



**Putting it all Together**



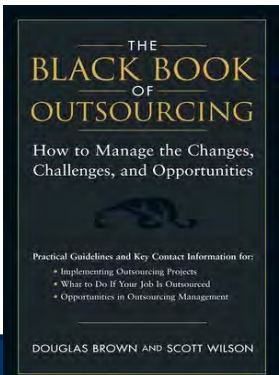
***The Leader in Business Process Outsourcing  
for Medicare & Medicaid Health Plans***

**Wall Street's View of Medicare & Medicaid, presented by Carl  
McDonald, Oppenheimer Funds- March 31, 2010**

# Experience

- **Most Experienced Business Process Outsourcing Vendor Serving MA, Part D and Medicaid plans for over 10 years**
- **Client Experience – Support over 30 clients serving 2.8M members in all 50 states**
  - Local, Regional, Blues and Large National Plans
  - Implemented over 200 Employer Groups w/ 325,000+ members
- **Proven/Tested Technology and Systems**
- **Dedicated Client-Centric Teams Using Medicare**
- **Focused Tools and Workflows**

*Ranked #1 BPO for Medicare/Medicaid Management Services Organizations*



# TMG Health Background

- **Management: Health Plan Background**
- **Founded to Serve Managed Medicare Plans**
- **1,200 + Employees**
- **Service Centers in Scranton and Dunmore, PA.**
  - **All Service Teams are US-based**
  - **Third Center in Amarillo, TX**
- **Corporate Headquarters, King of Prussia, PA**



**Gartner survey of 60 health insurer executives revealed approximately 40% expressed intent to invest in BPO services**



# TMG Scope of Services

- Medicare Configured Managed Care Information System and TMG Proprietary Applications
- Enrollment & Disenrollment Processing
- Eligibility Maintenance (System of Record)
- CMS Eligibility Reconciliation and Tracking
- Premium Billing and Cash Receipts Posting
- Claims Processing/Payment & RAPS Submission
- Member & Provider Call Services
- Surveys (HRA, MSP)
- Printing and Fulfillment Services
- MM, A&G Systems



**March 2010**

# Oppenheimer & Co. Inc. Equity Research

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**Managed Care & Other Healthcare Services**

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# The Managed Care Universe



			Closing Price 3/24/10	Price Target	Price Target Multiple	Upside Dnwside Target	2008 Stock Perf.	2009 Stock Perf.	2010 YTD Stock Perf.	Market Cap (\$ Mil)	2009 EPS	2010E EPS	2011E EPS	2009 P/E	2010E P/E	2011E P/E
<b><u>Diversified plans</u></b>																
Aetna, Inc.	AET	O	\$34.41	\$35	13.2	2%	-50%	11%	10%	\$14,824	\$2.75	\$2.65	\$3.00	12.5	13.0	11.5
CIGNA Corp	CI	P	\$36.39	\$38	9.5	4%	-69%	109%	4%	\$9,980	3.98	4.00	4.35	9.1	9.1	8.4
Coventry Health Care	CVH	P	\$25.20	\$25	11.6	-1%	-75%	63%	3%	\$3,729	2.22	2.15	2.40	11.3	11.7	10.5
Health Net, Inc.	HNT	O	\$25.23	\$30	12.5	19%	-77%	114%	9%	\$2,603	2.25	2.40	1.95	11.2	10.5	12.9
Triple-S	GTS	O	\$18.17	\$25	11.9	38%	-43%	53%	2%	\$534	2.01	2.10	2.30	9.0	8.7	7.9
UnitedHealth Group	UNH	U	\$32.72	\$29	9.5	-11%	-53%	15%	8%	\$37,530	3.24	3.05	3.30	10.1	10.7	9.9
WellPoint, Inc.	WLP	O	\$63.40	\$69	11.2	9%	-52%	38%	9%	\$28,517	6.09	6.15	6.75	10.4	10.3	9.4
Average					11.3	8%	-60%	58%	7%					10.5	10.6	10.1
<b><u>Medicare</u></b>																
HealthSpring, Inc.	HS	P	\$18.11	\$21	8.8	16%	6%	-12%	2%	\$1,040	2.41	2.40	2.60	7.5	7.6	7.0
Humana, Inc.	HUM	O	\$47.90	\$57	10.2	19%	-52%	18%	10%	\$8,152	6.15	5.60	5.00	7.8	8.6	9.6
Universal American	UAM	O	\$15.70	\$18	10.0	15%	-65%	33%	34%	\$1,168	2.07	1.80	1.50	7.6	8.7	10.5
WellCare Health Plans	WCG	P	\$30.53	\$33	16.5	8%	-69%	186%	-17%	\$1,293	3.00	2.00	2.35	10.2	15.3	13.0
Medicare average					11.4	14%	-45%	56%	7%					8.3	10.0	10.0
<b><u>Medicaid</u></b>																
AMERIGROUP Corp	AGP	O	\$32.92	\$35	15.6	6%	-20%	-9%	23%	\$1,667	2.42	2.25	3.00	13.6	14.6	11.7
Centene Corp	CNC	U	\$24.26	\$18	10.3	-26%	-29%	7%	17%	\$1,048	1.91	1.75	1.95	12.7	13.9	12.5
Molina Healthcare, Inc.	MOH	P	\$25.25	\$25	17.3	-1%	-54%	30%	10%	\$647	1.19	1.45		21.2	17.5	
Medicaid average					14.4	-7%	-34%	10%	16%					15.8	15.3	12.1
<b><u>Behavioral Health</u></b>																
Magellan Health Services	MGLN	O	\$43.69	\$46	14.6	5%	-16%	4%	7%	\$1,509	3.01	3.15	3.00	14.5	13.9	15.3
<b><u>Online Individual Health Insurance Broker</u></b>																
eHealth	EHTH	U	\$17.98	\$14	21.7	-22%	-59%	24%	9%	\$461	0.61	0.65	0.70	29.5	27.9	25.7
<b><u>Market Index</u></b>																
S&P 500	SPX		1,168				-38%	23%	6%		91.20					
HMO Index	HMO		1,580	1,688		7%	-55%	53%	8%							
<b><u>Index Average</u></b>																
Overall					12.2	6.8%	-47.9%	44.0%	8.7%					11.0	11.4	10.4

EPS projections for Not Rated Stocks are First Call consensus

O = Outperform; P = Perform; U = Underperform; NC = Not Covered; R = Restricted

Source: Oppenheimer & Co. Inc., company reports and FactSet

## **Minimum MLR's in the group business will be implemented on January 1, 2011**

- 80% in the individual and small group business, and 85% in large group
- There are still a lot of unknowns: how will MLRs be calculated, and where will they be applied? It makes a big difference if the MLRs are applied on a state by state basis, which we think is more likely.
- These decisions will be left up to the HHS Secretary, NAIC, and state regulators
- An 85% minimum Medicare MLR takes effect on January 1, 2014

## **Health insurance exchanges will be implemented on January 1, 2014**

- As the market is currently set up, we think the individual business will be destroyed
- The exchanges will commoditize the small group market, putting pressure on pricing and margins

**Medicare rate cuts will result in fewer seniors covered, and it will be much more difficult to sustain the historical margins that some plans have enjoyed**

**Our sense is that earnings for the group will fall 20%+ in 2014 when reform is fully implemented**

**There are two pieces to the positive scenario some have for managed care stocks in 2010: the first is that most of the reform impacts don't take effect until 2014.**

- This ignores the negative impact of minimum group MLRs in 2011
- Much of the reform bill is enabling legislation, which means we're looking at several years of rules and regulations being issued by HHS
- For the health insurers, the signing of the bill is just the beginning of reform
- We've traded certainty of what is in the bill for uncertainty about what this group earns in 2014 and beyond

**The second piece is the possibility of earnings upside this year because of improved premium rates**

- While pricing is better, we think cost trends are running higher, too, driver by increased COBRA costs, and some signs of a pick-up in utilization
- Even if we're totally wrong, and fundamentals are better, in this political environment, can plans really come out and say that?
- It probably doesn't make sense to antagonize regulators, particularly as they are still working through how to calculate the minimum MLR and how the exchanges will operate



# What The Minimum Medicare MLRs Would Mean To Plans In 2010



## By our analysis, earnings at five plans would fall 10% or more in 2010 because of favorable Medicare MLR projections for this year

- We've made no adjustment for the potential to shift SG&A costs (nurse hotlines, disease management) to medical expenses. For WellPoint, this impact was about 100 basis points (consolidated), while HealthSpring believes the shift could push up the MLR between 175-250 basis points.
- Earnings at HealthSpring and WellCare would be 35-40% lower based on our 2010 EPS projections, assuming no re-allocation of SG&A.

