

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

HMSY - Q12019 HMS Holdings Corp Earnings Call

EVENT DATE/ TIME: MAY 03, 2019 / 8:30AM ET



MAY 03, 2019 / 12:30PM, HMSY - Q120 19 HMS Holdings Corp Earnings Call

CORPORATE PARTICIPANTS

Jeffrey S. Sherman HMSHoldings Corp. - Executive VP, CFO & Treasurer

Robert P. Borchert HMSHoldings Corp. - SVP of IR

William C. Lucia HMSHoldings Corp. - Chairman, President & CEO

CONFERENCE CALL PARTICIPANTS

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

Frank Sparacino First Analysis Securities Corporation, Research Division - SVP

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

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

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

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

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the HMSQ1 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded for replay purposes.

It is now my pleasure to hand the conference over to Mr. Robert Borchert, SVP, Investor Relations. You may begin, sir.

Robert P. Borchert - HMSHoldings Corp. - SVP of IR

Thank you, Brian, 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 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 first quarter ended March 31, 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 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 and the accompanying investor presentation posted on our website.



MAY 03, 2019 / 12:30PM, HMSY - Q120 19 HMS Holdings Corp Earnings Call

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

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

Thank you, Robert, and good morning, everyone. We had a solid start to 2019 and are encouraged by the multiple growth opportunities that we are executing on. Our first quarter revenue increased 11% compared to the same period a year ago, excluding Medicare RAC Reserve Release we recorded in the first quarter last year. Adjusted EBITDA was up 17%, once again demonstrating the inherent financial leverage of our operating model. Our operating cash flow increased more than 50% year-over-year.

Our revenue performance was led by 15% growth in Coordination of Benefits and 30% growth in our Total Population Management service line. Product innovation and leveraging our core data assets and analytics expertise continues to squarely contribute to our growth.

In the first quarter, for example, we added approximately \$3.5 million of revenue in Coordination of Benefits from our new, internally-developed platform that provides real time insurance coverage verification. The initial application of this technology-based platform, on behalf of a federal government entity, was to validate prior coverage termination in order to confirm eligibility for new coverage. It relies on our sophisticated matching logic and depth of data and can be utilized in other settings. We are beginning work soon, for example, with one state-based insurance exchange and presenting this solution to other states as well.

Our Total Population Management service continues to gain momentum. We believe that our ability to identify members with rising health risks enables care management, engagement and intervention well before members become higher cost. And our unique behavioral science approach to member engagement is best-in-class, effectively changing members' behavior to take action on their own health. As a result, demand is growing, and we are beginning to gain greater traction across the HMS customer base.

During the first year, we signed our second Medicaid Managed Care plan to leverage our population risk intelligence solution. Both clients now using this solution are affiliates of large national health clients, and these agreements emanated from our successful pilot with the Louisiana Department of Health. These managed Medicaid plans are utilizing our solution to identify members with emerging health risks that require priority attention for care management and member engagement. Some examples of conditions they are addressing include: opioid abuse, addressed pregnancies and children on ADHD medications who are not receiving behavioral therapy.

Because of our large database of Medicaid claims data and our partnership with the State of Louisiana, HMS is bringing a unique historical perspective on newly enrolled members that our customers have not just not seen in the past. This means they can identify, at the point of enrollment, the highest risk members to engage for care management. It's clearly a unique value proposition that we're bringing to the market. Driving member engagement and care decisions enables our clients to proactively close gaps in care with our members in order to help them improve clinical outcomes and heated scores and star ratings. For example, in 1 year, we rapidly deployed a comprehensive set of engagement programs to reach 1 million Medicaid members of an HMS customer with the aim of reducing costs and improving health outcomes. 10 different heated scores and state pay-for-performance measures increased between 2% to 5% for this plan. These increases may sound small, but they represent significant progress with meaningful implications in terms of clinical outcomes. Member retention alone improved by 9% resulting in \$15 million in preserved revenue for the plan compared to previous turnover rates.

