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## Q4 2011 Investor Call

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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, 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: our ability to successfully integrate HDI’s operations; the development by competitors of new or superior services or products or the entry into the market of new competitors; all the risks inherent in the development, introduction, and implementation of new products and services; the loss of a major customer, compliance with the covenants and obligations under the terms of our new credit facility, our ability to generate sufficient cash to cover our interest and principal payments under our new credit facility, customer dissatisfaction or early termination of customer contracts triggering significant costs or liabilities; 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 reimbursement process and reduce the need for and price of our services; government regulatory, political and budgetary pressures that could affect the procurement practices and operations of healthcare organizations, reducing the demand for our services; our failure to comply with laws and regulations governing health data or to protect such data from theft and misuse. A further description of risks, uncertainties, and other matters can be found in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and our most recently filed Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011, copies which may be obtained from the Company’s website 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.

# Discussion Outline

- Q4 and Full Year 2011 Financial Performance
- Guidance
- New Business
- Medicaid RAC
- HDI Update
- Q&A



# Consolidated Statements of Income

(\$ in thousands except per share amounts)

	Three months ended December 31,		Percentage Change
	2011	2010	
Revenue	\$ 99,667	\$ 87,167	14%
Cost of services:			
Compensation	32,009	30,011	7%
Data processing	6,511	5,309	23%
Occupancy	3,725	3,685	1%
Direct project costs	11,971	9,870	21%
Other operating costs	4,606	4,788	-4%
Amortization of acquisition related software and intangibles	3,402	1,651	106%
Total cost of services	62,224	55,314	12%
Selling, general & administrative expenses	17,218	11,288	53%
Total operating expenses	79,442	66,602	19%
Operating income	20,225	20,565	-2%
Net interest and other income/(expense)	(607)	(41)	1380%
Income before income taxes	19,618	20,524	-4%
Income taxes	8,487	8,169	4%
Net income	\$ 11,131	\$ 12,355	-10%
Diluted income per share data:			
Net income per diluted share	\$ 0.13	\$ 0.14	-7%
Weighted average common shares, diluted	87,386	86,151	1%

# Consolidated Statements of Income

(\$ in thousands except per share amounts)

	Year ended December 31,		Percentage Change
	2011	2010	
Revenue	\$ 363,826	\$ 302,867	20%
Cost of services:			
Compensation	126,613	106,402	19%
Data processing	23,118	17,997	28%
Occupancy	15,053	13,323	13%
Direct project costs	42,517	35,482	20%
Other operating costs	18,054	16,515	9%
Amortization of acquisition related software and intangibles	8,450	6,217	36%
Total cost of services	233,805	195,936	19%
Selling, general & administrative expenses	49,150	40,187	22%
Total operating expenses	282,955	236,123	20%
Operating income	80,871	66,744	21%
Net interest and other income/(expense)	92	(69)	-233%
Income before income taxes	80,963	66,675	21%
Income taxes	33,178	26,583	25%
Net income	\$ 47,785	\$ 40,092	19%
Diluted income per share data:			
Net income per diluted share	\$ 0.55	\$ 0.47	17%
Weighted average common shares, diluted	87,444	85,375	2%

# Condensed Balance Sheets

(\$ in thousands)

	December 31, 2011	December 31, 2010
Current assets:		
Cash and cash equivalents	\$ 97,003	\$ 94,836
Accounts receivable, net of allowance of \$1,158 and \$799 at December 31, 2011 and December 31, 2010, respectively	112,505	75,123
Prepaid expenses and other current assets	20,700	10,089
Total current assets	<u>230,208</u>	<u>180,048</u>
Property and equipment, net	127,177	44,713
Other non-current assets	504,566	128,144
<b>Total assets</b>	<b><u>\$ 861,951</u></b>	<b><u>\$ 352,905</u></b>
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 40,546	\$ 32,502
Other current liabilities	19,800	-
Total current liabilities	<u>60,346</u>	<u>32,502</u>
Long-term liabilities:		
Contingent payables	-	2,573
Other liabilities	410,368	10,192
Total liabilities	<u>470,714</u>	<u>45,267</u>
<b>Total shareholders' equity</b>	<b><u>\$ 391,237</u></b>	<b><u>307,638</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 861,951</u></b>	<b><u>\$ 352,905</u></b>