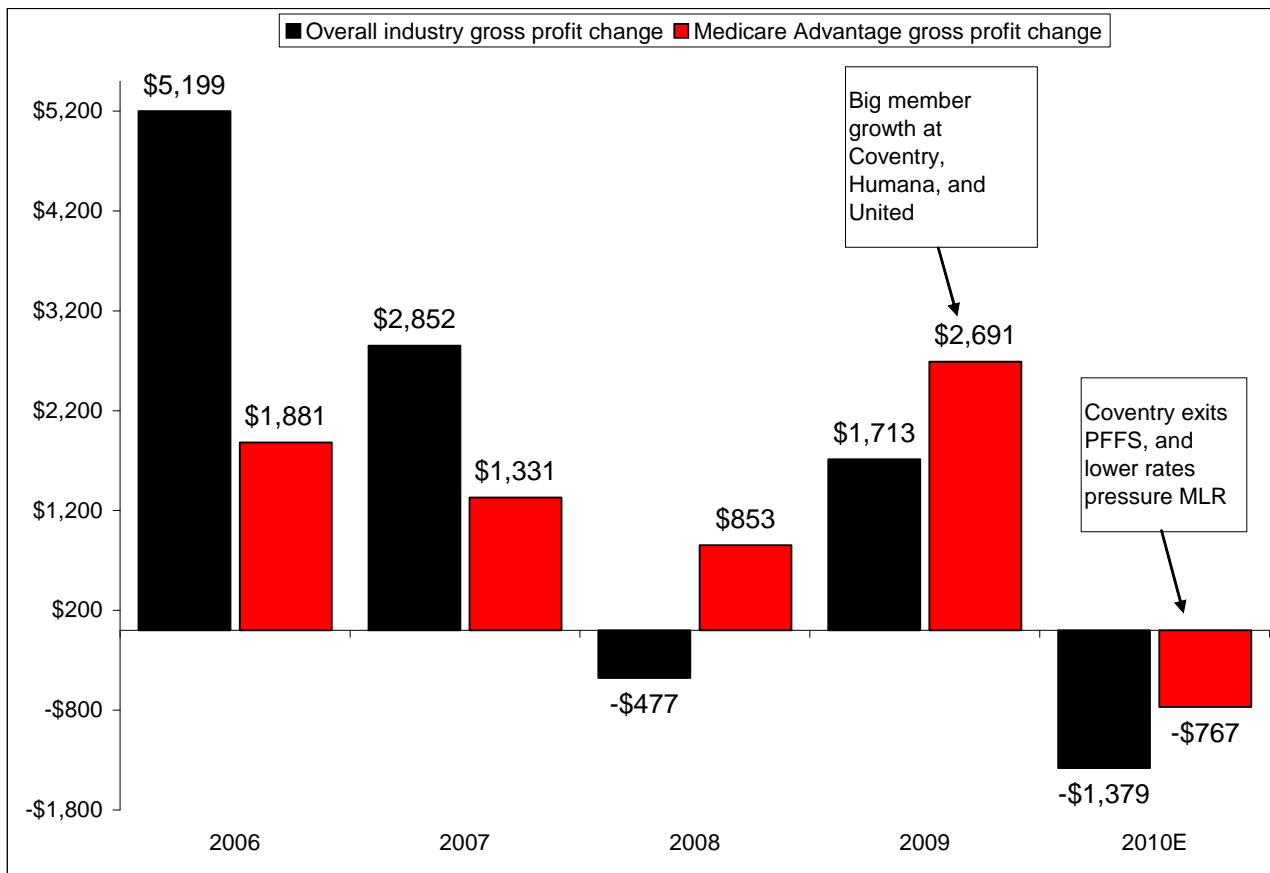
	2010 Medicare Advantage			Amount Below 85% MLR	After Tax Impact	EPS Impact	Current	
	Premiums	Claims	MLR				2010E EPS	% of 2010 EPS
HealthSpring	\$2,375	\$1,938	81.6%	340 bp	\$52	\$0.91	\$2.40	38%
WellCare	\$2,049	\$1,695	82.7%	226 bp	\$30	\$0.70	\$2.00	35%
Humana	\$18,889	\$15,873	84.0%	97 bp	\$119	\$0.70	\$5.60	12%
Universal American	\$2,959	\$2,490	84.1%	87 bp	\$17	\$0.22	\$1.80	12%
UnitedHealth Group	\$22,362	\$18,387	82.2%	277 bp	\$403	\$0.36	\$3.05	12%
WellPoint, Inc.	\$4,763	\$4,105	86.2%	0 bp	\$0	\$0.00	\$6.15	0%
Aetna, Inc.	\$5,343	\$4,692	87.8%	0 bp	\$0	\$0.00	\$2.65	0%
<b>Total</b>	<b>\$58,740</b>	<b>\$49,181</b>	<b>83.7%</b>	<b>127 bp</b>				<b>16%</b>

Source: Company data and Oppenheimer & Co. Inc.

# The Pressure On Medicare Earnings Going Forward Creates Big Problems For The Overall Industry

## Without Medicare Advantage, the earnings trajectory of the group looks much different

- Between 2006 and 2009, Medicare accounted for nearly 75% of the increase in gross profits in the industry
- That looks to be changing in 2010, driven by market exits and lower rates



# Particularly Since Commercial Risk Membership Continues To Decline



## Organic at-risk enrollment growth

	2003	2004	2005	2006	2007	2008	2009	2010E	Total
AET	(838)	295	297	(27)	330	177	19	(480)	(227)
CI	(667)	(595)	(36)	(257)	(120)	(238)	(166)	54	(2,025)
CVH	(10)	(27)	(42)	26	20	(74)	(179)	(40)	(326)
HNT	(113)	(212)	(258)	(94)	(26)	(201)	(149)	(28)	(1,081)
HUM	13	(220)	(287)	(310)	54	136	(139)	(110)	(862)
UNH	(70)	(40)	(20)	(520)	(490)	(773)	(945)	(595)	(3,453)
WLP	101	281	(157)	(218)	(598)	(391)	(771)	(500)	(2,253)
Total	(1,584)	(518)	(503)	(1,400)	(830)	(1,364)	(2,330)	(1,699)	(10,226)

## Organic ASO enrollment growth

	2003	2004	2005	2006	2007	2008	2009E	2010E	Total
AET	(121)	332	644	647	400	440	928	45	3,315
CI	(794)	(1,212)	(588)	226	500	283	(510)	30	(2,065)
CVH	89	76	32	29	29	(36)	(29)	34	224
HNT	16	(8)	36	(7)	(41)	(24)	(4)	0	(32)
HUM	69	331	208	534	99	(44)	(106)	(57)	1,034
UNH	600	735	805	1,040	285	(50)	(775)	(50)	2,590
WLP	795	779	1,183	511	992	783	(284)	285	5,044
Total	653	1,033	2,320	2,980	2,264	1,352	(780)	287	10,109

## Commercial enrollment growth (Risk & ASO)

	2003	2004	2005	2006	2007	2008	2009E	2010E	Total
AET	(959)	627	941	620	730	617	947	(435)	3,088
CI	(1,461)	(1,807)	(624)	(31)	380	45	(676)	84	(4,090)
CVH	79	49	(10)	55	49	(110)	(208)	(6)	(102)
HNT	(97)	(220)	(222)	(101)	(67)	(225)	(153)	(28)	(1,113)
HUM	82	112	(79)	225	153	92	(246)	(167)	172
UNH	530	695	785	520	(205)	(823)	(1,720)	(645)	(863)
WLP	896	1,060	1,026	293	394	392	(1,055)	(215)	2,791
Total	(931)	516	1,818	1,581	1,434	(12)	(3,111)	(1,412)	(117)

\* UNH enrollment data is prior to the 1Q08 reclassification for 2006 and 2007.

Source: Company reports and Oppenheimer analysis

# ASO Conversions Are A Problem, Because The Dollar Profit Is A Lot Lower

**The dollar profit on a risk product is 2-3x greater than what an ASO product earns**

- Margins on ASO plans are much better, but they generate much smaller revenue streams
- Medicare growth is one way to try and offset the slowing commercial risk environment, since revenue and dollar profit is extraordinary

## EBITDA By Product

	<b>Commercial</b>	<b>ASO</b>	<b>Medicare</b>	<b>Medicaid</b>
Revenue	\$300	\$20	\$800	\$200
MLR	82%	--	84%	85%
SG&A	13%	80%	11%	12%
Margin	5%	20%	5%	3%
<b>EBITDA per member</b>	<b>\$15</b>	<b>\$4</b>	<b>\$40</b>	<b>\$6</b>

# Most Medicare Membership Is Located In Areas That Would See Rates Fall The Most

## In the reform bill, the reimbursement reduction facing plans depends on how the county compares to national fee for service costs

- Nearly 70% of Medicare Advantage members appear to be enrolled in areas that would receive rates equal to 100% or lower of fee for service expenditures
- Overall, it looks like Medicare Advantage plans will be paid just under 102% of fee for service costs, compared to around 109% today
- The phase-in period depends on how much rates are changing, but most will occur over a 3 to 5 year period

<b>Current County FFS Level</b>	<b>New Rate</b>	<b>% of Current Enrollment</b>
Highest Quartile	95% of FFS	45%
2nd Highest Quartile	100% of FFS	22%
2nd Lowest Quartile	107.5% of FFS	14%
Lowest Quartile	115% of FFS	19%

# There Is The Possibility For Quality Bonuses, But Not Many Plans Qualify

## Only plans that receive 4 or 5 stars under the star rating system used by CMS are eligible

- The bonus equals 5% of the county's basic rate, so it is meaningful
- In addition, plans with 4-5 stars that have below average Medicare FFS costs and high Medicare Advantage penetration are eligible for an additional 5% bonus

<b>Stars</b>	<b>Enrollment</b>	<b>% of Medicare Advantage Enrollment</b>
Below 3.5	6.4 million	62%
3.5	1.6 million	15%
4.0	1.6 million	15%
4.5	725,000	7%
5.0	28,000	<1%

## **Several of the Medicare plans have a significant amount of net cash (tangible book value) relative to their current stock price**

- Humana, for instance, has almost \$21 in tangible book value relative to its \$48 stock price
- Over the next few years, Humana should generate roughly \$6 per share in free cash flow
- Heading into 2013, Humana will have almost \$40 in cash. Therefore, we'd argue that the market is already assuming that Humana's Medicare business is worth nothing, since all of Humana's other products (commercial, TRICARE, specialty, Medicare PDP) are worth something
  