Payers and providers are continuing to place greater emphasis on actively addressing social determinants of health, such as housing, food and transportation as well as addiction treatment as key components of value-based care strategies and in recognition of the fact that we do need to treat the whole person to improve clinical outcomes. For our actionable analytics and services, HMS is helping to address social determinants and empower individuals by removing barriers to care.

Separately, we recently kicked off a research project with a digital health research organization based in Australia that will leverage leading U.S. and Australian universities to research issues of critical importance through our health care system and that of other nations. The first track includes research on opioid dependency in an effort to build predictive model to address the crisis. HMS is the lead corporate partner in this initiative, and we expect the researchers also to be commercialized as part of our TPM business line in the future.



MAY 03, 2019 / 12:30PM, HMSY - Q12019 HMS Holdings Corp Earnings Call

On a broader topic, the persistent political dialogue regarding increased access to affordable health care, including Medicare for all, and the ongoing legal challenges to the ACA are expected to continue through the 2020 election cycle and likely beyond. As a leadership team, we remain nimble and continue to keep our focus on the things we can control in order to maintain our strong market position and to address the many growth opportunities in front of us. In fact, we believe our ability to deliver cost containment and clinical outcome improvements will be highly relevant under any contemplated scenario to expand insurance access, if any were to materialize in the market. Of course, we are in a prime position as a trusted partner to both federal and state governments to gain from expanded opportunities around fraud detection, utilization review, consumer engagement and care management as well as wide-ranging advisory services. Our 360-degree view of the health care system can help to significantly bend the cost curve and improve population health. In our recent financial performance, it's indicative of this broad perspective and the impact of our data and analytics capabilities.

Jeff will now provide additional detail on our first quarter financial performance. Jeff?

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

Thank you, Bill, and good morning. We started 2019 with a solid first quarter in terms of total company revenue, adjusted EBITDA, adjusted EPS and cash flow. The 15% increase in Coordination of Benefits revenue was largely a result of yield improvements from the deployment of advanced technology applications. As Bill referenced, a portion of this year-over-year growth can also be attributed to revenue generated from our insurance coverage eligibility work. Due to enrollment patterns, however, this was revenue we anticipated in the first quarter but is now expected to recur during the remainder of 2019.

Our Total Population Management revenue grew 31% in Q1 versus the prior year's first quarter as we are seeing the ongoing benefits of our cross-selling initiatives driving demand for our consumer-engagement capabilities.

Payment Integrity revenue, excluding Medicare RAC, decreased about \$3.5 million from the first quarter of 2018 due in part to the timing of client approvals of new added programs that were slower than expected. It's also important to point out that PI revenue in the first quarter a year ago benefited from some revenue timing delays from the fourth quarter of 2017, so we had a tougher comp this quarterly period. As we've said in the past, our business model does have the potential for some quarter-to-quarter revenue variability. We continue to expect Payment Integrity to be a positive contributor to the double-digit growth expected from our Analytical Services overall for full year 2019 when you exclude Medicare RAC Reserve Release in Q1 of '18. Given the small size of the Medicare RAC program, we have decided to include it in the quarterly PI revenue number. While we do expect Medicare RAC revenue to grow this year, it is not large enough to break out separately.

Our business model continues to show strong operating leverage as adjusted EBITDA increased more than 17% compared to the first quarter of last year with margin up 300 basis points to 27.7%. This was driven by higher-than-average contribution margin from the COB revenue growth, improving leverage from the TPM revenue growth and the continuing impact of our technology investments that offer both revenue yield and cost benefits.

Our total operating costs continue to be well managed and only increased about 2% year-over-year when you exclude the benefit of lower acquisition-related amortization expense. As a reminder, Q1 of '18 was the lowest adjusted EBITDA margin quarter last year, and our full year 2018 margin ended at 27.1%. So there may be some quarter-to-quarter variability depending on revenue source and expense trends through the year.

For many of the reasons I noted earlier, first quarter 2019 adjusted EPS increased 65% from Q1 last year to \$0.28 per diluted share, excluding the discrete tax benefit in this year's first quarter and the Medicare RAC Reserve Release benefiting Q1 of '18. The \$0.07 tax benefit this quarter was due primarily to the exercise of employee stock options as we received an incremental tax deduction as a result of option exercises.

