



Q2 2016 Investor Presentation

August 5, 2016



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Q2 Financial Results

Financial Performance Highlights

- GAAP EPS of \$.10 per diluted share and adjusted EPS of \$0.18 per diluted share¹ in Q2
- Revenue of \$123.6 million was 5.7% higher year-over-year. Revenue for the first six months of 2016 increased 7.0% compared to 1H'15
 - Quarterly commercial health plan revenue increased 12.0% year-over-year
 - Commercial health plan revenue for the first six months of 2016 increased 20.2% compared to 1H'15
 - State government revenue increased 0.7% year-over-year. For the first six months of 2016, State government revenue declined 7.4% as expected²
- Payment Integrity revenue, excluding Medicare RAC, increased 4.2% compared to the first quarter of 2016. For the first six months of 2016, PI revenue increased by 6.8%
- The effective tax rate was 40.1% for the quarter

¹Adjusted EPS is a non-GAAP measure (see reconciliation on slide 9).

²Decline was due to the non-recurring spillover benefit of several million dollars received in Q1'15 as a result of the 2014 Medicaid expansion pursuant to the Affordable Care Act

Q2 Financial Results

Quarterly Financial Information

	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16
Revenue	\$ 116,934	\$ 118,444	\$ 128,514	\$ 119,763	\$ 123,550
Cost of services:					
Compensation	43,883	43,628	46,694	46,401	47,343
Data processing	10,438	10,023	10,409	9,624	9,104
Occupancy	3,806	4,188	3,765	3,627	3,631
Direct project costs	13,572	12,702	14,776	14,483	11,473
Other operating costs	7,153	6,551	8,453	5,776	6,407
Amortization of acquisition related software and intangible assets	7,047	7,041	7,012	7,013	7,013
Total cost of services	85,899	84,133	91,109	86,924	84,971
Selling, general & administrative expenses	19,283	21,295	22,582	22,930	22,227
Total operating expenses	105,182	105,428	113,691	109,854	107,198
Operating income	11,752	13,016	14,823	9,909	16,352
Interest expense	(1,940)	(1,948)	(1,970)	(2,091)	(2,100)
Interest income	12	11	15	47	60
Income before income taxes	9,824	11,079	12,868	7,865	14,312
Income taxes	4,406	4,217	4,143	3,305	5,746
Net income	\$ 5,418	\$ 6,862	\$ 8,725	\$ 4,560	\$ 8,566
Net income per diluted share	\$ 0.06	\$ 0.08	\$ 0.10	\$ 0.05	\$ 0.10
Weighted average common shares, diluted	88,908	87,792	87,110	84,479	84,528
Diluted adjusted EPS	\$ 0.13	\$ 0.15	\$ 0.19	\$ 0.14	\$ 0.18

(Unaudited, \$ in thousands, except per share amounts)

