

Healthcare Services - Managed Care

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Estimate Largest Benefit of FL Caid Premium Catch-up at WCG/HUM But Most Material for MOH; Digging into Drivers, Timing, Next Catalyst in FL Rates

- Florida to pay \$433M in back premiums, we believe the largest portions could go to WellCare and Humana while the largest impact as a percent of earnings could be seen by Molina. We see potential for a large one time catch up in 2Q16 followed by go forward improvement beginning in the May-July time frame. The \$433M represents amounts owed to 11 plans from Fiscal 2013/2014 through Fiscal 2015/2016, Florida's fiscal year ends in June. Our company specific revenue and EPS estimates in Figure 1 are based on enrollment exposure to TANF over 55 where we believe the majority of the errors occurred, TANF, and rate differentials by region by company between the TANF and SSI categories. The go forward impact may be less than the annualized impact as 1) plans may use the incremental revenue to enhance services, 2) the state has MLR minimums, 3) the lower MLR may influence future rate updates.

Figure 1: Estimated Exposure to Florida Medicaid Premium Catch Up

	Enrollment Exposure		Annualized Impact								One Time Catch Up			
	TANF >55	TANF	Rev. (\$M)		% of Total		EPS		% of Total		Rev. (\$M)		EPS	
			Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
WCG	1,982	581,722	20	25	0.14%	0.18%	0.14	0.24	3.1%	5.2%	60	75	0.58	0.72
HUM	1,598	276,555	20	25	0.04%	0.05%	0.05	0.08	0.6%	0.9%	60	75	0.20	0.25
CNC	1,369	385,330	18	23	0.05%	0.06%	0.05	0.08	1.1%	1.9%	54	69	0.17	0.22
MOH	1,352	274,792	18	23	0.10%	0.13%	0.11	0.19	4.4%	7.3%	54	69	0.41	0.53
UNH	1,148	224,793	15	18	0.01%	0.01%	0.01	0.02	0.1%	0.2%	45	54	0.03	0.04
ANTM	1,056	307,597	15	17	0.02%	0.02%	0.03	0.05	0.3%	0.5%	45	51	0.09	0.10
AET	345	47,976	5	10	0.01%	0.02%	0.02	0.04	0.3%	0.5%	15	30	0.02	0.05

Source: Company and State data, Wedbush Securities, Inc., Thomson Consensus

- We believe the underpayment to be driven by the miss categorization of some higher rate cell members as TANF which could have lowered PMPMs by 130% in some cases. We believe some members classified as TANF were eligible for higher rate categories such as Meds AD (essentially Florida's name for ABD which has an age, asset, and income qualifier) or SSI. We estimate the average TANF rate to be \$428 PMPM and SSI \$989, a 130% difference. However in certain regions this is much greater such as region 10 and 11 where Humana has higher exposure.
- We believe the error was communicated to insurers early last week and we could see some insurers take a benefit with reporting 2Q16 earnings. We believe insurers were given specific amounts the state underpaid related to the period of June 2013 – May 2016. Historically some insurers will recognize receivables once notified of an amount while others may wait for the cash transfer, consider the different treatment of the Health Insurer Fee and Texas bonus by Centene and Molina.
- Next catalyst will be this summer's rate setting conference; while the correction could raise PMPMs for now we could also see an adjusted MLR lower the need for a 2017 rate increase. We believe the state is working to correct these errors and may have done so by the end of 2Q. If these higher premiums are used when reforecasting historical MLR we could see MLR decline which could lower the need for future rate increases. As Florida only provides one rate cell per category (TANF, SSI non-SMI non-dual) per county we could also see a step up in the rates if the percent of Meds Ad or elderly TANF as a percentage of the category increases. Regardless of the way the correction is incorporated we believe this is a net positive to earnings compared to historical run rate FL operations.

