

TMG Health Webinar: Wall Street's Outlook For Medicaid & Medicare

April 6, 2011

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Managed Care Comp Sheet

			Closing Price	Price Target	Price Target Multiple	Upside Downside Target	2010 Stock Perf.	2011 YTD Stock Perf.	Market Cap (\$ Mil)	2010 EPS	2011E EPS	2012E EPS	2010 P/E	2011E P/E	2012E P/E
	Rating		4/04/2011	Target											
Diversified plans															
Aetna, Inc.	AET	2M	\$37.94	\$38	10.3	0%	-4%	24%	\$14,588	\$3.68	\$3.70	\$4.35	10.3	10.3	8.7
CIGNA Corp	CI	2M	\$44.44	\$42	8.6	-5%	4%	19%	\$12,056	5.06	4.90	5.50	8.8	9.1	8.1
Coventry Health Care	CVH	2H	\$32.02	\$30	11.5	-6%	9%	21%	\$4,796	3.70	2.60	2.75	8.6	12.3	11.6
Health Net, Inc.	HNT	1H	\$33.75	\$35	12.1	4%	17%	19%	\$3,131	2.60	2.90	3.10	13.0	11.6	10.9
Triple-S	GTS	1H	\$20.83	\$25	11.4	20%	8%	7%	\$410	2.10	2.20	2.30	9.9	9.5	9.1
UnitedHealth Group	UNH	2L	\$45.60	\$41	11.6	-10%	18%	25%	\$49,872	4.10	3.55	3.70	11.1	12.9	12.3
WellPoint, Inc.	WLP	2L	\$70.61	\$69	10.4	-2%	-2%	22%	\$26,175	6.71	6.65	7.10	10.5	10.6	9.9
Average					10.8	0%	7%	20%					10.3	10.9	10.1
Medicare															
HealthSpring, Inc.	HS	2H	\$40.10	\$42	11.7	5%	51%	51%	\$2,669	3.39	3.60	3.90	11.8	11.1	10.3
Humana, Inc.	HUM	1H	\$70.98	\$71	11.3	0%	25%	29%	\$11,969	7.03	6.30	6.30	10.1	11.3	11.3
Universal American	UAM	1H	\$22.98	\$23	13.5	0%	75%	10%	\$1,738	2.37	1.70	1.70	9.7	13.5	13.5
WellCare Health Plans	WCG	1H	\$43.09	\$44	16.0	2%	-18%	42%	\$1,832 \$1,342	2.67	2.75	2.85	16.1	15.7	15.1
Medicare average					13.1		33%	33%					11.9	12.9	12.5
Medicaid															
AMERIGROUP Corp	AGP	1H	\$65.69	\$70	16.3	7%	63%	50%	\$3,253	5.39	4.30	4.75	12.2	16.3	13.8
Centene Corp	CNC	1H	\$33.97	\$35	16.7	3%	20%	32%	\$1,690	1.80	2.10	2.30	18.8	16.2	14.8
Molina Healthcare, Inc.	MOH	1H	\$40.99	\$37	16.8	-10%	22%	47%	\$1,252	1.99	2.20	2.50	20.6	18.6	16.4
Medicaid average					16.6		35%	43%					17.2	17.0	15.0
Behavioral Health															
Magellan Health Services	MGLN	1M	\$49.68	\$58	17.0	17%	16%	5%	\$1,642	4.02	3.40	4.05	12.3	17.0	12.3
Online Individual Health Insurance Broker															
eHealth	EHTH	3H	\$13.78	\$10	24.9	-27%	-14%	-7%	\$315	0.73	0.40	0.35	18.8	34.3	38.9
Market Index															
S&P 500	SPX		\$1,332.87				13%	6%		93.37	102.96		14.3	12.9	
HMO Index	HMO		\$2,221.01	2,255		2%	15%	30%							
Index Average															
Overall					13.0	1.6%	20.2%	26.9%					12.3	12.8	11.8

The 2011 Outlook

- **Own the government names (Medicare & Medicaid) and avoid the commercial plans**
 - The principal argument for owning the commercial plans is the potential for earnings upside driven by another year of below average utilization; government plans will see the same benefit from lower volumes without as much risk from all the new government regulation, like minimum medical loss ratios and premium rate regulation in the individual and small group markets
 - Both Medicare and Medicaid plans will have enrollment growth over the next few years, while the commercial risk business continues to shrink as employers continue to shift to ASO (administrative service only, or self-funded) plans. Government plans also have a lot more capital to deploy.
 - Earnings upside potential from the fourth quarter with the government plans will likely be largely sustainable in 2011, while 2012 Medicare rates are rising, and the RFP for the biggest Medicaid managed care expansion in history (Texas) should be released soon.

Growth Should Define The Next Few Years Of The Medicaid Industry

- **Both at the state level...**
 - Between now and 2014, there should be approximately \$40 billion in Medicaid revenue awarded through state RFPs
 - This includes an estimated \$15 billion in 2011 RFP awards, split roughly 50/50 between re-bids of existing Medicaid contracts and managed care expansion

- **...and because of health reform nationally**
 - The estimated 16 million people that become Medicaid eligible when income limits rise in 2014 will likely generate an estimated \$43 billion in annual Medicaid revenue

- **Which means more than \$80 billion in Medicaid revenue is up for grabs over the next few years**
 - The Medicaid managed care industry today generates an estimated \$60 billion in annual revenue, so we see enormous opportunity

