



**Bank of America/
Merrill Lynch
2016 Healthcare Conference**

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Agenda

Business Overview

Strategic Priorities &
Growth Drivers

2016 Q1 Performance

Summing Up

Appendix





Business Overview

Business Overview

Our Business: Payment Accuracy



- Coordination of Benefits (COB) - Identifying the responsible party to pay claims
 - Prospective cost avoidance
 - Retrospective cost recoveries
- Payment Integrity (PI) - Determining if billed claims are accurate and appropriate
 - The proper setting
 - The appropriate care
 - At the correct billed amount – consistent with client payment policies and contracts

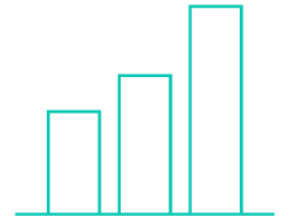
*Helping Government and Commercial
Payers Bend the Cost Curve*

Business Overview

Key Themes

- HMS has an unparalleled database of customers' eligibility and claims -- particularly related to Medicaid
- Compelling growth demographics for Medicare, Medicaid and Employer-Sponsored Plans
- Numerous opportunities to find and address erroneous claims

HMS is Uniquely Positioned as a Data-Driven Analytics Company to Achieve Savings for Payers





Business Overview

State Medicaid Customer Profile

- **45 states** and the District of Columbia
- Longer sales cycle due to government procurement process and average contract length of **~6 years** (including extensions)
- Only **two of top 10** state TPL contracts are scheduled for reprocurement in 2016¹
- A total of only **~12%** of projected 2015 state revenue is expected to be rebid this year, though potential 2016 impact is considerably less²

Limited Exposure to State TPL Reprocurement Cycle in 2016

¹ Massachusetts and Ohio

² Current Massachusetts contract does not expire until 12/31/16 and Ohio contract runs until June 2017