# Condensed Statements of Cash Flow

(\$ in thousands)

	Year ended December 31,	
	<b>2011</b>	<b>2010</b>
Net income	<u>\$ 47,785</u>	<u>\$ 40,092</u>
Net cash provided by operating activities	56,729	61,925
Net cash used in investing activities	(375,721)	(53,661)
Net cash provided by financing activities	<u>321,159</u>	<u>21,709</u>
Net increase in cash and cash equivalents	2,167	29,973
Cash and cash equivalents at beginning of year	<u>94,836</u>	<u>64,863</u>
Cash and cash equivalents at end of year	<u><u>\$ 97,003</u></u>	<u><u>\$ 94,836</u></u>

# Comparison to 2011 Guidance

## HMS Financial Summary (with and without HDI Transaction and related costs) (in millions except per share amounts)

	Consolidated 2011 as Reported	Guidance 2011 w/o HDI Expenses	HMS Only 2011 as Reported	Notes HMS only vs. Consolidated results
Revenue	\$ 364.0	\$ 363.0	\$ 361.7	\$2.2M for HDI during stub period (12.16 thru 12.31)
Operating Income	\$ 80.9	\$ 86.3	\$ 86.5	(\$5.2M) Transaction expenses, (\$1.3M) Stock Comp and Amort Exp, \$0.9M HDI Oper Inc.
Net Income before taxes	\$ 81.0	\$ 87.2	\$ 87.2	(\$5.5M) Oper Income, (\$0.6M) Debt Financing Expense
Taxes %	\$ 33.2 <b>41.0%</b>	\$ 35.0 <b>40.2%</b>	\$ 35.0 <b>40.1%</b>	HMS pre-tax book income decreased \$7M, Transaction cost per difference \$1.5M
Net Income	\$ 47.8	\$ 52.1	\$ 52.2	
Diluted EPS (87.5M shares)	\$ <b>0.55</b>	\$ <b>0.60</b>	\$ <b>0.60</b>	
Adjusted EPS (87.5M shares)	\$ <b>0.65</b> (87.5M shares)	\$ <b>0.70</b> (87.0M shares)	\$ <b>0.69</b> (87.5M shares)	



# Q4 Sales: State Government

## New

- Alabama (one of two RACs)
- Colorado TPL, HIPP, and Dependent Audit
- Massachusetts RAC (one of three RACs )
- Massachusetts Medicaid Long Term Care Audit
- Michigan RAC
- Oklahoma ADAP Premium Assistance
- Washington TPL and ADAP

## Extensions/Expansions

- Kansas: Subrogation and Estate Recovery for Medicaid
- South Carolina: Pharmacy TPL added to RAC



# Q4 Sales: Managed Care

## New

Blue Cross Blue Shield Minnesota  
Community Health Plan  
EmblemHealth  
Scott and White Health Plan  
Sendero Health Plan  
Universal Health Care Group

