one. You guys have referenced the investments that you're making in your technology and your infrastructure multiple times on this call and previous ones as well. I guess, part of me wonders, how much of this is really just about trying to take labor out of the equation and automate things like audits, so maybe you could go after smaller dollar amounts where it's economical, versus looking at ways to incorporate more data into the process that might make it more effective. And I know the temptation is going to be to say that they're both important, but if you could just give us some sense for which one seems to be delivering better productivity incrementally would be great?

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

So I would say that being able to have a solution that automatically and at a much higher level of proficiency finds the error, so using artificial intelligence to do them or machine learning, and to have less provider abrasion. Because what we find is more accurate and most likely to be an actual actionable recovery, is more important to us than actually reducing labor. What we've done as a company is we've held our headcount flat. That doesn't mean we haven't brought new people in. But we have in some areas not had to expand as much in terms of labor. And our goal is, as we have people who may be impacted by automation, that we give them the opportunity to take higher skilled jobs at the company. And in fact, a lot of our employees are excited about being able to automate something so that they can do some -- in the process they are learning more, and can do more value added roles in our company, because we always need data scientists and business analysts looking at our data. There's only so much the machines are going to do. I mean, I know that it's the promise of the future, but there's still things that are going to need human eyeballs that understand healthcare.

Operator

And our next question comes from the line of Richard Close with Canaccord Genuity.

Richard Collamer Close - Avondale Partners, LLC, Research Division - Former MD and Senior Research Analyst

Jeff, I was curious maybe to hit on the margins a little bit more, make it may be easy for you, obviously, impressive on the leverage from these tech investments. But how would you characterize what inning are you guys in on seeing the benefit from the past investments and expected continued investments?

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

Yes, I've said early innings, Richard, so you want to number I'd say second or third, inning. I mean, I think we're -- just to kind of follow up on the last question. I mean, a lot of the benefit we've seen so far is just on getting better at analyzing the existing data set and extracting more yield out it, because our analytics are better. And that's separate and distinct from creating new analytics or automating analytics. This is -- our initial effort was just how do we get better of what we're currently doing? And I think we've seen good results there and have visibility to increase that.

I think, as we get more sophisticated in our technology deployment, it will be about more about how do we actually use technology to actually create new findings in a more automated way. And we think there's a lot of opportunity for that, and we think the marketplace is asking for that. And to the extent we can do that, while minimizing provider abrasion or needing medical records, because that creates a lot of abrasion in the system as well, I think that represents big opportunities for us. And so, I think what the new people we are bringing on, as well as continuing to look at the analytic possibilities that we have, we still see a lot of runway for margin expansion.

Richard Collamer Close - Avondale Partners, LLC, Research Division - Former MD and Senior Research Analyst

So Bill, maybe a question for you here -- like a bigger picture question and, given the excellent performance you guys have had, just trying to look forward and maybe evaluate potential pitfalls on the horizon. I'm curious, your thoughts on 2 policy proposals. First, the proposed rule, I'm posting negotiated prices between payers and health systems, would that impact? Do you think that would impact, reduce or change the opportunities for HMS at all?

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

I really don't think so. The pricing is still complex. So even though it might be posted, there's still real -- let me give you an example. So let's say you are looking to get a knee replacement. Well, there's going to be an average price. Then there's going to be a price at this facility versus that facility. But that doesn't mean that all of the components that create a knee replacement, are going to be outlined in that pricing. That's where we come in and say, you're supposed to pay this for the device, if it's not a bundle. Or you've unbundled it and by the way, you have 2 parts -- 2 duplicative parts. So the contracts that are between the payer and provider are much more specific than just, here's the average cost of a knee replacement at this hospital -- that maybe a bad example. But, basically, they're much more complex than that. And so when we come in, after we analyze and assess the contract, is say -- we then run the data and say, you're really overpaying this hospital or they're over billing you for these specific services. But it's much deeper than just -- here's what the total cost could be for your operation at this facility versus another.

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

Yes, and then if you look at our business, overall, Richard, I mean, the COB business would really not be in impacted by pricing being posted. And as you think about our Payment Integrity business, a lot of the work we do is more diagnosis driven coding reviews, which really is unrelated to the pricing being posted. So, I think, at the end of the day for us I don't see a big material impact from that and actually it could be some opportunities for us with more data in this system in terms of actual pricing.