The State Medicaid Opportunities - Reprocurements

Reprocurement State	Timeframe	Notes	Lives	Revenue (in millions)	RFP Issued	Proposals Due	RFP Awarded	Contract Start
Texas	2011	Re-bidding most of the state's existing managed care contracts	2,200,000	\$5,200			7/31/11	3/1/12
Arizona	2011	New long-term care contract will be effective on 10/1/2011, adding 27,000 lives	25,200	\$1,000	1/31/11	4/1/11	5/9/11	10/1/11
Hawaii	2011	Re-bidding the existing TANF population, which is called the Quest program	205,000	\$490				
Washington	2011	May use application instead of RFP, could move ABD to managed care						
Ohio	2011 / 2012	Ohio Medicaid						
Georgia	2012	Re-bidding existing TANF & CHIP contracts	1,123,000	\$2,950				
New Mexico	2012	Salud! Medicaid contract (including CHIP)						
Missouri	2012	Missouri Medicaid contract						
Tennessee								
Subtotal - 2011			2,430,200	\$6,690				
Subtotal - 2012			1,123,000	\$2,950				

Source: Company notes and Citi Investment Research and Analysis

The State Medicaid Opportunities – Expansions (Part 1)

Expansion State	Timeframe	Notes	Lives	Revenue (in millions)	RFP Issued	RFP Proposals Due	RFP Awarded	Contract Start
South Carolina	2011	Remainder of FFS converted to managed care, adding 95,000 lives	95,000	\$340	No RFP. Lives go to existing plans			March 2011
California	2011	Adding ABD to existing managed care contracts beginning in 2H11	380,000	\$1,600	No RFP. Lives go to existing plans			July 2011
Texas	2011-12	Adding the Rio Grande Valley, new STAR+PLUS regions, returning pharmacy management to plans, and returning inpatient mgmt to STAR+PLUS	1,000,000	\$4,800			7/31/11	3/1/12
Louisiana	2011-12	Planning to bring managed care to 3 regions with 825,000 eligibles with \$2 billion in revenue	825,000	\$2,000	4/11/11	6/24/11	8/1/11	1/1/12
Virginia	2011-2012	Expanding into Roanoke & Alleghany areas on 1/1/2012; Plans expected to be selected by September 2011					September 2011	1/1/12
Maine	2011-2014	Maine anticipates releasing its RFP in May 2011, with the first phase of enrollment starting in April 2012, followed by a second phase on April 2013, and a third phase in April 2014			May 2011			April 2012

Source: Company notes and Citi Investment Research and Analysis

The State Medicaid Opportunities – Expansions (Part 2)

Expansion State	Timeframe	Notes	Lives	Revenue (in millions)	RFP Issued	Proposals Due	RFP Awarded	Contract Start
Utah	2012	Both the Senate and House passed a bill expanding managed care, and the governor is expected to sign	325,000					
Georgia	2012	Likely adding ABD to its existing managed care contract	400,000	\$1,600				
Missouri	2012	HMOs in three regions, but considering statewide						
New Jersey	2012	Long term care program						
Illinois		State has recommended 50% of 2.8m Medicaid lives be enrolled in a care coordinated plan by 1/1/2015						
Montana		State contemplating bringing managed care to five counties						
New York		Long-term care, pharmacy carve-in						
Florida		Florida's 2011 budget proposed a managed care expansion, and integration of the LTC program						
Ohio		Long term care program						
Nevada		Long-term care						
Kansas		Could expand into ABD						
New Hampshire		Has issued a request for information						
Alabama								
Subtotal - 2011			2,300,000	\$8,740				
Subtotal - 2012			725,000	\$1,600				
Grand Total			6,578,200	\$19,980				

Source: Company notes and Citi Investment Research and Analysis

Sizing Medicaid Expansion Through Reform

- Using an estimate of 49 million Medicaid lives, the publicly traded plans have a nearly 30% market share
 - Holding that market share constant, they should enroll about 4.6 million of the new Medicaid eligibles in 2014.
 - At \$225 PMPM, that adds \$12 billion in revenue and \$370 million in EBITDA at a 3% pre-tax margin

Company	Current Medicaid Enrollment	Market Share	Additional Medicaid lives	Assumed PMPM	New Revenue (in million)	Assumed Margin	New EBITDA	EPS Impact	% of 2011 Estimate
Molina	1,482	3.0%	484	\$225	\$1,307	3.0%	\$39.2	\$0.93	42.0%
Centene Corp	1,469	3.0%	480	\$225	\$1,295	3.0%	\$38.8	\$0.49	23.2%
WellCare	1,332	2.7%	435	\$225	\$1,174	3.0%	\$35.2	\$0.52	18.9%
AMERIGROUP	1,863	3.8%	608	\$225	\$1,642	3.0%	\$49.3	\$0.59	13.6%
Triple-S	339	0.7%	111	\$225	\$299	3.0%	\$9.0	\$0.20	9.1%
Health Net	873	1.8%	285	\$225	\$770	3.0%	\$23.1	\$0.15	5.1%
Coventry	406	0.8%	133	\$225	\$358	3.0%	\$10.7	\$0.05	1.8%
UnitedHealth	3,045	6.2%	994	\$225	\$2,685	3.0%	\$80.5	\$0.05	1.3%
Aetna	1,061	2.2%	346	\$225	\$935	3.0%	\$28.1	\$0.04	1.1%
WellPoint	1,745	3.6%	570	\$225	\$1,538	3.0%	\$46.2	\$0.07	1.0%
Humana	399	0.8%	130	\$225	\$351	3.0%	\$10.5	\$0.04	0.6%
CIGNA Corp.	0	0.0%	0	\$225	\$0	3.0%	\$0.0	\$0.00	0.0%
All Other	34,987	71.4%	11,424	\$225	\$30,846	3.0%	\$925.4		
Total	49,000	100.0%	16,000	\$225	\$43,200	3.0%	\$1,296		