- Universal American has even more cash relative to its stock price than Humana, and over half of its earnings stream comes from the Medicare PDP

# Tangible Book Value



Company	Ticker	Closing Price 3/24/10	Tangible Book Value	Net Stock Price	2010E EPS	2011E EPS	Adjusted		Price Target	Adjusted Target Multiple
							2010E P/E	2011E P/E		
<b>Diversified</b>										
Aetna, Inc.	AET	\$34.41	\$8.53	\$25.88	\$2.65	\$3.00	9.7x	8.6x	\$35	10.0x
CIGNA Corp	CI	\$36.39	\$7.88	\$28.51	\$4.00	\$4.35	7.1x	6.6x	\$38	7.5x
Coventry Health Care	CVH	\$25.20	\$4.84	\$20.36	\$2.15	\$2.40	9.5x	8.5x	\$25	9.4x
Health Net, Inc.	HNT	\$25.23	\$10.09	\$15.14	\$2.40	\$1.95	6.3x	7.8x	\$30	8.3x
Triple-S	GTS	\$18.17	\$13.44	\$4.73	\$2.10	\$2.30	2.3x	2.1x	\$25	5.5x
UnitedHealth Group	UNH	\$32.72	\$0.43	\$32.29	\$3.05	\$3.30	10.6x	9.8x	\$29	9.4x
WellPoint, Inc.	WLP	\$63.40	\$7.24	\$56.16	\$6.15	\$6.75	9.1x	8.3x	\$69	10.0x
<b>Diversified average</b>							<b>7.8x</b>	<b>7.4x</b>		<b>8.6x</b>
<b>Medicare</b>										
HealthSpring, Inc.	HS	\$18.11	\$1.77	\$16.34	\$2.40	\$2.60	6.8x	6.3x	\$21	8.0x
Humana, Inc.	HUM	\$47.90	\$20.75	\$27.15	\$5.60	\$5.00	4.8x	5.4x	\$57	6.5x
Universal American	UAM	\$15.70	\$7.60	\$8.10	\$1.80	\$1.50	4.5x	5.4x	\$18	5.8x
WellCare Health Plans	WCG	\$30.53	\$17.70	\$12.83	\$2.00	\$2.35	6.4x	5.5x	\$33	7.7x
<b>Medicare average</b>							<b>5.6x</b>	<b>5.6x</b>		<b>7.0x</b>
<b>Medicaid</b>										
AMERIGROUP Corp	AGP	\$32.92	\$19.28	\$13.64	\$2.25	\$3.00	6.1x	4.6x	\$35	7.0x
Centene Corp	CNC	\$24.26	\$7.95	\$16.31	\$1.75	\$1.95	9.3x	8.4x	\$18	5.8x
Molina Healthcare, Inc.	MOH	\$25.25	\$12.86	\$12.39	\$1.45	N/A	8.6x	N/A	\$25	8.4x
<b>Medicaid average</b>							<b>8.0x</b>	<b>6.5x</b>		<b>7.0x</b>
<b>Other</b>										
eHealth	EHTH	\$17.98	\$6.26	\$11.72	\$0.65	\$0.70	18.2x	16.8x	\$14	12.0x
Magellan Health Services	MGLN	\$43.69	\$13.13	\$30.56	\$3.15	\$3.00	9.7x	10.2x	\$46	10.4x
<b>Other average</b>							<b>13.9x</b>	<b>13.5x</b>		<b>11.2x</b>

Source: Company reports; Oppenheimer & Co. Inc. estimates



**At this point, it is safe to say that the industry will not see much benefit from a doc fix giveback, since Congress has pushed off the rate cut by only a few months**

- Had Congress enacted a multi-year doc fix, rates in 2011 would have benefited by 3-4%
- CMS will also have to take into account the reform law, which calls for Medicare rates to be frozen in 2011
- As a result, rates in 2011 will fall short of cost trends, and plans will have to increase premiums and reduce benefits for next year

## **Reform makes the Medicare PDP product more attractive**

- Filling in the donut hole will increase the revenue paid to PDP plans
- The elimination of the 28% tax subsidy means there is little reason for employers to continue providing retirees with drug benefits; employers should drop the drug plan, and push their retirees into the retail PDP pool

# There Were Definite Winners & Losers In The 2010 Open Enrollment Season



- Humana and United have been the major market share winners in 2010, although most of Humana's growth has come from the employer retiree market, while United's gains have largely come from its PFFS product
- CIGNA's membership is up a lot, too, although we think it's because they underpriced their PFFS offering
- Coventry & WellCare have both lost a lot of enrollment, as expected, after dropping the PFFS product at the end of last year

	12/1/2006	12/1/2007	12/1/2008	12/1/2009	1/1/2010	2/1/2010	3/1/2010	Year to Date		Sequential	
								Change	% Change	Change	% Change
Aetna	120,648	190,431	365,085	433,363	413,574	437,097	440,439	7,076	1.6%	3,342	0.8%
AMERIGROUP	4,856	4,998	9,049	15,000	15,119	15,557	16,302	1,302	8.7%	745	4.8%
Centene				1,064	1,189	1,667	1,829	765	71.9%	162	9.7%
CIGNA	31,595	31,439	34,762	51,896	101,885	136,697	144,191	92,295	177.8%	7,494	5.5%
Coventry	79,435	282,824	379,568	516,151	173,811	186,199	187,909	(328,242)	-63.6%	1,710	0.9%
Health Net	195,777	232,284	293,721	287,190	265,279	270,993	272,879	(14,311)	-5.0%	1,886	0.7%
HealthSpring	113,331	152,834	161,459	188,770	188,218	193,322	194,316	5,546	2.9%	994	0.5%
Humana	1,005,794	1,142,581	1,436,467	1,510,248	1,713,660	1,729,852	1,735,632	225,384	14.9%	5,780	0.3%
Molina	2,306	5,075	7,843	11,596	11,020	14,525	16,019	4,423	38.1%	1,494	10.3%
Triple-S	22,154	36,501	63,354	58,020	58,737	58,444	57,241	(779)	-1.3%	(1,203)	-2.1%
UnitedHealth	1,535,295	1,459,018	1,538,699	1,847,077	1,913,276	1,988,470	2,002,397	155,320	8.4%	13,927	0.7%
Universal American	65,498	233,037	242,038	239,426	262,754	275,825	279,595	40,169	16.8%	3,770	1.4%
Universal Health Care	47,992	91,864	51,587	56,736	50,889	45,844	44,574	(12,162)	-21.4%	(1,270)	-2.8%
WellCare	89,221	158,628	245,076	226,758	123,881	120,573	119,425	(107,333)	-47.3%	(1,148)	-1.0%
WellPoint	281,309	371,909	469,448	420,866	434,197	461,752	466,714	45,848	10.9%	4,962	1.1%
Total publicly traded	3,547,219	4,301,559	5,246,569	5,807,425	5,676,600	5,890,973	5,934,888	127,463	2.2%	43,915	0.7%
<b>Total Medicare Advantage enrollment</b>	<b>7,591,051</b>	<b>8,898,289</b>	<b>10,256,432</b>	<b>11,292,824</b>	<b>10,971,628</b>	<b>11,374,120</b>	<b>11,459,308</b>	166,484	1.5%	85,188	0.7%

Source: Centers for Medicare and Medicaid Services (CMS) and Oppenheimer and Co. Inc. estimates.

# The Same Is True Of Some Of The Smaller Medicare Plans In The Industry



- The winners include Priority Health, Essence, Bravo Health, Arcadian, SCAN Health Plan, and XL Health, all of which have increased membership 10% or more.

Plan	December 2009	January 2010	February 2010	March 2010	Sequential Change	Sequential % Change	YTD Change	YTD % Change
Priority Health	17,683	28,065	39,800	42,135	2,335	8.3%	24,452	138.3%
Essence	30,229	35,783	45,555	47,626	2,071	5.8%	17,397	57.6%
Bravo Health	76,195	80,798	89,666	92,699	3,033	3.8%	16,504	21.7%
Arcadian	46,446	55,311	59,915	61,069	1,154	2.1%	14,623	31.5%
SCAN Health Plan	112,790	119,559	123,801	124,630	829	0.7%	11,840	10.5%
XL Health	59,541	57,362	67,928	70,549	2,621	4.6%	11,008	18.5%
Sisters of Mercy	19,271	21,750	27,989	28,835	846	3.9%	9,564	49.6%
Preferred Care Partners	21,021	24,762	28,138	29,168	1,030	4.2%	8,147	38.8%
PSO Health Services	19,472	21,382	25,399	26,654	1,255	5.9%	7,182	36.9%
CareMore	33,668	36,269	39,095	40,311	1,216	3.4%	6,643	19.7%
America's 1st Choice Holdings	46,772	53,476	51,275	52,726	1,451	2.7%	5,954	12.7%
American Health	28,396	30,194	31,621	32,603	982	3.3%	4,207	14.8%
Summa Health	19,343	20,698	22,336	22,518	182	0.9%	3,175	16.4%
UAB Health	28,290	29,986	31,110	31,283	173	0.6%	2,993	10.6%
Providence Health	37,067	37,967	38,877	39,110	233	0.6%	2,043	5.5%
Touchstone	14,300	15,213	15,935	16,162	227	1.5%	1,862	13.0%
Capital District	23,966	24,614	25,203	25,615	412	1.7%	1,649	6.9%
AvMed	21,834	22,692	23,255	23,239	(16)	-0.1%	1,405	6.4%

Source: Centers for Medicare and Medicaid Services (CMS) and Oppenheimer and Co. Inc. estimates.