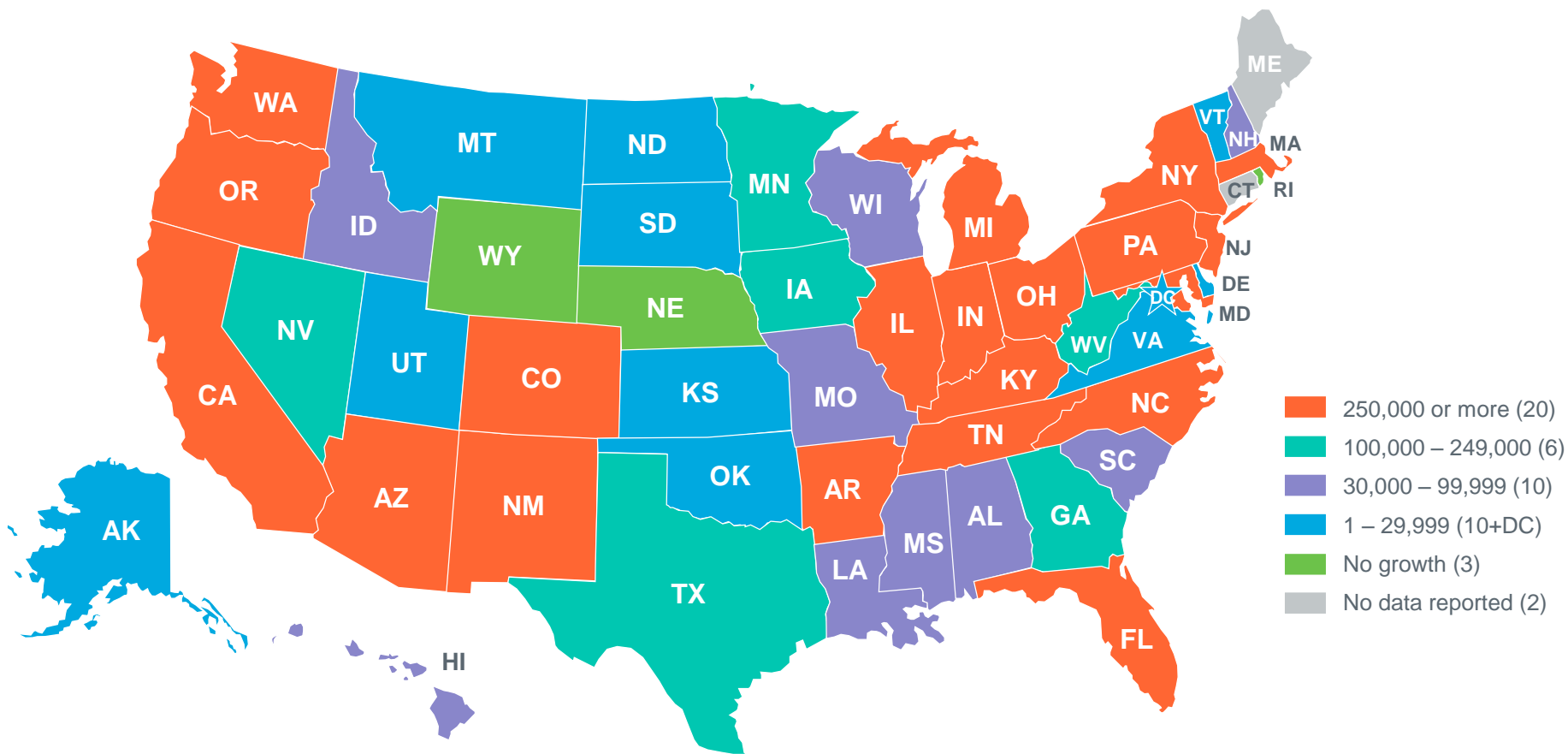
Commercial Health Plan Customer Profile

- **Over 250** health plans nationally
- **85+ million** unique health plan lives under contract
- **18 of the top 25** health plans (by revenue) are HMS customers
- **All of the top 10** national and regional Medicaid managed care plans are HMS customers
- **~75%** of existing commercial health plan revenue is Medicaid related and the remaining **~25%** is Medicare Advantage and at-risk commercial

*Business
Overview*

*Health Plan Consolidation Has
Generally Been a Net Positive for HMS*

New Medicaid Enrollment Through January 2016



~13.3M of ~15.0M new CMS-reported¹ Medicaid lives are in HMS customer eligibility files

¹ CMS Medicaid & CHIP: January 2016 Monthly Applications, Eligibility Determinations and Enrollment Report, April 13, 2016. This analysis compares Medicaid enrollment of ~15 million lives reported through 1/31/16 to enrollment as of 10/1/13, which was the beginning of Marketplace open enrollment and the CMS baseline for measuring expansion

Our Data Sources¹

Business Overview

\$39B+

Paid claim records

>295

Customers'-claims and eligibility

17

States-Medicare A/B claims paid as Medicare RAC

>1,100

Trading partners (health plans, TPAs, PBMs, etc.) for COB Purposes

900K+

Providers-data & interactions

1.2B

Eligibility coverage segments (Current/historical)

161M

Unique lives - health coverage information

HMS Maintains Over 5.5 Petabytes of Data

¹ Statistics current as of December 31, 2015

The Addressable Error Opportunity

*Erroneous
Payments
Estimated at
Nearly \$170
Billion for 2015*

An estimated \$1.2 trillion in claims was paid by Federal (Medicare) and state (Medicaid) governments in 2015¹- covering ~125 million lives

- Error rate of ~10%
- An estimated \$117 billion was paid in error²

An estimated \$1.1 trillion in claims was paid by private health plans (including Medicare Advantage and Medicaid Managed Care) in 2015¹ - covering ~197 million lives

- Error rate of ~5%
- An estimated \$52 billion was paid in error³

¹ CMS Office of the Actuary, National Healthcare Expenditure Data—Historical and Projections 2008-2024 (July 2015)