Our cash flow remained strong with operating cash flow of 57% compared to the first quarter of 2018 and free cash flow more than doubling to \$19 million. With cash and cash equivalents of \$214 million at March 31, 2019, and total net debt of under 0.2x trailing 12-month adjusted EBITDA, we continue to have a very strong balance sheet and liquidity profile. Our capital allocation strategy continues to be to invest in our IT infrastructure and enhance our product capability as we execute our existing business strategy to attain our full year goals. We are also working to identify potential strategic acquisitions to complement our Payment Integrity and Total Population Management solution suites.



MAY 03, 2019 / 12:30PM, HMSY - Q120 19 HMS Holdings Corp Earnings Call

There is one note to add about cash balances on the balance sheet. We are reviewing the technical requirements for presentation of client fund lockbox account balances in our financial statements or notes. We expect to decide by the time we file our Form 10-Q. It is possible that certain historical balances or disclosures could be revised or some or all of the balances could be added to the balance sheet with an offsetting liability. As such, it would not impact operating cash flow or results of operations.

We continue to believe HMS is well positioned to achieve our full year objectives and anticipate revenue will step up throughout the remainder of 2019 consistent with our full year guidance.

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

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

Thank you, Jeff. As we move through 2019, we remain laser-focused on achieving our financial performance goals by executing on our strategies to increase sales, expand margins and profitability, continue to innovate and add capabilities as we push further into adjacent markets, and actively engage with and support our entire workforce. I also want to personally thank all of our employees for their efforts in helping us achieve this strong quarterly performance. We look forward to continuing to employ our data, technology and analytics to drive down unnecessary costs and improve clinical outcomes for our customers, their members and the entire health care system.

Operator, we are now ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from the line of Matthew Gillmor with Robert W. Baird.

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

Maybe starting with the COB strength. I think Jeff mentioned that was driven by yield improvements and I know you had the \$3.5 million you also talked about and yield improvements is something that -- and it was always something you're working on, but can give any more details with respect to what drove the stronger growth this quarter?

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

Yes, this is Jeff and I'll start, if Bill wants to add anything. So our overall revenue growth in the quarter did play out as we anticipated. As we noted on the call, COB revenue increased more than 15%. That did come in a little bit higher than we were expecting and really driven by our cost avoidance and post-payment recovery service lines. We're continuing to deploy advanced technology in our analytics and, as we continue to move more data into our data lake and improve our analytics, we're just continuing to see better yield results. So I think the investments we have made and continue to make in capital deployment and as we said as we started this year, we expected our CapEx to ramp up, that we're going to continue to see the benefits of that. Again, we don't give quarterly guidance because sometimes it's hard to predict quarter-to-quarter when revenue is going to come in from those deployments, but we saw particularly strong Q1 and still expect to see COB growth throughout the remainder of the year.

MAY 03, 2019 / 12:30PM, HMSY - Q120 19 HMS Holdings Corp Earnings Call

William C. Lucia - HMSHoldingsCorp. - Chairman, President & CEO

And I would just add that because of our large client base that utilizes our Coordination of Benefits product line, we've always delivered significant value and, of course, returns of 15 to 1 ROIs, but our advisory services team is starting to do more consulting around the edges to make sure that our clients are better using our Coordination of Benefits product. The Coordination of Benefits between Medicaid and third-parties can be complex depending on the type of patient, the coverage of the third-party, and so we're spending a lot more time in a more intimate fashion intimate fashion with a number of our clients making sure they're getting it right once we give them appropriate data. So we're seeing a slight benefit from having onboarded our advisory services into the COB product line.

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

And then as a follow-up, I was curious if the extension of TPL requirements to the CHIP population, and I guess that started last year, but is that having any impact? And maybe just update us on where those efforts are? Are states complying at this point?

Jeffrey S. Sherman - HMSHoldingsCorp. - Executive VP, CFO & Treasurer

We have seen some benefit from that, Matt, probably not a benefit we'd specifically call out. As we went through that a little bit, there were some states that were allowing us to do TPL work on those populations, historically. So I would characterize it as it wasn't net positive for us and we're certainly continuing to focus on driving more of the states that are allowing us to do to do. But I think it's a positive, but it wasn't -- it's not a material positive we would necessarily discretely call out.