Source: Company notes and Citi Investment Research and Analysis

There's No Reason The Bigger Medicaid Plans Can't Double Revenue Between Now and 2014

■ **Let's look at AMERIGROUP**

- In 2010, AMERIGROUP had \$5.8 billion in revenue
- In 2011, through already awarded RFPs and organic growth, AMERIGROUP expects revenue to grow to \$6.3 billion
- We'll assume 5% organic growth for 2012, 2013, and 2014, which adds about \$1 billion in revenue
- As we just calculated, AMERIGROUP stands to gain \$1.6 billion in revenue through reform in 2014
- To double revenue, AMERIGROUP needs to win \$2.7 billion of the \$40 billion in state opportunities up for bid over the next few years
- We believe Texas will be the key RFP in 2011; if AMERIGROUP maintains its current market share of nearly 30%, it would add around \$1.5 billion in incremental revenue

What This Growth Would Mean For AMERIGROUP's Stock Price

- **We estimate AMERIGROUP will generate a 3.5% margin in 2011, and its stock is currently valued at \$66**
 - If revenue doubles and AMERIGROUP maintains the same 3.5% margin, it would earn nearly \$8 per share, which would make the stock worth \$94 at a 12x multiple
 - Even if we assume margins contract to 2.5% (a 30% reduction), it would still give the stock a value of \$67 per share.

Revenue growth, from 2010 to 2014

2010 revenue	\$5,783
Organic growth (2011-2014)	\$1,500
State expansions (2012-2014)	\$1,600
Health reform (2014)	\$2,700
2014 revenue	\$11,583

What that would mean for the stock price

After-tax margin scenario	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
EPS	\$1.12	\$2.25	\$3.37	\$4.50	\$5.62	\$6.75	\$7.87	\$9.00
Stock price scenario - 12x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x
Stock price	\$13.49	\$26.99	\$40.48	\$53.98	\$67.47	\$80.97	\$94.46	\$107.96

Source: Company notes and Citi Investment Research and Analysis

The Worry: What About State Budgets?

- **Cuts are going to have to come from a reduction of voluntary benefits and membership categories**
 - States can reduce managed care margins, but that doesn't save much money
 - States can cut provider reimbursement, but providers already don't make much money, and big cuts could result in access issues, as doctors stop seeing Medicaid patients
- **Most cuts to managed care plans are just a pass through of lower provider rates**
 - There's no question this puts pressure on managed care margins and earnings, but the impact isn't as significant as the headlines suggest
- **This is one of those rare managed care situations where there's enough growth to offset some margin pressure**
 - Rates in 2012 will likely be negatively impacted by the favorable utilization experienced in 2010

How Is The Medicaid Industry Doing Overall

- **Based on the 2009 statutory financials, the average Medicaid plan had a loss ratio of 88.4% in 2009, 100 basis points worse than 2008**
 - 2009 was a tough year for the industry because of the flu and new member utilization

	2006	2007	2008	2009
Number of plans	156	171	182	188
Enrollment	12,957,328	13,758,559	14,987,500	18,027,788
Member months	141,149,189	162,242,934	170,791,473	204,310,216
PMPM	\$203.44	\$225.47	\$240.37	\$258.13
Premiums	\$28,716,072,813	\$36,581,345,198	\$41,052,367,221	\$52,737,962,753
Medical expenses	\$24,949,037,445	\$32,506,552,184	\$35,899,389,264	\$46,618,479,013
Medical expense, PMPM	\$176.76	\$200.36	\$210.19	\$228.17
MLR	86.9%	88.9%	87.4%	88.4%
Gross profit	\$3,767,035,368	\$4,074,793,014	\$5,152,977,957	\$6,119,483,740
Gross profit, PMPM	\$26.69	\$25.12	\$30.17	\$29.95
Bed days per thousand	404.3	449.7	453.7	512.4
Days per admission	4.0	3.7	3.9	3.4
Physician visits per thousand	5,096	5,309	5,129	6,558

Source: National Association of Insurance Commissioners, Company notes, and Citi Investment Research and Analysis

Publicly Traded Versus Private Plans In 2009

- The variation in MLR seems to be driven primarily by a much higher number of days per inpatient admission at the private plans

	Publicly Traded 2009	Privately Held 2009	Variance 2009
Number of plans	83	105	26.5%
Enrollment	9,324,449	8,703,339	-6.7%
Member months	105,895,830	98,414,386	-7.1%
PMPM	\$239.38	\$278.30	16.3%
Premiums	\$25,349,225,304	\$27,388,737,449	8.0%
Medical expenses	\$21,984,533,787	\$24,633,945,226	12.1%
Medical expense, PMPM	\$207.61	\$250.31	20.6%
MLR	86.7%	89.9%	320 bp
Gross profit	\$3,364,691,517	\$2,754,792,223	-18.1%
Gross profit, PMPM	\$31.77	\$27.99	-11.9%
Bed days per thousand	483.7	495.4	2.4%
Days per admission	2.9	4.0	36.0%
Physician visits per thousand	6,037	6,504	7.7%

Source: National Association of Insurance Commissioners, Company notes, and Citi Investment Research and Analysis

Taking It One Step Further

- The publicly traded pure play Medicaid plans have superior MLR's relative to publicly traded diversified plans, although the difference narrowed quite a bit in 2009**

