

# CHANGE HEALTHCARE

FOURTH QUARTER FISCAL 2022 EARNINGS CONFERENCE CALL

05.26.22

# Legal

## **FORWARD LOOKING STATEMENT:**

This presentation contains “forward-looking statements” within the meaning of federal securities laws. Any statements made in this presentation that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include information concerning possible or assumed future results of operations, including, but not limited to, information and assumptions regarding fiscal year 2022, the continued length and impact of COVID-19 (including the impact of COVID-19 variant strains such as the Omicron variant), our pending merger with UnitedHealth Group and descriptions of our business plans and strategies. These statements often include words such as “anticipate,” “expect,” “suggest,” “plan,” “believe,” “intend,” “estimate,” “target,” “project,” “should,” “could,” “would,” “may,” “will,” “forecast,” “outlook,” “potential,” “continues,” “seeks,” “predicts,” and the negatives of these words and other similar expressions. Forward-looking statements involve known and unknown risks, uncertainties, including, but not limited to, the ongoing length and impact of the COVID-19 pandemic (including the impact of COVID-19 variant strains such as the Omicron variant) on our operations and financial results, on our customers and on national, state and local economies; new risks that may arise due to responses to the pandemic by the government, our customers and us; risks related to our pending merger with UnitedHealth Group and other factors disclosed in our most recent Annual Report on Form 10-K in the section entitled “Risk Factors,” as such factors may be updated from time to time in our periodic filings with the SEC, and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Given these uncertainties, you should not place undue reliance on any forward-looking statements in this presentation. All forward-looking statements are based on information currently available to Change Healthcare and are qualified in their entirety by this cautionary statement. The statements herein speak only as of the date such statements were first made. Except to the extent required by law, Change Healthcare assumes no obligation to update any such forward-looking statements or other statements included in this presentation.

## **NON-GAAP MEASURES DISCLOSURE:**

In the Company’s earnings releases, prepared remarks, conference calls, slide presentations and webcasts, there may be use or discussion of non-GAAP financial measures. We believe such measures provide supplemental information to investors with regards to our operating performance and assist investors’ ability to compare our financial results to those of other companies in the same industry. The GAAP financial measure most directly comparable to each non-GAAP financial measure used or discussed, and a reconciliation of the differences between the comparable GAAP financial measure and each non-GAAP financial measure are included in this presentation after the consolidated financial statements. These non-GAAP financial measures are calculated and presented on the basis of methodologies other than in accordance with GAAP. These non-GAAP financial measures should be considered only as supplemental to, and not as superior to, financial measures prepared in accordance with GAAP and may be defined and calculated differently by others in the same industry.

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# Overview and Business Update

Neil de Crescenzo  
President and CEO



# Fourth Quarter FY22 CEO Summary



## FINANCIAL RESULTS Q4 FY2022

Solutions Revenue **\$859m**

Adjusted EBITDA **\$282m**

Adjusted Diluted EPS **\$0.39**



## BUSINESS HIGHLIGHTS

Strong Q4 FY22 Performance

New Contract Wins Across Portfolio

Advancing Market Leadership



## ACCELERATING MARKET POTENTIAL

Enhancing Core Solutions

Advancing Innovation

Leveraging Distribution Channels

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# Financial Performance

Fredrik Eliasson  
EVP and Chief Financial Officer



# Q4 FY'22 Performance

In millions except EPS	Q4 FY'22	Q4 FY'21	% Change <sup>(1)</sup>
Consolidated Revenue	\$ 920	\$ 855	7.6%
Solutions Revenue	859	804	6.8%
EBITDA	231	198	16.7%
Net Income	7	(13)	NMF
Diluted EPS	0.02	(0.04)	NMF
Adjusted EBITDA	282	272	3.8%
Adjusted Net Income	130	134	(2.8%)
Adjusted Diluted EPS	0.39	0.42	(5.5%)
Diluted Number of Shares	331	321	2.9%

Note 1: Percentage change does not reflect rounding of the numbers.