Operator

And our next question will come 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, can you talk a little a bit more about the new platform you discussed about the real time insurance coverage verification? I'm curious, it sounds like you've only got one customer there, but it's already \$3.5 million revenue and you're presenting that to a new state-based exchange. What's the addressable market for that? And other competitive set, if there are any, or alternative solutions for something with it?

William C. Lucia - HMSHoldingsCorp. - Chairman, President & CEO

Well, so let me start with a little bit about the competitive landscape. There are others who can verify coverage. Obviously, this is done at scale for hospitals and other providers when a person actually presents coverage. Our solution is more met towards if a person does not present coverage or if they present coverage that they believe is -- or prefer to be terminated, this is, of course, important to state exchange because the coverage has to have terminated more than 90 days before they're allowed to apply for exchange-based coverage. What we do -- or actually, the match against our database, consider this very, very large database of insured lives that we get on behalf of all of our clients to these trading partners. So in this -- in the transaction, so during the time the person is applying for coverage, we do that match against the millions of records and we do the verification. So what's returned to them is potentially new insurance coverage they did not know about for the patient or member or consumer who's applying for coverage. So the applicability is really against any insurance exchange but also can be moved upstream to any of our customers at the point of enrollment or potentially in collaboration with our state Medicaid agencies at hospitals for their Medicaid population. So there's a much broader application for this near real time and near-time service than there is in the general market. And there is no direct competitor that has a database with all the matching to plug into the verification solution.

MAY 03, 2019 / 12:30PM, HMSY - Q12019 HMS Holdings Corp Earnings Call

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

Okay. Appreciate it. It's helpful. And then in regards to the total population health solutions, obviously seeing great growth and it sounds like increased demand. Can you talk a little bit more about the sales force investments you're putting behind that whether it's capital or just a number of sales force? Or how you're cross-selling that to your health plan customers, in particular?

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

So actually, this year, we are making a significant investment in our sales force, both at senior levels, people who've had very consultative relationships with large health plans, all the way to more junior people who understand that product line in a very operational manner, so to speak. As we have expanded our services from COB and all of these flavors, the Payment Integrity and all of these types of products now to the Total Population Management with 3 core products, and I say core because they also have different flavors of those products. With those 3 products integrated, you really need a sophisticated sales organization to sell that integrated solution and TPM. So this is a year of helping to retool and grow our sales force and then, of course, the appropriate training behind it, so that they're ready to sell to people who within health plan particularly but also state government and other entities but people who they may not have sold to in past. We think that will further fuel growth in the TPM space.

Operator

And our next question will come from the line of Ana Gupte with SVB Leerink.

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

Could I follow up on the Payment Integrity, which was a little slower, I hear you about the comps and all of that but I'm just trying to get a sense for -- from a customer's standpoint, is there something going on by payer mix in that they're slowing down the adoption? Or is something happening from a competitive standpoint? You have like 20 logos as I understand and with one of your competitors being taken private and perhaps more disruption and so on, has that not given you an advantage in the marketplace at this point?

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

Ana, this is Jeff. I'll start. So first, I would say, we did have 3 new PI logos, closed sales in Q1 of this year. So I think we are seeing some traction there. Then I just want to point out, so Q4 of 2018 was particularly strong with PI. Revenue was up 40% over Q4 of '17 when you include Medicare RAC. So as I said in my prepared remarks, Q1 of '18 benefited from delays in revenue from Q4 of '17. So just from an OpEx perspective, we had a difficult comp in the first quarter of this year. And we know PI revenue can be lumpier from quarter-to-quarter just due to the nature of the work we do and the ability of our customers to impact both the type of audits and the number of audits we perform. So we were anticipating some improvement on specific edits, they did not occur as soon as we expect it in the quarter. But I think as we Bill said, we're continuing to invest in our people, our processes and technology to help drive PI revenue growth and expect it will contribute to the overall growth in analytical services in 2019.