² Error rates cited by paymentaccuracy.gov – 6.7% error rate for Medicaid and 12.5% for Medicare as of December 2015

³ HMS estimate assuming private plans spend more to reduce errors and thereby achieve lower error rates of ~4.8%

2015 Examples

Our Value Proposition – High ROI for Customers

HMS Customers Generally Experience ROIs of 10:1 or Higher

A National Health Plan - Savings	~\$273 million ¹
HMS Fees	~\$27 million
Customer ROI	~10:1
A State Medicaid Program - Savings	~\$101 million ¹
HMS Fees	~\$7.9 million
Customer ROI	~13:1

¹ Savings calculated based on actual dollars recovered and additional costs avoided



Strategic Priorities & Growth Drivers

Maximizing Growth Opportunities



Strategic Priorities

- Following the ongoing **transition of Medicaid and Medicare lives** from government fee-for-service programs into managed care
- Constantly pursuing **product innovation** as a key competitive advantage
- Intense focus on **organizational efficiency** to convert sales to revenue, improve product yield and reduce overall operating costs
- Actively considering **acquisitions** that could supplement core offerings or expand our data analytics capacity

*Focused Strategy Designed to Sustain
Commercial Growth is Only in the
'Early Innings'*

The Macro Environment is Fueling Our Growth

- Medicaid spending growth – average of **~6%** annually projected through 2024¹
- Aging baby boomers will drive a projected Medicare enrollment increase of **~34%** by 2024¹
- Increasing complexity of eligibility and payment models, making payment accuracy a greater focus for payers
- Cost pressures are causing health plans to look for ways to increase efficiency and lower expenses
- Concerns about data security are pushing health plans to share data with fewer trusted partners

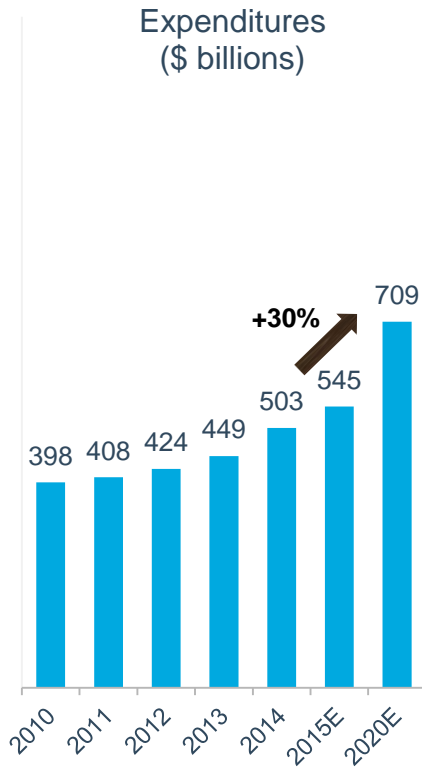
Growth Drivers

Healthcare Enrollment and Spending Are Growing Rapidly

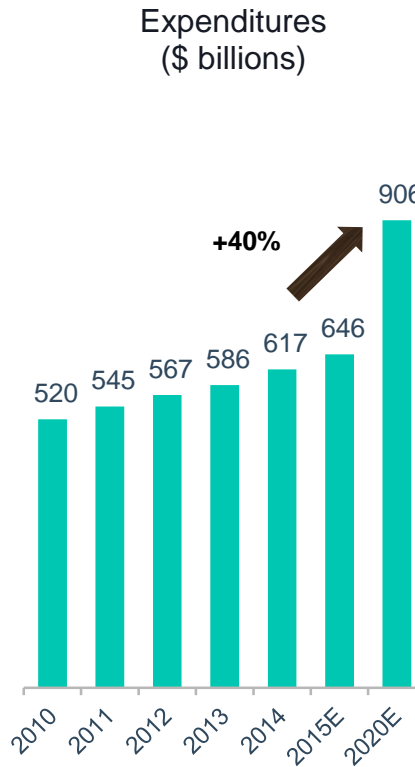
¹ CMS Office of the Actuary, National Healthcare Expenditure Data – Historical and Projections 2008-2024 (July 2015)