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Q2 Financial Results

Quarterly Market and Product Revenue

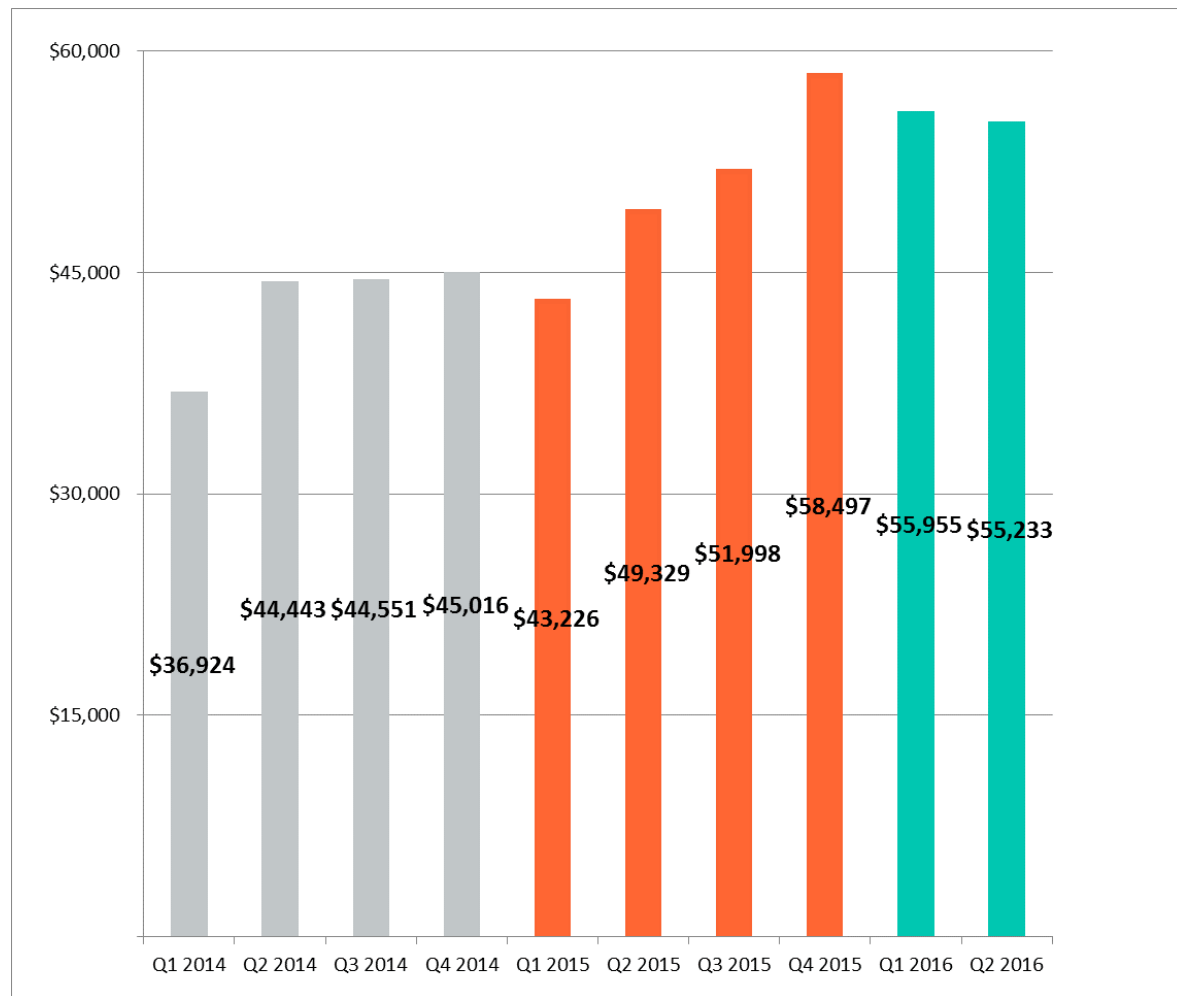
	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16
	Act	Act	Act	Act	Act	Act	Act	Act	Act
Total Revenue by Market									
State Government	\$ 55.1	\$ 60.1	\$ 58.7	\$ 59.8	\$ 57.2	\$ 54.6	\$ 54.5	\$ 50.7	\$ 57.6
Commercial Health Plan	44.4	44.6	45.0	43.2	49.3	52.0	58.5	56.0	55.2
Federal (without Medicare RAC)	4.0	5.2	4.3	4.5	4.4	4.9	4.1	4.1	4.4
Other	1.8	2.5	1.4	0.5	2.1	2.4	1.7	0.7	2.3
Total Revenue without Medicare RAC	105.3	112.4	109.4	108.0	113.0	113.9	118.8	111.5	119.5
Medicare RAC	7.3	1.4	2.8	2.3	3.9	4.5	9.7	8.3	4.1
Total HMS Revenue	\$112.6	\$113.8	\$112.2	\$110.3	\$116.9	\$118.4	\$128.5	\$119.8	\$123.6
	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16
	Act	Act	Act	Act	Act	Act	Act	Act	Act
Total Revenue by Product									
COB	\$ 77.6	\$ 86.6	\$ 81.6	\$ 83.3	\$ 83.0	\$ 84.2	\$ 87.1	\$ 82.9	\$ 89.7
PI (without Medicare RAC)	27.7	25.8	27.8	24.7	30.0	29.7	31.7	28.6	29.8
Total Revenue without Medicare RAC	105.3	112.4	109.4	108.0	113.0	113.9	118.8	111.5	119.5
Medicare RAC	7.3	1.4	2.8	2.3	3.9	4.5	9.7	8.3	4.1
Total HMS Revenue	\$112.6	\$113.8	\$112.2	\$110.3	\$116.9	\$118.4	\$128.5	\$119.8	\$123.6