Richard Collamer Close - Avondale Partners, LLC, Research Division - Former MD and Senior Research Analyst

And the second policy, obviously, being talked about is Medicare for All. And while not likely, I'd be curious, -- not likely getting adopted or passed. I'm curious, your thoughts on Medicare for All and what kind of impact it would have on HMS?

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

Well, I mean, Medicare for All is a simple phrase, but the details behind it are very complex. And even this week, we've seen both through the debates and in the new that many of the Democrats are moving more towards the center. The one thing we surely see is support for the idea of universal coverage, versus single payer. I think the challenge is when you get to the discussion around Medicare for All is, what is it? And even in Senator Harris's proposal, there's still an opportunity for a private health insurance system, states still pay into this Medicare for All program in the Medicaid like financing way with the 10 year roll out.

So I don't think -- it's kind of hard to comment on it and about the impact it would have when there really isn't a -- what is the target that we're going to move towards? I think what we will more likely move towards is universal coverage. And that can be done through Medicare Buy-In over a certain age, that's positive for HMS because we do Medicaid Buy-In or health insurance premium payments for about a dozen states. It could be a Medicaid Buy-In. It could be again, lifting Medicaid eligibility. So there's a lot of ways to make sure we have universal coverage in the U.S. without a Medicare for All system.

And let I mean, Medicare has a 10% error rate. So if we really want to hand the healthcare system over to that we wouldn't be talking about significant, significant dollars flowing out of the Medicare system. So it doesn't sound feasible.

Operator

And our next question comes from the line of Stephanie Demko with Citi.

Stephanie July Demko - JP Morgan Chase & Co, Research Division - Former Analyst

I heard you mentioned a little bit about your initial foray into social determinants of health. I just want to ask a little bit more about how you're approaching the initiative. Is it through building out infrastructure, partnerships, identifying members that could be in need or something else?

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

All of the above. So what we do today is for a number of our clients, if it's an onboarding call -- and again, it could be via IVR. Usually it's via IVR that we're actually receiving this information. But it's via an onboarding call, health risk assessment, or a specialized outreach for member retention. The health plan will ask us, and we're actually seeing a large focus now on the states in this issue.

But the health plan will ask us to ask certain questions. Do you feel concerned about food? Do you have a hunger concern? Do you feel that you have a concern about access to shelter? Whatever -- do you feel safe at home? There's a lot of different questions they may ask us to capture. And then it's really up to them today and this is where I think health plans in states have challenges, is then taking that information and actually connecting the people to those services, but not just connecting them, assuring that they actually went and received that service.

So that's the types of things that we're looking at through partnerships, through the technology build out, and potentially through acquisitions is to tie that that system together, so that there's a closed end loop and we have used that information to then allow our client to make sure that patient has received the right services.

We already do take social determinants of health that are either self-reported or that we impute via zip code, other socioeconomic factors and that is in our predictive and prescriptive analytics tool. So it will tell you, as a health plan, that you have higher barriers to minimizing this cost curve for this patient or having better outcomes because they do have these social determinants. So that's already in our analytics tool.

Stephanie July Demko - JP Morgan Chase & Co, Research Division - Former Analyst

Given the complexity of the issue. When you think about those different areas where you could look at buy versus build, are there certain areas that you think would be better to do inorganically versus organically?

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

I mean -- I'll give you an example. We don't manage a network of social service organizations and then track that network. That maybe something that's not owning that network, but having the connectivity to all of those non-traditional providers that maybe something that we would pursue. I mean, I think, it's too soon to tell, but we have been having discussions with just about everybody in the market that is focused on this issue, because it's a big issue for our health plans and that's becoming a bigger issue for our states. In fact, states are requiring particularly -- states are requiring Medicaid Managed Care plans to address this. It's also a big issue for Medicare Advantage. So we think this is something that our nation has to tackle when we're tackling, treating the whole person.

Stephanie July Demko - JP Morgan Chase & Co, Research Division - Former Analyst

And one quick follow up just on the pop health business, could you walk us through some of the -- these 3 different areas and kind of puts and takes for demand and traction on the order?

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

Well, we said on the consumer engagement side with Eliza that was a little softer year-over-year because we did have a big project we did in the second quarter of last year. The Essette piece is growing very nicely. The care management side of it is growing -- we had strong growth in the care management side and we're ramping up our Elli product sales. So we said that was not going to be a material number in 2019. But we are seeing -- we are seeing some sales -- wins on the Elli side and expect that revenue to be ramping up slowly.

Operator

And our next question comes from the line of Matthew Gillmor with Baird.