Expenditures Rising for Populations We Serve

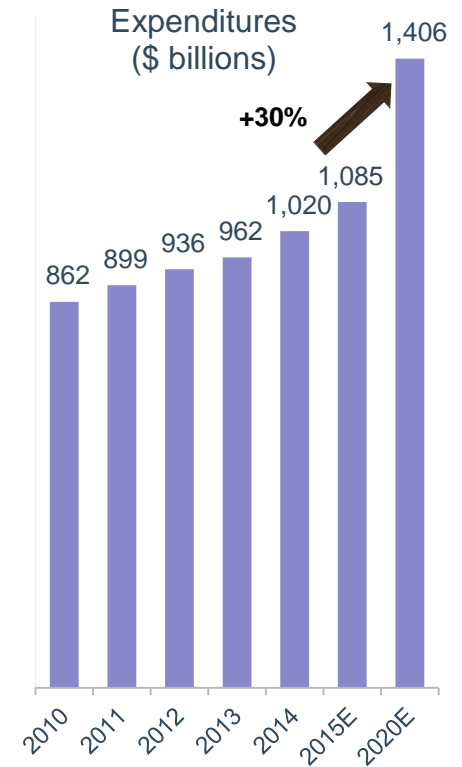
Medicaid¹



Medicare¹



Private Health Insurance¹



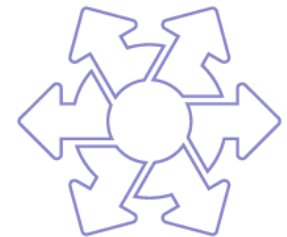
Significant Growth in Healthcare Spending Is Projected by 2020

¹ CMS Office of the Actuary, National Healthcare Expenditure Data—Historical and Projections 2008-2024 (July 2015).



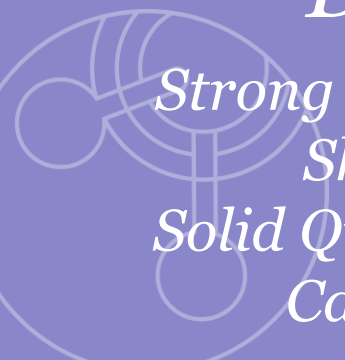
Product Innovation & Organizational Efficiency As Growth Drivers

- Product innovation efforts help create competitive advantage and sustain revenue growth
 - Process reengineering to increase yield from existing products
 - Accelerate implementation of newly sold business
 - Develop new product extensions to expand cost containment and data analytics solutions
 - Advance efforts to improve initial claim payment accuracy, identify fraud schemes, and reduce waste
- Create solutions that address market problems and build on core competencies
- Recent examples
 - Prepay Clinical Reviews
 - Link Visualization





*Acquisition
Strategy
As a Growth
Driver*



*Strong Balance
Sheet and
Solid Quarterly
Cash Flow*

Pursuing Acquisition Opportunities

- Accelerates go-to-market strategies and minimizes risks
- Robust pipeline of acquisition opportunities
 - Complement our core cost containment businesses
 - Build adjacencies
 - Expand capabilities
- Assessing strategic fit from multiple perspectives
- Strategic priority for 2016





