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September 5, 2017

MANAGED CARE

Thoughts on 2018 Earnings Power Across the MCO Space

Company	Price	Rtg
Aetna Inc(AET)	$158.19	PP
Anthem Inc(ANTM)	$197.43	OP
Centene Corp(CNC)	$88.62	PP
CIGNA Corporation(CI)	$183.17	OP
Humana Inc(HUM)	$258.75	OP
Molina Healthcare, Inc.(MOH)	$64.25	PP
UnitedHealth Group Inc(UNH)	$199.75	OP
WellCare Health Plans, Inc.(WCG)	$175.45	PP

Source: FactSet/Wolfe Research
OP=Outperform, PP=Peer Perform, UP=Underperform, NR=Not Rated

- **Look for 2018 EPS guidance/visibility to be a key swing factor into YE MCO stock performance.** With MCOs continuing to outpace the S&P 500 YTD (32% vs. 11% YTD, 4.4% vs. 2.2% in Q3) our YE 2017 price targets have minimal upside/downside from here, and we expect 2018 earnings guidance/visibility coupled with extraneous factors (HIF repeal/tax reform/CSRs) to likely define group performance in the near-to-intermediate term. With management teams at various conferences and into 3Q earnings calls it is likely that questions will focus on 2018 and thus we take a detailed look at numbers and come away with a view on each company in terms of potential guidance and 2018 earnings power versus consensus. Overall we think CI is best positioned here in terms of visibility to achieving 2018 consensus earnings with CNC facing the most questions versus our model. We will host a conference call at 11AM today to review our findings – invitation to follow.

- **Taking a 3-step approach to analyzing 2018 EPS visibility.** First we deconstruct current 2017 earnings guidance vs. original guidance for each company, looking for details around moving parts. We do this to set up step #2, which is to estimate the right 2017 EPS "baseline" for each company from which to grow by breaking out 2017 guidance changes into those which are sustainable vs. those that are not. Step 3 then takes this 2017 "baseline" and adds our view of 2018 EPS moving parts such as core growth, HIF impact, capital deployment, etc. Finally we lay out key questions and swing factors for each company and 2018 results which we then hope to get increased visibility on into 3Q'17 results and in the meantime should act as a decent starting point for discussions with management teams between now and then. All of this is included in the attached slides beginning on page 2 of this report.

- **In terms of visibility into 2018 EPS vs. consensus we rate the MCO companies under coverage as follows CI > AET > WCG > ANTM > HUM > UNH > CNC (note MOH not included in this analysis given lack of visibility into earnings at present).** See slide 4 for a company specific 1-5 rating on 2018 earnings power / visibility as well as drivers of the rating and key swing factors for numbers. In addition to our 2018 analysis we have made some generally modest changes to our 2017/2018 estimates – please see slide 5 for details.

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MANAGED CARE: THOUGHTS ON 2018 EARNINGS POWER

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View of 2018 Guidance and Swing Factors

	2017 Initial Guidance	2017 Current Guidance	2017 Baseline (WR)	2017 Consensus Est	2018 Consensus Est	2018 WR Est	2018 WR Guidance Est	Key Swing Factors
AET	$8.55	$9.50	$8.84	$9.54	$10.17	$10.08	$9.60	Investment spend / Sustainability of 2017 MLR upside / G&A deleveraging
ANTM	$11.50	$11.70	$11.68	$11.84	$13.00	$12.90	$12.75	Earnings trajectory of individual business, improvement in Iowa Medicaid, HIF timing headwind
CI	$9.25	$9.90	$9.85	$10.02	$11.32	$11.46	$11.00	Potential conservatism of 2017 outlook, capital deployment
CNC	$4.63	$4.87	$4.79	$4.95	$5.41	$5.17	$5.10	Individual business growth/margins, ramp of new Medicaid wins, CA expansion margins, targeted margin improvement
HUM	$10.90	$11.50	$11.00	$11.53	$12.24	$12.07	$12.00	Med Adv margins and enrollment growth, HC Services returning to growth, moving parts to 2017 $11 EPS baseline
UNH	$9.45	$9.83	$9.70	$9.87	$10.83	$10.58	$10.65	Optum growth, HIF timing headwind, potential to offset HIF timing w/SG&A leverage and capital deployment
WCG	$6.13	$6.85	$6.88	$7.01	$8.02	$8.00	$7.88	UAM Integration / PYD sustainability / move toward piercing 2.0% NI margins

Source: Wolfe Research

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2018 Growth off of 2017 Metrics

Consensus 2018 EPS, Growth vs. 2017					
	2018 EPS	2017 Initial Guidance	2017 Current Guidance	2017 Baseline (WR)	2017 Consensus Est
AET	$10.17	18.9%	7.0%	15.0%	6.6%
ANTM	$13.00	13.1%	11.1%	11.3%	9.8%
CI	$11.32	22.4%	14.4%	15.0%	13.0%
CNC	$5.41	16.9%	11.1%	13.0%	9.3%
HUM	$12.24	12.3%	6.5%	11.3%	6.2%
UNH	$10.83	14.6%	10.2%	11.7%	9.8%
WCG	$8.02	30.8%	17.1%	16.5%	14.3%

WR 2018 EPS, Growth vs. 2017					
	2018 EPS	2017 Initial Guidance	2017 Current Guidance	2017 Baseline (WR)	2017 Consensus Est
AET	$10.08	17.9%	6.1%	14.0%	5.7%
ANTM	$12.90	12.2%	10.3%	10.4%	9.0%
CI	$11.46	23.9%	15.7%	16.3%	14.4%
CNC	$5.17	11.6%	6.1%	7.9%	4.4%
HUM	$12.07	10.7%	4.9%	9.7%	4.7%
UNH	$10.58	11.9%	7.6%	9.0%	7.2%
WCG	$8.00	30.5%	16.8%	16.2%	14.1%

Source: Wolfe Research

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Visibility on Consensus 2018 EPS

	2018 Consensus Est	2018 WR Est	2018 WR Guidance Est	Visibility on Consensus EPS (1 lowest, 5 highest)	Comments	Key Swing Factors
AET	$10.17	$10.08	$9.60	4	We are conservatively assuming AET retains none of the 2017 MLR upside (repriced/reinvested in SG&A)	Investment spend / Sustainability of 2017 MLR upside / G&A deleveraging
ANTM	$13.00	$12.90	$12.75	3	HIF headwind is meaningful, leaving exchange margin improvement key to #s – some capital optionality	Earnings trajectory of individual business, improvement in Iowa Medicaid, HIF timing headwind
CI	$11.32	$11.46	$11.00	5	Only co. in our space with clear path to upside to #s + significant capital optionality	Potential conservatism of 2017 outlook, capital deployment
CNC	$5.41	$5.17	$5.10	1	Difficulty bridging to consensus without significant margin expansion / exchange growth	Individual business growth/margins, ramp of new Medicaid wins, CA expansion margins, targeted margin improvement
HUM	$12.24	$12.07	$12.00	3	Some lack of visibility on 2017 growth baseline is main concern / Med Adv growth outlook uncertain for 2018	Med Adv margins and enrollment growth, HC Services returning to growth, moving parts to 2017 $11 EPS baseline
UNH	$10.83	$10.58	$10.65	2	While we think UNH may ultimately get to 2018 consensus EPS the path is unclear at this point	Optum growth, HIF timing headwind, potential to offset HIF timing w/SG&A leverage and capital deployment
WCG	$8.02	$8.00	$7.88	3	Solid 2018 core growth drivers but significant 2017 PYD leaves some uncertainty around baseline EPS	UAM Integration / PYD sustainability / move toward piercing 2.0% NI margins