	Pure Play Publicly Traded			Diversified Publicly Traded		
	2007	2008	2009	2007	2008	2009
Number of plans	29	32	37	44	45	46
Enrollment	3,793,423	4,062,682	4,996,691	3,566,856	3,835,533	4,327,758
Member months	44,947,894	47,480,322	56,404,246	42,497,708	42,311,840	49,491,584
PMPM	\$216.50	\$229.48	\$243.08	\$205.03	\$209.39	\$235.16
Premiums	\$9,731,403,628	\$10,895,649,819	\$13,710,635,616	\$8,713,343,321	\$8,859,534,913	\$11,638,589,688
Medical expenses	\$8,157,340,375	\$9,102,712,772	\$11,809,731,879	\$7,708,819,662	\$7,736,132,638	\$10,174,801,908
Medical expense, PMPM	\$181.48	\$191.72	\$209.38	\$181.39	\$182.84	\$205.59
MLR	83.8%	83.5%	86.1%	88.5%	87.3%	87.4%
Gross profit	\$1,574,063,253	\$1,792,937,047	\$1,900,903,737	\$1,004,523,659	\$1,123,402,275	\$1,463,787,780
Gross profit, PMPM	\$35.02	\$37.76	\$33.70	\$23.64	\$26.55	\$29.58
Bed days per thousand	428.1	465.7	428.3	453.7	436.7	540.3
Days per admission	3.1	3.9	428.3	4.1	3.8	2.3
Doc visits per thousand	5,141	4,943	5,683	5,347	4,699	6,398

Source: National Association of Insurance Commissioners, Company notes, and Citi Investment Research and Analysis

The Potential Implications

- **If private plans account for about half of Medicaid managed care, and they aren't making much money, they don't have a lot of capacity to absorb cuts**
 - Let's look at Ohio as an example, where CareSource dominates, and there are a lot of publicly traded plans
 - Despite every publicly traded plan reporting a MLR of less than 80% in 2010, rates adjustments weren't bad, with AMERIGROUP (under 1%), Centene (3.4%), and Molina (4.5%), all reporting increases on January 1, 2011

Statutory Ohio Medicaid results through 3Q10

	Enrollment	Member Months	PMPM	Premiums	Medical Expense	MLR	2009 Medicaid MLR	2009 Medicaid Margin
CareSource	814,418	7,164,194	\$245.58	\$1,759.4	\$1,617.2	91.9%	88.3%	1.5%
Molina	240,640	2,082,232	\$307.97	\$641.3	\$507.2	79.1%	84.3%	0.6%
Centene	159,727	1,413,502	\$295.32	\$417.4	\$311.9	74.7%	80.5%	1.1%
UnitedHealth	123,018	1,091,929	\$286.88	\$313.3	\$227.4	72.6%	79.5%	6.8%
AMERIGROUP	57,595	515,593	\$234.44	\$120.9	\$88.7	73.3%	83.8%	2.2%
WellCare	102,054	908,152	\$193.72	\$175.9	\$136.9	77.8%	72.7%	8.7%
Paramount	88,890	780,285	\$206.74	\$161.3	\$127.0	78.7%	87.4%	1.2%
Total	1,586,342	13,955,887	\$257.20	\$3,589.5	\$3,016.2	84.0%		
Publicly traded	683,034	6,011,408	\$277.60	\$1,668.8	\$1,272.0	76.2%		
Private	903,308	7,944,479	\$241.77	\$1,920.7	\$1,744.2	90.8%		

Source: National Association of Insurance Commissioners, Company notes, and Citi Investment Research and Analysis

Medicaid Continues To Be A Good Source Of Growth

- **Even with a stabilization in employment levels, the publicly traded plans added nearly 770,000 new lives in 2010, a growth rate of 6%, bringing total membership to almost 13.8 million lives**
 - Commercial risk enrollment, by comparison, fell by 1.1 million lives in 2010

	2008	2009	2010	Change	% Change
UnitedHealth	2,515	2,900	3,320	420	14.5%
AMERIGROUP	1,570	1,773	1,912	139	7.8%
WellPoint	1,968	1,733	1,756	23	1.3%
Molina	1,257	1,455	1,613	158	10.9%
Centene	1,185	1,456	1,534	78	5.4%
WellCare	1,322	1,349	1,340	-9	-0.7%
Health Net	812	910	901	-9	-1.0%
Humana	385	402	572	171	42.5%
Coventry	371	402	468	66	16.4%
Aetna	207	310	381	71	22.9%
Triple-S	338	341	0	-341	-100.0%
Total	11,930	13,030	13,797	767	5.9%

Source: Company notes and Citi Investment Research and Analysis

We Think The Diversified Plans Need To Grow Through Acquisition

- **Aetna, as an example, could very well double its Medicaid business over the next few years**
 - If they are successful, it will take their Medicaid exposure from 2% of gross profits to 4% of gross profits
 - In other words, in the grand scheme of things, even if they double the Medicaid business, it still won't matter to Aetna from an overall perspective, nor will the market care
- **Plans without a lot of prior experience in Medicaid haven't done well in past RFPs**
 - The experience of Bravo (since acquired by HealthSpring) in Texas won't help, as they were selected for an ABD expansion, but didn't pass the readiness review, and won't enroll any members until May 1.
- **At this point, though, the larger plans are content to grow organically and through RFPs**