2016 Q1 Performance



Q1 Financial Results

Financial Performance Highlights

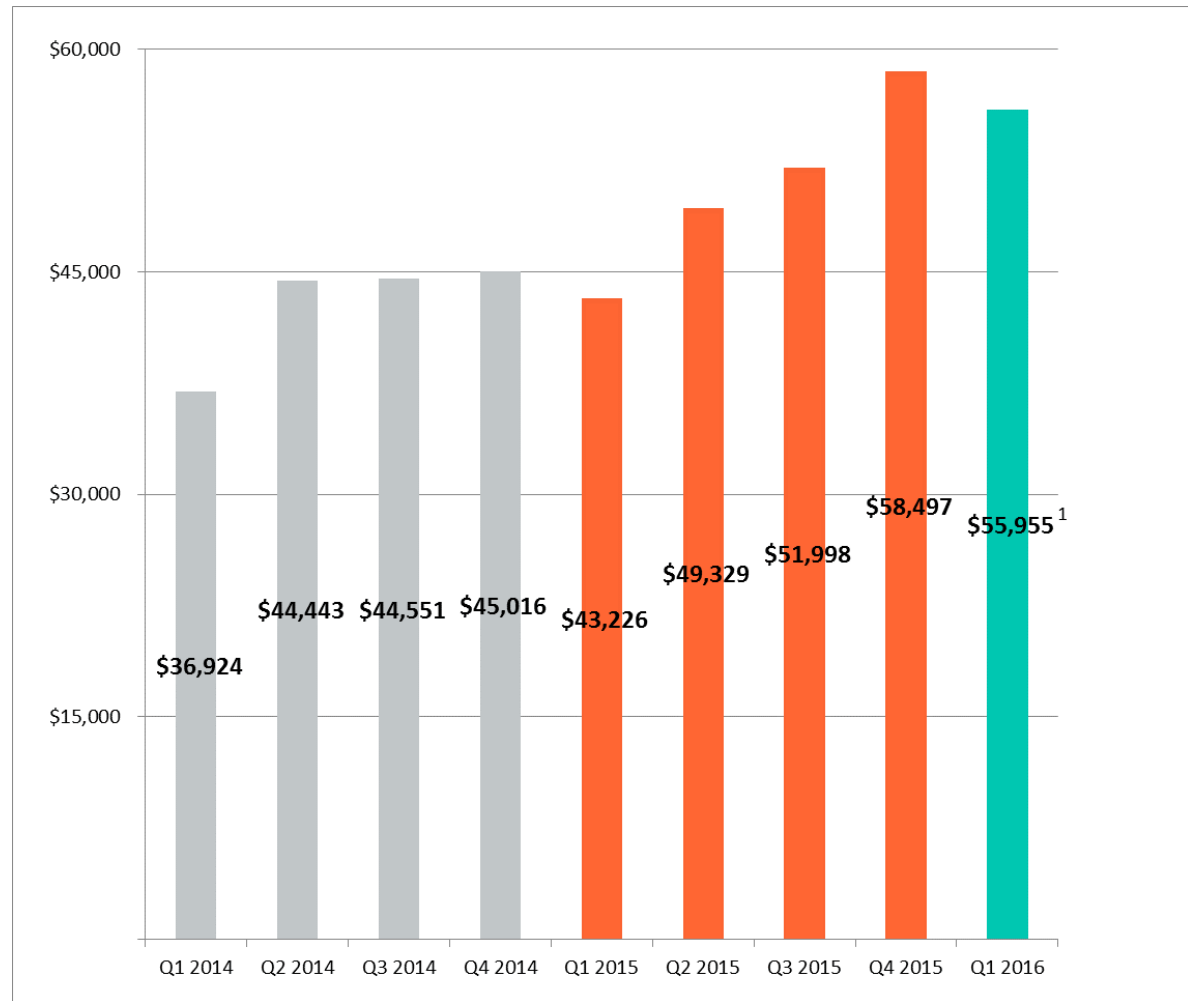
- Adjusted EPS of \$0.14 per diluted share¹ in Q1
- Revenue of \$119.8 million was 8.6% higher year-over-year
 - Quarterly commercial health plan revenue increased 29.4% year-over-year
 - State government revenue declined 15.1% year-over-year
 - Medicare RAC revenue was \$8.3 million for the quarter, compared to \$2.3 million in the prior year first quarter
- Payment Integrity revenue, excluding Medicare RAC, increased 15.5% year over year
- The effective tax rate was 42% for the quarter

¹ Adjusted EPS is a non-GAAP measure. GAAP EPS was \$0.05 per diluted share in the first quarter. Adjusted EPS included an add back of ~\$0.7 million, net of tax, or \$0.01 per diluted share related to disputes involving PCG (See reconciliation on slide 9).