## Q4 FY'22 Business Highlights

- **Solutions Revenue and Adjusted EBITDA growth of 6.8% and 3.8%, respectively, driven by:**
  - Strong volume growth and new business wins across portfolio
  - Revenue negatively impacted by \$10 million in prior year due to deferred revenue fair value adjustments
  - Solutions revenue, net of deferred revenue impact, increased 5.5%
  - Continued investment to support business initiatives
- **Adjusted Net Income \$130 million and Adjusted Diluted EPS \$0.39 decrease of 2.8% and 5.5%, respectively**
  - Adjusted Net Income benefitted from revenue growth, but was more than offset by higher depreciation and amortization

# Q4 FY'22 Segment Performance

In millions	Q4 FY'22	Q4 FY'21	% Change <sup>(1)</sup>
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## Segment Revenue

S&A	\$ 443	\$ 416	6.5%
Network	216	198	9.1%
TES	234	227	3.1%
Postage and Elimination	26	23	12.4%
Purchase Accounting Adj.	-	(10)	0.0%
<b>Total Net Revenue</b>	<b>920</b>	<b>855</b>	<b>7.6%</b>

## Segment Adjusted EBITDA

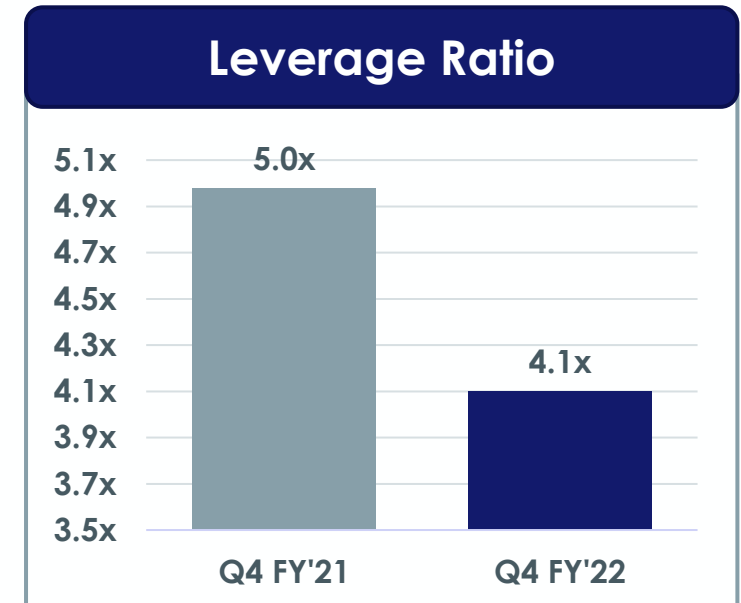
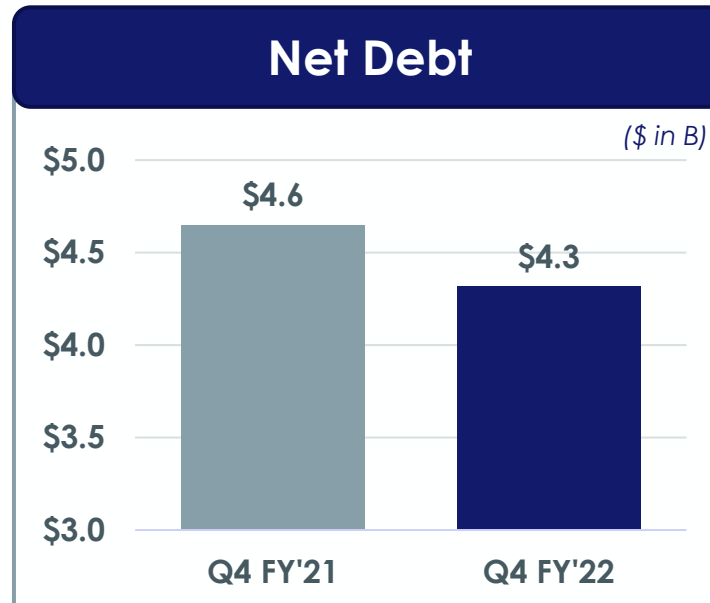
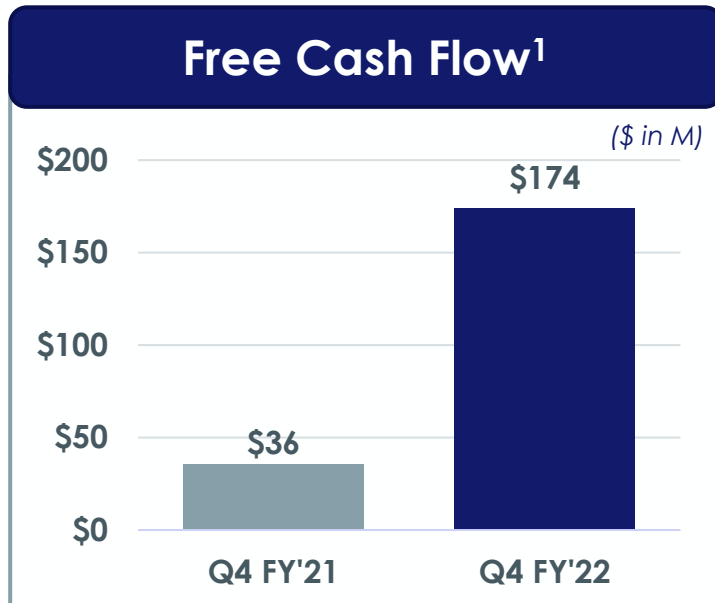
S&A	\$ 164	\$ 144	14.0%
Network	103	108	(4.6%)
TES	15	20	(24.7%)
Postage and Elimination	0	0	0.0%
<b>Total Adjusted EBITDA</b>	<b>282</b>	<b>272</b>	<b>3.8%</b>

