

Q3 2014 Investor Call

November 4, 2014

Speakers

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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, objectives 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: variations in our results of operations; changes in the U.S. healthcare environment and steps we take in anticipation of such changes; regulatory, budgetary or political actions that affect procurement practices; our ability to retain clients or the loss of one or more major clients, including through our failure to reprocur a contract or the reduction in scope or early termination of one or more of our significant contracts; our ability to effectively manage our growth to execute on our business plans; the risk that guidance may not be achieved including but not limited to the risk that we may not achieve non-Medicare margin expansion; the risk that HMS will not receive a contract award for any current or future procurement or reprocurement or that either or both may be delayed; the risk of negative or reduced growth rate of spending on Medicaid/Medicare, simplification of the healthcare payment process or programmatic changes that diminish the scope of benefits; the risk that CMS may not support the RAC program, may change the RAC program and reduce future fees, and may require repayment of certain prior fees; 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; 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 failure to comply with laws and regulations governing health data or to protect such data from theft and misuse; our ability to maintain effective information systems and protect them from damage or interruption; restrictions on our ability to bid on/perform certain work due to other work we currently perform; our ability to successfully integrate our acquisitions; 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 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; and negative results of government or client reviews, audits or investigations to verify our compliance with contracts and applicable laws and regulations. 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, 2013, which is available at www.hms.com under the “Investor Relations” tab. 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. Any forward-looking statements are made as of the date of this presentation and we do not undertake an 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.

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Q3 Highlights

- Medicaid expansion continues to fuel commercial and state government revenue growth – 3.4 million lives added to customer eligibility data in Q3
- State government market revenue increased 21% Y/Y
- Commercial market revenue increased 18% Y/Y
- Medicaid Coordination of Benefits revenue increased 29% Y/Y
- Total operating expenses declined by \$6 million or 6% Y/Y
- On track to meet 2014 non-Medicare RAC growth targets
 - 10-11% revenue growth
 - 5-6% margin improvement

Consolidated Statements of Income

(\$ in thousands, except per share amounts)

Three months ended	30-Sep-14	30-Sep-13	% Change	30-Jun-14	% Change
Revenue without Medicare RAC	\$ 112,395	\$ 94,725	19%	\$ 105,308	7%
Medicare RAC revenue	1,401	33,029	(96%)	7,253	(81%)
Total revenue	113,796	127,754	(11%)	112,561	1%
Cost of services	80,515	86,782	(7%)	82,095	(2%)
Selling, general & administrative	19,341	19,689	(2%)	17,908	8%
Total operating expenses	99,856	106,471	(6%)	100,003	(0%)
Operating income	13,940	21,283	(35%)	12,558	11%
Net interest income (expense)	(1,950)	(2,300)	(15%)	(1,927)	1%
Income before income taxes	11,990	18,983	(37%)	10,631	13%
Income taxes	5,040	7,475	(33%)	4,593	10%
Net income	\$ 6,950	\$ 11,508	(40%)	\$ 6,038	15%
Net income per diluted share	\$ 0.08	\$ 0.13	(38%)	\$ 0.07	14%
Diluted adjusted EPS	\$ 0.14	\$ 0.20	(30%)	\$ 0.14	0%
Weighted average common shares, diluted	88,233	89,167	(1%)	88,092	0%