# The Winners & Losers Of The 2010 Open Enrollment Season



➤ The losers through the first few months of 2010 are Munich Re (Sterling), Universal Health, Physicians United Plan, Aveta, and Health Plan of the Upper Ohio Valley.

Presbyterian Healthcare	25,253	25,664	26,290	26,403	113	0.4%	1,150	4.6%
Independent Health Association	56,246	56,513	57,014	57,258	244	0.4%	1,012	1.8%
Peoples Health	42,585	41,743	43,210	43,266	56	0.1%	681	1.6%
McKinley Life	20,120	20,313	20,649	20,740	91	0.4%	620	3.1%
Banner Health	18,857	19,063	19,442	19,475	33	0.2%	618	3.3%
Gateway Health Plan	24,968	25,072	25,288	25,453	165	0.7%	485	1.9%
Ardent Health	27,795	27,565	28,160	28,216	56	0.2%	421	1.5%
Rocky Mountain Health	21,925	22,056	22,281	22,274	(7)	0.0%	349	1.6%
CommunityCare Senior	26,701	26,813	27,015	26,985	(30)	-0.1%	284	1.1%
Scott & White	23,733	23,863	24,003	23,967	(36)	-0.2%	234	1.0%
Health First	22,845	21,511	23,043	23,059	16	0.1%	214	0.9%
Southwest Catholic	14,929	14,954	14,980	15,096	116	0.8%	167	1.1%
Trinity Health	28,215	28,235	28,187	28,169	(18)	-0.1%	(46)	-0.2%
Promedica	14,800	14,622	14,707	14,678	(29)	-0.2%	(122)	-0.8%
Health Plan of the Upper Ohio	18,709	17,167	15,837	15,660	(177)	-1.0%	(3,049)	-16.3%
Aveta	185,767	182,904	180,933	181,445	512	0.3%	(4,322)	-2.3%
Physicians United Plan	18,576	15,417	13,728	13,644	(84)	-0.5%	(4,932)	-26.6%
Universal Health	56,736	50,889	45,844	44,574	(1,270)	-2.5%	(12,162)	-21.4%
Munich (Sterling)	93,352	79,808	70,953	69,109	(1,844)	-2.3%	(24,243)	-26.0%
<b>Total</b>	<b>1,398,396</b>	<b>1,430,053</b>	<b>1,488,462</b>	<b>1,506,403</b>	<b>17,941</b>	<b>1.3%</b>	<b>108,007</b>	<b>7.7%</b>

Source: Centers for Medicare and Medicaid Services (CMS) and Oppenheimer and Co. Inc. estimates.

**The timing of Medicare bids means that profit swings can be elongated over multiple years**

- Bids for 2010 were due the first week of June, which means that plans are forced to price next year's business before they really understand how profitable they are in the current year.
- This is particularly important for new products, or those with a longer claims lag, like private fee for service (PFFS).

**Coventry, for example, realized in late 2008 that they had badly underpriced a PFFS product, but they couldn't do anything to fix it until 2010**

- Unless plans realize by the end of the first quarter that something is wrong (or better than expected), it's hard to factor into next year's bid, and because of claims lag, plans almost never know by the end of the first quarter

**Over the past couple of years, this phenomenon has largely been a good thing for the industry, since performance has been generally better than expected**

**The data suggests that first year Medicare Advantage members have substantially lower medical loss ratios than seniors who have been enrolled for a while**

- It's not clear whether this is because new members are younger and healthier or whether new members just need some time to figure out the benefits

**There has been a lot of Medicare enrollment growth recently, so the duration effect has probably been significant**

- 1.3 million new seniors joined Medicare plans in 2008, and the industry gained more than 1 million new lives in 2009

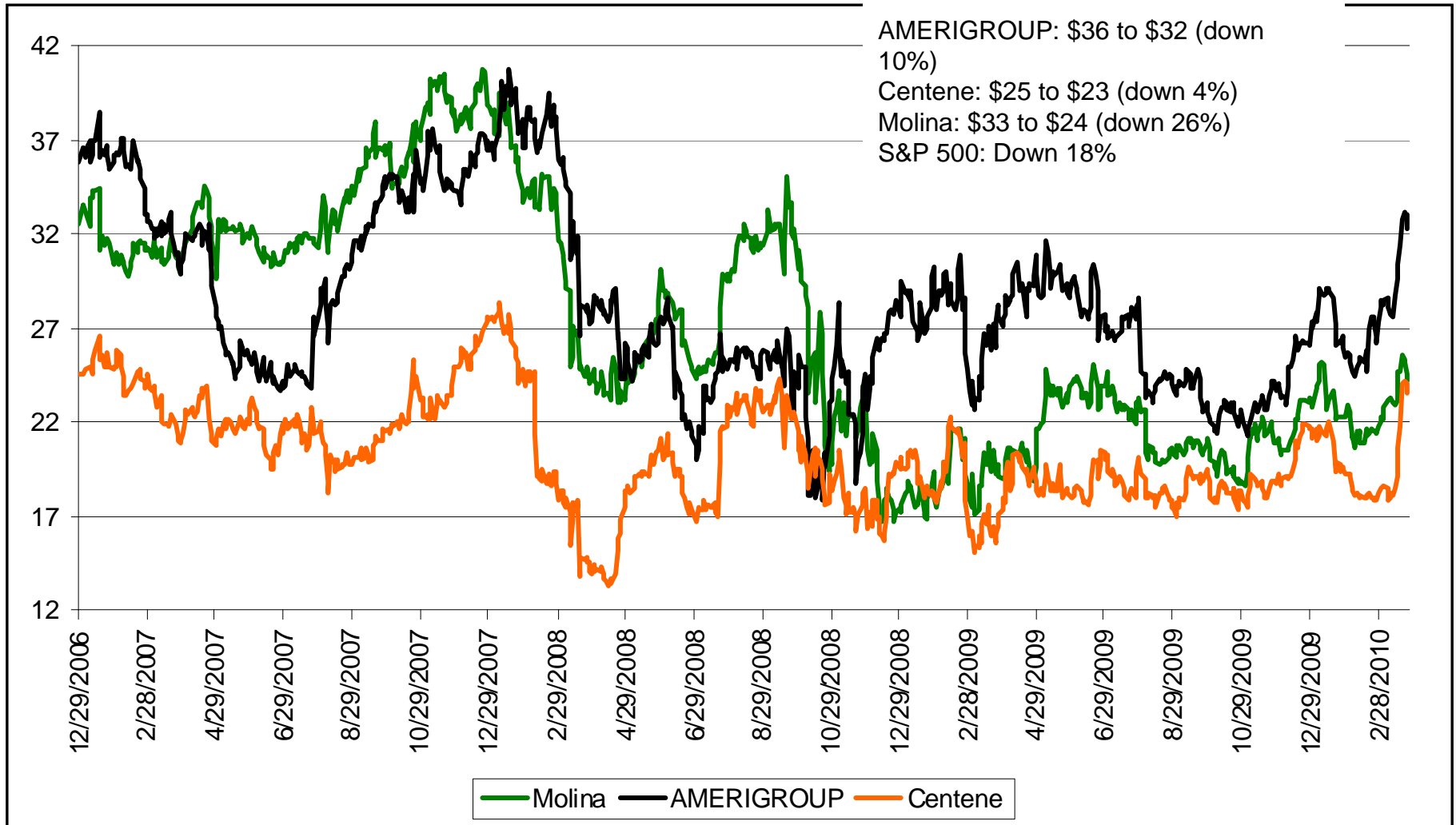
**If membership growth slows this year, which is likely, then loss ratios could be negatively impacted, unless the change has been factored into 2010 bids**

- Everything else being equal, fewer new members means that Medicare MLRs will deteriorate next year.

**The key is the level of gross sales, not net enrollment changes**

# It Has Been A Rough Few Years For The Publicly Traded Medicaid Stocks

Then and now (12/29/06-3/26/10)



Source: Oppenheimer & Co. Inc.

## **There were some pretty significant Medicaid earnings misses in 2009, although the passage of reform has re-energized the stocks**

- The swine flu, higher utilization associated with new members, and changes in provider behavior and billing pushed medical costs significantly higher
- The reimbursement environment continues to be difficult
- No subsector in managed care benefits more from the health insurance coverage expansion included in the reform package