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

And in terms of, if this has -- it sounds like it's more about the timing of onboarding the applications even within an existing customer because you're seeing you did get 3 new logos, which is impressive. Is it also -- when you say the kind of work you do, the lumpiness, is it because of recognition of savings, which is perhaps limiting your ability to recognize the revenue? Or is it also that your throughput -- could you have the AI and machine learning and that's driving capacity improvements. So is it more of an internal issue? Or is it something that's happening on the customer's side? Doesn't sound like it's a competitive issue from what you're saying.



MAY 03, 2019 / 12:30PM, HMSY - Q120 19 HMS Holdings Corp Earnings Call

William C. Lucia - HMSHoldingsCorp. - Chairman, President & CEO

Yes. I don't think it's a competitive issue. I would to say 2 things. Number one, it oftentimes just takes a long time to get edits approved but once we get them approved, can go back in time and run the analytics on those edits. So I think that's one thing. And I think just converting the sales into revenue, we have continued to work on that but PI still tends to have the longest time period because it is customized. Again, when we do a COB— new logo for COB implementation, our customers don't ask us or tell us how to do the work. We set up new customers and we do the work based upon our analytics and infrastructure. With Payment Integrity, as we've said in the past, every customer is different and want to be customized differently. So I don't think we're seeing any competitive dynamics. I do think we're seeing a lot of opportunity. As we look at our new expansion sales, both for 2018 and first quarter of 2019, a good percentage, 40% to 50% of our contract value is occurring in PI and so obviously, our focus continues to shift now on converting that into revenue as quickly as possible.

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

And how much of your business now is moving from retrospective to prospective? Or are you -- are they doing both? And what's the split of the mix right now that you have? And what's your target you think?

Jeffrey S. Sherman - HMSHoldingsCorp. - Executive VP, CFO & Treasurer

We're doing both. Still the vast majority is retrospective on a retrospective basis. We are -- as we're continuing to invest in technology, we'll expect that to move more on a prepay basis over time. It is still very complex. Our customers are very interested in it, but as we've said in the past, have been slower to move it to just because of the complexity of their claims payment systems and how we integrate into their systems. So I would expect we'd see that shifting over time, but as I look at 2019, the vast majority is still going to be coming from reviews on a retrospective basis.

Operator

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

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

Congratulations on a strong start to the year. Just on the population management, the 30% plus growth there, any additional details you can provide? Was there anything onetime in that? And then how should we think about that grow throughout the rest of the year?

Jeffrey S. Sherman - HMSHoldingsCorp. - Executive VP, CFO & Treasurer

So I would say, Q1 of last year, in TPM, was our lowest revenue quarter, Richard, and our revenue starting stepping up throughout the year. So in TPM, unlike PI, we had certainly had an easier comp in Q1 of this year. So again, we expect TPM is going to be a strong contributor to Analytical Services' growth throughout the year. And it's really primarily driven by our engagement products and -- our consumer engagement product. And we have a recurring revenue stream. As we move more to subscription revenue now in that product suite from our Biza product suite, that continues to increase. And we're continuing to add new logos on transactional revenue as well. So I think we are seeing good traction there. Our risk intelligence product, as Bill mentioned, we have our second commercial customer with a large national carrier in the State of Louisiana. We will continue to get good intelligence from that and as they help us kind of drive product capabilities that they need and what they're looking for. So risk intelligence -- our risk intelligence product we expect will see continued growth. Again, we said we're expecting a huge number from a materiality perspective but we are gaining traction in the marketplace from that as well.



MAY 03, 2019 / 12:30PM, HMSY - Q120 19 HMS Holdings Corp Earnings Call

William C. Lucia - HMSHoldingsCorp. - Chairman, President & CEO

And then I would just add that in the first quarter, we rolled out our incentive platform. So a number of health plans using the incentive platform to get people to do things, to get their annual physical, to get their A1c tests. We've built an entirely new incentive platform that overcomes 2 of the biggest challenges faced by these – typically faced by our clients today. One is getting people to go and do things. The other is getting the right people to go and do things. You don't want incentives given to everybody, particularly people who historically do get their mammogram, their physical or whatever their preventative treatment is. So our thoughts on resolving incentive activity to the consumer versus requiring them to self-serve. And also, our platforms' clinical propensity scoring sort of derives our market-to-member segmentation. So customers that we serve can prioritize their marketing and their incentive spend to those individuals who really need that – truly need that incentive as a push to seek health care. So we rolled this out in Q1 and that gave us some benefit in the quarter as well.