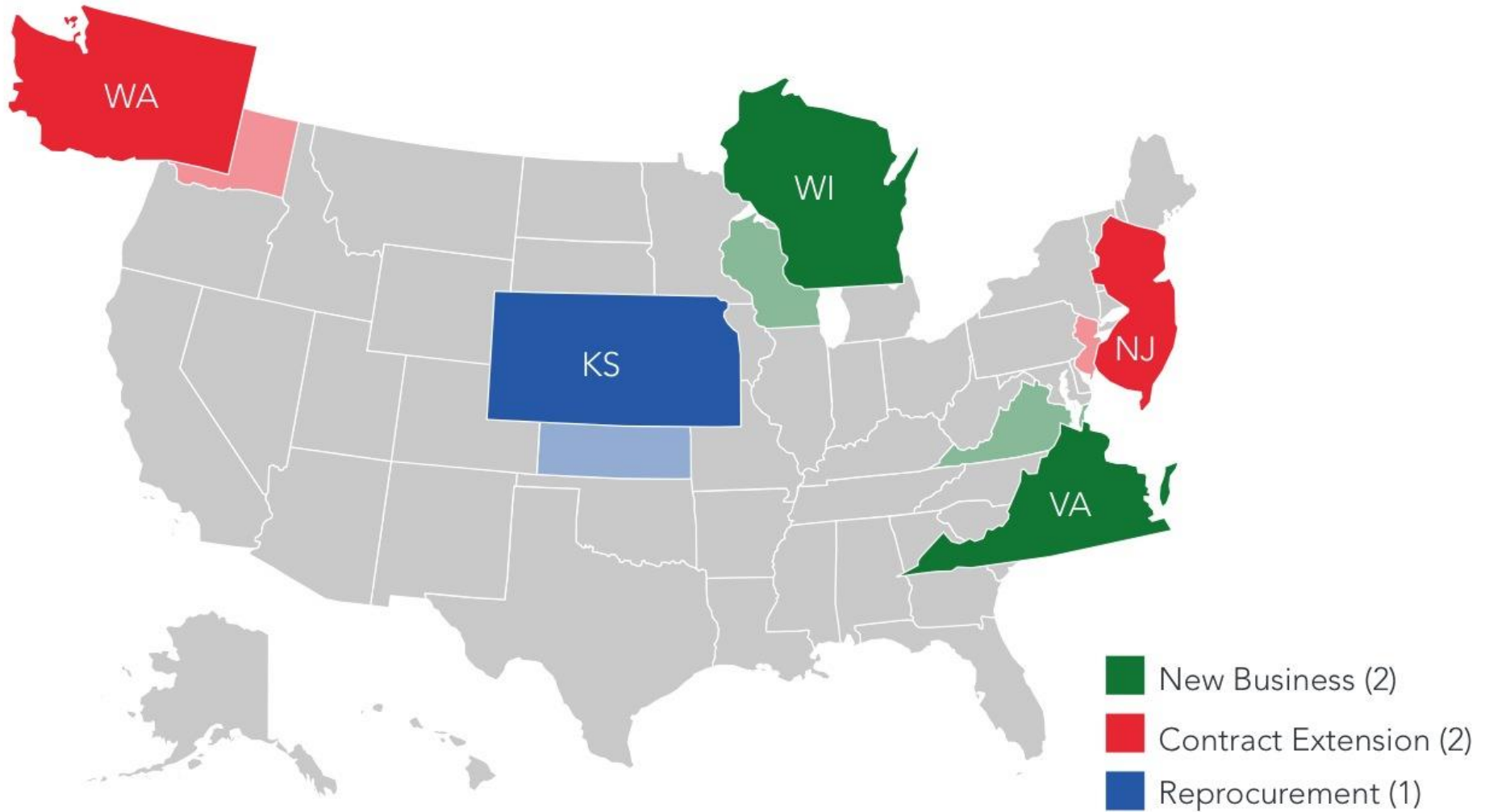
Market and Product Revenue

	Revenue YOY QTR 3				Revenue Sequential Quarter			
	14Q3 Act	13Q3 Act	Δ		14Q3 Act	14Q2 Act	Δ	
			\$	%			\$	%
Total Revenue by Market								
State/Medicaid	60,060	49,719	10,341	20.8%	60,060	55,091	4,969	9.0%
Federal (excl. MC RAC)	5,209	4,324	885	20.5%	5,209	4,002	1,207	30.2%
Commercial	44,553	37,815	6,739	17.8%	44,553	44,443	110	0.2%
Other	2,572	2,867	(295)	-10.3%	2,572	1,772	800	45.1%
Total Revenue w/o MC RAC	112,394	94,724	17,669	18.7%	112,394	105,308	7,086	6.7%
MC RAC Revenue	1,401	33,029	(31,628)	-95.8%	1,401	7,253	(5,852)	-80.7%
Total HMS Revenue	113,795	127,754	(13,959)	-10.9%	113,795	112,561	1,234	1.1%