\$ in millions

Commercial Health Plan Growth

Commercial Health Plan Revenue 2014-2016

Projected Annual Revenue Growth of 18-20% for 2016



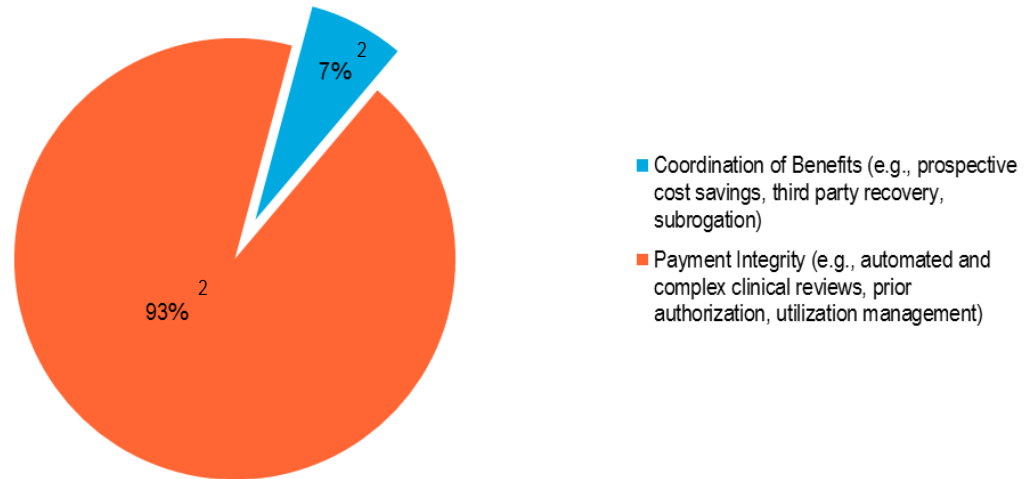
- YTD Growth of 20.2% Compared to Comparable Period in 2015

(\$ in thousands)

Commercial Health Plan Growth

Q2 Commercial Health Plan Sales

- New commercial health plan customer sales covering approximately 15.0 million lives
- Additional products sold to current commercial health plan customers covering approximately 3.1 million lives¹



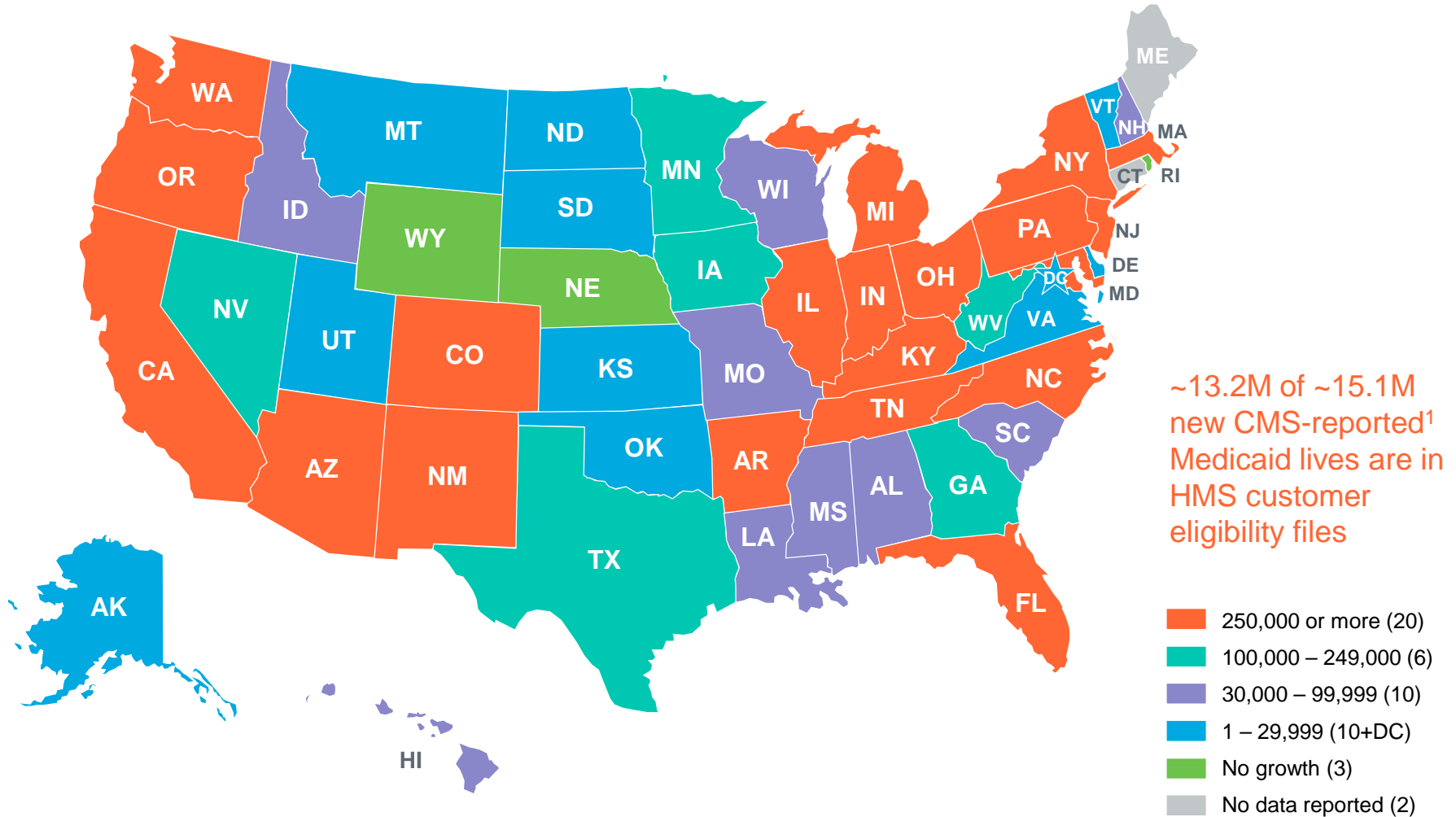
¹ In some instances both COB and PI products were sold to the same customer life, but such sales are only counted once for purposes of this calculation

