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# Centene Corp

## CNC Investor Day: Health Net Synergies Ramp Up

Industry View	Stock Rating	Price Target
<b>In-Line</b>	<b>Equal-weight</b>	<b>\$84.00</b>

CNC hosted a well attended investor day on Friday. Key topics included the ongoing HNT integration, HNT's medical reserves, and new growth opportunities in Medicare Advantage. We walked away incrementally more positive on the deal and integration.

**Health Net integration is on track and potentially ahead of schedule.**

Management emphasized the HNT integration was on track and ahead of schedule in some areas. However, the company did note that it would take 18 - 24 months to fully integrate HNT but that it is in process of moving the business onto its Centelligence (proprietary data analytics platform). Notably, management said it had already planned or executed on ~90% of the targeted 2016 cost synergies. Specifically, CNC projects \$75M of cost savings in year one, 60% of which are related to medical cost savings and 40% related to G&A savings. Based on the March 24 closing date, CNC projects ~70% or ~\$50M of synergies will be achieved in 2016, on top of Cognizant savings. In addition, CNC expects \$150M of synergies in year two and management now believes it can exceed \$200M in run-rate synergies going forward.

**Focused on Health Net's reserves.** CFO Jeff Schwaneke outlined details on CNC's reserving methodology and suggested HNT's reserving process would be completed by the beginning of 2017. In fact, he said that the company was in process with an independent actuarial review of the opening balance sheet and will use two independent actuaries to review the 2Q reserves.

Interestingly, there was not any unfavorable development on the acquired HNT reserves through 5/31 despite DCPs declining in 2015. Given that CNC is still in the process of evaluating HNT's reserves, the company could ultimately have to take a charge related to the reserves going forward. However, this would be a balance sheet adjustment tied to the acquisition accounting and not impact the income statement for periods before the acquisition closed.

**Medicare as a long term growth opportunity.** CNC highlighted the long-term Medicare growth opportunity of \$700B, 65% of which is at or under 400% of FPL. Within the company's existing footprint, CNC identified a \$150B MA opportunity. Management also pointed to HNT's 4-star rating as another opportunity to grow its MA business and said it would be rolling out 4-star plans in 4 new markets in 2017. It sounds like CNC anticipates growth in the MA segment will really begin to accelerate in 2018, suggesting "we will be much more aggressive in terms of the growth." Management even said that Medicare would be a meaningful part of the portfolio in five years.

MORGAN STANLEY &amp; CO. LLC

**Andrew Schenker**

EQUITY ANALYST

Andrew.Schenker@morganstanley.com

+1 212 761-6857

**Cornelia Miller**

RESEARCH ASSOCIATE

Cornelia.Miller@morganstanley.com

+1 212 761-3809

**Vikram Ashoka**

RESEARCH ASSOCIATE

Vikram.Ashoka@morganstanley.com

+1 212 761-4896

**Centene Corp ( CNC.N, CNC US )**

Managed Care / United States of America

**Stock Rating****Equal-weight****Industry View****In-Line****Price target****\$84.00**

Shr price, close (Jun 17, 2016)

\$67.01

Mkt cap, curr (mm)

\$8,333

52-Week Range

\$82.67-47.37

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## Valuation, Risks, and Methodology

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### CNC.N

We calculate our \$84 price target by applying a 17.5x P/E multiple to our 2017e pro-forma base case EPS. The multiple is roughly in-line with the current Medicaid '16 P/E multiple and reflects a higher percentage of CNC's earnings that would come from the commercial segment, post HNT deal.