## Each of the pure play Medicaid plans would see earnings ultimately rise 25% or more

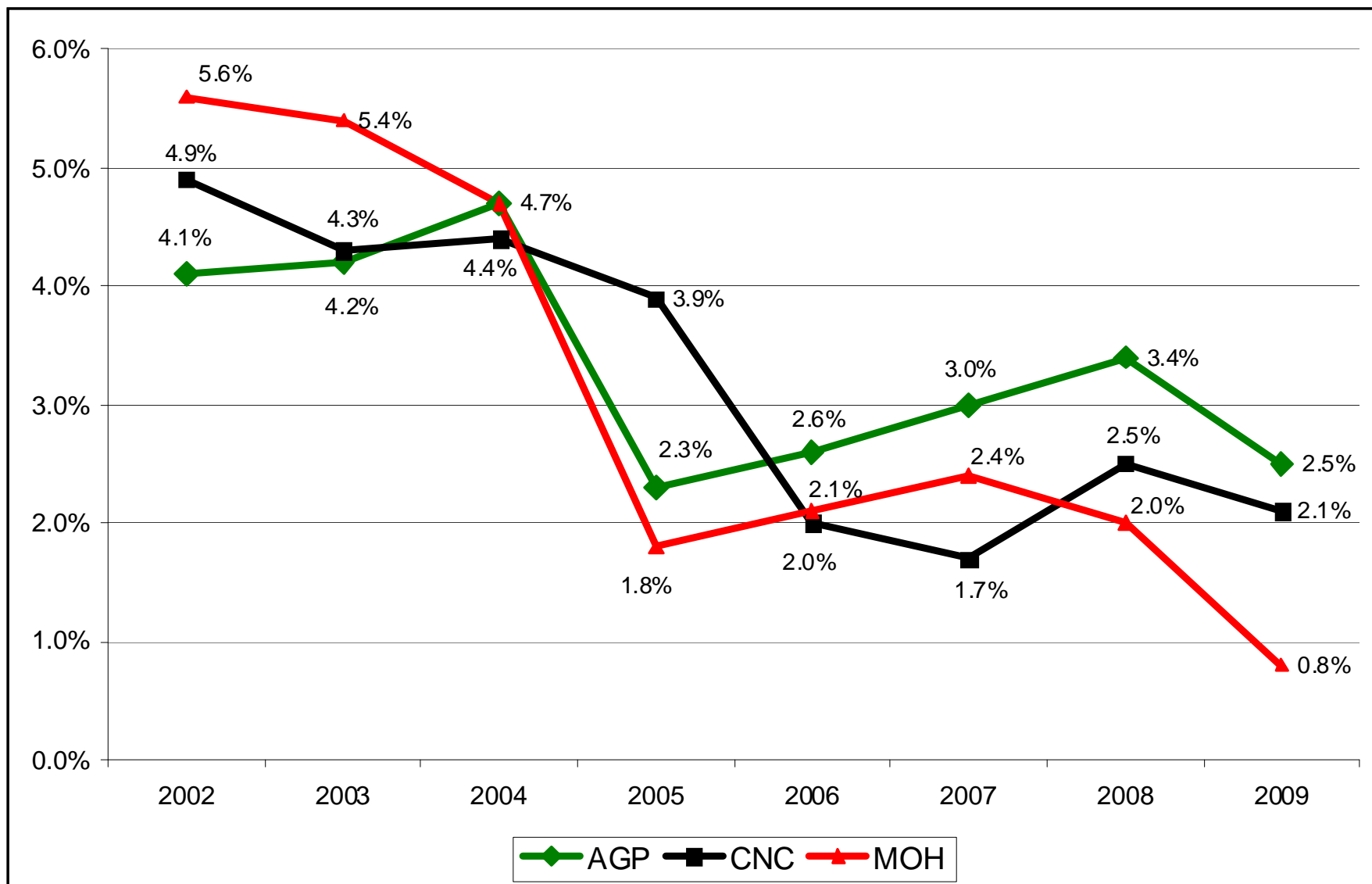
➤ As we saw in 2009, new membership doesn't always equate to higher profits, so the net income impact could be a year or more delayed

Company	Current Medicaid Enrollment	Market Share	Additional lives	Assumed PMPM	Revenue (in million)	Assumed Margin	EBITDA	EPS Impact	% of 2010 Estimate
Molina	1,411	2.9%	461	\$225	\$1,244	3.0%	\$37.3	\$0.89	57.4%
AMERIGROUP	1,778	3.6%	581	\$225	\$1,568	3.0%	\$47.0	\$0.55	32.4%
Centene	1,386	2.8%	453	\$225	\$1,222	3.0%	\$36.7	\$0.51	24.7%
WellCare	1,322	2.7%	432	\$225	\$1,166	3.0%	\$35.0	\$0.52	23.3%
Health Net	894	1.8%	292	\$225	\$788	3.0%	\$23.6	\$0.15	6.7%
Coventry	391	0.8%	128	\$225	\$345	3.0%	\$10.3	\$0.05	2.0%
UnitedHealth	2,795	5.7%	913	\$225	\$2,464	3.0%	\$73.9	\$0.04	1.4%
WellPoint	1,717	3.5%	561	\$225	\$1,514	3.0%	\$45.4	\$0.06	1.0%
All Other	37,305	76.1%	12,181	\$225	\$32,890	3.0%	\$986.7		
<b>Total</b>	<b>49,000</b>	<b>100.0%</b>	<b>16,000</b>		<b>\$43,200</b>		<b>\$1,296</b>		

Source: Oppenheimer & Co. Inc.

# Margins Have Never Really Recovered Following The Earnings Misses Of 2005

Net income margins of the publicly traded Medicaid plans, 2002-2009



Source: Oppenheimer & Co. Inc. and company data.

## **Our statutory filing analysis indicated that the overall Medicaid EBITDA margin in 2008 was 1.5%**

- There were significant differences in profitability between publicly traded and private Medicaid plans. MLRs at the publicly traded plans were 85.2% in 2008, compared with an overall MLR of 89.5% at the private plans.
- We estimate the average margin at publicly traded plans was around 4% in 2008, while private plans were modestly unprofitable.
- Do states (and Medicaid beneficiaries) receive better value for their money selecting private plans, or are they choosing less efficient vendors?

	<b>2006</b>	<b>2007</b>	<b>2008</b>
Number of plans	156	171	182
Enrollment	12,957,328	13,758,559	14,987,500
Member months	141,149,189	162,242,934	170,791,473
PMPM	\$203.44	\$225.47	\$240.37
Premiums	\$28,716,072,813	\$36,581,345,198	\$41,052,367,221
Medical expenses	\$24,949,037,445	\$32,506,552,184	\$35,899,389,264
Medical expense, PMPM	\$176.76	\$200.36	\$210.19
MLR	86.9%	88.9%	87.4%
Gross profit	\$3,767,035,368	\$4,074,793,014	\$5,152,977,957
Gross profit, PMPM	\$26.69	\$25.12	\$30.17
Bed days per thousand	404.3	449.7	453.7
Days per admission	4.0	3.7	3.9
Physician visits per thousand	5,096	5,309	5,129

Source: National Association of Insurance Commissioners and Oppenheimer & Co.

# Public Versus Private Medicaid Plans, 2006-2008



	Publicly Traded			Privately Held		
	2006	2007	2008	2006	2007	2008
Number of plans	62	73	77	93	98	105
Enrollment	6,849,737	7,360,279	7,898,215	6,107,591	6,398,280	7,089,285
Member months	70,456,497	87,445,602	89,792,162	70,692,692	74,797,332	80,999,311
PMPM	\$184.85	\$210.93	\$220.01	\$222.15	\$225.47	\$262.93
Premiums	\$13,024,168,245	\$18,444,746,949	\$19,755,184,732	\$15,691,904,568	\$18,136,598,249	\$21,297,182,489
Medical expenses	\$11,080,917,116	\$15,866,160,037	\$16,838,845,410	\$13,868,120,329	\$16,640,392,147	\$19,060,543,854
Med exp, PMPM	\$157.27	\$181.44	\$187.53	\$196.17	\$222.47	\$235.32
MLR	85.1%	86.0%	85.2%	88.4%	91.8%	89.5%
Gross profit	\$1,943,251,129	\$2,578,586,912	\$2,916,339,322	\$1,823,784,239	\$1,496,206,102	\$2,236,638,635
Gross profit, PMPM	\$27.58	\$29.49	\$32.48	\$25.80	\$20.00	\$27.61
Bed days / 1,000	355.5	440.5	466.1	466.8	460.3	439.8
Days per admission	4.1	3.5	3.9	3.9	4.0	3.8
Doc visits / 1,000	4,389	5,241	4,825	5,774	5,387	5,468

Source: National Association of Insurance Commissioners and Oppenheimer & Co.

## Many of the smaller private Medicaid plans are losing money in 2009, and most don't have the capital to absorb big losses

- It won't be long until these private plans are forced to leave the business unless rate increases are forthcoming
- The data shown below is through 3Q09, so before the flu got really bad in October.

Plan	State	Members	Premiums	3Q08 MLR	3Q09 MLR	Change
CareSource	Ohio	729,644	\$1,736,901,929	91.4%	90.1%	(130 bp)
Vista Health Plan	Pennsylvania	424,437	\$1,507,612,000	94.5%	94.4%	(10 bp)
Horizon	New Jersey	419,978	\$824,668,264	88.7%	85.2%	(350 bp)
Gateway Health Plan	Pennsylvania	257,661	\$744,483,025	89.2%	91.1%	190 bp
University Health Care HIP	Kentucky New York	159,476 221,342	\$587,800,398 \$494,536,342	85.9% 95.9%	87.1% 85.7%	110 bp (1,020 bp)
MdWise	Indiana	287,325	\$480,896,869	87.2%	87.9%	50 bp
Health Plan of Michigan	Michigan	210,184	\$467,125,031	82.8%	80.5%	(230 bp)
MCS	Puerto Rico	413,157	\$393,703,325	94.0%	92.1%	(190 bp)
Virginia Premier Health Select Health	Virginia South Carolina	144,252 180,451	\$349,041,672 \$344,144,838	99.4% 85.3%	94.5% 93.4%	(490 bp) 810 bp
Children's Mercy	Missouri	166,079	\$298,970,013	79.9%	85.1%	520 bp
Community Health Plan	Washington	176,714	\$248,985,240	84.8%	88.6%	370 bp
Texas Children's Health	Texas	165,977	\$241,853,067	91.8%	90.1%	(170 bp)
Hawaii Medical Service	Hawaii	103,227	\$184,832,250	93.6%	90.5%	(310 bp)
DC Chartered Health	DC	66,509	\$134,626,621	85.3%	94.7%	940 bp
Security Health Plan	Wisconsin	42,457	\$71,717,967	80.7%	89.4%	870 bp
Universal Health Care	Florida	35,456	\$61,627,247	68.4%	82.3%	1,390 bp
Colorado Access	Colorado	84,490	\$44,761,774	84.7%	93.5%	880 bp
The Health Plan Upper	West Virginia	29,329	\$42,324,416	85.4%	83.8%	(160 bp)

