



Bill Lucia, President and CEO  
Walter Hosp, EVP and CFO

Contact:  
Christine Saenz  
csaenz@hms.com  
212.857.5986

## Q2 2012 Investor Call

July 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: regulatory actions, budgetary pressures and political influences that could affect the procurement practices and operations of healthcare organizations and agencies; 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 ability to manage our growth and its demands on our resources and infrastructure; our ability to successfully integrate our acquisitions; 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](http://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 July 27, 2012, which is available under the Investor Relations Tab on the Company’s website ([www.hms.com](http://www.hms.com)).

# Discussion Outline

- Financial Performance
- New Business
- Supreme Court Decision
- Strategic Outlook



# Consolidated Statements of Income

(\$ in thousands except per share amounts)

|  | Three months ended |       | Six months ended |       |
|--|--------------------|-------|------------------|-------|
|  | June 30, 2012      | % y/y | June 30, 2012    | % y/y |
| Revenue  | \$ 120,069         | 34%   | \$ 227,383       | 32%   |
| Cost of services:  |                    |       |                  |       |
| Compensation   | 40,043             | 27%   | 79,319           | 26%   |
| Data processing  | 8,026              | 42%   | 14,920           | 40%   |
| Occupancy  | 4,194              | 13%   | 8,314            | 10%   |
| Direct project costs   | 13,200             | 19%   | 26,043           | 26%   |
| Other operating costs  | 5,986              | 30%   | 11,113           | 26%   |
| Amortization of acquisition related software and intangibles | 8,149              | 394%  | 16,298           | 381%  |
| Total cost of services                                       | 79,598             | 37%   | 156,007          | 37%   |
| Selling, general & administrative expenses                   | 14,875             | 39%   | 29,739           | 39%   |
| Total operating expenses                                     | 94,473             | 37%   | 185,746          | 37%   |
| Operating income   | 25,596             | 25%   | 41,637           | 14%   |
| Net interest and other expense                               | (3,947)            | -     | (8,040)          | -     |
| Income before income taxes                                   | 21,649             | 4%    | 33,597           | -9%   |
| Income taxes   | 8,669              | 4%    | 13,574           | -9%   |
| Net income   | \$ 12,980          | 4%    | \$ 20,023        | -10%  |
| Net income per diluted share                                 | \$ 0.15            | 7%    | \$ 0.23          | -11%  |
| Weighted average common shares, diluted                      | 88,351             | 2%    | 88,429           | 2%    |

# Condensed Balance Sheets

(\$ in thousands)

|   | <u>June 30,<br/>2012</u> | <u>December 31,<br/>2011</u> |
|---|--------------------------|------------------------------|
| <b>Assets</b>   |                          |                              |
| Current assets:   |                          |                              |
| Cash and cash equivalents   | \$ 105,364               | \$ 97,003                    |
| Accounts receivable, net of allowance of \$811 at June 30, 2012<br>and \$1,158 at December 31, 2011 | 112,351                  | 112,505                      |
| Prepaid expenses and other current assets   | <u>26,808</u>            | <u>20,700</u>                |
| Total current assets  | 244,523                  | 230,208                      |
| Property and equipment, net   | 128,982                  | 127,177                      |
| Other non-current assets  | <u>495,216</u>           | <u>504,566</u>               |
| <b>Total assets</b>   | <b><u>\$ 868,721</u></b> | <b><u>\$ 861,951</u></b>     |
| <b>Liabilities and Shareholders' Equity</b>   |                          |                              |
| Current Liabilities:  |                          |                              |
| Accounts payable, accrued expenses, and other liabilities   | \$ 29,398                | \$ 40,546                    |
| Acquisition-related contingent consideration  | 2,300                    | 2,300                        |
| Current portion of term loan  | <u>26,250</u>            | <u>17,500</u>                |
| Total Current Liabilities   | 57,948                   | 60,346                       |
| Long-term Liabilities   | <u>389,867</u>           | <u>410,368</u>               |
| Total liabilities   | 447,815                  | 470,714                      |
| <b>Total shareholders' equity</b>   | <u>420,906</u>           | <u>391,237</u>               |
| <b>Total liabilities and shareholders' equity</b>   | <b><u>\$ 868,721</u></b> | <b><u>\$ 861,951</u></b>     |

# Condensed Statements of Cash Flow

(\$ in thousands)

|  | <b>Six Months Ended<br/>June 30</b> |                   |
|--|-------------------------------------|-------------------|
|  | <b>2012</b>                         | <b>2011</b>       |
| Net income   | <u>\$ 20,023</u>                    | <u>\$ 22,239</u>  |
| Net cash provided by operating activities              | 37,952                              | 24,194            |
| Net cash used in investing activities                  | (23,142)                            | (15,194)          |
| Net cash ( used in )/ provided by financing activities | <u>(6,449)</u>                      | <u>13,820</u>     |
| Net increase in cash and cash equivalents              | 8,361                               | 22,820            |
| Cash and cash equivalents at beginning of period       | <u>97,003</u>                       | <u>94,836</u>     |
| Cash and cash equivalents at end of period             | <u>\$ 105,364</u>                   | <u>\$ 117,656</u> |