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

I was going to ask about that competitive environment. There was a report that a large payer maybe buying a Program Integrity platform. So just sort of hoping to get an update in terms of what you're saying from a competitive standpoint, especially as it relates to COB and PI and would a large payer buying up PI platform changed things in your view?

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

Yes, Matt, so we haven't noticed really any meaningful change in the marketplace following the news of that potential deal. We really welcome a competitive environment and we do think there are certain dynamics, as a result, that could yield opportunities for us.

And so I think in the PI side, most of the health plans take a first pass with their claims and then use a number of third-party service providers, including HMS and others to run on our programs to identify savings. So given the contingency fee model that we're operating in, I think that makes sense. So our focus really is how do we continue to drive more value and more savings for our customers on the PI side. And we've said, we think the total addressable market is $5 billion to $6 billion roughly and $1.5 billion to $2 billion and we think is currently being addressed by external providers.

So we still think the whitespace opportunity is considerable. On the PI side we can we continue to have a strong interest both on the commercial health plan side and even more so -- or even on the state side. So I think from our vantage point our focus is how do we continue to capitalize and drive savings throughout all of our customer base and PI.

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

And then one follow up on the guidance and the margin discussion from earlier. I think on an underlying basis, you did about 30% EBITDA margin this quarter, if you exclude that Reserve Release. It doesn't seem like guidance assumes that level is sustainable in terms of what's implied for the back half, even with the revenue pickup that you're talking about. So just assuming my premise is right, can you maybe just give us a sense for what would maybe cause margin in the back half to be a little bit lower or maybe the second quarter was just great, and you don't want to extrapolate that out yet?

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

Well, it was really strong through the first 6 months of the year we're at about 29%, Matt. So if you looked at the low end and the high end of our revised guidance and our revised revenue ranges, you're at 28.5% to almost 29%. So I would say maybe a little second half degradation.

We are continuing to ramp both investments in people in and product. So I think we will see some incremental ramp up in product development, and some of our technology spend in the second half of the year. But nothing that's going to move the overall margin profile significantly, I would say.

Operator

And our next question comes from the line of Daniel Grosslight with SVB Leerink.

Daniel Grosslight

Just a quick one on your international ambitions. I know you have a Australian research project you commented on. But was curious how you're going to commercialize that. And how you're going to kind of attack the international markets going forward? Thanks.

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

Thanks. This is Bill. So what we're attempting to do is build IP that can be baked into our existing or future analytics service offerings. So the 2 components we talked about a predictive model for its identifying at the time of prescribing a patient that's more likely to become addicted. What is the best treatment plan for that specific individual, who's most likely to relapse after treatment, and then a study on the impact of opioids in the third trimester of pregnancy, that's what's being done by Stanford. But you can imagine after you have enough data and we have currently 6 Medicaid agencies committed. I think that's the number of us using 5 years of history and I'm one pretty large Medicaid managed care plan.

When you consider a database of that size for research, you can come back with building an interesting model that could really impact this crisis. So it could be something that would be in the tools of either prescriber or it could be in the tools of a pharmacy or could be in the tools of the payer when they get that first claim, so that they can intervene.

And the second, of course, which we talked about with SMU is being able to do the same thing to identify at admit, who is most likely to readmit for that specific type of procedure and then making sure that they are building the appropriate discharge plan, so as to both our care management, our analytics and even our Eliza outreach.

Now these issues also exist in Australia. So the goal would be ultimately to bake them into sales of products into Australia. We've not actually signed any business there. But the same problems exist in their healthcare system. And they do have both the private and public payer system. So we would anticipate that that would be able to be our foot in the door. And we are also working with Australian University on other initiatives.

Daniel Grosslight

And then one more, if I could, just going back to the all the policy noise. We do have the challenge to ACA going through the courts right now. Can you remind us what's your revenue exposure is to the ACA and Medicaid expansion in particular?

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

This is Jeff. There's a lot of factors that go into that, so making precise estimates are challenge. But our best estimate based on what we know today is, a total repeal, which, again, we view is very unlikely would have a low-single digit impact on our COB business, so even though a lower single digit impact on total revenue. And as we've said in the past, we believe our continued yield improvement efforts could really offset that. So I think that's really the answer.

We don't really have -- we have very little exposure on the exchange side. And even today, CMS cannot discreetly point out how many members have been added as a result of the lower income threshold. What gets recorded is just the total number of lives that have grown since the ACA was signed. And so there are estimates that a significant chunk of the expansion would have been covered under the old income requirements anyway. And so I think that would really lessen the impact if there was even the unlikely outcome of a full repeal.