## Community Health Plan of Washington

- Over 240,000 members, including 176,000 Medicaid members and 63,000 group enrollees, and annual revenue of more than \$550 million
- On a consolidated basis, the plan lost \$4.3 million in 2008, and has been modestly profitable through 3Q09 (\$0.6 million)
- Medicaid made \$4.1 million for the company in 2008, but we estimate the Medicaid loss for the first three months of 2009 was in excess of \$10 million, as Washington cut rates several times in 2009
- The plan had a risk based capital ratio of 480% at the end of 2008, so it still has some capital flexibility, but the plan can't afford to lose \$10 million on a regular basis

# Medicaid Isn't All That Important To The Big Plans...

- On average, Medicaid will generate about 5% of EBITDA in 2009 across the managed care industry

## Medicaid EBITDA by Plan 2010E (in millions)

<u>Company</u>		Medicaid EBITDA	Total EBITDA	% of Total
AMERIGROUP	AGP	\$179	\$195	91.7%
Molina	MOH	\$130	\$146	89.5%
Centene	CNC	\$129	\$182	71.0%
WellCare Health Plans	WCG	\$57	\$170	33.8%
Coventry Health Care	CVH	\$51	\$552	9.2%
Health Net Inc	HNT	\$14	\$404	3.5%
UnitedHealth Group	UNH	\$201	\$5,776	3.5%
WellPoint Inc	WLP	\$80	\$4,458	1.8%
Aetna Inc	AET	\$12	\$2,044	0.6%
Triple-S	GTS	-\$1	\$43	-2.6%
Humana Inc	HUM	-\$46	\$1,537	-3.0%
Totals / Weighted Average		\$807	\$15,506	5.2%



# But Medicaid Has Been One Of The Few Sources Of Membership Growth

**The publicly traded plans now enroll over 13 million Medicaid lives, after adding 1.1 million new members in 2009**

➤ The growth has generally been concentrated in the larger plans

Medicaid Enrollment Growth, Publicly Traded Plans, 2009 (lives in thousands)

	<b>2008</b>	<b>2009</b>	<b>Change</b>	<b>% Change</b>
UnitedHealth	2,515	2,900	385	15.3%
AMERIGROUP	1,570	1,773	203	12.9%
WellPoint	1,968	1,733	(235)	-11.9%
Centene	1,185	1,456	271	22.9%
Molina	1,257	1,455	198	15.8%
WellCare	1,322	1,349	27	2.0%
Health Net	812	910	98	12.1%
Coventry	371	402	31	8.4%
Humana	385	402	16	4.2%
Triple-S	338	341	3	0.7%
Aetna	207	310	103	49.8%
<b>Total</b>	<b>11,930</b>	<b>13,030</b>	<b>1,100</b>	<b>9.2%</b>

# RFPs Have Been A Great Source Of Growth, Particularly For The Largest Plans



- In the last 20 Medicaid RFPs, there have been nearly 7 million lives awarded, with the bulk of the membership going to UnitedHealth (18% share) and Molina (7% share).
- It has been difficult for some of the smaller Medicaid plans (Aetna & Coventry, for example), to get bigger through the RFP process

	Ohio ABD	Missouri	Mississippi CHIP	Texas Rural CHIP	Michigan	Mississippi	Nebraska	Past 20 Penetration RFP's	Rate
Private plans	10,150	77,100			618,000			3,118,945	45.9%
United	4,950		65,000		186,000	38,600	45,000	1,212,205	17.8%
Molina		77,300		60,000	206,000			505,921	7.4%
WellPoint								481,203	7.1%
Centene				60,000		38,600		433,640	6.4%
AMERIGROUP								358,021	5.3%
Coventry		180,200			54,000		45,000	303,708	4.5%
United (formerly Sierra)								52,500	0.8%
WellCare		13,400						175,499	2.6%
Aetna		39,700						156,366	2.3%

<b>Total Eligibles</b>	<b>15,100</b>	<b>387,700</b>	<b>65,000</b>	<b>120,000</b>	<b>1,064,000</b>	<b>77,200</b>	<b>90,000</b>	<b>6,798,008</b>	-
Publicly traded plans	4,950	310,600	65,000	120,000	446,000	77,200	90,000	3,679,063	
Pure play Medicaid	-	90,700	-	120,000	206,000	38,600	-	1,473,081	

Publicly traded penetration	32.8%	80.1%	100.0%	100.0%	41.9%	100.0%	100.0%	54.1%	
Pure play penetration	0.0%	23.4%	0.0%	100.0%	19.4%	50.0%	0.0%	21.7%	

Contract Award Date	6/19/2009	6/26/2009	6/29/2009	8/3/2009	11/24/2009	2/9/2010			
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# The Inability To Grow Through RFPs Is Why There Will Ultimately Be Consolidation

- The primary rationale for a deal would be to gain the infrastructure and management that many of the larger plans lack
- Still, many of the bigger plans in the industry struggle with the inherent volatility of the Medicaid business, and the rapid turnover of membership
- In addition, there have been lots of examples of big plans that have been unable to effectively operate a Medicaid business. United has done it well, but WellPoint has not, at least in most of its markets
- Consolidation among the pure play Medicaid plans is unlikely to occur, mainly because of the lack of a clear cut leader post merger
- Smaller deals will also continue to happen, like Centene's recent purchase of a unprofitable private plan in South Carolina

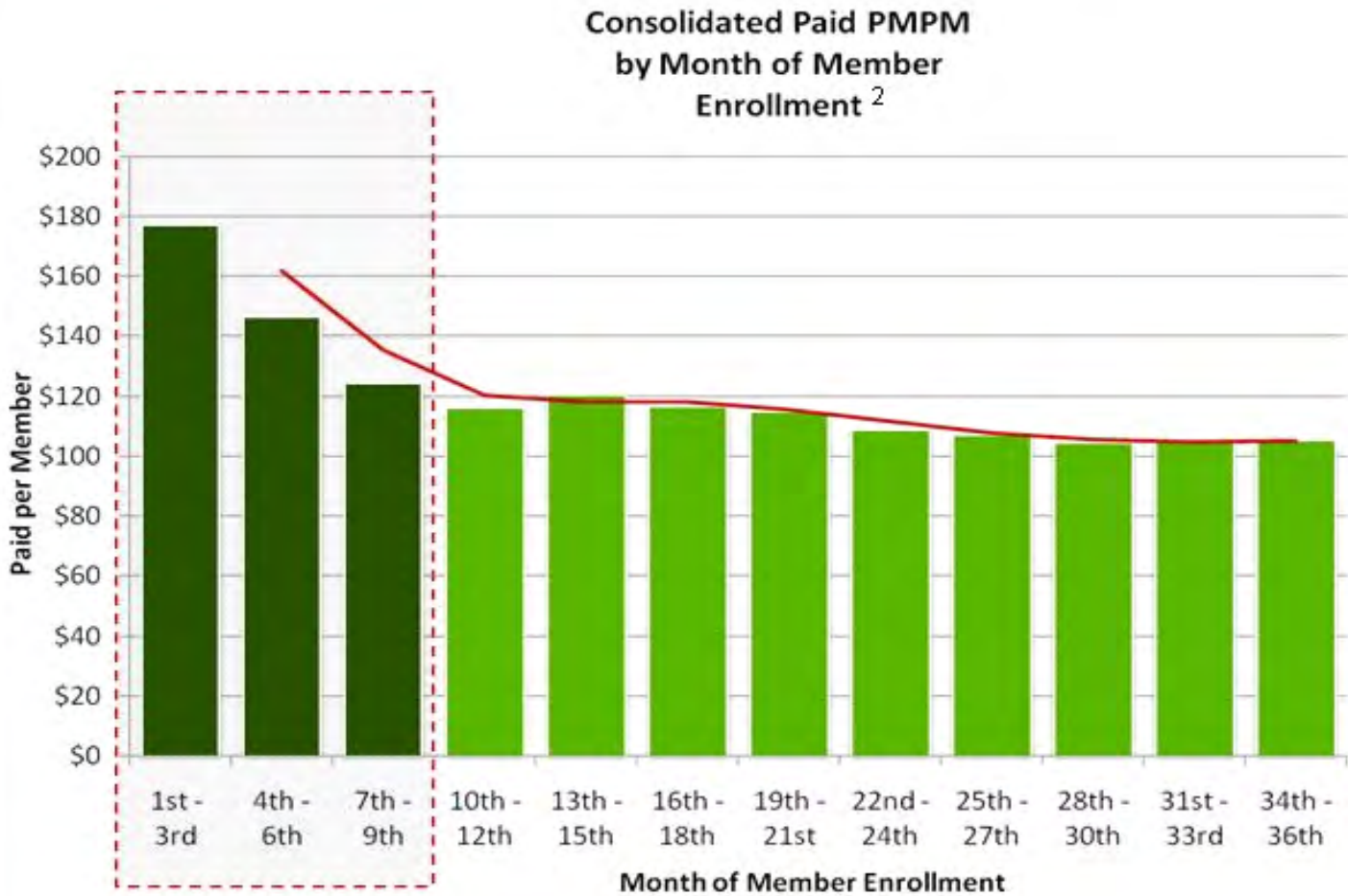
## ➤ There has been a steady flow of Medicaid M&A over the last six years