Source: Wolfe Research

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Updated EPS Estimates and Price Targets

WR EPS Changes							
2017	**AET**	**ANTM**	**CI**	**CNC**	**HUM**	**UNH**	**WCG**
Previous	$9.57	$11.79	$10.04	$4.87	$11.71	$9.84	$7.16
Current	$9.57	$11.70	$10.04	$4.87	$11.55	$9.84	$7.01
Change	(0.0%)	(0.8%)	(0.0%)	0.0%	(1.3%)	0.0%	(2.1%)
2018	**AET**	**ANTM**	**CI**	**CNC**	**HUM**	**UNH**	**WCG**
Previous	$10.06	$13.18	$11.30	$5.07	$12.07	$10.58	$8.23
Current	$10.08	$12.90	$11.46	$5.17	$12.07	$10.58	$8.00
Change	0.2%	(2.1%)	1.4%	1.9%	0.0%	(0.1%)	(2.8%)

WR Price Target Changes							
	AET	**ANTM**	**CI**	**CNC**	**HUM**	**UNH**	**WCG**
Previous PT	$159	$206	$190	$86	$252	$199	$181
Current PT	$159	$202	$193	$88	$252	$199	$176
Change	0.0%	(1.9%)	1.6%	2.3%	0.0%	0.0%	(2.8%)
Current Price	$158.19	$197.43	$183.17	$88.62	$258.75	$199.75	$175.45
Upside	0.5%	2.3%	5.4%	(0.7%)	(2.6%)	(0.4%)	0.3%
Rating	PP	OP	OP	PP	OP	OP	PP

Source: Wolfe Research

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COMPANY BY COMPANY REVIEW

AET 2017 Guidance Changes

2017 Guidance Bridge	EPS Bridge	Comment	Sustainable in 2018?
Original EPS Guidance	**$8.55**	**Original "At Least" EPS Guidance. Excludes PYD / 2R.**	
Revenue Increase	$0.05	$500m related to PA Medicaid, ~1/3 of the $0.15 Medicaid loss previously estimated.	?
Tax Rate	$0.07	Core tax rate favorability likely to be sustained.	Yes
Share Repurchase	$0.17	$3.3B ASR announced in February offset by non-callable debt expense.	Yes
Individual Business	($0.11)	Individual expected to lose close to $250M this year. We estimate intitial loss expectation of ~$180M.	No
Group Outperformance	$0.07	Group outperformed 1H17 largely due to nonrecurring investment income.	No
2R Payment	$0.45	Favorable 2R true-up given on 2Q17 earnings call.	No
PYD	$0.50	We estimate ~$0.40 as normalized level of full year PYD.	Mostly Yes
MLR Improvement ex PYD/2R	$0.93	Core MLR upside offset by SG&A spend below.	Partial
SG&A Spend	($1.06)	Higher investment spend for Med Adv and other growth initiatives	Partial
Other / Potential Conservatism	($0.12)	Other / potential conservatism in guidance.	Partial
Current EPS Guidance	**$9.50**	**Range of $9.45-$9.55**	
Wolfe Differential vs Guidance	$0.07	Wolfe estimates towards lower end of SG&A guidance.	
WR 2017 EPS Estimate	**$9.57**	**vs Consensus of $9.54**	

Source: Wolfe Research

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AET 2018 Earnings and Moving Parts

2018 Guidance Bridge	EPS Bridge	Rev Y/Y	NOPAT Y/Y	Comment and Key Assumptions
2017 Original Guidance	**$8.55**			**Original "At Least" EPS Guidance.**
Tax Rate	$0.07			Likely sustainable in 2018.
Share Repurchase	$0.17			Sustainable in 2018.
Medicaid Upside	$0.05			Assumes AET holds onto PA contract for 2018.
MLR Outperformance / Investment Spend				We believe AET redirected MLR upside into increased investment spend and assume MLR normalization in 2018 is largely offset by lower investment spend. We note that this is an area of uncertainty with potential for upside.
2017 EPS Baseline	**$8.84**			
Core Commercial Risk	($0.12)	0%	(3%)	AET expects significant small group attrition through end of 2017 per May 2017 Investor Day which will annualize in 2018, revenue decrease partially offset by repricing HIF which doesn't carry a margin.
HIF Timing	($0.19)	NA	NA	2017 tailwind of $0.10 relates mostly to pre-collection of 2018. Implies HW of ~$0.20.
Exchanges, ex 2R	$0.37	(100%)	NA	Exiting exchanges for 2018. Assumes AET gets back 80% of ~$250M loss, with ~$50M in stranded G&A.
Commercial ASO	$0.11	5%	0%	LSD % PMPM growth and membership growth, stable margins. Should benefit from conversion of Small Group to AFA product but company also notes potential losses in national accounts.
Med Adv	$0.34	21%	22%	We estimate 15% core growth for both Individual and Group Medicare with additional growth on the Group side coming from a large account win (we estimate 75k members).
Medicaid	($0.14)	(21%)	(27%)	~$1.7B in revenue loss from IL and MO with additional G&A deleveraging.
2017 Share Repurchase	$0.21			2018 benefit from annualization of 2017 share repurchase.
2018 Share Repurchase	$0.25			$2.5B of share repurchase, 90% of FCF less dividends.
2018 Guidance Expectation	**$9.68**			**Assumes 10% Growth off of 2017 baseline.**
PYD	$0.40			WR estimates $0.40 as normalized level of PYD.
2018 Wolfe EPS Estimate	**$10.08**			**vs Consensus of $10.17.**

Source: Wolfe Research

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AET 2018 Guidance Expectation and 2018 Estimates

2018 Guidance Expectation	
$10.08	Wolfe Research EPS Estimate (includes PYD)
($0.40)	Less normalized PYD
At Least $9.60	WR expectation for company EPS guidance.