Note 1: Percentage change does not reflect rounding of the numbers.

## Q4 FY'22 Business Highlights

- **S&A: Execution Across Segment**
  - Increased volume from existing customers and product introductions / new customers
  - Revenue growth in high margin products
- **Network: Strength in Payments Business**
  - More normalized network volumes as covid impact abated causing negative mix
  - Double digit growth in Data Solutions and B2B Payments
  - Continued investments to expand market opportunities
- **TES: Underlying RCM Transformation Remains Intact**
  - Revenue growth driven by positive trends in both RCM win rates and deal size volume
  - Wage inflation, credit adjustments and negative mix impacting margins until repricing & additional transformation benefits realized

# Q4 FY'22 Cash Generation & Liquidity



- **Liquidity: \$1,031 million**
  - Cash and cash equivalents of approx. \$252 million; \$780 million undrawn secured credit facility (maturity July 2024) at quarter end
- **Net Debt and Liquidity exclude the impact of an additional \$100 million senior note repayment after the quarter close**
- **No maintenance covenants; earliest debt maturity Term Loan B – March 2024**

Note 1: Refer to slide 18 for details on Free Cash Flow.



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# Appendix

Q4 FY'22 Financial Statements

Q4 FY'22 and FY'21 Non-GAAP Reconciliations

# Consolidated Statements of Operations



## Consolidated Statements of Operations (unaudited and amounts in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2022	2021
<b>Revenue:</b>		
Solutions revenue	\$ 859,194	\$ 804,299
Postage revenue	60,937	50,861
Total revenue	920,131	855,160
<b>Operating expenses:</b>		
Cost of operations (exclusive of depreciation and amortization below)	362,459	357,506
Research and development	72,306	58,926
Sales, marketing, general and administrative	186,288	187,606
Customer postage	60,937	50,861
Depreciation and amortization	179,345	154,495
Accretion and changes in estimate with related parties, net	5,967	2,744
Gain on sale of businesses	—	1,344
<b>Total operating expenses</b>	<b>867,302</b>	<b>813,482</b>
<b>Operating income (loss)</b>	<b>52,829</b>	<b>41,678</b>
<b>Non-operating (income) and expense</b>		
Interest expense, net	56,959	59,508
Loss on extinguishment of debt	—	1,289
Other, net	2,078	(2,253)
<b>Total non-operating (income) and expense</b>	<b>59,037</b>	<b>58,544</b>
<b>Income (loss) before income tax provision (benefit)</b>	<b>(6,208)</b>	<b>(16,866)</b>
<b>Income tax provision (benefit)</b>	<b>(13,298)</b>	<b>(3,776)</b>
<b>Net income (loss)</b>	<b>\$ 7,090</b>	<b>\$ (13,090)</b>
<b>Net income (loss) per common share:</b>		
Basic	\$ 0.02	\$ (0.04)
Diluted	\$ 0.02	\$ (0.04)
<b>Weighted average common shares outstanding:</b>		
Basic	325,002,702	321,393,600
Diluted	330,822,467	321,393,600

# Consolidated Statements of Operations



## Consolidated Statements of Operations (unaudited and amounts in thousands, except share and per share amounts)

	Year Ended March 31,	
	2022	2021
<b>Revenue:</b>		
Solutions revenue	\$ 3,261,203	\$ 2,893,889
Postage revenue	219,612	196,532
Total revenue	3,480,815	3,090,421
<b>Operating expenses:</b>		
Cost of operations (exclusive of depreciation and amortization below)	1,415,267	1,335,075
Research and development	277,930	227,036
Sales, marketing, general and administrative	734,554	686,645
Customer postage	219,612	196,532
Depreciation and amortization	681,808	591,048
Accretion and changes in estimate with related parties, net	14,833	13,158
Gain on sale of businesses	—	(59,143)
<b>Total operating expenses</b>	<b>3,344,004</b>	<b>2,990,351</b>
<b>Operating income (loss)</b>	<b>136,811</b>	<b>100,070</b>
<b>Non-operating (income) and expense</b>		
Interest expense, net	234,244	245,241
Loss on extinguishment of debt	3,885	8,924
Other, net	4,683	(6,698)
<b>Total non-operating (income) and expense</b>	<b>242,812</b>	<b>247,467</b>
<b>Income (loss) before income tax provision (benefit)</b>	<b>(106,001)</b>	<b>(147,397)</b>
<b>Income tax provision (benefit)</b>	<b>(48,611)</b>	<b>(35,187)</b>
<b>Net income (loss)</b>	<b>\$ (57,390)</b>	<b>\$ (112,210)</b>
<b>Net income (loss) per common share:</b>		
Basic and diluted	\$ (0.18)	\$ (0.35)
<b>Weighted average common shares outstanding:</b>		
Basic and diluted	323,996,600	320,771,789