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

Okay. And so just to follow up on the second national player in the Louisiana market. I was wondering if you could just like help us understand in terms of, like what the size of the contract is maybe for something like that, I know it's just in Louisiana, but then the size of that? And then how are your customers thinking if this is the second national player? Are they looking at taking this and rolling it out to other states?

William C. Lucia - HMSHoldingsCorp. - Chairman, President & CEO

So first on pricing. Just -- we won't talk specifically about pricing, but it is price on a per member per year basis, which is very consistent with analytics in the payers' space. The Louisiana market and the players in that market who participated in the pilot have got a early adapter pricing, also the plans that will help us from a product roadmap perspective, what needs to be done to make this even more compelling. Our goal is that after the clients have used this for a specified period of time and will report back to us, the -- both the clinical cost savings they've achieved, the better outcomes, the better compliance with state policy or Medicaid policy, that we'll be able to both use that in our marketing materials go forward, to open up new markets, but we believe that these clients will look to expand it within their large marketplaces across other states.

Operator

And our next question will come from the line of Stephanie Demko with Citi

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

Congrats on the quarter. So Bill, I'd like to touch on your social determinants of health strategy that you mentioned. Just given the need for established infrastructure and even capital necessary to shift some of these determinants, do you think you'll be a fully outsourced player? Or will you own play in certain areas this trend like TAC?

William C. Lucia - HMSHoldingsCorp. - Chairman, President & CEO

That's a good question. So we do believe that all of the large plans, particularly those serving government, are extremely focused on, a -- first is understanding the social determinants. So that's one of the initiatives -- or one of the products that we have both through our interactive voice response discussions with members. We have questions related to social determinants or onboarding calls we do for members and it's data that we gather for these health plans. I can tell you that sometimes the health plans don't have the capacity in their systems to retain that data. So part of our job is to retain that data about that member in our population risk intelligence tool. Population risk intelligence tool then, when we run a State of Health analysis across the population, we're able to say that these are members we will incorporate those social determinants, lack of housing or lack of food, safety at home, no transportation and a multitude of others into the algorithms, so that when they see the predictive analytics, they're able to see then we've set this person as a higher or rising risk and they have these barriers to care. The next step in our product maturity is really to integrate with those entities that provide those close those gaps in care, whether it's a transportation provider, it could be a --



MAY 03, 2019 / 12:30PM, HMSY - Q120 19 HMS Holdings Corp Earnings Call

it could be making sure that the member knows the closest food bank, knows the -- a transportation provider they can use, us potentially scheduling a transport for them, getting them into a shelter, if homelessness is an issue, and then having the technology either, HMS will -- or through partners that will close that loop. The challenge in the industry today is that many of the payers may have databases that are publicly available. They tell them within an 8-mile radius of that patient how many food banks there are and where they are, but what they don't know is how to get them there, and they also don't know if they actually went there and picked up healthy food. So that's the problem that ultimately we are seeking to sell with social determinants to help book our data and then data we buy about individuals and populations.

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

And how would you charge for something like this? Given you're having -- you're providing the data portion of it, but the services component is just -- it's a little bit more than moving target?

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

I believe though we may -- we will most likely be in some sort of spread it across a per member per month per member per year basis. We could get into some licensing situations if it's a platform as a service that we sell and then maybe transactional pricing at some of the -- if we're playing the part of a care enabler where we're actually selling the transaction and the person to a food bank and getting back a transaction, think of a claim, but a pseudo-claim because today there's no claim for food or homelessness, for us to be able to perform that function, it could be a transactional as well.

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

Yes. And I think our pricing strategy will evolve over time as the value proposition gets validated by our customers.

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

Understood. Reimbursement is important. One quick one just on the model. Just given the yield improvements and CHIP program this year, should we think of COB as more of a double-digit grower?