	Revenue YOY QTR 3				Revenue Sequential Quarter			
	14Q3 Act	13Q3 Act	Δ		14Q3 Act	14Q2 Act	Δ	
			\$	%			\$	%
Total Revenue by Product								
COB	86,550	66,958	19,592	29.3%	86,550	77,584	8,966	11.6%
PI	25,843	27,766	(1,923)	-6.9%	25,843	27,723	(1,880)	-6.8%

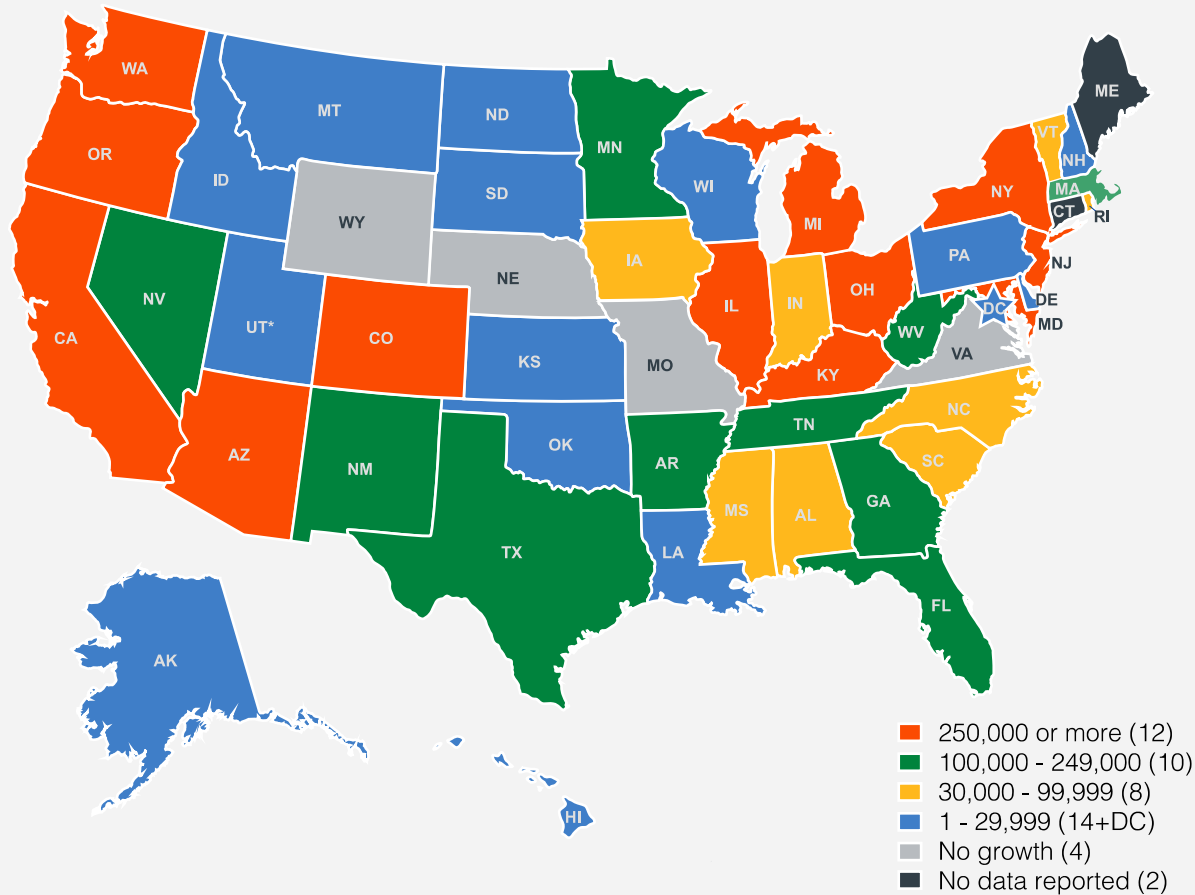
- Total revenue, excluding Medicare RAC, grew 18.7% and is on track to meet full year target of 10-11%.
- Medicaid expansion continues to have a positive impact on the state government business, which grew 20.8% year-over-year.
- Commercial revenue was up 17.8% year-over-year due to new sales and increased product penetration with current customers.
- COB business grew 29.3% year-over-year and 11.6% compared to the prior quarter.
- The underperformance in Program Integrity is primarily due to closed deals that experienced implementation delays.