# Consolidated Balance Sheets



## Consolidated Balance Sheets (unaudited and amounts in thousands, except share and per share amounts)

	March 31, 2022	March 31, 2021
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 252,298	\$ 113,101
Accounts receivable, net	720,122	732,614
Contract assets, net	162,828	132,856
Prepaid expenses and other current assets	177,659	140,258
<b>Total current assets</b>	<b>1,312,907</b>	<b>1,118,829</b>
Property and equipment, net	141,340	174,370
Operating lease right-of-use assets, net	65,680	93,412
Goodwill	4,112,904	4,108,792
Intangible assets, net	3,699,603	4,187,072
Other noncurrent assets, net	600,061	430,141
<b>Total assets</b>	<b>\$ 9,932,495</b>	<b>\$ 10,112,616</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 104,273	\$ 57,449
Accrued expenses	461,506	484,293
Deferred revenue	469,098	436,666
Due to related parties, net	13,057	10,766
Current portion of long-term debt	10,006	27,339
Current portion of operating lease liabilities	21,726	30,608
<b>Total current liabilities</b>	<b>1,079,666</b>	<b>1,047,121</b>
Long-term debt, excluding current portion	4,580,087	4,734,775
Long-term operating lease liabilities	52,286	75,396
Deferred income tax liabilities	563,606	605,291
Tax receivable agreement obligations to related parties	104,863	103,151
Tax receivable agreement obligations	202,762	229,082
Other long-term liabilities	73,118	65,572
<b>Total liabilities</b>	<b>6,656,388</b>	<b>6,860,388</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' Equity</b>		
Common Stock (par value, \$0.001), 9,000,000,000 and 9,000,000,000 shares authorized and 313,131,714 and 306,796,076 shares issued and outstanding at March 31, 2022 and March 31, 2021, respectively	313	307
Preferred stock (par value, \$0.001), 900,000,000 shares authorized and no shares issued and outstanding at both March 31, 2022 and March 31, 2021	—	—
Additional paid-in capital	4,340,759	4,283,391
Accumulated other comprehensive income (loss)	35,116	11,221
Accumulated deficit	(1,100,081)	(1,042,691)
<b>Total stockholders' equity</b>	<b>3,276,107</b>	<b>3,252,228</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 9,932,495</b>	<b>\$ 10,112,616</b>

# Consolidated Statements of Cash Flows



## Consolidated Statements of Cash Flows (unaudited and amounts in thousands)

	Year Ended March 31,	
	2022	2021
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (57,390)	\$ (112,210)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	681,808	591,048
Amortization of capitalized software developed for sale	3,509	1,326
Accretion and changes in estimate, net	25,276	11,644
Equity compensation	95,730	59,016
Deferred income tax expense (benefit)	(49,060)	(50,114)
Amortization of debt discount and issuance costs	31,284	32,532
Loss on extinguishment of debt	3,885	8,924
Non-cash lease expense	26,648	29,114
Gain on sale of businesses	—	(59,143)
Other, net	17,658	8,257
Changes in operating assets and liabilities:		
Accounts receivable, net	12,295	(6,064)
Contract assets, net	(26,114)	158
Prepaid expenses and other assets	(82,507)	(87,540)
Accounts payable	34,825	(21,407)
Accrued expenses and other liabilities	(61,032)	14,178
Deferred revenue	40,063	166,477
<b>Net cash provided by (used in) operating activities</b>	<b>696,878</b>	<b>586,196</b>
<b>Cash flows from investing activities:</b>		
Capitalized expenditures	(276,276)	(246,381)
Acquisitions, net of cash acquired	—	(439,483)
Proceeds from sale of businesses	—	115,733
Other, net	(663)	2,099
<b>Net cash provided by (used in) investing activities</b>	<b>(276,939)</b>	<b>(568,032)</b>
<b>Cash flows from financing activities:</b>		
Payments on Term Loan Facility	(180,000)	(315,000)
Payments under tax receivable agreements	(21,537)	(20,691)
Receipts (payments) on derivative instruments	(22,709)	(29,538)
Employee tax withholding on vesting of equity compensation awards	(37,751)	(4,108)
Payments on deferred financing obligations	(10,991)	(19,519)
Payment of senior amortizing notes	(16,384)	(15,636)
Proceeds from exercise of equity awards	8,933	17,514
Payments on Revolving Facility	—	(250,000)
Proceeds from issuance of Senior Notes	—	325,000
Other, net	(468)	(6,800)
<b>Net cash provided by (used in) financing activities</b>	<b>(280,907)</b>	<b>(318,778)</b>
Effect of exchange rate changes on cash and cash equivalents	165	3,310
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>139,197</b>	<b>(297,304)</b>
Cash and cash equivalents at beginning of period	113,101	410,405
<b>Cash and cash equivalents at end of period</b>	<b>\$ 252,298</b>	<b>\$ 113,101</b>