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

Yes. We didn't give individual line item growth, Stephanie, by product line. We kind of gave ranges. So we're not updating guidance. I mean COB grew 8% in 2017. It grew 4% in 2018. We're obviously off to a very strong start this year. We think it's going to be an important contributor to the growth of the company in that guidance range that we've provided.

Operator

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

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

Bill, a few more questions on your machine learning and NLP efforts. Can you trace back to these efforts, I guess, can you trace back some of the yield improvements you're getting directly to these efforts, number one? And number two, can you frame to us in terms of the opportunity you have to leverage these technologies to expand your yield, where you are right now versus where do you think you'll be in the next few years?



MAY 03, 2019 / 12:30PM, HMSY - Q120 19 HMS Holdings Corp Earnings Call

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

Yes. So that's a great question. So I would say that we can trace back to our costs, our good job of cost control, as Jeff mentioned, very, very low operating expense costs. In fact, headcount has probably been flat, and with an 11% revenue increase and have a headcount flat -- relatively flat, a lot of it is about automation functions that a human is doing, so that we can free up our people to do higher-level, higher-skilled things. The other is, obviously, we've talked about in the past more throughput in the PI space. So as we have the volume and add these sales that we close, pickup and are implemented, we're able to do more but less through the use of natural language processing and AI.

And then, I would say, in the Coordination of Benefits space and in TPM when it comes to the AI and machine learning and as in our consumer engagement tool, we'll continue to see improvements. And there's yields in every product, right? There -- in COB, we're using machine learning now in our matching logic so that it's learning how to find good matches and actually exclude bad matches. We talked about how we use it in PI. And then, of course, in the consumer engagement space, the AI and machine learning that's built into the -- particularly the voice response system that basically gets better at understanding individual's responses and then taking the next right action in our communication with them. So I would say that this will continue to be a key contributor to our ability to manage our operating expense line as well as increase yields.

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

That looks very encouraging. Maybe on the data that you have in your data lake, do you have exclusive rights on that data? Or is there an opportunity to expand that data set through partnerships or acquisitions?

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

So all of the data -- I think 90% of the data we use today to get our work done, it's our clients' data. They entrust us with it. There are times that they allow us to use it for other purposes. So I've mentioned our research initiatives. We have about half a dozen and growing customers who allow us to use the de-identified minimum dataset for research. There is data that we acquire as well, particularly in our TPM environment to better understand more about populations and the end consumers and extract from that or derive from that behaviors about consumers. We are very active in discussions with HHS and other parties about access to data in general and how that can improve across the health care landscape. And I say access, I say access with appropriate rights and with appropriate the users. Then using that data to improve health outcomes, which is, of course, one of our major goals.

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

And as we view individual customer deep dives, Mohan and figure out individual unique yield contributors by customer, we can certainly use those earnings across our customer base. So we have seen this continued yield improvement as we do individual customer reviews, but our customers even in the COB space sometimes have certain things they don't want to do or exclusions. And if we can modify those or improve those, we can drive incremental yield as well. So we have dedicated teams looking at that in the company.

Operator

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

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

And just a couple here. I guess, maybe the first one, on the \$3.5 million that you got from the real time eligibility, insurance verification solution, should we think about that as -- I think I got your comment that you don't expect it to recur in Q2, let's say. Should we think about that as a seasonal type of revenue? Was it -- I assume it wasn't license revenue, but I guess, that's question and if we could start there.



MAY 03, 2019 / 12:30PM, HMSY - Q120 19 HMS Holdings Corp Earnings Call

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

So it was an eligibility, as Bill said, kind of eligibility-type verification, Jamie. And so with government programs, typically you have approved funding amounts for the work that we do, and so I think, as I said, it did come in a little bit stronger than we expected. We were expecting most of the work had to occur in Q1. And so you should expect it to be more enrollment-driven. But as we look to expand utilization of the product, we're hoping it could be applicable year-round as individuals are looking to sign up in exchanges.

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

Is that something that – and obviously it's not a big dollar amount right now. But as we think about, let's say, 2020 with that same customer, would you expect that same contract to recur again next year?