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Covered Public Companies Mentioned (as of close on 6/15/2016)

Company	Ticker	Price	Rating	Price Target
Aetna Inc.	AET	\$119.92	N	\$130
Centene Corp.	CNC	\$67.01	OP	\$80
Humana	HUM	\$185.55	N	\$212
Molina Healthcare Inc.	MOH	\$50.48	OP	\$68
Unitedhealth Group Inc.	UNH	\$137.26	OP	\$152
WellCare Health Plans Inc.	WCG	\$105.19	N	\$108
Anthem Inc.	ANTM	\$130.61	N	\$159

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Neutral: 40%	Neutral: 3%
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Company	Disclosure
Anthem	1
Centene	1
Molina Healthcare	1
WellCare Health Plans	1
Unitedhealth Group	1
Humana	1
Aetna	1

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ANTM

1) 04/24/13 NEUTRAL \$77	2) 07/25/13 NEUTRAL \$93	3) 04/17/14 NEUTRAL \$106	4) 04/30/14 NEUTRAL \$110	5) 07/30/14 NEUTRAL \$115	6) 10/15/14 NEUTRAL \$130	7) 10/29/14 NEUTRAL \$134	8) 01/28/15 NEUTRAL \$150	
9) 04/01/15 NEUTRAL \$166	10) 07/01/15 NEUTRAL \$186	11) 01/08/16 NEUTRAL \$162	12) 01/27/16 NEUTRAL \$156					



CNC

1) 04/05/13 OUTPERFORM \$47	2) 04/24/13 OUTPERFORM \$52	3) 07/01/13 OUTPERFORM \$56	4) 07/23/13 OUTPERFORM \$66	5) 08/21/13 OUTPERFORM \$67	6) 10/18/13 OUTPERFORM \$72
7) 10/22/13 OUTPERFORM \$75	8) 06/15/14 OUTPERFORM \$85	9) 07/23/14 OUTPERFORM \$90	10) 10/15/14 OUTPERFORM \$95	11) 10/28/14 OUTPERFORM \$100	12) 12/14/14 OUTPERFORM \$119
13) 02/03/15 OUTPERFORM \$125	14) 04/01/15 OUTPERFORM \$80	15) 06/15/15 OUTPERFORM \$84	16) 07/01/15 OUTPERFORM \$92	17) 01/08/16 OUTPERFORM \$80	



MOH

1) 07/01/13 OUTPERFORM \$48	2) 10/31/13 OUTPERFORM \$50	3) 07/31/14 OUTPERFORM \$53	4) 11/06/14 OUTPERFORM \$58	5) 02/13/15 OUTPERFORM \$70	6) 04/01/15 OUTPERFORM \$80	
7) 09/10/15 OUTPERFORM \$98	8) 01/08/16 OUTPERFORM \$82					



UNH

1) 07/19/13 OUTPERFORM \$79	2) 10/17/13 OUTPERFORM \$85	3) 12/05/13 OUTPERFORM \$89	4) 04/17/14 OUTPERFORM \$92	5) 10/15/14 OUTPERFORM \$100	6) 12/03/14 OUTPERFORM \$115
7) 01/21/15 OUTPERFORM \$132	8) 04/01/15 OUTPERFORM \$135	9) 04/16/15 OUTPERFORM \$138	10) 07/16/15 OUTPERFORM \$143	11) 11/23/15 OUTPERFORM \$135	12) 01/08/16 OUTPERFORM \$138



WCG

1) 05/03/13 OUTPERFORM \$67	2) 09/05/13 OUTPERFORM \$73	3) 10/18/13 OUTPERFORM \$78	4) 02/13/14 OUTPERFORM \$70	5) 05/06/14 OUTPERFORM \$80	6) 07/25/14 OUTPERFORM \$70
7) 08/18/14 NEUTRAL \$55	8) 11/06/14 NEUTRAL \$60	9) 02/05/15 NEUTRAL \$83	10) 02/11/15 NEUTRAL \$88	11) 02/17/15 NEUTRAL \$91	12) 04/01/15 NEUTRAL \$98



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