Acquiror	Target	Date	Price (in millions)	Medical Membership	Price / Medical Membership
Centene	Carolina Crescent Health Plan	2/18/2010	\$15-20	40	\$438
Molina	Unisys Health Information Management	1/19/2010	\$135		
AMERIGROUP	Centene University HP of New Jersey	11/20/2008		9	
Centene	AMERIGROUP Community Care of S.C.	11/20/2008		53	
UnitedHealth Group	Unison	1/8/2008	\$930	320	\$2,906
CareSource	Community Choice Michigan	10/1/2007			
Molina	Mercy CarePlus	9/6/2007	\$74	68	\$1,093
Centene	Access Health Solutions	7/20/2007		90	
Aetna	Schaller Anderson	5/24/2007	\$535	1,300	\$412
Centene	PhyTrust of South Carolina	4/16/2007		30	
WellPoint	QualChoice Select	4/26/2006	\$42	68	\$618
Centene	OptiCare Health Systems	4/25/2006	\$8		
Centene	MediPlan	1/31/2006	\$9	13	\$654
Molina	CAPE Health Plan	1/30/2006	\$44	87	\$506
Centene	AirLogix	7/21/2005	\$35		
Centene	SummaCare	1/10/2005	\$31	39	\$795
Molina	Universal Care	12/16/2004	\$6	17	\$353
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	Premera (Medicaid)	3/1/2004		66	
Molina	Cimarron (NM)	2/23/2004	\$74	108	\$685

## **The average Medicaid member stays with a plan for less than a year**

- New Medicaid members are substantially less profitable, so increased duration should have a significant financial benefit
- Every plan should have a dedicated team that tracks members about to lose eligibility, and provides resources (transportation) and incentives (where possible) to keep eligible members enrolled
- Our rough analysis of company data suggests that MLRs on Medicaid members in the first three months of enrollment is more than 100%, while the MLR on members in months 9-12 is closer to 70%

## The average Medicaid member stays with a plan for less than a year



## **We're surprised more plans haven't explored the potential of clinics**

- Access is always an issue for the Medicaid program, although regulators will likely need some encouragement on this front. Buses and other transportation serving the clinic can create real access.
- Emergency room care as primary care is a problem, too, but oftentimes Medicaid members don't have a lot of choice if their doctor is only available between 9-5. After-hours clinics (that welcome walk-ins) can help with this issue, even if it means paying doctors more.
- There is an upfront capital cost, but plans that use clinics generally report significantly lower medical costs than members that use network providers

**There are a lot of RFPs being awarded over the next few months, although most are re-bids of existing contracts**

➤ RFPs are almost never a good risk / reward for the incumbent

<b>Region</b>	<b>Date</b>	<b>New or Existing?</b>
Milwaukee area	March 31	Existing
Dallas STAR Plus	April 2010	New
Indiana	June 1	Existing
Washington State	Fall 2010	Existing
Illinois ABD	Late May / early June	New
Georgia	2011?	Existing



## Industry Analyses

*His Heart Was Beating, But His Brain Was Dead. They Called Him A Democrat - March Medicare*  
*As Scary As Truth Is, Supply Has Always Been In Excess Of Demand-Feb Medicare*  
*The Obituary Section - Health Care Reform: 2009-2010*  
*A Conclusion Is Just the Place You Got Tired of Thinking—2010 Outlook*  
*If You Torture The Data Enough, Eventually It Will Confess - Blue Cross Update*  
*Vote For This Bill, Then Find A New Job - Health Reform Update*  
*There Are Three Sides to Every Story: Your Side, My Side, and the Truth - Blue Cross Financial Update*  
*The Time Has Come To Kill This Bill—Health Reform Introduced In The Senate*  
*Because I'm A Scorpion, And It's In My Nature - An Editorial On Health Reform*  
*Still Deciding Whether To Use Their Powers For Good Or Evil—2010 PDP Rates*  
*Sometimes You're The Pigeon, & Other Times You're The Statue - TRICARE RFP*  
*Fame Comes in a Moment, But Greatness Comes with Longevity: 2008 RBC Analysis*  
*Good News Travels Fast, But Bad News Travels Instantly--HMO Trading Analysis*  
*A Penny Saved Is A Penny Gone - Blue Cross Capital Update*

## Company reports

*MOH: Success Isn't Permanent, and Failure Isn't Fatal-Management Meeting Highlights*  
*CNC: If You Can't Build It, Buy It: South Carolina Medicaid Acquisition*  
*CI: I Just Go Where I'm Kicked—Downgrade To Perform*  
*WCG: I Voted For It Before I Voted Against It - Downgrade To Perform*  
*WLP: It's Better To Be Approximately Right Than Precisely Wrong-Management Meeting*  
*MGLN: The First Step to Better Times Is to Imagine Them—Management Meeting Highlights*  
*HUM: Be Reasonable. Do It My Way - Why Humana Is The Stock To Own Into Year-End*  
*HUM: The Past Is Always There, Just Waiting to Mess with the Present-'10 Plan Design*  
*AGP: The First Stage of Grief Is Denial—Lowers Guidance Again*  
*MGLN: Always & Never Are Two Words You Should Always Remember Never to Use-Mgmt Mtg*  
*HUM: We're from the Government, & We're Here to Help: Highlights from Mgmt Meetings*  
*HNT: Mike Redmond Is Due; HNT Sells Northeast Operation*  
*AGP: Pop A Cap In Your Assets—Medical Costs Higher, But Maintains EPS Outlook*  
*UNH: Everything Ends Badly, Otherwise It Wouldn't End - Downgrading To Underperform*  
*CI: Follow The Leader--Valuing CIGNA's PBM*

## Medicaid Updates

*Wisconsin Medicaid RFP Delayed*  
*Here's To Our Wives and Sweethearts. May They Never Meet-Wisconsin Medicaid RFP*  
*Dangle A Carrot, And You Get Rabbits: Arizona Behavioral Health RFP*  
*Love Is what Happens to Men and Women who Don't Know Each Other Very Well - MS Medicaid RFP*  
*My Job Is Secure. No One Else Wants It - Medicaid HMO Analysis*  
*If It Weren't For The Last Minute, Nothing Would Get Done - Medicaid RFP*  
*It's The Story Of My Life. All Uphill--Michigan Medicaid RFP*  
*Little Details Are Vital, As Little Things Make Big Things Happen: Nebraska RFP*  
*Many Are Called, But Few Are Chosen - Mississippi Medicaid RFP*  
*The Land Of Corn And Huskers - Nebraska Medicaid RFP*

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- We publish reports on Medicare, Medicaid and managed care industry like those on the prior page on a regular basis; if you'd like to get the updates, please send me an email at [carl.mcdonald@opco.com](mailto:carl.mcdonald@opco.com)

- This presentation is also available via email.

- Q&A

AET: Our 12-18 month price target is \$33.

AGP: Our 12-18 month price target is \$32.

CI: Our 12-18 month price target is \$38.

CNC: Our 12-18 month price target is \$18.

CVH: Our 12-18 month price target is \$25.

EHTH: Our 12-18 month price target is \$14.

GTS: Our 12-18 month price target is \$25.

HNT: Our 12-18 month price target is \$30.

HS: Our 12-18 month price target is \$21.

HUM: Our 12-18 month price target is \$57.

MGLN: Our 12-18 month price target is \$46.

MOH: Our 12-18 month price target is \$25.

UAM: Our 12-18 month price target is \$18.

UNH: Our 12-18 month price target is \$29.

WCG: Our 12-18 month price target is \$33.

WLP: Our 12-18 month price target is \$69.

## Price Target Calculation

**AET:** Our price target of \$33 represents a target multiple of 12.5x our 2010 EPS projection of \$2.65. Our target multiple is relatively an 11% premium to the other diversified plans in the industry, as we believe the company's initial guidance will prove conservative.

**AGP:** Our price target of \$32 represents a target multiple of 16.8x our new 2010 EPS projection of \$1.90. Our target multiple for AMERIGROUP is a significant premium to the multiples applied to other plans in the industry because of the significant margin expansion opportunity AMERIGROUP has over time, driven by rate increases, a reduction in the higher utilization associated with new members, and the potential to exit underperforming markets.

**CI:** Our price target of \$38 represents a target multiple of 9.5x our 2010 EPS projection of \$4.00. Our target multiple for CIGNA is a slight discount to what we have assumed for other companies in the group, which are based on the group's historical relationship to the market. We think CI deserves a slight discount based on our expectations for below-industry-average growth rates.

**CNC:** Our price target of \$18 reflects a target multiple of 10.3x our 2010 earnings projection of \$1.75. This is a discount to the price target multiples we have applied to the other Medicaid managed care plans in the group, mainly because of Centene's historical inability to deliver consistent results for more than a quarter or two, and the risk for higher utilization associated with new Medicaid members and changes to the structure of the Wisconsin Medicaid contract.

**CVH:** Our \$25 price target implies a target multiple of 10.6x our 2010E EPS projection of \$2.35. This is a premium to the target multiples we have assumed for other companies in the group, as we expect growth in 2010 to be above the industry average.