2018 Estimates	2017 Midpoint	2018 WR Est	Implied Growth	2018 Consensus	Implied Growth	WR vs Cons
Revenue	$61,000	$62,867	3.1%	$63,877	4.7%	(1.6%)
Net Income	$3,200	$3,215	0.5%	$3,299	3.1%	(2.5%)
EPS	$9.50	$10.08	6.1%	$10.17	7.1%	(0.9%)

Source: Wolfe Research

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AET Key Points to Consider

Subject	Comment
Core Upside Sustainability	• With strong core medical cost outperformance in 2017, key question now is how much 2017 upside can be sustained in 2018 vs repricing. We YTD 2017 core MLR upside of nearly $1.00 of EPS, which represents ~10% of 2018E EPS. • We note that AET appears to have largely redirected MLR upside into increased investment spending during 2017 and if a greater degree of MLR upside is sustainable relative to G&A investment in 2018 there could be upside to our estimates.
Top-line Pressure	• By our estimates, AET will lose ~$1.2B from exiting the Exchanges, $1.7B from known Medicaid losses in 2018 (IL, annualization of MO), and potential for further revenue loss in PA (~$900M) depending on timing and implementation. • We estimate ~4-5% of fixed costs associated with the revenue loss will need to be absorbed, with core MLR upside noted above as a potential offset. It's also possible that AET moves these resources to Med Adv given strong top-line growth of $3B+ for 2018 (more below).
Medicare Advantage	• Growth in Medicare Advantage should be strong in 2018 and likely over the next several years (see our analysis here) as management executes on its geographic expansion plan from 56% of the addressable market today to 60% in 2018 and 75%+ by 2020. • We estimate 15% core growth for both Individual and Group Medicare with additional growth on the Group side coming from a large account win (we estimate 75k members).
Commercial HIF	• Timing of commercial renewals should serve as a headwind in 2018, we estimate $0.19 based on $0.10 tailwind in 2017, which related primarily to pre-collection of 2018.

Source: Wolfe Research

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ANTM 2017 Guidance Changes

2017 Guidance	EPS Bridge	Comment	Sustainable in 2018?
Original EPS Guidance	**$11.50**	**Initial EPS Guidance "at least" $11.50**	
Revenue Upside	$0.18	Assuming $500M of $2B upside is Individual (ANTM initially assumed roughly breakeven profitability), remainder is FEP and group commercial at a blended MSD % pretax margin	Yes
Core G&A Favorability	$0.30	Unchanged GAAP SG&A guidance despite significant 1x charges implies meaningful core G&A upside, partially due to leverage on revenue growth. Charges include $254M Penn Treaty assessment, $115M cyber attack litigation settlement and $151M of transaction costs although we estimate ~1/2 flow through interest expense for bridge fees and refi costs.	Yes
Exchange Unfavorability	($0.40)	Initially expected results to be a slight profit / breakeven, now expects a slight loss, assuming net margins 130bps worse than imbedded in initial guidance on >$8B of premium	NA
Group Commercial Outperformance	$0.10	Group commercial results better than expected YTD. With Q2 results ANTM is now biased towards lower end of cost trend guidance of 6.5-7.0%. Every 10bps of MLR upside = $0.06.	Likely Yes
Other	$0.02	We expect core upside on underwriting margins offset by Medicaid	
Current EPS Guidance	**$11.70**	**EPS Guidance Increased to "at least" $11.70 with Q2 Results**	
Other	($0.00)	Lowered estimates by $0.09 for conservatism on the outcome of Iowa Medicaid rate update (effective 7/1, still to be determined)	
WR 2017 EPS Estimate	**$11.70**	**vs Consensus of $11.84**	

Source: Wolfe Research

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ANTM 2018 Earnings and Moving Parts

2018 Guidance Bridge	$ EPS	Revenue Y/Y	NOPAT Y/Y	Comment and Key Assumptions
2017 Original Guidance	**$11.50**			**"at least"**
Revenue Upside	$0.18			see 2017 guidance bridge
Core G&A Favorability	$0.30			see 2017 guidance bridge
Exchange Unfavorability	($0.40)			see 2017 guidance bridge
Group Commercial Outperformance	$0.10			see 2017 guidance bridge
2017 EPS Baseline	**$11.68**	**6%**	**7%**	
Core Commercial Risk	$0.19	6%	4%	Revenue increase includes repricing HIF which doesn't carry a margin
HIF Timing	($0.50)			Expects $0.30 benefit in 2017 ($0.10 / $0.20 in 1H / 2H), implies a $0.50 headwind in 2018
Exchanges	$0.62	(4%)	NM	~20% PMPM growth, ~20% membership decline, net margins going from negative 0.7% to 1.5%. Every 100bps to net margins = $0.29.
Commercial ASO	$0.11	4%	5%	3% PMPM growth, 1.5% membership growth, stable margins
Medicaid	$0.21			See below
Iowa	$0.32		NM	Estimating $130-$140M of underwriting losses in 2017, assumes ANTM receives LSD / MSD % rate update in 2H17. Assumes 2018 results are breakeven. Every 100bps to pretax margin = $0.03.
California Expansion	($0.12)	NM	NM	~7.5% Medicaid Expansion rate cut effective 7/1/17
California IHSS	($0.03)	NM	NM	CA moving some services back to FFS, assume proportional impact to $1B headwind flagged by CNC at 2% net margin
All Other	$0.04	4%	2%	LSD % membership and PMPM core growth, modest pressure on margins
Med Adv	$0.08	10%	10%	2% PMPM growth, 8% membership growth, stable margins
Annualization of 2017 Share Repo	$0.22			Guidance assumes $1.5-$2.0B, our estimates assume $1.9B
2018 Share Repo	$0.29			$2.1B of share repurchase, 90% of FCF less dividends
Other	($0.00)			
2018 WR EPS Est	**$12.90**	**3%**	**5%**	**vs. Consensus of $13.00**

Source: Wolfe Research

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ANTM 2018 Guidance Expectation and 2018 Estimates

2018 Guidance Expectation	
$12.90	Wolfe Research EPS Estimate
> $12.75	WR expectation for company guidance, ANTM provides "greater than" EPS guidance

2018 Estimates	2017 Midpoint	2018 WR Est	Implied Growth	2018 Consensus	Implied Growth	WR vs Cons
Revenue	$89,000	$92,415	3.8%	$93,326	4.9%	(1.0%)
Net Income	$3,089	$3,323	7.6%	$3,326	7.7%	(0.1%)
EPS	$11.70	$12.90	10.3%	$13.00	11.1%	(0.8%)