Past Medicaid RFPs

	Michigan	Mississippi	Nebraska	Milwaukee Area	Texas Star+Plus	Indiana	Illinois ABD	Past 24 Penetration RFP's	Rate
Private plans	618,000			76,000	29,700	209,000		3,433,645	43.9%
United	186,000	38,600	45,000	133,000				1,345,205	17.2%
WellPoint				25,000		209,000		715,203	9.1%
Centene		38,600			16,200	259,100	22,700	731,640	9.3%
Molina	206,000				16,200			522,121	6.7%
AMERIGROUP					13,500			371,521	4.7%
Coventry	54,000		45,000					303,708	3.9%
Aetna							22,700	179,066	2.3%
WellCare								175,499	2.2%
United (formerly Sierra)								52,500	0.7%
Total Eligibles	1,064,000	77,200	90,000	234,000	75,600	677,100	45,400	7,830,108	-
Publicly traded plans	446,000	77,200	90,000	158,000	45,900	468,100	45,400	4,396,463	
Pure play Medicaid	206,000	38,600	-	-	45,900	259,100	22,700	1,800,781	
Publicly traded penetration	41.9%	100.0%	100.0%	67.5%	60.7%	69.1%	100.0%	56.1%	
Pure play penetration	19.4%	50.0%	0.0%	0.0%	60.7%	38.3%	50.0%	23.0%	
Contract Award Date	8/3/2009	11/24/2009	2/9/2010	4/12/2010	5/17/2010	6/4/2010	9/9/2010		

Source: Company notes and Citi Investment Research and Analysis

Medicaid M&A Picked Up In 2010

- **The average purchase price has been around \$550 per member, but the bigger deals have usually been for higher prices**
 - Centene and Molina were more active in the M&A market last year

Acquiror	Target	Date	Price (in millions)	Medical Membership	Price / Medical Membership
Centene	Citrus Health Care (Medicaid and LTC)	8/10/2010		54	
Molina	Abri Health Plan	7/12/2010	\$16	28	\$571
Centene	Carolina Crescent Health Plan	2/18/2010	\$15-20	40	\$438
Molina	Unisys Health Information Management	1/19/2010	\$135	N/A	N/A
AMERIGROUP	Centene University HP of New Jersey	11/20/2008	\$13	55	\$243
UnitedHealth Group	Unison	1/8/2008	\$930	320	\$2,906
Molina	Mercy CarePlus	9/6/2007	\$74	68	\$1,093
Centene	Access Health Solutions	7/20/2007	N/A	90	N/A
Aetna	Schaller Anderson	5/24/2007	\$535	1,300	\$412
WellPoint	QualChoice Select	4/26/2006	\$42	68	\$618
Molina	CAPE Health Plan	1/30/2006	\$44	87	\$506
Molina	Sharp Health Plan	11/22/2004	\$25	70	\$357
AMERIGROUP	CarePlus	10/26/2004	\$125	114	\$1,096
Molina	The Wellness Plan	6/21/2004	\$19	87	\$218
Coventry	OmniCare Health Plan	4/15/2004	\$13	63	\$200
AMERIGROUP	The Wellness Plan	4/15/2004	\$38	103	\$369
UnitedHealth Group	Great Lakes	3/10/2004	\$27	96	\$281
WellCare	Harmony	3/8/2004	\$50	85	\$588
Molina	Cimarron (NM)	2/23/2004	\$74	108	\$685
Centene	State of New Jersey	12/1/2002	\$11	53	\$200
AMERIGROUP	Physicians Health Plans	8/22/2002	\$121	184	\$658
UnitedHealth Group	AmeriChoice	6/18/2002	\$560	375	\$1,493
Average					\$562
Average, ex-AmeriChoice					\$529

Source: Company notes and Citi Investment Research and Analysis

There Has Been A Big Shift In Sentiment Towards Medicare

- **For years Medicare has been viewed as an industry that didn't have long to live**
 - However, even with the rate cuts implemented as part of health reform, CMS estimates plans will see rates rise 0.4% in 2012, and we think plans will see rates rise about 2% all in next year, after factoring in improved risk scores.

- **With rates up, benefits can be held flat, and enrollment should continue to grow**
 - The industry should add 600,000 lives this year, and we think enrollment can grow 750,000-1,000,000 lives in 2012