Q3 State Government Sales



New Medicaid Enrollment Through August 2014

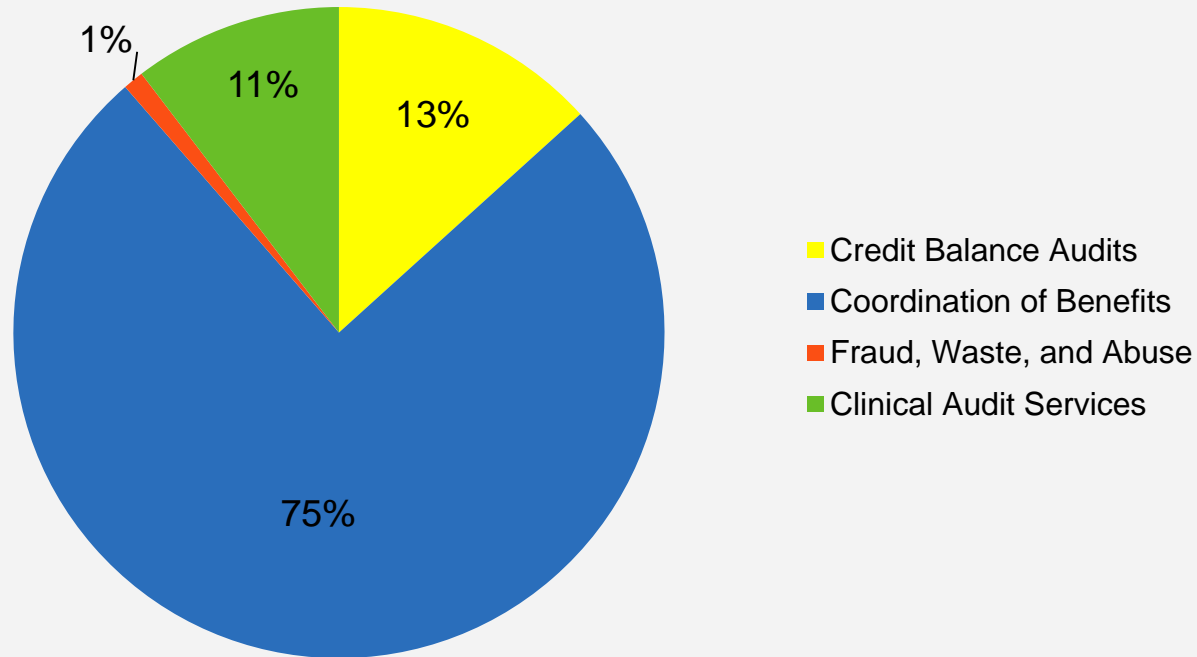
7.9M of 8.7M new CMS-reported¹ Medicaid lives are now in HMS client eligibility files



¹CMS Medicaid & CHIP: August 2014 Monthly Applications, Eligibility Determinations and Enrollment Report, October 17, 2014. This analysis compares Medicaid enrollment of 8.7 million lives reported through 8/31/2014 to enrollment as of October 1, 2013, which was the beginning of Marketplace open enrollment and the CMS baseline for measuring expansion.

Growing Commercial Product Penetration

HMS has sold additional products to current customers covering approximately 10.6 million lives year to date



\$1.50 - \$6.50 Per Member Per Year



Powering healthcare with integrity