Source: Wolfe Research

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ANTM Key Points to Consider

Subject	Comment
Commercial HIF	• Expects $0.30 benefit in 2017 ($0.10 / $0.20 in 1H / 2H), implies a $0.50 headwind in 2018.
Individual Market	• ANTM is losing $ in the ACA-Compliant Individual market, slight losses vs. breakeven / slightly profitable assumed in initial guidance. • We model enrollment down 20% in 2018, -30% from market exits offset by 10% core growth. • ANTM already disclosed exiting 10% of its current footprint. Since that time exits in CA, VA, NV and GA (not exiting statewide) likely increased exits to 30% of current footprint. • We assume net margins improve from -0.7% to 1.5%. Every 100bps to net margins = $0.29. • **Individual improvement is the key swing factor to our 2018 #s** as it effectively offsets the HIF headwind we anticipate.
Iowa Medicaid	• Assuming $0.32 tailwind from Iowa results reaching breakeven, which is dependent on receiving actuarially sound rates from the state. Every 100bps to pretax margins = $0.03. • We estimate that a MSD / HSD % rate update is needed to get to breakeven here. Our 2H17 estimates assume ANTM gets a rate update approximately half of this magnitude. • If ANTM receives actuarially sound rates for 2H17, we would estimate $0.09 of upside to our 2017 estimates.
Capital Deployment	• Our estimates include $2.1B of share repurchase, 90% of ANTM's FCF less dividends payments. • ANTM expects to end 2017 with ~$2B of parent cash which could drive upside to our capital deployment assumptions. Used for share repurchase this would be ~4% accretive to our estimates on annual basis. • We think ANTM may be prioritizing strategic M&A over share repurchase with these $.

Source: Wolfe Research

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CNC 2017 Guidance Changes

2017 Guidance EPS Bridge	$ EPS	Comment	Sustainable in 2018?
Original EPS Guidance	**$4.63**	**Initial guidance $4.40-$4.85**	
Revenue Guidance Increased	$0.04	Guidance increased by $400M with Q2, drivers not disclosed, assuming total company margin	Yes
2R True Up	$0.17	Disclosed with Q2 results	No
Exchange Conservatism Released	$0.20	Initial guidance included $0.20 of conservatism	Yes
Increased Business Expansion Costs	($0.17)	Guidance now includes $0.42-$0.47 (previously $0.25-$0.30), we assume $0.05 1x due to change to exchange open enrollment calendar	Partial
Other SG&A Increase (ex Business Expansion)	($0.20)	Higher incentive comp and other expenses implied by SG&A guidance change	No
Share Count Guidance	$0.02	Guidance decreased by less than 0.5%	Yes
Core Upside in Guidance	$0.20	Implied upside in core business, drivers unclear given revised MLR / G&A guidance metrics provided by company seem to reflect lower expected margins (see below)	?
Current EPS Guidance	**$4.88**	**EPS Guidance Increased to $4.70 to $5.06 with Q2**	
Other	($0.01)		
2017 WR EPS Est	**$4.87**	**vs. Consensus of $4.95**	

CNC 2017 Guidance	Initial	Current	Change
Total Revenue	$46,400	$46,800	$400
Adjusted EPS	$4.63	$4.88	$0.26
MLR	**87.25%**	**87.20%**	**(0.05%)**
Adjusted SG&A %	**9.25%**	**9.50%**	**0.25%**
Effective Tax Rate	40.0%	40.0%	0.0%
Diluted Shares Outstanding	177.4	176.8	(0.6)
Implied Adjusted Net Income	$820	$863	$42
Implied Adjusted Net Margin	**1.77%**	**1.84%**	**0.08%**

Net Margin Analysis	
Net Margin, Initial Guidance	**1.77%**
Change Implied by SG&A Revision	(0.16%)
Change Implied by MLR Revision	0.03%
Implied Net Margin	**1.64%**
Net Margin, Current Guidance	**1.84%**
Delta	**0.21%**

Source: Wolfe Research

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CNC 2018 Earnings and Moving Parts

2018 Guidance EPS Bridge	$ EPS	Revenue Y/Y	NOPAT Y/Y	Comment and Key Assumptions
2017 Original Guidance	**$4.63**			
Increased Revenue Guidance	$0.04			Guidance increased by $400M with Q2
Exchange Upside	$0.23			Assumes 2.5% net margins sustainable
Higher Business Expansion Costs	($0.12)			Assumes $0.05 of $0.17 increase 1x due to change in exchange open enrollment calendar
Share Count	$0.02			Guidance decreased by less than 0.5%
2017 EPS Baseline	**$4.79**			
Commercial HIF Timing	($0.11)	NA	NA	Mid-year renewals should be headwind in 2018
Group Commercial ex HIF Timing	$0.05	3%	NA	Top line uncertain but targeting improved profitability post PDR / underperformance. Every 100bps pretax = $0.11.
2018 Exchange Growth	$0.28	30%	30%	~$2.0B of revenue growth (~45%) at ~2.5% net margin, assumes ~10% PMPM / ~33% membership.
2018 Medicaid Starts	($0.04)	NA	NA	IL and WA more than offset by start-up losses on PA LTSS/duals contract and a new plan added to MS. Assumes PA HealthChoices delayed until 2019.
Ramp-Up / Annualization of 2017 Medicaid Starts	$0.08	57%	NA	MO Statewide Expansion and NV both started mid-year 2017.
Incremental Health Net Synergies	$0.19	NA	NA	1 quarter of incremental "Year 2" annual synergies of $75M plus 3 quarters of "Year 3" annual synergies of $50M = $56M of calendar year 2018 synergies.
Med Adv Margin Improvement	$0.10	NA	NA	Profitability still improving post Health Net PDR / underperformance. Every 100bps pretax = $0.10.
Med Adv Growth	$0.04	14%	14%	Assumes 12% membership growth (~3% in core HNT, ~30k from expansion markets, only saw 2-3k growth in 2017 in FL/GA/MS/TX), 2% PMPM growth
California Expansion Rate Cut	($0.33)	NA	NA	~7.5% Medicaid Expansion rate cut effective 7/1/17
California IHSS to FFS	($0.11)	NA	NA	CNC flagged ~$1B revenue headwind from services moving to FFS. Assumes 2% net margin.
Medicaid Margin Improvement	$0.15	NA	NA	Base TANF/CHIP and ABD/LTSS net margins improve by 10bps
Core TANF/CHIP & ABD/LTSS Growth	$0.09	3%	3%	3% core growth on base TANF/CHIP and ABD/LTSS business
2018 WR EPS Est	**$5.17**	**6%**	**7%**	**vs. Consensus of $5.41**

Source: Wolfe Research

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CNC Guidance Expectation and 2018 Estimates

2018 Guidance Expectation	
$5.17	Wolfe Research EPS Estimate
$4.90-$5.30	WR expectation for company guidance

2018 Estimates	2017 Midpoint	2018 WR Est	Implied Growth	2018 Consensus	Implied Growth	WR vs Cons
Revenue	$46,800	$51,189	9.4%	$51,750	10.6%	(1.1%)
Net Income	$863	$924	7.2%	$965	11.8%	(4.2%)
EPS	$4.88	$5.17	6.0%	$5.41	10.9%	(4.4%)

Source: Wolfe Research

WOLFE RESEARCH
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CNC Key Points to Consider