- **The better rate environment isn't an election year ploy**

2012 Rates Will Vary Depending on Geography & Star Rating

■ We've used a plan with a 3 star rating in 2012

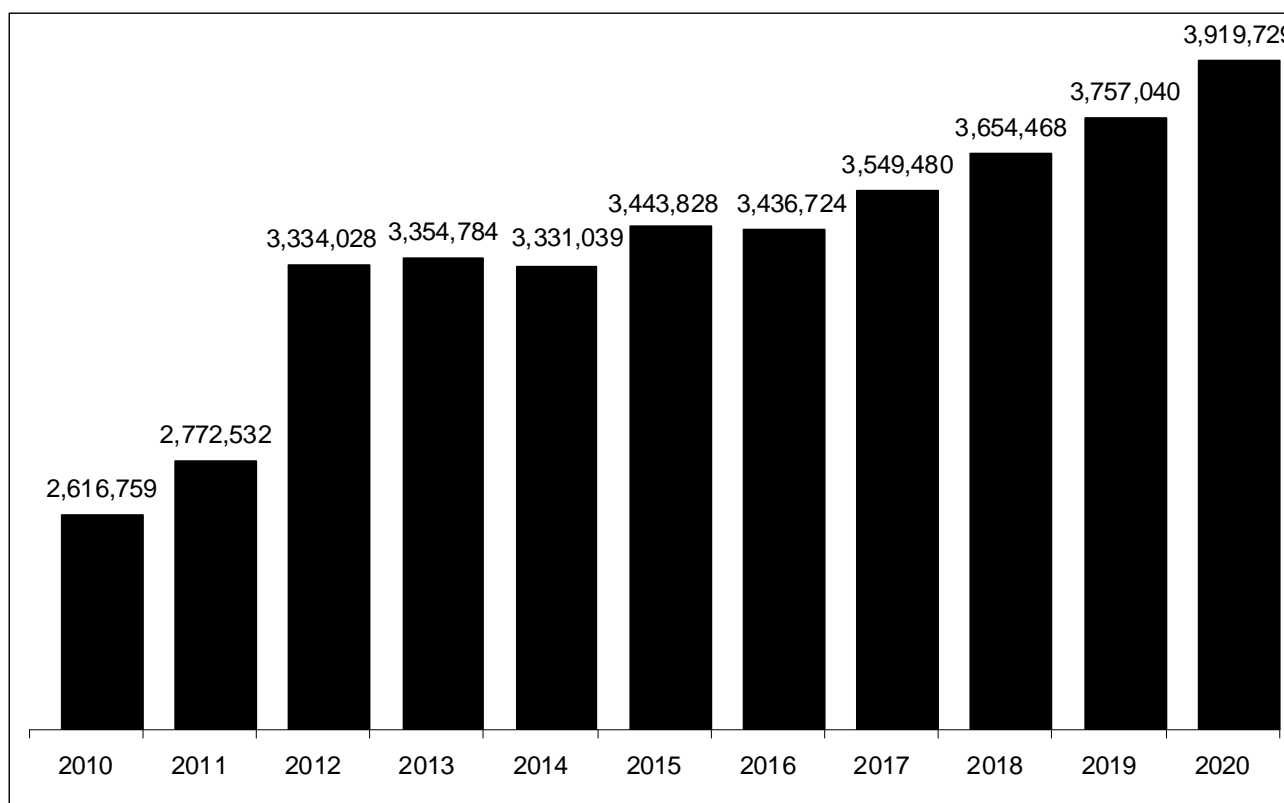
State Name	County Name	Enrolled	2011 Rate	2012 Rate	YoY Change
California	Los Angeles	454,269	\$966.03	\$950.65	-1.6%
Arizona	Maricopa	210,590	\$814.37	\$810.45	-0.5%
Florida	Miami-Dade	197,299	\$1,230.32	\$1,320.31	7.3%
California	Orange	164,323	\$814.89	\$806.94	-1.0%
California	San Diego	161,797	\$838.90	\$832.32	-0.8%
Pennsylvania	Allegheny	142,175	\$815.96	\$805.77	-1.2%
California	Riverside	135,189	\$900.17	\$892.61	-0.8%
Florida	Broward	120,275	\$953.23	\$950.71	-0.3%
Texas	Harris	111,197	\$1,093.70	\$1,075.98	-1.6%
New York	Queens	108,991	\$974.59	\$961.83	-1.3%
California	San Bernardino	106,392	\$891.82	\$885.68	-0.7%
New York	Kings	105,589	\$966.03	\$950.65	-1.6%
Pennsylvania	Philadelphia	96,811	\$974.93	\$954.02	-2.1%
New York	Erie	90,890	\$815.19	\$817.83	0.3%
Nevada	Clark	85,699	\$864.03	\$862.59	-0.2%

Source: CMS and Citi Investment Research and Analysis

There Are Several Growth Dynamics Working In The Industry's Favor

- **There are a lot more people turning 65 in 2012**
 - In addition, there won't be nearly as much PFFS disruption next year

Number of people turning 65 by year



Source: US Census and Citi Investment Research and Analysis

The 2012 Medicare Growth Outlook

- **Age-ins and group employer conversions should drive incremental growth next year**
 - Employers were a lot more focused on figuring out health reform last year, so there has been virtually no group contributions this year

Total 2009 growth	1,036,400
Total 2010 growth	582,000
YTD 2011 Growth	325,000
Rest of 2011, at 30k lives a month	270,000
Total 2011 growth	595,000
2012 - Base growth	600,000
2012 - 25% of Medicare age-ins	140,000
2012 - Employer conversions	100,000
Total 2012 growth	840,000

Medicare Lives Are Quite Profitable, Even Though The Margin Isn't High

The dollar profit on a Medicare product is 2-3x greater than what the commercial risk product earns

EBITDA By Product

	Commercial Risk	Commercial ASO	Medicare	Medicaid
Revenue	\$350	\$20	\$900	\$215
MLR	83%	--	86%	87%
SG&A	10%	80%	9%	10%
Margin	7%	20%	5%	3%
EBITDA per member	\$25	\$4	\$45	\$6

Source: Company notes and Citi Investment Research and Analysis

Star Ratings Will Provide An Unexpected Benefit In 2012

- **Under the new demo, plans with at least 3 stars will receive a quality bonus payment**
 - This is important, as 62% of all Medicare plans will qualify for the bonus, compared with the initial expectation that only plans with 4 stars or more would get the bonus, which included just 14% of plans

