

Scott Fidel, Analyst
212-891-1788
scott.fidel@stephens.com

Caleb Ezell, Associate
601-402-4836
caleb.ezell@stephens.com

Covered Companies Mentioned:

HUM	\$409.28
UNH	\$347.86

Healthcare: Healthcare Services

Reason for Report: Recap of Conference Call

Takes from Expert Call w/Strategic Health Group on MA and Managed Medicaid

INVESTMENT CONCLUSION:

The government programs markets will represent the primary source of Managed Care enrollment growth in the years to come, led by Medicare Advantage (MA), which has the strongest secular growth prospects. COVID has impacted the MA and Managed Medicaid markets in a variety of ways, both positive and negative.

In MA, market growth will remain robust at 10%+ in 2021. The annual enrollment period (AEP) has also shown higher levels of persistency; existing members were hesitant to switch plans during the pandemic. This dynamic benefits the established incumbents with leading market share, such as UNH and HUM, despite increased competition, including from MA "start-ups".

In Managed Medicaid, visibility into organic growth for 2021 remains cloudy given potential for states to re-implement eligibility determinations, currently suspended during the pandemic. Medicaid MCO reimbursement rates also could remain tight in FY2021-FY2022 given ongoing state budget pressures, creating constraints for incremental Medicaid margin expansion.

KEY POINTS:

Stephens-Hosted Expert Call Participants. We hosted an expert call with Strategic Health Group, a health care consulting firm focused on the government programs market. Participating from SHG were Hank Osowski (Managing Partner) and Dennis Eder (Managing Partner). Key topics we discussed on the call consisted of the latest outlook for Managed Medicaid and Medicare Advantage, as well as the impact of COVID and the 2020 elections on health plan market fundamentals and policy.

Developing Trends in Medicare Advantage

We continue to see increased competition in the Medicare Advantage (MA) market as new start-ups enter the market and grow their geographic footprints. The established MA market leaders also continue to invest heavily in geographic expansion and providing more competitive plan benefits in existing markets.

As the MA market continues to mature, with penetration rates surpassing 40% of eligible Medicare beneficiaries in 2020, the focus of major plans has also shifted to customer retention, reflecting the scale advantages of incumbency as well higher member persistency during the pandemic.

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Still, there are significant organic growth opportunities ahead as the Medicare-eligible population continues to grow at a rapid pace, and the MCOs continue to drive higher MA market penetration. Therefore, we expect to see continued significant investments in MA geographic plan expansion in coming years. We are also seeing an enhanced focus on data informatics and analytics capabilities, which together with robust provider networks, attractive plan benefits, and strong customer service, helps to drive higher STARS scores for MA plans. This allows MA plans to capture higher reimbursement rates and drive driven incremental top-line growth through market share gains by offering more competitive benefits.

The data analytics and informatics capabilities for MA plans will also be of utmost importance as plans begin to determine rates for the 2022 plan year given the disrupted utilization patterns and lack of ability to fully capture risk score data during the COVID pandemic.

Developing Trends in Managed Medicaid

Throughout 2020, we have seen the loss of employer-sponsored (ESI) coverage and the suspension of eligibility redetermination efforts drive significant increases in Medicaid enrollment. At the same time, COVID-19 has continued to disrupt state tax revenues which has put increased pressure on state budgets in 2020, many of which were already facing pressure from growing long-term Medicaid costs. As a result, a number of states have looked to reduce rates for Medicaid MCOs, and have considered provider reimbursement cuts as well. While Medicaid plans will look to supply risk score data and argue for actuarial soundness to defend current rate levels, Medicaid managed care rates could remain under pressure over the next couple of fiscal years, creating a relatively challenging climate for margin expansion for Medicaid MCOs in FY2021-FY2022.

COMPANIES MENTIONED

Strategic Health Group (Private)