# Reconciliation of Net Income (Loss) to Adjusted EBITDA



## Reconciliation of Net Income (Loss) to Adjusted EBITDA (unaudited and amounts in thousands)

	Three Months Ended March 31,	
	2022	2021
<b>Net income (loss)</b>	\$ 7,090	\$ (13,090)
Income tax provision (benefit)	(13,298)	(3,776)
Income (loss) before income tax provision (benefit)	(6,208)	(16,866)
Amortization of capitalized software developed for sale	999	776
Depreciation and amortization	179,345	154,495
Interest expense, net	56,959	59,508
Equity compensation	21,012	24,158
Acquisition accounting adjustments	(4,762)	5,917
Acquisition and divestiture-related costs	12,254	9,590
Integration and related costs	3,608	13,094
Strategic initiatives, duplicative and transition costs	7,977	8,671
Severance costs	(4,484)	2,717
Accretion and changes in estimate, net	11,706	3,215
Impairment of long-lived assets and other	728	3,772
Loss on extinguishment of debt	—	1,289
Gain on sale of business	—	1,344
Other non-routine, net	3,189	365
<b>Adjusted EBITDA</b>	<b>\$ 282,323</b>	<b>\$ 272,045</b>

# Reconciliation of Net Income (Loss) to Adjusted EBITDA



## Reconciliation of Net Income (Loss) to Adjusted EBITDA (unaudited and amounts in thousands)

	Year Ended March 31,	
	2022	2021
<b>Net income (loss)</b>	\$ (57,390)	\$ (112,210)
Income tax provision (benefit)	(48,611)	(35,187)
Income (loss) before income tax provision (benefit)	(106,001)	(147,397)
Amortization of capitalized software developed for sale	3,509	1,326
Depreciation and amortization	681,808	591,048
Interest expense, net	234,244	245,241
Equity compensation	95,730	59,016
Acquisition accounting adjustments	(11,839)	109,743
Acquisition and divestiture-related costs	41,120	19,709
Integration and related costs	26,803	40,675
Strategic initiatives, duplicative and transition costs	46,041	21,841
Severance costs	10,178	13,184
Accretion and changes in estimate, net	25,276	11,644
Impairment of long-lived assets and other	4,958	18,190
Loss on extinguishment of debt	3,885	8,924
Gain on sale of business	—	(59,143)
Contingent consideration	—	(3,000)
Other non-routine, net	15,339	3,164
<b>Adjusted EBITDA</b>	<b>\$ 1,071,051</b>	<b>\$ 934,165</b>

# Reconciliation of Net Income (Loss) to Adjusted Net Income (Loss)

## Reconciliation of Net Income (Loss) to Adjusted Net Income (Loss) (unaudited and amounts in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2022	2021
<b>Net income (loss)</b>	\$ 7,090	\$ (13,090)
Amortization expense resulting from acquisition method adjustments	125,231	117,362
EBITDA adjustments	51,228	74,132
Tax effect of EBITDA adjustments and amortization expense	(53,254)	(44,413)
<b>Adjusted net income (loss)</b>	<u>\$ 130,295</u>	<u>\$ 133,991</u>
<b>Adjusted net income (loss) per diluted share</b>	<u>\$ 0.39</u>	<u>\$ 0.42</u>

	Year Ended March 31,	
	2022	2021
<b>Net income (loss)</b>	\$ (57,390)	\$ (112,210)
Amortization expense resulting from acquisition method adjustments	498,843	463,334
EBITDA adjustments	257,491	243,947
Tax effect of EBITDA adjustments and amortization expense	(204,745)	(166,324)
<b>Adjusted net income (loss)</b>	<u>\$ 494,199</u>	<u>\$ 428,747</u>
<b>Adjusted net income (loss) per diluted share</b>	<u>\$ 1.53</u>	<u>\$ 1.34</u>