Commercial Health Plan Growth

Commercial Health Plan Revenue 2014-2016

Projected Revenue Growth for 2016 of 18-20%



(\$ in thousands)

¹ Q1'16 Commercial Health Plan revenue of \$56.0 million was 29.4% higher year-over-year



2016 Strategic Focus

Key Themes for 2016

- *Execution* – efficiently implementing sold business and delighting our customers with excellent service
- *Innovation* – to stay ahead of the competition and create opportunities for new product sales
- *Cost reduction* – ongoing product engineering to boost yield
- *Maximizing commercial health plan growth* – sales to new customers and additional product sales to our existing customer base
- *Inorganic growth* – making acquisitions to complement our core cost containment business, build adjacencies or expand capabilities into new areas



Summing Up

Our Competitive Strengths

Expansive healthcare insurance eligibility and paid claims database - ability to normalize data at intake

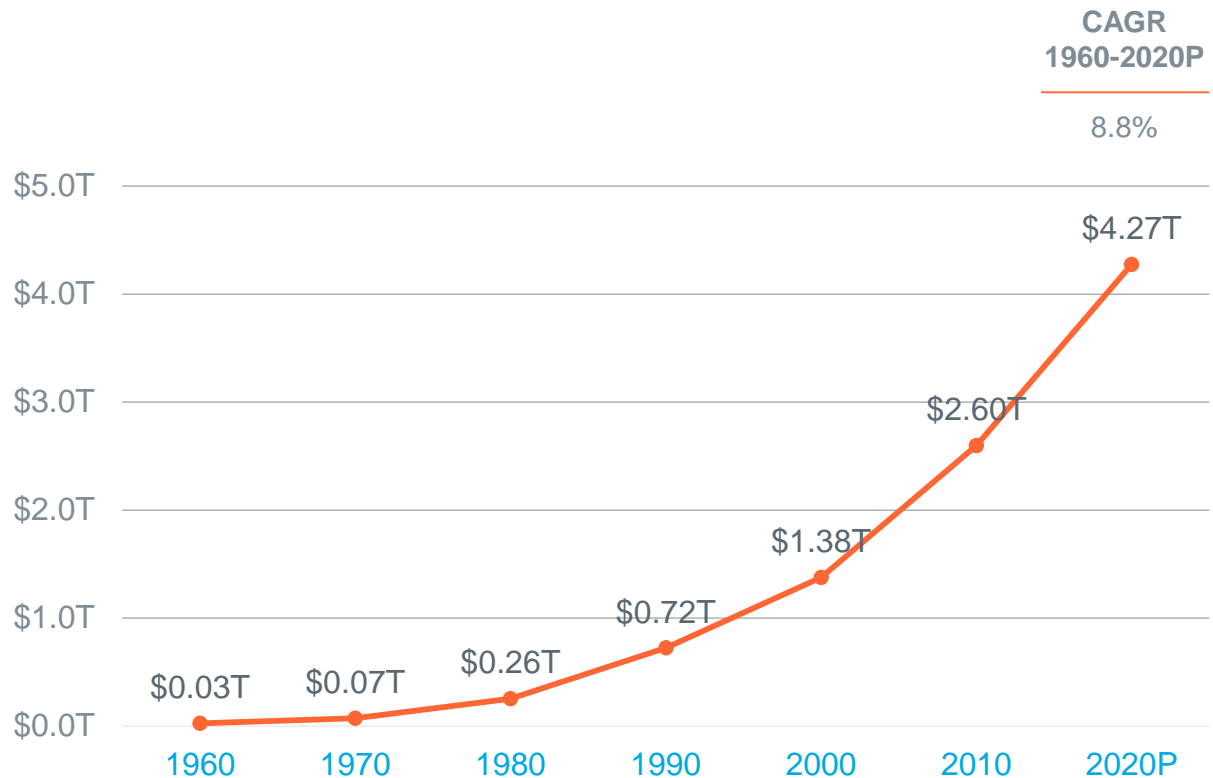
- Deep Medicaid experience and expertise
- Complex algorithms and robust technology platform, built over 40 years, facilitates sophisticated analytics
- Data security expertise: HITRUST Certified¹
- Clinical depth: physicians and nurses across all specialties, with reimbursement and payment policy expertise
- Large installed client base, creating unique distribution channel
- Financial flexibility, including strong cash flow and low leverage
- Seasoned management team