Subject	Comment
Commercial HIF	• We estimate an $0.11 headwind in 2018 but CNC has provided no guidance on 2017 benefits or 2018 headwinds.
Individual Market	• Our estimates assume flat core net income margins at 2.5% ex the 2R true-up benefit seen in 2017, should that benefit recur it would be upside to our #s. • We model ~$2.0B of revenue growth (~45% y/y) at a 2.5% net margin, assumes ~10% pricing and ~33% membership growth (+400k). • In 2017 exchange enrollment increased 74% y/y (+506k) to 1,188,700 as of Q1 • CNC's new markets for 2018 seem to be largely filling "bare" counties, for example MO/NV counties at risk of having no exchange plan only had ~25k exchange lives per media reports • Every 100bps to net margins = $0.35.
Medicaid	• Our estimates reflect a $0.33 headwind from California Medicaid Expansion rate cut on 7/1/17 • PA LTSS/Duals contract expected to add ~$950M of premium in 2018 based on current implementation schedule and assuming even market-share between the 3 statewide plans. We assume -2% net margins in the first year ($0.11 EPS drag). • IL contract could add $1B of premium in 2018. We assume 1.5% net margins given most revenue growth likely to come from plan consolidation vs. program expansion ($0.08 EPS). • MO statewide expansion started 5/1/17. We estimate $175M of additional premium and margin improvement from initial losses (-2.0%) to a modest profit (+1.0%, adds $0.07 EPS) .
Margin Improvement	• Company targeting improved profitability at legacy Health Net businesses post PDR / underperformance • Group Commercial: every 100bps of pretax margin improvement = $0.11. • Med Adv: every 100bps of pretax margin improvement = $0.10. • Our estimates also assume a $0.15 benefit from margin improvement in the base TANF/CHIP and ABD/LTSS business (10bps to net margins) but we note this could ultimately be larger or smaller

Source: Wolfe Research

CI 2017 Guidance Changes

2017 Guidance	Original	Current	Change	EPS Bridge	Comment	Sustainable in 2018?
Original EPS Guidance				**$9.25**	**Original guidance excludes PYD, 2R, Capital Deployment.**	
Global Health Care	$2,075	$2,120	$45	$0.18	Breakout below.	
YTD PYD	NA	$97	$97	$0.38	Split 60/40 Commercial Government.	No
2R True-Up	NA	$4	$4	$0.02	Favorable 2R true-up.	No
Revenue Increase	NA	$21	$21	$0.08	Revenue guide up 100 bps related to stronger commercial membership growth.	Yes
Core Global Health Care	$2,075	$1,998	($77)	($0.30)	Mgmt noted caution in the Individual Market and accelerated investments.	No
Global Supplemental Benefits	$305	$320	$15	$0.06	$15M upside in 2017 from favorable claims experience in South Korea likely to normalize in '18.	No
Group Disability and Life	$215	$270	$55	$0.21	Faster than expected disability improvement. See below.	Yes
Corporate and Other	-$180	-$170	$10	$0.04	Favorability in taxes.	No
YTD Share Repo and Other				$0.16	Includes $1.25B of YTD share repurchase.	Yes
Current EPS Guidance				**$9.90**	**Midpoint of current EPS range of $9.75-$10.05.**	
Group Disability and Life Upside				$0.12	WR estimates assume CI guidance proves conservative.	Yes
ROY Share Repo and Other				$0.03	$750M of remaining share repurchase.	Yes
WR 2017 EPS Estimate				**$10.04**	**vs Consensus of $10.02**	

2H17 Implied Earnings Growth	1H16	2H16	2016	1H17	2H17 Implied	2017 Guidance	1H17 Y/Y	2H17 Y/Y	FY17 Y/Y
Global Healthcare	$1,030	$822	$1,852	$1,201	$919	$2,120	16.6%	11.8%	14.5%
Global Supplemental	$150	$144	$294	$179	$141	$320	19.3%	(2.1%)	8.8%
Group D&L	$3	$122	$125	$151	$119	$270	N/M	(2.4%)	116.1%
Corp	($67)	($100)	($167)	($62)	($108)	($170)	(7.5%)	8.0%	1.8%
Total	**$1,116**	**$988**	**$2,104**	**$1,469**	**$1,071**	**$2,540**	**31.6%**	**8.4%**	**20.7%**

WOLFE RESEARCH

Source: Wolfe Research

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CI 2018 Earnings and Moving Parts

Earnings By Segment	2017 Baseline	2018 WR Est	Y/Y	Comment
Global Health Care[1]	$2,096	$2,253	8%	Baseline = Original Guidance + ~$20M in Revenue Upside
Global Supplemental Benefits	$305	$345	13%	Baseline = Original 2017 Guidance, $15M Upside Not Sustainable
Group Disability and Life	$280	$370	32%	Baseline = High-End of 2017 Segment Guidance (Likely Conservative)
Corporate and Other	-$180	-$180	0%	Baseline = Original Guidance, $10M in Upside Not Sustainable
Consolidated Earnings[1]	$2,501	$2,789	12%	Above 7-9% LT earnings target driven by improvement in GDL.

2018 Earnings Bridge	EPS Bridge	Rev Y/Y	NOPAT Y/Y	Comment
2017 Original Guidance	**$9.25**			**Excludes PYD / 2R / Share Repurchase**
Revenue Increase	$0.08			1% guidance increase equates to ~$400M revenue resulting in ~$20M earnings impact. Driven by commercial membership upside.
Group Disability and Life	$0.33			Guidance increase plus upside from likely conservatism.
Share Repo and Other	$0.19			Estimate based on co intention to repurchase $2b shares in 2017.
2017 EPS Baseline	**$9.85**			**Original Guidance + Recurring Items**
Commercial Risk	$0.15	7%	3%	Revenue includes repricing HIF which doesn't carry a margin.
Com HIF Timing	($0.13)	NA	NA	Mid-year renewals create "modest" headwind to earnings in 2018, we est $0.13.
Comercial ASO and Specialty	$0.44	8%	8%	We model 7% revenue growth, towards the lower end of HSD% target.
Individual Market	$0.06	27%	NM	10% membership / 15% PMPM growth. Assumes net margins improve from -2% in 2017 to -1% in 2018.
Med Adv	$0.06	5%	15%	3% member growth in Open Enrollment plus 30 bps of core margin improvement. We model more conservative growth in year 1 post sanctions vs long-term revenue target of HSD%, noting that CI will not expand geographically in 2018.
Global Health Care	$0.58	7%	8%	Core HC earnings growing ~8%.
Global Supp	$0.09	13%	13%	Moderating margins from normalizing claims in South Korea. We model lower end of long-term mid-teen % revenue target.
Group D&L	$0.27	5%	32%	Assumes ~100bps of net margin improvement from ~6.5% in 2017 to ~7.5% in 2018, in-line with historical performance. Revenue increase of 5% is in-line with MSD% long-term revenue target.
2017 Share Repurchase	$0.17	NA	NA	2018 benefit from annualization of 2017 share repurchase.
2018 Guidance Expectation	**$10.97**			**Expect EPS Guidance Range of $10.65-$11.15. ~14% growth off baseline.**
2018 Share Repurchase	$0.24	NA	NA	Assumes ~$2B of share repurchase. Future share repo excluded from guidance.
PYD	$0.25			Assumes $64M of PYD, normalized level from 2012-2015. Included for consistency and comparability with other companies in the space.
2018 WR EPS	**$11.46**			**vs Consensus of $11.32.**

Source: Wolfe Research

[1] Excludes $64M of PYD in 2018 WR Est for comparability to baseline.

