

A LETTER FROM THE CEO

KEITH R. DUNLEAVY, M.D.



Dear Fellow Stockholders,

2017 was another year of strong progress for Inovalon, a year in which we executed well against our strategic plan, achieved the financial guidance we provided to the investment community, advanced our technology capabilities to further differentiate the Company in the marketplace, and continued to make progress transitioning our business to a subscription-based cloud-based platform model. Inovalon believes that healthcare is increasingly becoming data-driven in nature, transactional in design, real-time in speed, and ultimately consumer-centric in focus. The Company and its people are passionate about this vision and steadfastly focused on empowering this transformation by enabling value-based, data-driven healthcare initiatives throughout the healthcare ecosystem.

Financially, 2017 was a year of growth, increasing profitability, and strong cash flow. Revenue of \$449.4 million increased by 5% over 2016 even as the Company successfully executed a significant product transition in the first half of the year. Driven by the introduction and strong market adoption of many new, high-value offerings, the Company saw accelerating revenue growth in the second half of the year, culminating in a year-over-year revenue increase of over 19% in the fourth quarter of 2017, including 14% growth on an organic basis. The Company also delivered strong profitability and margin expansion in 2017, reporting Adjusted EBITDA of \$109.0 million, an increase of 9% from the prior year, and representing 24.3% of revenue, an increase of 90 basis points from 2016. Further, the Company again generated strong cash flow, delivering cash flow from operations of \$97.7 million, an increase of \$4.9 million over 2016. Importantly, the Company delivered this increased profitability and cash flow even as it made record levels of investment in new and enhanced platform-based offerings, increasingly advanced technology capabilities, and dynamic cloud-based infrastructure. In addition to supporting the significant level of investment in 2017, the Company's strong cash flow also enabled the completion of \$200 million in cumulative share repurchases initially authorized in 2016.

But Inovalon's success in 2017 goes well beyond financial performance. During 2017, significant advancements of our capabilities, technologies, and datasets were achieved as we transitioned to a subscription-based cloud-based platform model. These significant investments and achievements are the foundation for growth, market differentiation, and industry leadership for the Company in the years to come.

One of the Company's most significant achievements in 2017 was the introduction of the Inovalon ONE™ Platform. The Inovalon ONE™ Platform is an integrated, cloud-based platform of more than 80 individual proprietary technology toolsets, or Components, with each supporting critical healthcare functional needs. Throughout 2017 we discussed our continuing investments in areas like modularity, cloud-native architecture, real-time transactional processing, machine learning and natural language processing, and other innovative capabilities, and the Inovalon ONE™ Platform represents a significant evolutionary advancement of these investments. With the Inovalon ONE™ Platform, the Company significantly enhanced existing offerings, created new cloud-native platform-based offerings, and significantly enhanced the flexibility, speed, and breadth with which these offerings can be deployed, as well as the robustness, efficiency, and compute performance of the cloud-native software and infrastructure that supports them.

The value delivery and market differentiation of the Inovalon ONE™ Platform capabilities continues to be rapidly acknowledged and adopted by the marketplace. During 2017, Inovalon signed multi-year engagements with four of the nation's five largest health plans – including the nation's largest health plan. Complementing these sizable wins were many other multi-year engagements with leading regional and state-specific players, as well as the migration of a number of our existing clients from legacy solutions onto the Inovalon ONE™ Platform. In addition, the Company won new business with a number of global leaders in the adjacent Pharma/Life Sciences market, and increased the number of outcomes-based contracts (OBCs) in this market from four in 2016 to eight at the end of 2017. Our Pharma/Life Sciences wins exemplify the Company's successful expansion into adjacent markets, an important element of our strategic plan that we will continue to execute on in the years ahead.