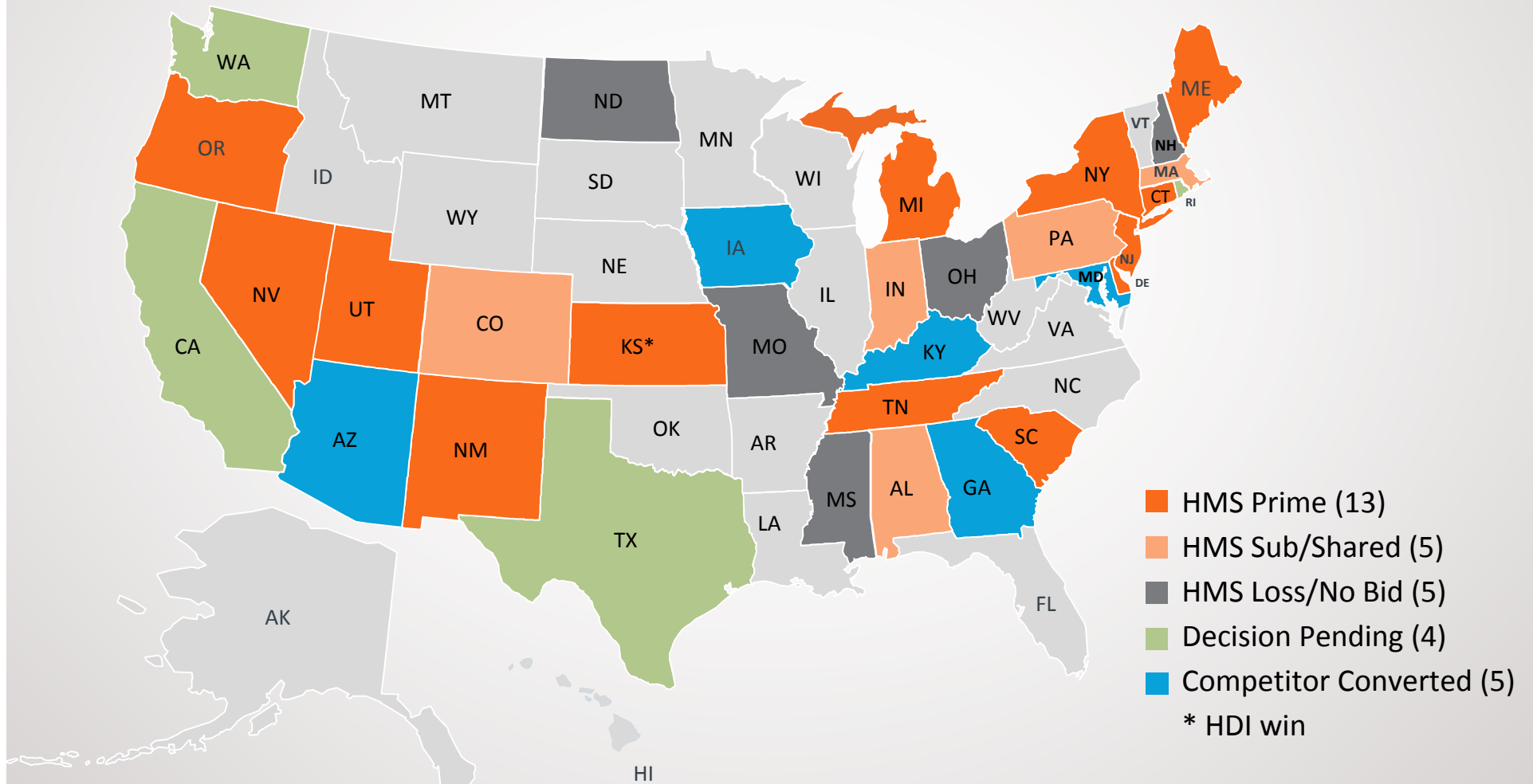
## Expansions

Aetna: Texas  
Amerigroup: Louisiana  
AmeriHealth: Louisiana  
Caresource: Pharmacy Coordination of Benefits  
Centene, Coventry, Wellcare: Kentucky  
Contra Costa Health Plan  
Medica Health Plan