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CI 2018 Estimate and Guidance Summary

2018 Guidance Expectation	
$11.46	Wolfe Research EPS Estimate (excludes PYD)
($0.49)	Less 2018 Share Repurchase Est and PYD
$10.75-$11.25	WR expectation for company EPS guidance.

2018 Estimates	2017 Midpoint	2018 WR Est	Implied Growth	2018 Consensus	Implied Growth	WR vs Cons
Revenue	$41,056	$43,973	7.1%	$44,146	7.5%	(0.4%)
Net Income	$2,540	$2,836	11.6%	$2,782	9.5%	1.9%
EPS	$9.90	$11.46	15.7%	$11.32	14.3%	1.2%

Source: Wolfe Research

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CI Key Points to Consider

Subject	Comment
2017 Guidance	• 2017 guidance is potentially conservative. LSD negative growth implied for 2H17 in Group and GDL segments, while mgmt is also taking a cautious approach on the Individual Market. • Additionally, the pace of strategic investments should accelerate for 2H17.
PYD	• From 2012-2015, CI averaged ~$64M of after-tax PYD, or ~$0.25 of EPS. After below-average PYD in 2016 ($7M) and above-average PYD in 2017 (YTD $97M), we estimate a normalized level ($64M) in 2018 but note that with CI's guidance excludes PYD.
Commercial HIF	• Timing of commercial renewals should serve as a "modest" headwind in 2018, we estimate $0.13.
Individual Market	• CI is still losing $ in the Individual Market, and underperforming vs peers. • We currently estimate ~1% net loss in Individual for 2018 but note that every 100bps of net margin improvement is worth ~$0.08 to EPS.
Capital Deployment	• Co expects to have ~$3B of cash on the balance sheet to exit the year after accounting for at least $2B of share repurchase in 2017, and pending ~$1B ANTM settlement on the break fee. • Additional share repurchase of $2B would represent an annualized benefit of $0.60 or 5% accretion. • If CI were to acquire HUM for $280-$300 per share we estimate mid-to-high single digit % accretion to 2019 EPS.

Source: Wolfe Research

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HUM 2017 Guidance Changes

2017 Guidance Bridge	EPS Bridge	Comment	Sustainable in 2018?
Original EPS Guidance	**$10.90**	**Original EPS range of $10.80-$11.00.**	
Retail - PPD	$0.20	Q1 increase largely attributable to PPD in Individual MA.	No
Retail - Core	$1.16	Q2 increase, core Individual MA outperformance; with a guidance range of 4.5%-5.0% vs our est of 4.5%	Partial
Group and Specialty	$0.09	Driven by favorable PYD and cost trend.	Yes
Healthcare Services	($0.60)	Lower pharamacy volumes and provider rate pressure and higher, nonrecurring SG&A	Partial
Other	($0.25)	Higher compensation costs, open enrollment investment.	No
Current EPS Guidance	**$11.50**		
Other	$0.05	We expect upside to Med Adv margin performance, but note that HUM may reinvest in open enrollment spending.	
WR 2017 EPS Estimate	**$11.55**	**vs Consensus of $11.53**	

Source: Wolfe Research

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HUM 2018 Earnings and Moving Parts

	EPS Bridge	Revenue Y/Y	NOPAT Y/Y	Comment
2017 Original Guidance	**$10.90**			**Guided range of $10.80-$11.00.**
Weaker HC Services Outlook	($0.40)			Driven by lower than expected vols and rate pressure, assumes $0.20 of $0.60 headwind is non-recurring SG&A
Group & Specialty	$0.09			Assumes the entire amount is sustainable
Plug to Get to Management Commentary	$0.41			Company commentary indicates they are comfortable with growth in 2018 off of $11 EPS baseline in 2017 – we are uncertain of which segments of the business are offsetting lower HC Services Outlook – look for more from mgmt. on 3Q call
2017 Baseline	**$11.00**			**Per HUM Management on Q2 Call**
Individual Med Adv Rev Growth	$0.46	8.6%	8.6%	We expect HUM grows membership 6.5%, ~ in-line with industry growth. HUM expects "meaningful" Individual Med Adv growth in 2018 per 2Q17 call.
Group Med Adv	$0.03	7.1%	7.0%	Similar top line growth in Group Med Adv, stable margins
Medicaid	$0.04	NA	NA	Exiting IL contract, appears unprofitable based on stat filing analysis (~$160M of premiums at 95% MLR in 2016, expected to transition 1/1/18)
ASO / TRICARE	$0.08	NA	NA	New TRICARE contract begins. Assumes new contract margins are lower than the existing contract.
PDP	$0.02	4.0%	3.9%	MSD % revenue growth, stable margins
HC Services	$0.22	5.0%	5.0%	Assumes return to growth with 4-5% core growth in operating earnings (ex the 1x G&A above). Assumes PBM normalization after a tough 2017 offsets pressure from provider rate cuts / continued optimization of HUM at Home.
Core Group Commercial	($0.00)	2.8%	0.0%	Revenue includes repricing HIF which doesn't carry a margin.
Commercial HIF Timing	($0.18)			Mid-year renewals create headwind to earnings in 2018, we estimate $0.18
Med Supp and Specialty	$0.02			Consistent growth and stable margins
Annualization of 2017 Share Repurchase	$0.15			
2018 Share Repurchase	$0.16			~$950M of share repurchase, 90% of FCF less dividends
2018 Guidance Expectation	**$12.00**			**Implies ~9% y/y core EPS growth**
Other	$0.07			WR 2017 estimate $0.05 above guidance, we expect upside to Med Adv margin performance but note that HUM may reinvest in open enrollment spending.
2018 Wolfe EPS Est	**$12.07**			**vs Consensus of $12.24**

Source: Wolfe Research

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HUM Guidance Expectation and 2018 Estimates

2018 Guidance Expectation	
$12.07	Wolfe Research EPS Estimate
$11.80-$12.20	WR expectation for company guidance

2018 Estimates	2017 Midpoint	2018 WR Est	Implied Growth	2018 Consensus	Implied Growth	WR vs Cons
Revenue	$54,000	$57,226	6.0%	$56,476	4.6%	1.3%
EPS	$11.50	$12.07	4.9%	$12.24	6.5%	(1.5%)