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

It would be our hope given our performance that it would and that we might be able to see it expand as well, as I said, not just to special enrollment periods but for open – for enrollment throughout the year.

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

Okay. And then my other question just on G&A or SG&A. On Non-GAAP basis, it was a really tight number during the quarter. Just curious if there was anything kind of unusual that kept that down? And how we should think about that number as the rest of the year turns?

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

Nothing unusual in the quarter other than to say our stock comp is a little bit higher in Q1, and so a portion of that, as we've said, with equity grants issues in Q1, that our stock comp was going to be higher in Q1 and trail down throughout the year. Nothing else that I would point out. I mean, pretty consistent with it coming off the Q3 into Q4 range in terms of SG&A. We did have obviously some other one-time items in the second quarter of 2018 that impacted SG&A.

Operator

And our last question will come from the line of Frank Sparacino with First Analysis.

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

Maybe just one for me from a macro quality perspective, Jeff. While I don't think most people care about Medicare for all to ever become reality, but clearly, there's momentum for expanded role of Medicare in a variety of different ways. And just trying to figure out from your perspective, how much could Medicare expand is that a positive for you? And just maybe broadly speaking from a quality perspective, what concerns you or excites you?

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

Yes. So I guess, in general, philosophically, I agree there is a need to expand access to affordable quality health insurance coverage. And we know that this issue will always be or certainly, for the foreseeable future, be a key part of the national political debate obviously, through the current election cycle and will stay in the news for quite some time even beyond 2020. I think it's interesting what happened this week with the CBO report.



MAY 03, 2019 / 12:30PM, HMSY - Q120 19 HMS Holdings Corp Earnings Call

So CBO did not actually price Medicare for all, but what it did was it highlighted, I believe, for anyone who has understanding on this, what the massive complexity is to influence a -- what would be a single-payer solution under Medicare for all and the challenges of doing that, the magnitude of getting that done in any period of time, let alone a reasonably short period of time. The problem today is to freeze Medicare for all sounds simple, but really the details are really complex. And the one extreme of a single payer with no private insurance market and mostly -- most people believe that's an unlikely outcome as do we. So there are numerous other legislative proposals to expand access that are out and/or will be coming out for consideration. But are other areas that might be attractive to -- attractive like a voluntary Medicare buy-in at age 55 or even a Medicaid buy-in. But through this process, our team will continue to monitor various proposals and, of course, our government relations team will work closely with those in Congress and clearly those in states where they are very concerned about possibility of modifications to the Medicaid program.

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

And I would just add, the public commentary about the Medicare trust fund in just overall funding levels and pressures on state Medicaid budget as well, overall we still view it as a very good macro trend for us. I mean, as the cost pressures continue to build, even in coverage expanding, it's got to be paid for and there's going to be cost pressures that exist in this system both at the governmental level and the commercial health plan level and -- on overall level for that matter, they all point to meeting our services even more. So I think the overall macro picture for us, we believe, continues to be very good with that cost continuing to increase at a faster level than inflation and our customers, government, commercial and employers looking for solutions to help in that cost curve. So we like where we see sit in the channel to help them do that.

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

I think the only thing I'll add is today about 70% of Medicaid members are in a health plan are happy with that for the most part. 1 in 3 of seniors have sized out for Medicare Advantage. They're happy with that with the added benefits they get from that health plan. And then, employer slots coverage -- covers just about 150 million Americans. So it's really pretty hard for us to imagine the scenario for these arrangements are roughly abundant without a solution that really makes sense politically and financially.

Operator

Thank you. And I'm showing no further questions at this time. So now, I will hand the conference back over to Mr. Lucia for any closing comments or remarks.

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

Well, thank you all for your continued interest in HMS and our performance. We look forward to speaking with you again on our second quarter call. Have a wonderful day. Thank you.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This does conclude our program, and we may all disconnect. Everybody, have a wonderful day.



MAY 03, 2019 / 12:30 PM, HMSY - Q120 19 HMS Holdings Corp Earnings Call

DISCLAIMER

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

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

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

©2019, Thomson Reuters. All Rights Reserved.