So, again, we said it was a positive on the way up. We never said it was a huge -- major impact. But we do think that we have the ability to offset any of the exposure to our yield activities.

Operator

And our next question comes from the line of Frank Sparacino with First Analysis.

Frank Sparacino - First Analysis Securities Corporation, Research Division - SVP

Just real quick, if we put aside Medicare RAC Reserve this issue this quarter, is there any change in the outlook for the RAC business in 2019? And the reason I ask is there's been a few articles talking about ramp up in activity. I don't know if that's a forward-looking commentary. But any thoughts there?

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

It's an area where -- we've said we expect to see double digit growth, Frank in our Medicare RAC revenues. So we did about $12 million last year, excluding the Reserve Release. We are continuing to see more errors being improved quickly. And so I think it's an area where we continue to see opportunity and have seen growth and expect to see more growth for the year.

Operator

And our last question comes from the line of David Windley with Jefferies.

David Windley

In Medicare, Bill, it sounds like there's some kind of a Reserve Release and the cleanup off the balance sheet. But that's -- the RACs largely buttoned up ongoing, but they kind of buttoned up at that level. You mentioned in a prior answer some things around social determinants of health and the relevance of that to Medicare Advantage plans. I guess, I just -- I wanted to get a more comprehensive view of what HMS wise opportunities or exposure is in Medicare, specifically short of policy change. But thinking about if the policy does change in a Medicare direction, what kind of opportunity does it -- where do you grow with Medicare if Medicare grows?

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

Well, I think Medicare is kind of grown no matter what, because of the 10,000 people a day that are aging into Medicare, with more than 2/3 of them selecting Medicare Advantage. So the opportunity to serve our Medicare Advantage clients or new Medicare Advantage clients, only increase this.

With the administration's discussion about -- their focus on next year plans being able to write a prescription for food, and actually make sure that that transaction goes through the system, that's a very different thing. And so that's going to need a lot of connection points. It's going to need collaboration with different entities, the kinds of things that HMS is good at. And we think all of the other programs that we offer today, apply to Medicare.

Medicare has its Coordination of Benefits opportunity. Medicare has a Payment Integrity opportunity. And Medicare has a significant opportunity for raising star ratings, making sure people are getting their primary care visits each year, taking their medication, are being linked to appropriate non-traditional providers and closing those gaps and social determinants of health.

So we think all of those areas, in addition to our predictive analytics tools, are very important in the Medicare population. So Medicare growth is good for us.

David Windley

And then kind of a philosophical one on margin. As you talked about -- the earlier question about incremental margin that you are seeing, and then separately investments. Do you do you have a structure or philosophy around how much of the leverage that you are able to generate in the base business that goes -- gets reinvested back in the business versus what you delivered in the bottom line? Or is that still a kind of a project by project and can be kind of lumpy? Is there a philosophy to try to manage a certain steady amount of margin expansion over time, as you're making those investments?

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

Yes. I think we're looking at -- we're looking at where is the best place to deploy capital that's going to earn a good return? And so I don't -- it's not necessarily an endgame in mind, much rather, what is the most strategic way we can deploy capital and earn a return, realizing that we have a lot of liquidity, our CapEx investment has been ramping up.

And so I think, from that standpoint, we're positioned well. We have the resources to do it. I think it's more about just managing all the opportunities we have and how do we deploy capital to maximize the biggest opportunities. Because we have a lot of opportunities, it's really about prioritizing them that we're trying to focus our capital deployment.

David Windley

If I could, let me ask that in reverse, would you anticipate that there would be investments in technology or otherwise that would be significant enough, and that you would want to make, that would actually dilute the margin for a period of time because you're investing that aggressively into the business. That would more than overwhelm the incremental margin from the natural structure of the business.

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

I think at this point, we believe we can continue to invest and see margin expansion to answer your question -- I understand your question. We believe we can continue to invest at a level we need to, to be strategically competitive and continue to expand margins.

Operator

Thank you. I would now like to turn the conference back over to CEO, Bill Lucia for closing remarks.

William C. Lucia - HMS Holdings Corp. - Chairman & CEO

Well, we want to thank everybody for your interest in HMS and attending our call. And we do look forward to speaking to you again on our third quarter call. Have a great weekend, everyone.

Operator

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