Source: Wolfe Research

HUM Key Points to Consider

Subject	Comment
2017 Earnings Baseline	• Company commentary indicates they are comfortable with growth in 2018 off of $11 EPS baseline in 2017, requiring $0.41 of sustainable EPS improvement to offset lower HC Services outlook. • We are uncertain of which segments of the business are contributing the upside- worst case is higher Med Adv margins which would eat into upside vs. 4.5-5.0% LT target. Look for more from mgmt. on 3Q call.
Individual MA Margins	• 2017 margins are "well above" target, we estimate ~5.5% vs. target range of 4.5-5.0% and the "slightly below" 4.5% assumed in initial guidance. We margins normalize to 4.5% (low end of range). • We note that every 10bps of margin improvement swings EPS by ~$0.16, so we estimate $0.40 of upside at 4.75% margins (midpoint) and $0.80 upside at 5.0% margin (high end).
Individual MA Growth	• We assume membership growth of 6.5%, roughly in-line with the industry, but note this could be pressured from peers aggressively looking to grow Med Adv membership. • HUM expects "meaningful" enrollment growth in 2018 but unlike most other companies has not discussed growth expectations vs. industry (above/at/below industry growth). • Every 1% to Med Adv membership growth = ~$0.05 to EPS.
HC Services Baseline	• For 2018, management expects to return to growth while acknowledging continued drag from 2018 Medicare rates to provider business and further At Home optimization. • For now we model 4-5% core growth operating earnings here in 2018 • In addition, our estimates assume the ~$0.20 of 1x SG&A previously discussed reverses.
Capital Deployment	• Has $750M of additional share repurchase capacity in 2017, could increase EPS by 2.0-2.5% on an annualized basis. • Additionally, HUM can raise its debt-to-capital ratio from current levels of ~31% to 35% ($900M of incremental debt) without jeopardizing its investment grade rating.
Commercial HIF	• Timing of commercial renewals should be a headwind to earnings in 2018, we estimate $0.18.

Source: Wolfe Research

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UNH 2017 Guidance Changes

2017 Guidance	EPS Bridge	Comment	Sustainable in 2018?
Original EPS Guidance	**$9.45**	**Initial EPS Guidance $9.30 - $9.60**	
Revenue Upside	$0.05	Increased revenue guidance by $2B, SCAI likely $1.0-$1.2B of increase but EPS neutral in 2017, assuming remainder at total company margin	Yes
Tax Benefits	$0.19	Tax rate guidance was lowered with Q1 results and implied a $0.25 benefit, however mgmt noted that 1/4 of the reduction came from including SCAI in guidance post-close. SCAI is neutral to EPS in 2016, with a drag on operating income offset by a lower tax rate.	Partial
Operating Margin Upside	$0.14	MLR to be at or below midpoint of 82.5%, every 10bps = 10c SG&A to be at or above midpoint of 14.5%, every 10bps = 14c	Yes
Current EPS Guidance	**$9.83**	**EPS Guidance Increased to $9.75 to $9.90 with Q2 Results**	
Other	$0.01	WR estimate slightly above guidance midpoint	Yes
WR 2017 EPS Estimate	**$9.84**	**vs Consensus of $9.84**	

Source: Wolfe Research

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UNH 2018 Earnings and Moving Parts

2018 Earnings Bridge	EPS Bridge	Rev Y/Y	NOPAT Y/Y	Comment
2017 Original Guidance	**$9.45**			**Initial Guidance $9.30 - $9.60**
Revenue Increase	$0.05			Increased guidance by $2B, SCAI likely $1.0-$1.2B based on timing of close ($1.28B of net rev in 2016), assuming other ~$1B at initial guide net margin (4.4%)
Sustainable Tax Benefits	$0.06			Management guidance
Operating Margin Upside	$0.14			MLR and SG&A outperformance
2017 Baseline	**$9.70**			
Core Commercial Risk	$0.11	6%	3%	Revenue increase includes repricing HIF which doesn't carry a margin
Commercial ASO	$0.06	5%	5%	LSD % membership and PMPM growth, stable margins
TRICARE	($0.04)			Loss of TRICARE contract estimated to be $0.03-$0.05 headwind
Med Adv	$0.16	13%	13%	10% membership growth and 2% PMPM growth. Margins ex HIF improving slightly following ~22% enrollment growth in 2017.
PDP / Med Supp	$0.05	NA	NA	Consistent revenue growth and stable margins
Medicaid	$0.07			See below
Iowa	$0.05	NA	NA	Estimating $80M of underwriting losses in 2017, assumes UNH receives LSD / MSD % rate update in 2H17. Assumes 2018 results are breakeven. Every 100bps to pretax margin = $0.01.
All Other States	$0.02	4%	2%	LSD % membership and PMPM core growth, modest pressure on margins
OptumHealth	$0.35	17%	26%	Margin improvement driven by 1) SCAI becoming "modestly accretive in 2018" and 2) leveraging of investment spend
OptumInsight	$0.15	13%	13%	Consistent with LT guidance of 10-15% revenue growth
OptumRx	$0.17	8%	8%	High end of LT guidance of 5-8% revenue growth, UNH is taking some share
HIF Resumption	($0.33)			Both Commercial timing and Med Adv, 2018 headwind larger than $0.25 EPS tailwind in 2017 per mgmt
Other	$0.05			
Share Repo	$0.06			Assumes repurchasing ~$4.4B of stock, 90% of FCF after dividends
2018 Guidance Expectation	**$10.57**			**Implies 9% growth off of 2017 baseline**
Other	$0.01			WR 2017 EPS slightly above midpoint of current guidance
2018 Wolfe EPS Estimate	**$10.58**			**vs. Consensus of $10.83**

Source: Wolfe Research

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UNH Guidance Expectation and 2018 Estimates

2018 Guidance Expectation	
$10.58	Wolfe Research EPS Estimate
$10.50-$10.80	WR expectation for company guidance

2018 Estimates	2017 Midpoint	2018 WR Est	Implied Growth	2018 Consensus	Implied Growth	WR vs Cons
Revenue	$200,000	$216,701	8.4%	$218,491	9.2%	(0.8%)
Net Income	$9,511	$10,311	8.4%	$10,576	11.2%	(2.5%)
EPS	$9.83	$10.58	7.6%	$10.83	10.2%	(2.4%)

Source: Wolfe Research

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UNH Key Points to Consider

Subject	Comment
HIF Resumption	• We estimate a $0.33 headwind from HIF resumption across Commercial and Med Adv. The 2018 EPS headwind will be larger than $0.25 EPS tailwind in 2017 according to management.
Med Adv	• Like most other MCOs, UNH has said they are generally keeping benefits stable in 2018, which absent other offsets (SG&A, trend benders) could negatively impact margins. Every 10bps of pretax margin = $0.03.
Other Margin Improvement	• UNH revenue has increased by $70B since 2014, potentially leaving UNH ability to more aggressively target SG&A leverage or pare back investment spend to offset HIF headwind.
Management Change	• Dave Wichmann moved into CEO role on 9/1/2017. Former CEO Stephen Hemsley transitioned to role of Executive Chairman. • Reasonable to think company would not want to start new CEO off with disappointing EPS guidance. • Per Q2 call "fundamentals of our businesses remain strong and we feel positively about our ability to perform and grow in 2018", "tailwinds are largely organic and company specific" and "headwinds are largely around externalities, national and state healthcare policies, funding trends, and taxes".

