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Q1 2012 Investor Call

April 27, 2012

### Safe Harbor Statement

This presentation contains "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Such statements give our expectations or forecasts of future events; they do not relate strictly to historical or current facts. Forward-looking statements can be identified by words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes," "will," "target," "seeks," "forecast" and similar expressions and references to guidance. In particular, these include statements relating to future actions, business plans, objects and prospects, and future operating or financial performance. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. We caution you therefore against relying on any of these forward-looking statements.

Factors that could cause or contribute to such differences include, but are not limited to: government regulatory, political and budgetary pressures that could affect the procurement practices and operations of healthcare organizations; changes in the United States healthcare environment, including as a result of the pending Supreme Court decision on the ACA; the development by competitors of new or superior products or services; the emergence of new competitors, or the development by our clients of in-house capacity to perform the services we offer; all the risks inherent in the development, introduction, and implementation of new products and services; our ability to manage our growth and its demands on our resources and infrastructure; our ability to successfully integrate our acquisitions; our ability to retain clients or the loss of one or more major clients; client dissatisfaction or early termination of contracts triggering significant costs or liabilities; our compliance with the covenants and obligations under the terms of our credit facility and our ability to generate sufficient cash to cover our interest and principal payments thereunder; variations in our results of operations; negative results of government reviews, audits or investigations to verify our compliance with contracts and applicable laws and regulations; changing conditions in the healthcare industry which could simplify the payment process and reduce the need for and price of our services; our ability to continue to secure contracts through the competitive bidding process and to accurately predict the cost and time to complete such contracts; our failure to comply with laws and regulations governing health data or to protect such data from theft and misuse; and, our ability to maintain effective information systems and protect them from damage or interruption. A further description of these and other risks, uncertainties, and related matters can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which is available at www.hms.com under the "Investor Relations" tab. Any forward-looking statements made by us in this presentation speak only as of the date of this presentation. Factors or events that could cause actual results to differ may emerge from time to time and it is not possible for us to predict all of them. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

#### **Use of Non-GAAP Measures**

This presentation contains non-GAAP measures. A reconciliation of these measures to GAAP measures is set forth in our press release issued on April 27, 2012, which is available under the Investor Relations Tab on the Company's website (www.hms.com).

### Discussion Outline

- Financial Performance
- Guidance
- New Business
- Medicaid RAC
- HDI Update
- Strategic Outlook



## Consolidated Statements of Income

(\$ in thousands except per share amounts)		Three months March 31	Percentage Change	
	20	112	2011	
Revenue	\$ 10	7,314 \$	82,457	30%
Cost of services:				
Compensation	3	9,276	31,311	25%
Data processing		6,894	4,982	38%
Occupancy		4,120	3,808	8%
Direct project costs	1:	2,843	9,589	34%
Other operating costs		5,127	4,214	22%
Amortization of acquisition	elated software			
and intangibles		8,149	1,740	368%
Total cost of services	5 7	6,409	55,644	37%
Selling, general & administrative	e expenses 1	4,864	10,704	39%
Total operating expe	nses 9	1,273	66,348	38%
Operating income	1	6,041	16,109	0%
Other income/(expense)		4,093)	269	1622%
Income before income taxe	s 1	1,948	16,378	-27%
Income taxes		4,905	6,562	-25%
Net income	\$	7,043 \$	9,816	-28%
Basic income per common sha	re data:			
Net income per basi		0.08 \$	0.12	-33%
Diluted income per common sh				
Net income per dilut	ed share \$	0.08 \$	0.11	-27%
4 Adjusted Diluted EPS	\$	0.16 \$	0.14	14%

### **Condensed Balance Sheets**

	March 31	, December 31,
(\$ in thousands)	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 107,2	50 \$ 97,003
Accounts receivable, net of allowance of \$1,167 at March 31, 2012		
and \$1,158 at December 31, 2011	102,2	112,505
Prepaid expenses and other current assets	30,0	16 20,700
Total current assets	239,5	25 230,208
Property and equipment, net	126,6	127,177
Other non-current assets	499,1	504,566
Total assets	\$ 865,3	\$ 861,951
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 28,7	28 \$ 40,546
Contingent payables	2,3	2,300
Current portion of term loan	21,8	75 17,500
Total liabilities	52,9	03 60,346
Long-term liabilities:		
Term loan	323,7	332,500
Other liabilities	76,6	15 77,868
Total long-term liabilities	400,3	95 410,368
Total liabilities	453,2	98 470,714
Total shareholders' equity	412,0	391,237
Total liabilities and shareholders' equity	\$ 865,3	§ 861,951