APPENDIX A

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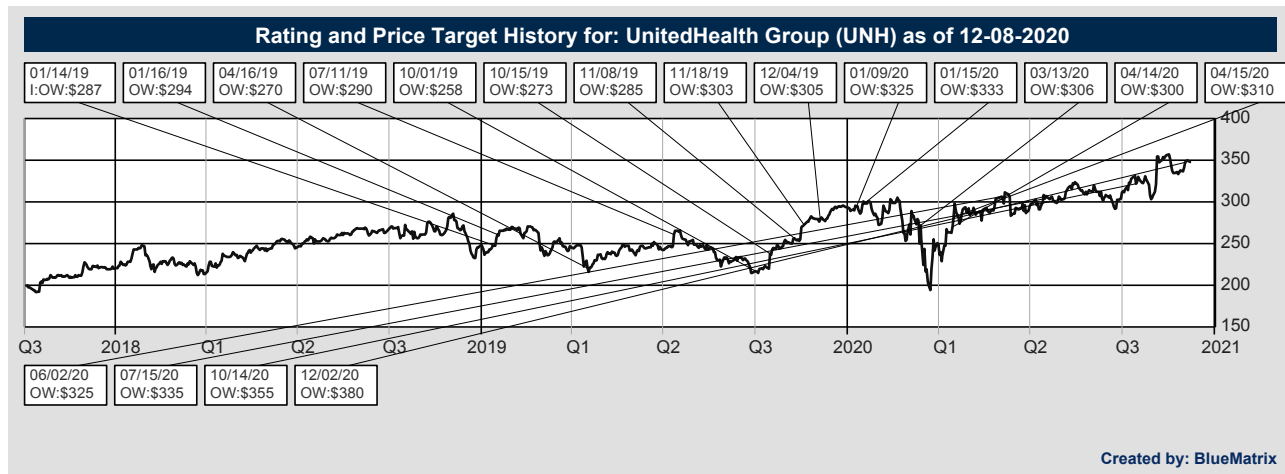
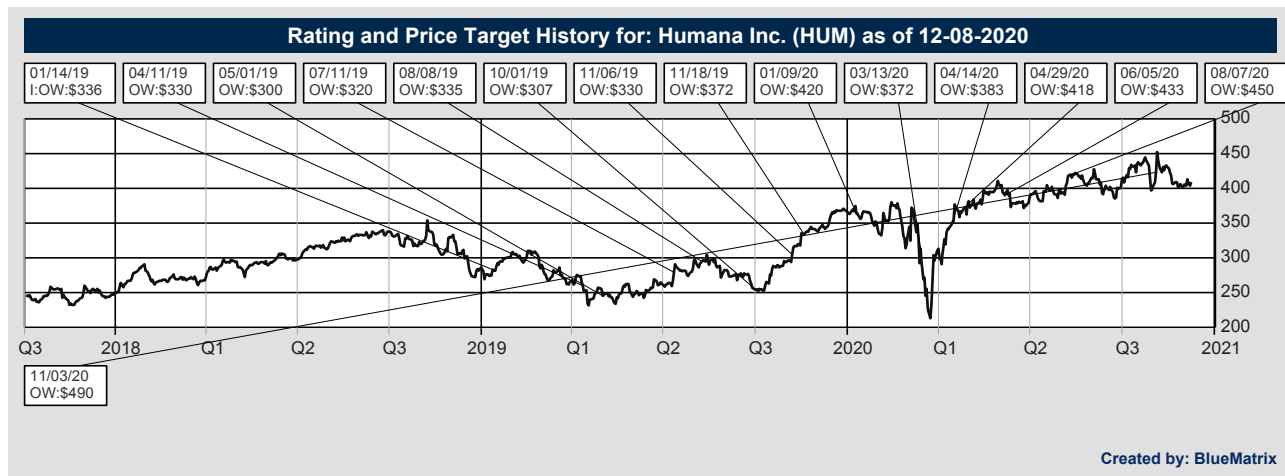
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Valuation Methodology for Humana Inc.

We value HUM based on the P/E valuation metric and our 2021E adjusted EPS.

Risks to Achievement of Target Price for Humana Inc.

- HUM's growth prospects and competitive position in the Part D market have diminished over the past several years.
- HUM has left the door open to pursuing a potentially large acquisition in Medicaid. Whenever HUM has ventured out from its Medicare moat, bad things have tended to initially happen to the stock.
- Increased competition from pricing and new entrants in the Medicare Advantage market represents a risk to HUM's core business line.
- Medicare for All and public option legislation at both the state and federal level.

Valuation Methodology for UnitedHealth Group

We value UNH based on the P/E valuation metric and our 2022E adjusted EPS.

Risks to Achievement of Target Price for UnitedHealth Group

- The growth and margin performance of the core Medicaid business has been lackluster in 2018-2019.
- UNH could see increased competition in Commercial and Medicare from its national MCO peers, should they redeploy anticipated merger synergies (CI & CVS) and PBM savings (ANTM) to drive price-based share gains.

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