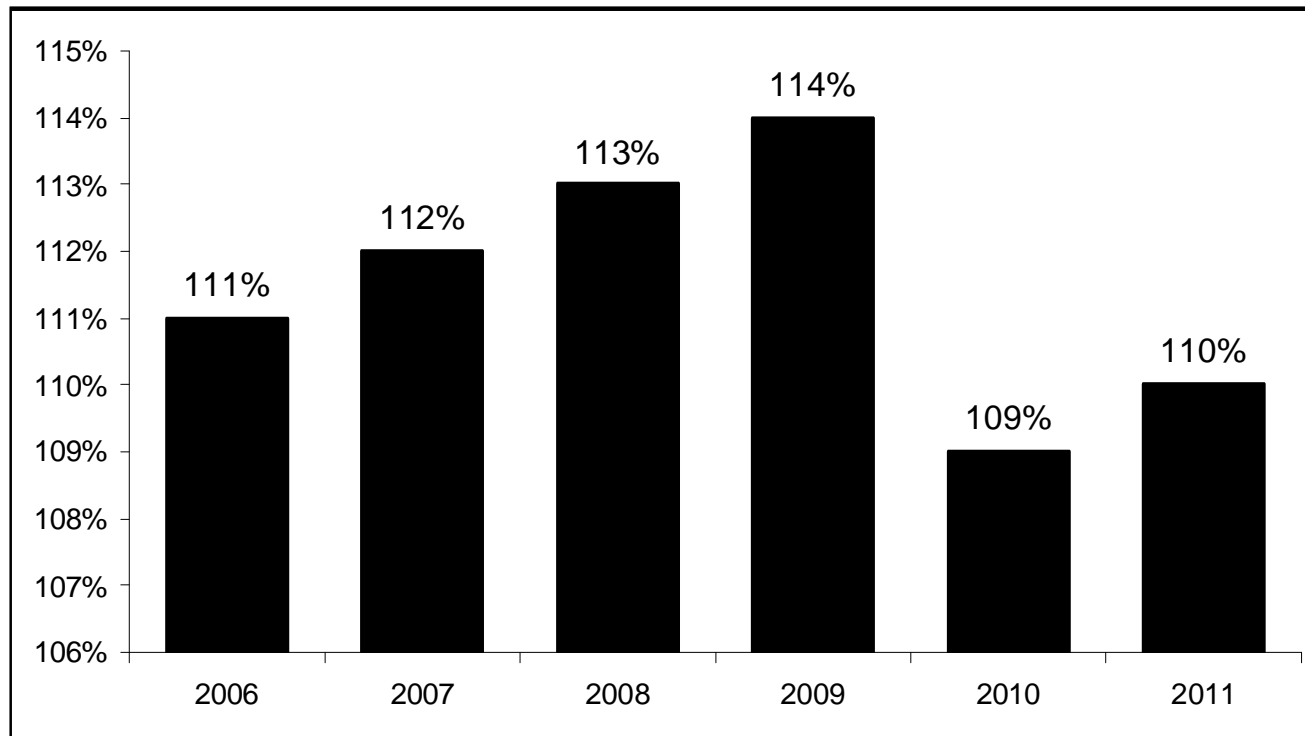
Category	Aetna	AMERIGROUP	Centene	Coventry	Health Net	Health Spring	Humana	Molina	Triple-S	Universal American	United	WellCare	WellPoint	Industry
5 Stars	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.5 Stars	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4 Stars	2,551	-	-	9,145	-	102,058	-	-	-	-	106,898	-	-	220,652
3.5 Stars	217,494	-	-	77,219	171,855	-	558,925	-	-	96,856	613,910	-	62,581	1,798,840
3 Stars	115,557	7,240	-	77,227	49,087	196,765	308,219	14,567	-	166,848	1,272,009	113,304	390,211	2,711,034
Below 3 Stars	838	7,764	-	1,949	-	-	433,938	4,440	54,622	-	72,011	1,947	15,766	593,275
Too new to be measured	522	-	-	-	-	2,861	438,280	520	-	-	-	-	-	442,183
Not enough data	6,042	3,725	2,961	3,114	746	97	18,945	3,684	-	26,959	18,893	717	6,958	92,841
Total	343,004	18,729	2,961	168,654	221,688	301,781	1,758,307	23,211	54,622	290,663	2,083,721	115,968	475,516	5,858,825
Total above 3 Stars	335,602	7,240	-	163,591	220,942	298,823	867,144	14,567	-	263,704	1,992,817	113,304	452,792	4,730,526
Average bonus %	3.3%	1.2%	0.0%	3.2%	3.4%	3.3%	2.4%	1.9%	0.0%	2.9%	3.1%	2.9%	2.9%	2.8%
Bonus payment (millions)	\$126.3	\$2.5	\$0.0	\$60.7	\$84.5	\$113.6	\$473.3	\$5.1	\$0.0	\$94.7	\$721.1	\$38.3	\$156.8	\$1,876.8

Source: Centers for Medicare and Medicaid Services (CMS) and Citi Investment Research and Analysis

Much Of The Medicare Advantage Overpayment Is Already Gone

- **Because of the payment reduction phase-in, the rate cuts included in reform will be pretty modest**
 - In 2010, rates dropped 4-5%, eliminating around a third of the payment disparity; rates were frozen in 2011, but MedPac is assuming low FFS growth in 2011, too

Medicare Plan Payments Versus FFS Costs



Source: MedPac and Citi Investment Research and Analysis

The Medicare PDP Is Actually A Real Business

- At least that's what CVS thinks

- Based on what CVS paid for Universal American's PDP, we can estimate what the PDP businesses of the other plans are worth

Company	1Q11E PDP Members	Price per Member	PDP Valuation	% of Market Cap
WellCare	928	\$558	\$518	28.3%
HealthSpring	834	\$558	\$466	17.4%
Coventry	1,128	\$558	\$629	13.1%
Humana	2,309	\$558	\$1,288	10.8%
Health Net	382	\$558	\$213	6.8%
United	4,530	\$558	\$2,528	5.1%
Aetna	537	\$558	\$300	2.1%
CIGNA	538	\$558	\$300	2.1%
WellPoint	795	\$558	\$443	1.7%
Triple-S	8.877	\$558	\$5	1.2%
Totals	11,990	\$558	\$6,690	

Source: Company notes and Citi Investment Research and Analysis.