### Condensed Statements of Cash Flow

(\$ in thousands)

Three	Month	S	End	ed
	March	3	1	

	2012	2011	
Net income	\$ 7,043	\$ 9,816	
Net cash provided by operating activities	15,619	17,850	
Net cash used in investing activities	(10,833)	(5,100)	
Net cash provided by financing activities	5,471	8,647	
Net increase in cash and cash equivalents	10,257	21,397	
Cash and cash equivalents at beginning of period	97,003	94,836	
Cash and cash equivalents at end of period	\$ 107,260	\$ 116,233	

# 2012 Guidance

	2011 Actual	Prior 2012 Guidance	Revised 2012 Guidance
Revenue (\$ millions)	\$364.0	\$520.0	\$500.0 - \$515.0
% change Y/Y		42.9%	37.4% - 41.6%
GAAP EPS	\$0.55	\$0.65	\$0.58 – \$0.64
% change Y/Y		18.2%	5.5% - 16.4%
ADJUSTED EPS	\$0.66	\$0.98	\$0.91 – \$0.96
% change Y/Y		48.5%	37.9% – 45.5%

### Q1 Sales: State Government

#### New

- California Medicaid RAC
- Iowa CHIP
- Minnesota State Employee Plan
- New Mexico Child Support services

### **Extensions/Expansions**

- Colorado: Pharmacy cost avoidance
- Missouri: Credit balance audits
- North Carolina: CHIP COB
- North Dakota: Child Support services
- New York: Eligibility services



# Q1 Sales: Managed Care

#### New

- Presbyterian Health Plan, NM
- Community Health Choice, TX
  - Fraud, Waste and Abuse
  - Clinical Audits

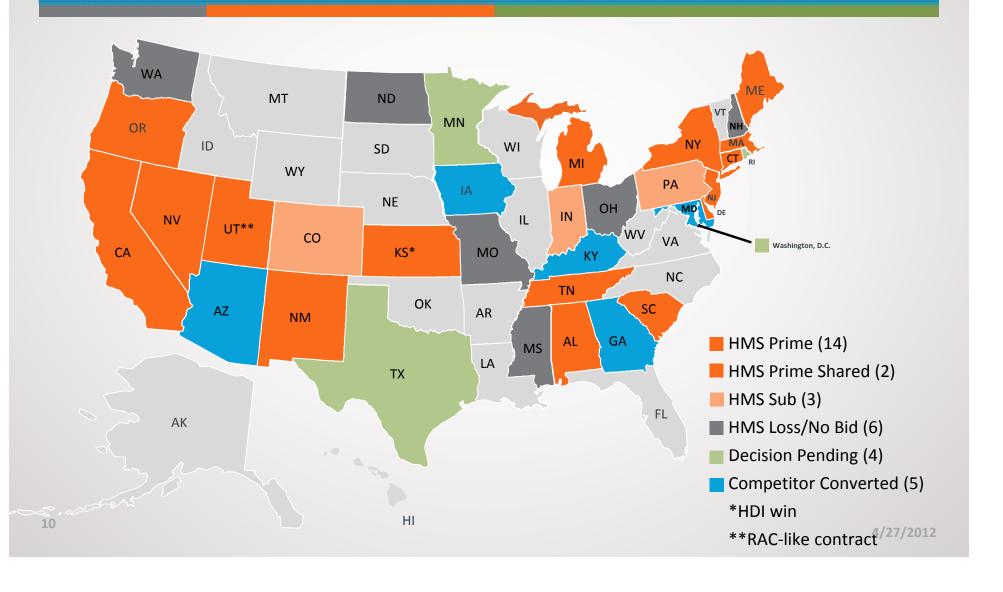
### **Extensions/Expansions**

- Coventry: Kansas, Missouri
- Driscoll Children's Health Plan: COB
- Excellus Health Plan: Rx Rebate Audit
- Molina Healthcare: Medical bill audit and complex reviews (HDI)
- United Healthcare: Expanded cost avoidance

410K Medicaid managed care lives sold in Q1



### Medicaid RAC Status



# HDI Update

Strong first quarter performance

Packaging HMS's services for HDI commercial clients

Introducing HDI services to HMS clients

Leveraging HDI technology platform for HMS government and managed care clients

# Strategic Outlook

- HDI performing as planned
- Medicaid continues to grow
- Strong competitive advantage in developing Medicaid RAC market
- Continued bipartisan focus on fraud, waste, and abuse
- Emerging health insurance exchange opportunity