² Percentage of additional products sold to current customers based on projected revenue

Note: Data as of June 30, 2016

State Government Business

New Medicaid Enrollment Through May 2016



¹ CMS Medicaid & CHIP: July 2016 Monthly Applications, Eligibility Determinations and Enrollment Report, July 28, 2016. This analysis compares Medicaid enrollment of ~15.1 million lives reported through 5/31/16 to enrollment as of 10/1/13, which was the beginning of Marketplace open enrollment and the CMS baseline for measuring expansion

Outlook for Full Year 2016 Financial Performance*

** Initially provided on
Q4'15 earnings call on
2/26/16. State
Government and Medicare
RAC revenue updated on
Q2'16 earnings call on
8/5/16¹*

Summary of Projected Financial Metrics for 2016

- Year-over-year commercial health plan revenue growth of 18-20%
- State government revenue in 2H'16 of ~110 million including New Jersey¹
- Medicare RAC revenue of ~\$13 million through 3Q'16¹
- Federal and other revenue unchanged at ~\$24.5 million for the full year
- Flat operating costs (excluding non-recurring legal expense), while continuing to invest in commercial growth and innovation
- Full year projected effective tax rate of approximately 40%
- Full year operating cash flow of \$80 -100 million
- Full year capital expenses of ~\$20 million, primarily for IT infrastructure, product enhancements and new product development

¹ Total state revenue for 2013, the year before Medicaid expansion pursuant to the Affordable Care Act, was \$207.5 million. Trending that forward at 2% per year – consistent with our long-term view that the HMS State TPL business is a low single-digit grower – corrects for what was effectively a one-time state revenue benefit during 2014 and early 2015 caused by the ACA expansion. Doing so produces a total of roughly \$220 million for 2016 or a quarterly run rate of approximately \$55 million, which is consistent with our expectation for state revenue over the second half of 2016.

Medicare RAC revenue was \$12.4 million through June 30, 2016. With the expiration of the current contract on July 31, 2016 and the new ADR limits which became effective on January 1, 2016, Medicare RAC revenue in the third quarter is expected to be less than \$1 million.



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

As summarized in the following table, diluted earnings per share adjusted for stock-based compensation expense, non-recurring legal expense, amortization of acquisition related software and intangible assets and related taxes (adjusted EPS) was \$0.18 for the second quarter of 2016.

	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16
Net income	\$ 5,418	\$ 6,862	\$ 8,725	\$ 4,560	\$ 8,566
Stock-based compensation	3,823	3,140	4,089	4,240	4,405
Non-recurring legal fees ⁽¹⁾	-	-	-	1,248	315
Amortization of acquisition related software and intangible assets	7,047	7,041	7,013	7,013	7,013
Income tax related adjustments	(4,875)	(3,711)	(3,350)	(5,253)	(4,704)
Sub-total	\$ 11,413	\$ 13,332	\$ 16,477	11,808	15,595
Weighted average common shares, diluted	88,908	87,792	87,110	84,479	84,528
Diluted GAAP EPS	\$ 0.06	\$ 0.08	\$ 0.10	\$ 0.05	\$ 0.10
Diluted Adjusted EPS	\$ 0.13	\$ 0.15	\$ 0.19	\$ 0.14	\$ 0.18

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.

	Q2'15	Q3'15	Q4'15
Legal fees related to disputes involving PCG	\$ 524	\$ 943	\$ 1,351
Income taxes on legal fees ⁽²⁾	(224)	(343)	(451)
Sub-total	\$ 300	\$ 600	\$ 900
Diluted Adjusted EPS	\$ 0.00	\$ 0.01	\$ 0.01

¹ In periods prior to 2016, legal fees related to disputes involving PCG were included in operations because it was considered part of normal operations.

² Tax effect of adjustments is computed as the pre-tax effect of the adjustments multiplied by the applicable statutory rates

(Unaudited, \$ in thousands, except per share data)

Reconciliation of Net Income to GAAP EPS and Adjusted EPS



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