¹ The Health Information Trust Alliance (HITRUST) established the Common Security Framework (CSF) for organizations that create, access, store or exchange personal health and financial information

*Summing Up
Actual Savings
and Cost
Avoidance
Produced
Consistently for
Customers*

National Health Expenditures 1960-2020¹

*Summing Up
Helping
Government and
Commercial
Payers Bend the
Cost Curve*



*Relentless Rise in Healthcare Spending to
19% of GDP by 2020²*

¹ CMS Office of the Actuary, National Healthcare Expenditure Data—Historical and Projections 2008-2024 (July 2015)

² Office of Management & Budget, Fiscal Year 2016 Budget of the U.S. Government (February 2015)



Appendix

- *Company Statistics*
- *Core Products*
- *Q1'16 Market and Product Revenue*
- *Q1'16 Consolidated Statements of Income*



Company Statistics

- Established in 1974
- Publicly traded since 1992 (NASDAQ: HMSY)
- Serving government healthcare programs since 1985
- Serving private health insurers since 2005
- Average employment of 2,270 employees during Q1 '16

Our Core Product Suite: Driving Cost Containment

Claims Paid by the Responsible Party (COB)	Claims Paid Accurately (PI)
<ul style="list-style-type: none">▪ Cost Avoidance▪ Third Party Recovery▪ Casualty & Workers' Compensation Recovery Services▪ Health Insurance Premium Payment▪ Estates & Special Needs Trust Recovery Services	<ul style="list-style-type: none">▪ Improper Payment Prevention<ul style="list-style-type: none">▪ Claim Edits & Analytics (pre- and post-pay)▪ Clinical Claim Review (pre- and post-pay; includes coding validation, appropriate billing, and medical necessity)▪ Prior Authorization▪ Bill Audit▪ Credit Balance Audit▪ Dependent Eligibility Verification

Appendix

1Q' 16 Market and Product Revenue

	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16
	Act	Act	Act	Act	Act	Act	Act	Act	Act
Total Revenue by Market									
State Government	\$ 52.0	\$ 55.1	\$ 60.1	\$ 58.7	\$ 59.8	\$ 57.2	\$ 54.6	\$ 54.5	\$ 50.7
Commercial Health Plan	36.9	44.4	44.6	45.0	43.2	49.3	52.0	58.5	56.0
Federal (without Medicare RAC)	4.1	4.0	5.2	4.3	4.5	4.4	4.9	4.1	4.1
Other	1.1	1.8	2.5	1.4	0.5	2.1	2.4	1.7	0.7
Total Revenue without Medicare RAC	94.1	105.3	112.4	109.4	108.0	113.0	113.9	118.8	111.5
Medicare RAC	10.6	7.3	1.4	2.8	2.3	3.9	4.5	9.7	8.3
Total HMS Revenue	\$104.7	\$112.6	\$113.8	\$112.2	\$110.3	\$116.9	\$118.4	\$128.5	\$119.8
	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16
	Act	Act	Act	Act	Act	Act	Act	Act	Act
Total Revenue by Product									
COB	\$ 66.8	\$ 77.6	\$ 86.6	\$ 81.6	\$ 83.3	\$ 83.0	\$ 84.2	\$ 87.1	\$ 82.9
PI (without Medicare RAC)	27.3	27.7	25.8	27.8	24.7	30.0	29.7	31.7	28.6
Total Revenue without Medicare RAC	94.1	105.3	112.4	109.4	108.0	113.0	113.9	118.8	111.5
Medicare RAC	10.6	7.3	1.4	2.8	2.3	3.9	4.5	9.7	8.3
Total HMS Revenue	\$104.7	\$112.6	\$113.8	\$112.2	\$110.3	\$116.9	\$118.4	\$128.5	\$119.8