# Segment Results



## Segment Results (unaudited and amounts in thousands)

	Three Months Ended March 31,		\$ Change	% Change
	2022	2021		
<b>Segment revenue</b>				
Software and Analytics	\$ 443,171	\$ 416,265	\$ 26,906	6.5 %
Network Solutions	216,402	198,334	18,068	9.1 %
Technology-Enabled	234,262	227,311	6,951	3.1 %
Postage and Eliminations	26,296	23,391	2,905	12.4 %
Purchase Accounting	—	(10,141)	10,141	(100.0) %
Net revenue	<u>\$ 920,131</u>	<u>\$ 855,160</u>	<u>\$ 64,971</u>	7.6 %

<b>Segment adjusted EBITDA</b>				
Software and Analytics	\$ 164,180	\$ 144,025	\$ 20,155	14.0 %
Network Solutions	103,170	108,147	(4,977)	(4.6) %
Technology-Enabled	14,973	19,873	(4,900)	(24.7) %
Postage and Eliminations	—	—	—	— %
Total adjusted EBITDA	<u>\$ 282,323</u>	<u>\$ 272,045</u>	<u>\$ 10,278</u>	3.8 %

	Year Ended March 31,		\$ Change	% Change
	2022	2021		
<b>Segment revenue</b>				
Software and Analytics	\$ 1,612,931	\$ 1,534,926	\$ 78,005	5.1 %
Network Solutions	868,425	717,843	150,582	21.0 %
Technology-Enabled	924,472	869,349	55,123	6.3 %
Postage and Eliminations	82,727	96,533	(13,806)	(14.3) %
Purchase Accounting	(7,740)	(128,230)	120,490	(94.0) %
Net revenue	<u>\$ 3,480,815</u>	<u>\$ 3,090,421</u>	<u>\$ 390,394</u>	12.6 %

<b>Segment adjusted EBITDA</b>				
Software and Analytics	\$ 561,994	\$ 526,129	\$ 35,865	6.8 %
Network Solutions	446,378	377,005	69,373	18.4 %
Technology-Enabled	62,679	31,031	31,648	102.0 %
Postage and Eliminations	—	—	—	— %
Total adjusted EBITDA	<u>\$ 1,071,051</u>	<u>\$ 934,165</u>	<u>\$ 136,886</u>	14.7 %

<sup>(1)</sup> Revenue for Postage and Eliminations includes postage revenue of \$60.9 million and \$50.9 million for the three months ended March 31, 2022 and 2021, respectively. Revenue for Postage and Eliminations includes postage revenue of \$219.6 million and \$196.5 million for the years ended March 31, 2022 and 2021, respectively.

<sup>(2)</sup> Amount reflects the impact to deferred revenue resulting from the McKesson exit which reduced revenue recognized during the three months ended March 31, 2021 as well as the years ended March 31, 2022 and 2021.

# Reconciliation of Cash Provided by (Used in) Operating Activities to Free Cash Flow and Adjusted Free Cash Flow

## Reconciliation of Cash Provided by (Used in) Operating Activities to Free Cash Flow and Adjusted Free Cash Flow (unaudited and amounts in thousands)

	Year Ended March 31,	
	2022	2021
<b>Cash provided by (used in) operating activities <sup>(1)</sup></b>	\$ 696,878	\$ 586,196
Capital expenditures	(276,276)	(246,381)
<b>Free cash flow</b>	<u>420,602</u>	<u>339,815</u>
<b>Adjustments to free cash flow <sup>(2)</sup>:</b>		
Integration and related costs	26,803	40,675
Strategic initiatives, duplicative and transition costs	46,041	21,841
Severance costs	10,178	13,184
Integration and strategic capital expenditures	26,166	14,379
<b>Adjusted free cash flow</b>	<u>\$ 529,790</u>	<u>\$ 429,894</u>

<sup>(1)</sup> Includes cash provided by pass-thru funds of \$12.9 million for the year ended March 31, 2022 and cash used by pass-thru funds of \$12.8 million for Change Healthcare Inc. for the year ended March 31, 2021.

<sup>(2)</sup> All operating costs and integration and strategic capital expenditures are presented on an as-incurred basis.



# CHANGE HEALTHCARE

Insight. Innovation. Transformation.