

Reason for report:

**FLASH NOTE****MANAGED CARE****WCG, CNC Bid for AET- HUM Assets; AET Mtg with DOJ Looks on Track**

• **Bottom Line: We reiterate our OP ratings on both AET and HUM after media reports on the July 8 AET meeting with the DOJ and WCG and CNC bids for the divested Medicare Advantage (MA) lives to close the HUM transaction.** AET was reported by Bloomberg and Reuters over the weekend to have met with the DOJ as has been speculated on last Friday July 8. WCG (OP) and CNC (OP) are reported to have bid for the package of MA assets that are being auctioned off by AET to help close the transaction with HUM. The package of MA assets is reported to be \$2.5B in revenue, and 350K members (consistent with our previously published estimate using county based market share data) for a value in the \$1 B range. We view these reports as credible. We see WCG as more likely than CNC to win the assets in this auction given their existing MA presence, which would double with this purchase making them a robust MA competitor that is more likely to satisfy the requirements of the DOJ. We also expect WCG could be advantaged in the auction process given this is the legacy CVH MA book with experience, and previous working relationships between AET CFO Shawn Guertin and WCG CFO Drew Asher at both CVH and AET. CNC has expanded to four new States in Medicare Advantage for MA, but is a Medicaid player primarily at this time and is levered up from a sizeable HNT transaction. Other buyers are also reported to have expressed interest and we expect these are likely to span Not for Profit Blue Cross Blue Shields, UNH (OP), ANTM (OP), CI, Health systems and Private Equity which may purchase a more targeted set of assets that cannot be acquired by WCG. We continue to see an 80+% probability that the AET and HUM deal will close and see the reaction of the market and the HUM sell-off as overblown. Based on our conversations with the event arb investment community, the assumed correlation between a meeting with Bill Baer and transactions that failed DOJ scrutiny seems to be on very few data points and is inconclusive given the limited data set. We expect more news flow in the coming days leading up to the AET 2Q report on Aug 2.

S&amp;P 500 Health Care Index:

850.85

**Companies Highlighted:**  
 AET, ANTM, CI, CNC, HUM, UNH, WCG

• Please see link to our county level overlap analysis for AET-HUM:

[Proprietary Analysis Points To AET-HUM Close; UNH, WCG, ANTM, CI Buyers.](#)

• Please see link to our AET-HUM pro forma model: [Our First Pub of AET-HUM Pro Forma Model thru 2019; Reiterate 80% Prob of Close.](#)

• Please see link to our flash on AET-HUM merger agreement extension: [AET-HUM Extend Merger Agreement to Dec 31 from June 30; Reit Close Prob of 80%.](#)

## Disclosures Appendix

### Analyst Certification

I, Ana Gupte, Ph.D., certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Rating	Distribution of Ratings/Investment Banking Services (IB) as of 03/31/16			
			IB Serv./Past 12 Mos.	
	Count	Percent	Count	Percent
BUY [OP]	156	69.3	55	35.3
HOLD [MP]	69	30.7	3	4.3
SELL [UP]	0	0.0	0	0.0

### Explanation of Ratings

**Outperform (Buy):** We expect this stock to outperform its benchmark over the next 12 months.

**Market Perform (Hold/Neutral):** We expect this stock to perform in line with its benchmark over the next 12 months.

**Underperform (Sell):** We expect this stock to underperform its benchmark over the next 12 months. The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than \$2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over \$2 billion.

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