**EHTH:** Our 12- to 18- month price target of \$14 per share represents a target P/E multiple of 21.5x our 2010 EPS projection of \$0.65 (including stock compensation). Excluding stock compensation, our 2010 EPS projection is \$0.81, or a target multiple of about 17.2x. From an enterprise value to EBITDA perspective, our target multiple assumes an EV/EBITDA multiple of 6.4x (excluding stock comp) and 5.2x as reported. eHealth is trading at a premium to the firm's internet peer group on an EV/EBITDA and on a P/E basis due to a much lower risk from health reform.

**GTS:** Our price target of \$25 represents a target multiple of 11.9x our 2010 EPS projection of \$2.10, in line with the Medicare group. Our target multiple factors in our belief in the likelihood that Triple-S is ultimately acquired, offset by the risk associated by operating virtually all of the business in one market, Puerto Rico.

**HNT:** Our price target of \$30 equates to 12.5x our 2010 EPS estimate of \$2.40. Our target multiple is above the target multiple we have assumed for the industry given the potential for earnings upside.

**HS:** Our price target of \$21 equates to 8.8x our 2010 EPS estimate of \$2.40. Our target multiple is a discount to the target multiple we have assumed for the industry given our expectations for a low growth rate over the next few years.

**HUM:** Our price target of \$57 represents a target multiple of 10.2x our 2010 EPS estimate of \$5.60. Our target multiple for HUM is relatively in line with the Medicare peer average, reflecting our view that the company can generate significant cash flow over the next few years, before the effect of significant reimbursement cuts begins to negatively impact the company's earnings growth.

**MGLN:** Our price target of \$46 per share represents an EV/EBITDA multiple of 4.9x our 2010 EBITDA projection of \$247 million, which is a 28% discount to the managed care average, assuming cash grows to about \$415 million by the end of 2010. We assign MGLN a discount multiple because of the company's inability to grow EBITDA on a sustainable basis because of significant contract losses that have mainly been driven by health plan insourcing.

**MOH:** Our price target of \$25 represents a target multiple of 17.2x our 2010 EPS projection of \$1.45. This is a premium relative to the P/E target multiples of other Medicaid plans, as Molina tends to incur much higher D&A-related expenses, given its more conservative accounting on acquisitions.

**UAM:** Our price target of \$18 represents a target multiple of 10.0x our 2010 EPS projection of \$1.80. Our target multiple for Universal American is in line with the multiples we have assumed for other companies in the group.

**UNH:** Our \$29 price target represents an 9.5x multiple on our 2010 EPS projection of \$3.05. This is lower than the target multiples we have assumed for other companies in the group, reflecting our view that United will have difficulty showing any meaningful earnings growth in 2010 because its Medicare benefit design changes will not be enough to offset the drop in premiums.

**WCG:** Our \$33 price target represents a multiple of 16.5x our 2010 EPS projection of \$2.00. Our target multiple for WellCare is a premium to the target multiple we have assumed for other companies in the group (12x) reflecting our view that 2010 will be a transition year for WellCare, and not reflective of true earnings power. We're also trying to account for the cash embedded in WellCare, and its M&A potential.

**WLP:** Our price target of \$69 represents a target multiple of 11.2x our 2010 EPS estimate of \$6.15, a slight premium to the target multiples for other companies in the group. We assign a slight premium based on WellPoint's having some of the most conservative reserves in the industry.

## Risk Factors

**AGP:** Risks to our price target include a continuation of the higher cost trends AMERIGROUP has experienced in the first half of 2009, the poor state budget environment that is resulting in lower than average rate increases, the significant one-time benefits that have positively impacted 2009 earnings (like favorable prior period development), the potential that one of AMERIGROUP's existing markets will go out to bid in an RFP, a continuation of aggressive provider billing practices, and the company's relative lack of earnings diversification, as it relies in most years on just two or three markets to generate most of its profitability.

**CI:** Risks to our price target include an inability to accurately predict medical cost trends and price its products appropriately; unfavorable prior-period development; an industry-wide increase in utilization; money flows out of the managed care sector; budget deficit issues that lead to lower Medicare funding; rising Medicare cost projections; slower than expected uptake of new Medicare programs by beneficiaries; the potential impact of association health plan legislation; and seasonal trading patterns in the managed care industry.

**CNC:** The biggest risk factor in Centene's stock is the volatility of the company's quarterly results, as it has been unable to consistently meet earnings projections. We are specifically concerned with Centene's ability to show improvement in its Ohio Medicaid MLR, while changes to the structure of the Wisconsin Medicaid contract are also a risk. We are also monitoring Centene's ongoing system upgrade.

**CVH:** Risks to our price target include an unexpected increase in medical costs; merger integration risks; loss of business in First Health's corporate and FEHBP business; the expiration of favorable hospital contracts reached during the acquisition of a provider-sponsored HMO; underpricing by not-for-profit Blue Cross competitors; budget deficit issues and the impact on long-term Medicare funding; the potential for underpricing in the Medicare book; and the impact of potential federal Medicaid reform.

**EHTH:** Key risks for eHealth are the potential outcome on the insurance distribution business from health reform, the company's premium valuation, and eHealth will need to generate significant new enrollment growth each year to make up for the big drop in commission payments that individual brokers receive in the second year.

**GTS:** Risks to our price target include lower than expected Medicare reimbursement, since Triple-S's Medicare reimbursement is significantly higher than what the government calculates its costs to be, and if the government decides to cap Medicare funding at a certain percentage above government costs, Triple-S would see its funding fall sharply; risks associated with operating virtually all of the business in one market, Puerto Rico; the potential for regulatory action as a result of testimony given by former CEO in conjunction with an investigation into illegal campaign contributions; the potential for a big increase in share count related to an adverse court ruling, increased utilization that leads to higher than expected cost trends; the managed care industry's heavy reliance on government funding; the potential impact of association health plans; seasonal trading patterns in the managed care industry; and uncertainty over the long-term Medicare reimbursement outlook.

**HNT:** Risks to our price target include an inability to accurately predict medical cost trends and price its products appropriately, the inherent risks of a managed care turnaround, including a continued increase in cost trends; higher than expected provider settlements; a substantial percentage of Health Net's revenue and earnings are dependent on government payers, and change in legislation could negatively impact earnings; an industrywide increase in utilization; money flows out of the managed care sector; the potential impact of association health plan legislation; seasonal trading patterns in the managed care industry.

# Key Risks to Price Targets

(Continued)



**HUM:** Risks to our price target include the potential for cuts to Medicare reimbursement rates; poor past performance of Humana's commercial business; the uncertain profitability of the Medicare PPO opportunity; increased utilization that leads to higher than expected cost trends; money flows remain a concern; the managed care industry's heavy reliance on government funding; revisions to the cost of Medicare reform; the uncertain impact of proposed federal Medicaid legislation; the potential impact of association health plans; seasonal trading patterns in the managed care industry; the impact of stock options expensing on valuation; and uncertainty over the long-term Medicare reimbursement outlook.

**HS:** Risks to our price target include the potential for cuts to Medicare reimbursement rates; increased utilization that leads to higher than expected cost trends; money flows remain a concern; the managed care industry's heavy reliance on government funding; revisions to the cost of Medicare reform; the potential impact of association health plans; seasonal trading patterns in the managed care industry; the impact of stock options expensing on valuation; the review by CMS of risk score payments and uncertainty over the long-term Medicare reimbursement outlook.

**MGLN:** Risks to our price target include the inability to recognize the deferred revenue on the Maricopa contract in the fourth quarter of 2009 and the loss of the WellPoint radiology contract at the end of 2010. Moreover, the continued risk enrollment losses at some of Magellan's largest customers are a concern for the company. It is also worth monitoring the loss ratio and utilization trends reported by the company, as Magellan did experience higher costs in the second quarter, particularly in the Public Sector segment. Much of Magellan's revenue and EBITDA is dependent on a handful of large contracts, and the loss of any of these contracts because of insourcing or consolidation would have a material adverse impact on the company's business.

**MOH:** Risks to our price target include Molina's dependence on the Medicaid market and government payors; potential Medicaid reimbursement cuts in key markets; expansion into new markets; new product offerings that may increase earnings volatility; budget deficits at the state level that may result in cuts to the Medicaid program; an unexpected increase in medical cost trends; an uptick in utilization; the impact of federal Medicaid reform is uncertain; money flows out of the managed care sector remain a concern; and seasonal trading patterns in the managed care industry.

**UAM:** Risks to our price target include the effect of a slower long-term earnings growth rate, money flows out of the managed care sector, an unanticipated increase in medical costs, budget deficit issues that result in Medicare funding cuts, the impact of proposed federal Medicaid reform, the potential for legislation enabling association health plans, seasonal trading patterns of the managed care stocks, and the long-term Medicare reimbursement outlook.

**UNH:** Risks to our price target include a decision by CMS to increase Medicare plan reimbursement in 2010; the outcome of health reform; the effect of a slower long-term earnings growth rate; money flows out of the managed care sector; an unanticipated increase in medical costs; budget deficit issues that result in Medicare funding cuts; the impact of proposed federal Medicaid reform; the potential for legislation enabling association health plans; seasonal trading patterns of the managed care stocks; and the long-term Medicare reimbursement outlook.

**WCG:** Risks to our price target include WellCare's relatively high level of profitability in the Medicare HMO business, high concentration of membership in Florida; an unexpected increase in medical cost trends; budget deficit issues that result in Medicaid funding cuts; actions by Congress to reduce Medicare reimbursement.

**WLP:** Risks to our price target include systems integration and other merger-related integration difficulties; money flows out of the managed care sector; an unanticipated increase in medical costs; budget deficit issues that result in Medicare funding cuts; the impact of national and state Medicaid reform on WellPoint's Medicaid business.

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