- 516K Medicaid lives sold in Q4
- 22.0 million lives under contract



# Medicaid RAC Status

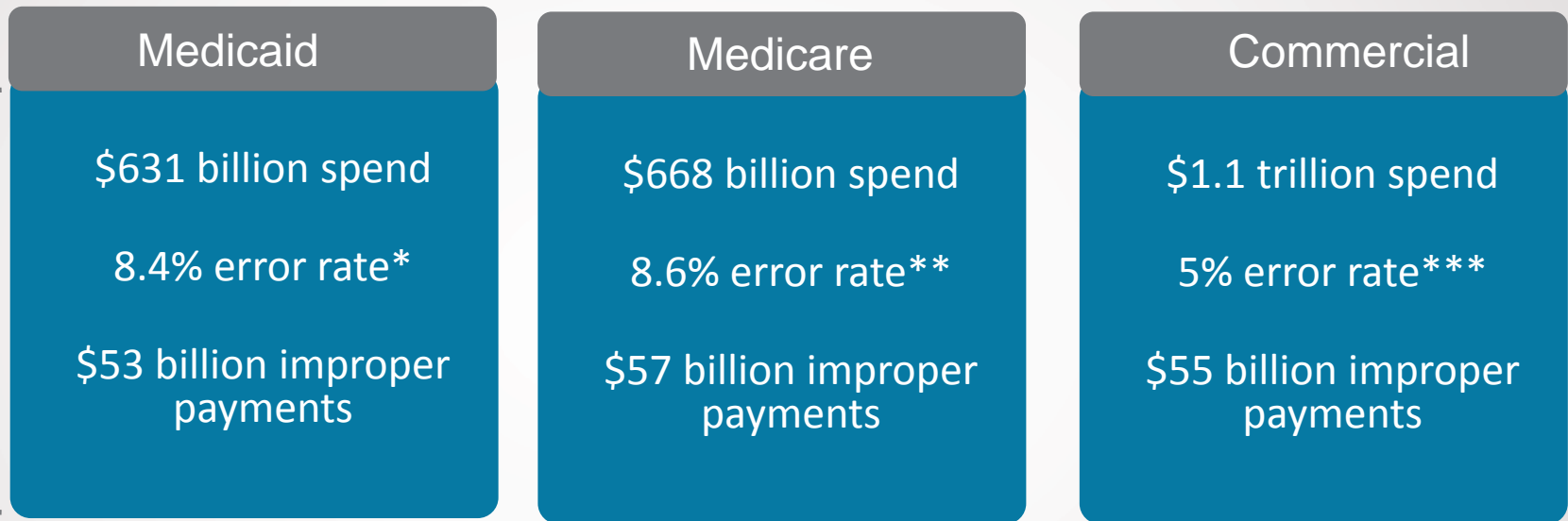


# HDI Acquisition Update

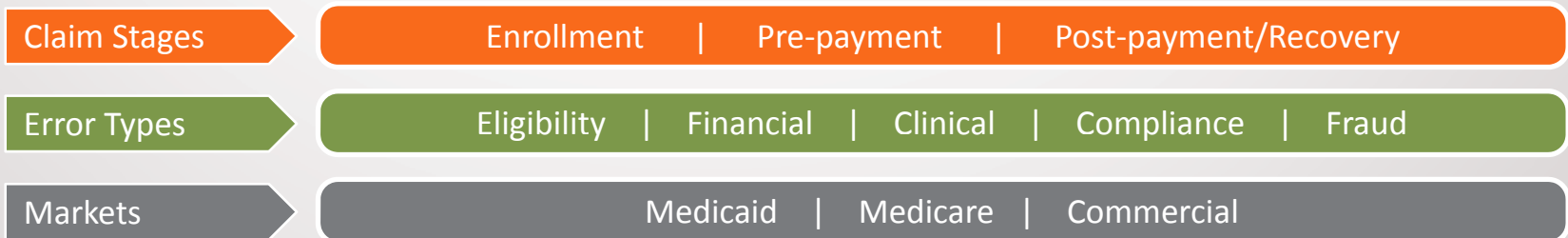
- Transaction closed on December 16, 2011
  - Financing and Credit Facility in place
  - Integration processes well underway
- Projected to contribute \$85 million of revenue to HMS in 2012
- Continued strong Medicare RAC performance
- Growing commercial client base
- Areas of focus
  - Identifying best of breed systems, processes, practices
  - Implementing go-to-market and cross selling strategies

# Addressable Market

2015



Addressable market at least \$165 billion of improper payments



Spend data: CMS Office of the Actuary, National Healthcare Expenditure Projections, September 2011

Error rates: \* 2011 estimated, CMS PERM Report 2011; \*\*2011 estimated, [www.paymentaccuracy.gov/programs/medicare-fee-service](http://www.paymentaccuracy.gov/programs/medicare-fee-service); \*\*\* HMS projection

# Summary

- Solid 2011 performance and promising 2012 outlook
- Evolving Medicaid RAC program
- Transformational HDI acquisition
- Large and growing addressable market