Key risks to our PT include: 1) HNT synergies fall below expectations, 2) Duals eligible and members with complex care needs have costs that are higher than expected and it takes longer for MLRs to come down to targeted low to mid-90s, 3) Broader Medicaid rate environment becomes more challenging

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
<b>Overweight/Buy</b>	<b>1177</b>	<b>35%</b>	<b>283</b>	<b>40%</b>	<b>24%</b>	<b>572</b>	<b>37%</b>
<b>Equal-weight/Hold</b>	<b>1431</b>	<b>43%</b>	<b>337</b>	<b>47%</b>	<b>24%</b>	<b>701</b>	<b>45%</b>
<b>Not-Rated/Hold</b>	<b>78</b>	<b>2%</b>	<b>7</b>	<b>1%</b>	<b>9%</b>	<b>11</b>	<b>1%</b>
<b>Underweight/Sell</b>	<b>663</b>	<b>20%</b>	<b>87</b>	<b>12%</b>	<b>13%</b>	<b>280</b>	<b>18%</b>
<b>TOTAL</b>	<b>3,349</b>		<b>714</b>			<b>1564</b>	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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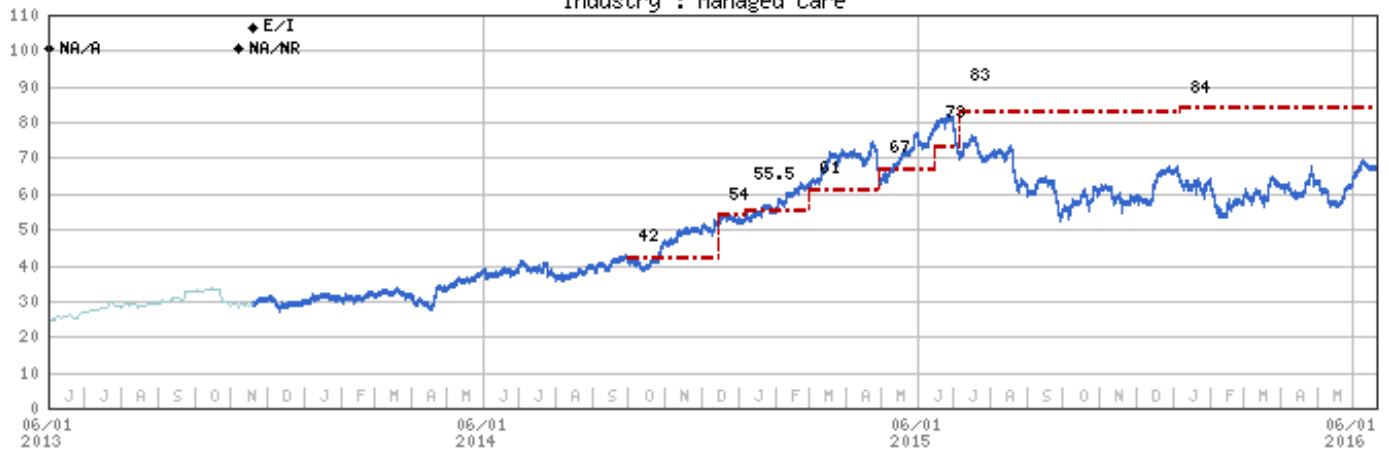
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### Stock Price, Price Target and Rating History (See Rating Definitions)

Centene Corp (CNC.N) - As of 6/19/16 in USD  
Industry : Managed Care



Stock Rating History: 6/1/13 : NA/A; 11/7/13 : NA/NR; 11/20/13 : E/I

Price Target History: 11/20/13 : NA; 9/30/14 : 42; 12/15/14 : 54; 1/6/15 : 55.5; 3/2/15 : 61; 4/29/15 : 67; 6/15/15 : 73; 7/6/15 : 83; 1/7/16 : 84

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target ---      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) ---      Stock Price (Covered by Current Analyst) ---  
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View  
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (06/17/2016)
<b>Andrew Schenker</b>		
Aetna Inc. (AET.N)	O (11/20/2013)	\$121.10
Anthem Inc (ANTM.N)	++	\$132.34
Centene Corp (CNC.N)	E (11/20/2013)	\$67.01
Cigna Corp (CI.N)	++	\$129.50
Connecture Inc (CNXR.O)	O (01/06/2015)	\$2.43
Humana Inc (HUM.N)	E (11/20/2013)	\$187.15
Molina Healthcare Inc (MOH.N)	E (11/20/2013)	\$51.01
UnitedHealth Group Inc (UNH.N)	O (09/09/2015)	\$137.69
Wellcare Health Plans Inc (WCG.N)	U (11/20/2013)	\$105.22

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