The many multi-year engagements won in 2017 demonstrate the continued success the Company is having transitioning Inovalon's revenue base from legacy enterprise solutions to subscription-based cloud-based platform offerings. In 2017, enabled through the strong market reception to the Inovalon ONE™ Platform, revenue from subscription-based cloud-based platform offerings grew by 30% to contribute 66% of revenue for the year. And the Company expects to continue to see strong growth in this area of our business in 2018. Driving this expansion in subscription-based cloud-based platform offering mix is a significant increase in the number of patients on the Inovalon ONE™ Platform, a number that reached over 94 million by the end of 2017, representing a year-over-year increase of over 450%. Importantly, these are patients not only from health plans, but also provider organizations and pharmaceutical companies that are leveraging the Inovalon ONE™ Platform. While the adoption by clients and the associated growth in member count utilizing the Platform was significant in 2017, most clients have only just started to scratch the surface in unlocking the full capabilities of the Inovalon ONE™ Platform – representing a significant growth opportunity for the Company going forward.

Important to understanding Inovalon is understanding the capabilities needed to support and succeed in data-driven, value-based healthcare. At the core of value-based initiatives is the need to aggregate and analyze data, garner meaningful insight from the results, and use these insights to drive material change to healthcare outcomes and economics. To achieve this, four competencies are needed: 1) large-scale data connectivity, integration, and validation capabilities, 2) advanced analytics and high-speed compute, 3) toolsets to translate resulting insights into real-world impact, and 4) purpose-built data visualization and reporting. In addition, because value-based healthcare is measured on a relative performance basis, these competencies require massive-scale datasets to perform relative comparisons and empower the training of advanced analytical algorithms, as well as extensive connectivity to enable the application of insight down to the patient's point of care.

In 2017, Inovalon made significant progress in all of these areas, and we are seeing the market respond to these competitive differentiators. I would like to highlight two differentiators in particular. The first is our massive data assets, which continued to see strong expansion and deepening in 2017. As of the end of the

year, Inovalon's MORE² Registry® dataset unique patient count expanded to over 240 million and the medical event count expanded to nearly 38 billion, increases of 59% and 183%, respectively, versus the end of 2016. This data is highly differentiated in the market, as it is primary sourced, longitudinally matched, crosses all major U.S. healthcare programs, and includes a wide range of patient and provider data elements beyond just claims data. The Company's datasets are driving meaningful differentiation and growing translation into financial performance over time.

The second capability to highlight is Inovalon's healthcare ecosystem connectivity. Connectivity empowers our ability to access data and drive impact with our analytical insights. Through cloud-based and direct connectivity, we can achieve this in real-time and autonomously – providing highly differentiated capabilities for clients as well as highly efficient operations for the Company. At the end of 2017, Inovalon had achieved electronic health record (EHR) system connectivity with more than 126,000 physicians, representing greater than 200% compound annual growth rate (CAGR) since 2014. We expect to see further expansion in our connectivity in 2018.

Finally, it is worth highlighting an important transaction that occurred subsequent to the end of 2017. On April 2, 2018, Inovalon closed the acquisition of ABILITY® Network (ABILITY), a leading cloud-based provider of real-time connectivity and analytics, helping providers and payers simplify the complexities of healthcare at more than 44,000 acute, post-acute, and ambulatory provider sites. The combination of Inovalon and ABILITY creates the market's largest vertically integrated cloud-based platform empowering the achievement of real-time, value-based care from payers, pharmaceutical companies, device manufacturers, and diagnostic companies all the way to the patient's point of care. The combination will both leverage and enhance the data assets of Inovalon, will expand efficiencies gained through connectivity, and will increase the Company's total addressable market and overall reach of data-driven intervention capabilities.

As the healthcare industry becomes increasingly value-based and data-driven, and witnesses competitive dynamics such as vertical integration and potential new entrants, tremendous opportunities are being created for Inovalon. The Company will continue to invest to drive increasing growth, profitability, innovation, and competitive differentiation in the marketplace, enabling meaningful value creation for clients and stockholders. The achievement of our goals will be measured in years – not quarters – with our focus being firmly fixated on being the leading enabler of data-driven, value-based care.

We look forward to reporting on our progress and sincerely appreciate your interest and support as stockholders.

Kind regards,

KEITH R. DUNLEAVY, M.D.
Chief Executive Officer &
Chairman of the Board
April, 2018