(\$ in millions)

Note: Due to rounding, sums of individual items may not equal totals

Appendix

1Q' 16 Condensed Consolidated Income Statement

	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16
Revenue	\$ 110,324	\$ 116,934	\$ 118,444	\$ 128,514	\$ 119,763
Cost of services:					
Compensation	44,067	43,883	43,628	46,694	46,401
Data processing	10,045	10,438	10,023	10,409	9,624
Occupancy	4,007	3,806	4,188	3,765	3,627
Direct project costs	10,478	13,572	12,702	14,776	14,483
Other operating costs	6,738	7,153	6,551	8,453	5,776
Amortization of acquisition related software and intangible assets	7,047	7,047	7,041	7,013	7,013
Total cost of services	82,382	85,899	84,133	91,110	86,924
Selling, general & administrative expenses	19,961	19,283	21,295	22,582	22,930
Total operating expenses	102,343	105,182	105,428	113,692	109,854
Operating income	7,981	11,752	13,016	14,822	9,909
Interest expense	(1,954)	(1,940)	(1,948)	(1,970)	(2,091)
Interest income	11	12	11	15	47
Income before income taxes	6,038	9,824	11,079	12,867	7,865
Income taxes	2,516	4,406	4,217	4,143	3,305
Net income	\$ 3,522	\$ 5,418	\$ 6,862	\$ 8,724	\$ 4,560
Net income per diluted share	\$ 0.04	\$ 0.06	\$ 0.08	\$ 0.10	\$ 0.05
Weighted average common shares, diluted	88,624	88,908	87,792	87,110	84,479
Diluted adjusted EPS	\$ 0.11	\$ 0.13	\$ 0.15	\$ 0.19	\$ 0.14

(\$ in thousands, except per share amounts)

Reconciliation of Net Income to GAAP EPS and Adjusted EPS

As summarized in the following table, earnings per share adjusted for stock-based compensation expense, non-recurring legal expense, amortization of acquisition related software and intangible assets and for the related taxes (adjusted EPS) was \$0.14 for the first quarter of 2016.

	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16
Net income	\$ 3,522	\$ 5,418	\$ 6,862	\$ 8,725	\$ 4,560
Stock-based compensation, net of tax	1,892	2,108	2,008	2,816	2,458
Non-recurring legal fees, net of tax ⁽¹⁾	-	-	-	-	724
Amortization of acquisition related software and intangible assets, net of tax	4,108	3,887	4,462	4,936	4,066
Sub-total	\$ 9,522	\$ 11,413	\$ 13,332	\$ 16,477	11,808
Weighted average common shares, diluted	88,624	88,908	87,792	87,110	84,479
Diluted GAAP EPS	\$ 0.04	\$ 0.06	\$ 0.08	\$ 0.10	\$ 0.05
Diluted Adjusted EPS	\$ 0.11	\$ 0.13	\$ 0.15	\$ 0.19	\$ 0.14

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

¹ In periods prior to 2016, related legal fees were included in operations. For the three months ended March 31, 2015, related legal fees were approximately \$1.6 million, net of tax, or \$0.02 per diluted Adjusted EPS. For the three months ended June 30, 2015, related legal fees were approximately \$0.3 million, net of tax, or \$0.00 per diluted Adjusted EPS. For the three months ended September 30, 2015, related legal fees were approximately \$0.6 million, net of tax, or \$0.01 per diluted Adjusted EPS. For the three months ended December 31, 2015, related legal fees were approximately \$0.9 million, or \$0.01 per diluted Adjusted EPS.

\$ in thousands, except per share data



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