Medicare M&A Will Pick Up In 2012

- **Both Aetna and WellPoint have indicated they want to be bigger in Medicare**
 - Both plans believe they will need to rely on acquisitions to achieve the necessary scale, suggesting Universal American, WellCare, and HealthSpring are targets
- **There are also a lot of sizeable private plans out there, too**
 - Plans include Aveta (184,000 lives), XL Health (96,000 lives), Arcadian (74,000 lives), Universal Health (56,000 lives), CareMore (49,000 lives), Spectrum Health (48,000 lives), among many others
- **UnitedHealth, Triple-S, HealthSpring, and Sterling (Munich Re) have all been active lately**

Highlighted Industry Reports

Industry Analyses

<i>There Are A Lot Of Lies Going About The World & The Worst Is That Half Are True: Final 2012 Medicare Rates</i>	April 4, 2011
<i>Sometimes the Hardest Thing Is Knowing Which Bridge to Cross... Analysis of Florida's Minimum MLR Waiver</i>	March 16, 2011
<i>When There's No Way Out, You Find A Deeper Way In: March 2011 Medicare Enrollment Data</i>	March 16, 2011
<i>Play The Game For More Than You Can Lose... 2009 Medicaid Financial Analysis</i>	March 8, 2011
<i>A Computer Once Beat Me At Chess... Initial 2012 Medicare Advantage Rates</i>	February 22, 2011
<i>I Used To Think I Was Indecisive, But Now I'm Not So Sure: 2012 Medicare Advantage Rate Preview</i>	February 8, 2011
<i>In Matters Of Style, Swim With A Current; In Matters Of Principle... 2011 Outlook, 4Q10 EPS Preview</i>	January 25, 2011
<i>You're Going To Ruin My Bad Reputation: HHS Premium Rate Review Regulations</i>	December 21, 2010
<i>Non-Profit Is Nothing But A State Of Mind: 3Q10 Blue Cross Financial Analysis</i>	December 15, 2010

Company reports

<i>HS: The Best Way To Predict The Future Is To Create It - Secondary Offering Details</i>	March 25, 2011
<i>CI: Sometimes A Man Can Meet His Destiny On The Road He Took To Avoid It - Investor Day Analysis</i>	March 14, 2011
<i>UAM: Thinking Like A Man Of Action, And Acting Like A Man Of Thought - Files CVS Proxy Statement</i>	March 14, 2011
<i>AET: The Farther Backward You Can Look, The Farther Forward You Are Likely To See - 2011 Investor Day</i>	March 7, 2011
<i>WLP: You Can Have It All, Just Not All At Once - Investor Day & 10-K Highlights</i>	March 1, 2011
<i>HUM: When Everyone Thinks Alike, Everyone Is Likely To Be Wrong - Highlights From Management Meeting</i>	February 28, 2011
<i>HS: I Have Opinions Of My Own - Strong Opinions, But I Don't Always Agree With Them - 4Q10 EPS</i>	February 22, 2011
<i>AGP: The Great Thing In The World Is Not Such Much Where We Stand...</i>	February 21, 2011
<i>EHTH: I Started Out With Nothing. I still Have Most Of It - 4Q10 EPS Analysis</i>	February 16, 2011
<i>WCG: Tell Me And I'll Forget. Show Me, And I May Not Remember. Involve Me... 4Q10 EPS Analysis</i>	February 16, 2011
<i>GTS: The Tangible Is Easy. It's The Intangibles That Matter - 4Q10 EPS Analysis</i>	February 10, 2011
<i>CVH: Before Criticizing, Walk A Mile In Their Shoes. That Way, You're A Mile Away And Have Their Shoes</i>	February 9, 2011
<i>CNC: The Suspense Is Terrible. I Hope It Will Last - 4Q10 EPS Analysis</i>	February 8, 2011
<i>HNT: We Must Have Reasons For Speech, But We Need None For Silence - 4Q10 EPS Analysis</i>	February 1, 2011
<i>MGLN: The Two Most Powerful Warriors Are Patience And Time - Signs Blue Shield Of California Contract</i>	February 1, 2011
<i>MOH: The Future Has A Way Of Arriving Unannounced - Investor Day Analysis</i>	January 31, 2011
<i>GTS: Whoever Said Money Can't Buy Happiness... Acquires American Health</i>	January 26, 2011
<i>AGP: Even The Weeds Are Jealous Of This Growth - Follow-Up On Texas Medicaid</i>	January 24, 2011
<i>UNH: A Fugitive From The Law Of Averages - Medicare HMO MLR Data</i>	January 13, 2011
<i>UAM: Be Ready At Any Moment To Give Up What You Are... Sells PDP Business to CVS</i>	January 3, 2011
<i>CNC: Most Of The Change We Think We See In Life Is Due To Truths Being In And Out Of Favor - Investor Day</i>	December 22, 2010

Medicaid Updates

<i>Even A Best Friend Was Once A Stranger: Highlights From The Louisiana Medicaid RFP</i>	October 1, 2010
<i>There's Nothing More Deceptive Than An Obvious Fact: Highlights From The Illinois ABD RFP</i>	August 17, 2010

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