# Q2 Sales: State Government

## New

### Medicaid RAC

- Alaska
- Idaho
- Minnesota
- Montana
- Utah
- Virginia

### TPL

- Alaska
- Illinois
- South Dakota

### Other

- Pennsylvania Long Term Care Audit
- Pennsylvania CHIP COB
- Virginia Fraud, Waste and Abuse

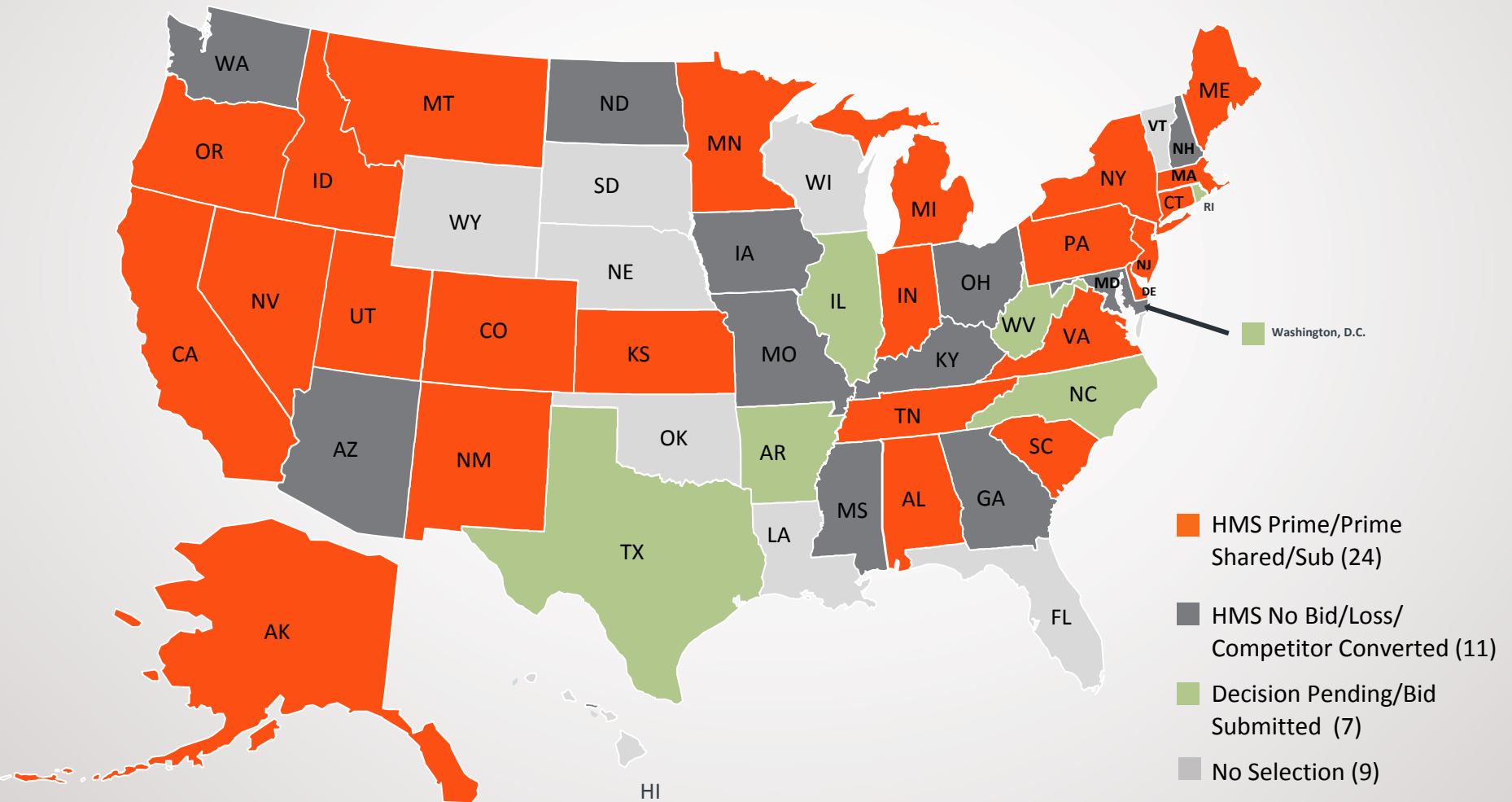
## Extensions/Expansions

- Georgia TPL
- Louisiana Child Support
- Massachusetts Cost Avoidance
- New York Cost Avoidance



7/27/2012

# Medicaid RAC Status





# Q2 Sales: Managed Care

## New

- Health Partners of Minnesota
- Windsor Health Group

## Extensions/Expansions

- Fidelis
- Humana
- Neighborhood Health Plan: Massachusetts and New York
- United Health Care



# Supreme Court Decision

- Individual mandate ruled constitutional
- Existing federal funding cannot be withheld from States that don't expand Medicaid
- Medicaid expansion is now optional for States
- All other provisions upheld, including Medicaid RAC and Health Insurance Exchanges

# Supreme Court Decision - Impact on HMS

- Medicaid Expansion
- Medicaid RAC
- Health Insurance Exchanges

# Strategic Outlook

- Well-positioned in all markets
- Continued high growth
- Favorable regulatory environment
- Medicare and Medicaid RAC leader