Source: Wolfe Research

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WCG 2017 Guidance Changes

2017 Guidance	EPS Bridge	Comment	Sustainable in 2018?
Original EPS Guidance	**$6.13**	**Original EPS range of $6.00-$6.25. Excludes UAM and PHP acquisitions.**	
UAM Acquisition	$0.21	Closed 5/1/2017. $0.60-$0.70 EPS accretion expected FTM post-close. We estimate UAM's earnings to be seasonally weighted towards the first half of the year and estimate ~1/3 of the Y1 benefit to be realized in 2017.	Yes
Phoenix Health Plan Acquisition	$0.03	Closed 5/1/2017. WR estimates ~$85M in revenue at 1.5% margin.	Yes
Medicaid MLR	$0.22	Guidance decrease of 15 bps in Medicaid MLR.	Yes
SG&A Increase	($0.12)	5bps increase in SG&A for increased spending in 2H.	No
Net Inv Income	$0.18	Tailwind from higher investment balance, rates.	Yes
PDP Revenue Increase	$0.01	$13M revenue increase. Assumes 3% net margin.	Yes
Tax Rate	$0.08	Favorability in taxes.	No
Core Business Upside	$0.12	Implied upside in core business.	Yes
Current EPS Guidance	**$6.85**	**Current EPS range of $6.75-$6.95.**	
Med Adv / PDP Upside	$0.16	We model ~25bps below the midpoint of MLR guidance for both Med Adv and PDP.	No
WR 2017 EPS Estimate	**$7.01**	**vs Consensus of $7.01**	

Source: Wolfe Research

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WCG 2018 Earnings and Moving Parts

2018 Earnings Bridge	EPS Bridge	Revenue Y/Y	NOPAT Y/Y	Comment and Key Assumptions
2017 Original Guidance	**$6.13**			
UAM Acquisition	$0.21			See 2017 bridge.
Phoenix Health Plan Acquisition	$0.03			See 2017 bridge.
Medicaid Margin Improvement	$0.22			See 2017 bridge.
Net Inv Income	$0.18			See 2017 bridge.
PDP Revenue Increase	$0.01			See 2017 bridge.
Core Business Upside	$0.12			See 2017 bridge.
2017 EPS Baseline	**$6.88**			
PDP	($0.19)	5%	(26%)	Assumes normalizing margins to 3%.
Medicaid	$0.38	16%	9%	Assumes ~1.7% Medicaid margins. Our #s include $1B new revenue from recent IL contract but modest 0.5% net margin (~$0.11 EPS contribution) for 2018. Additionally, AZ / MO will annualize in 2018 offset by shrinking membership in GA.
Medicare Advantage	$0.44	24%	35%	7% membership / 1% pricing. Growth #s include UAM. Earnings growing faster due to improving consolidated Medicare margins (from 1.9% to 2.1%) and seasonal impact of UAM (more below).
UAM	$0.47	NA	NA	$0.65 of accretion Y1 post deal close. $0.75 Y2. We estimate UAM's earnings to be seasonally weighted towards the first half of the year and estimate ~1/3 of the $0.65 Y1 benefit to be realized in 2017 and ~2/3 to be realized in 2018.
Investment Income and Other	$0.02	NA	NA	Investment income should be a tailwind for next few years.
2018 WR EPS Estimate	**$8.00**			**vs Consensus of $8.02. WR EPS ~16% growth off baseline**
2018 Guidance Expectation	**$8.00**			**Expect EPS guidance range of $7.75-$8.00**

Source: Wolfe Research

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WCG 2018 Guidance Expectation and 2018 Estimates

2018 Guidance Expectation	
$8.00	Wolfe Research EPS Estimate
$7.75-$8.00	WR expectation for company EPS guidance.

2018 Estimates	2017 Midpoint	2018 WR Est	Implied Growth	2018 Consensus	Implied Growth	WR vs Cons
Revenue	$16,693	$19,639	17.7%	$18,956	13.6%	3.6%
EPS	$6.85	$8.00	16.8%	$8.02	17.1%	(0.2%)

Source: Wolfe Research

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WCG Key Points to Consider

Subject	Comment
Target Margins	Management has consistently talked to a 2.0% consolidated target margin. Given the large new IL contract likely to pressure margins in 2018 coupled with moderating margins in PDP, and potential for moderating PYD, we believe the company is likely a year or two away from piercing 2.0%, but note that additional upside in Med Adv earnings (more below) could accelerate the path to target margins.
Individual Med Adv	WCG should continue to grow earnings here from both legacy Med Adv business and UAM. We estimate 7% growth / 1% price for 2018 with margins improving from 1.9% in 2017 to 2.1% in 2018.
Universal American Corp (UAM)	UAM is expected to add $0.65 in Y1 post-close and $0.75 Y2 post-close with annual synergies of ~$25-30M by 2019. As an area of additional optionality, ~70% of UAM's membership is enrolled in 4-Star or higher plans, which paves the way for WCG to potentially map membership from lower-star plans into UAM's higher star-rated plans in 2019.
Potential for Moderating PYD	Net development added ~$2.15 and ~$2.50 to EPS in 2016 / 2017 YTD and gross development in 2017 is running double the implied margin for adverse deviation – could be a material headwind.

Source: Wolfe Research

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CONCLUSION

Visibility on Consensus 2018 EPS

	2018 Consensus Est	2018 WR Est	2018 WR Guidance Est	Visibility on Consensus EPS (1 lowest, 5 highest)	Comments	Key Swing Factors
AET	$10.17	$10.08	$9.60	4	We are conservatively assuming AET retains none of the 2017 MLR upside (repriced/reinvested in SG&A)	Investment spend / Sustainability of 2017 MLR upside / G&A deleveraging
ANTM	$13.00	$12.90	$12.75	3	HIF headwind is meaningful, leaving exchange margin improvement key to #s – some capital optionality	Earnings trajectory of individual business, improvement in Iowa Medicaid, HIF timing headwind
CI	$11.32	$11.46	$11.00	5	Only co. in our space with clear path to upside to #s + significant capital optionality	Potential conservatism of 2017 outlook, capital deployment
CNC	$5.41	$5.17	$5.10	1	Difficulty bridging to consensus without significant margin expansion / exchange growth	Individual business growth/margins, ramp of new Medicaid wins, CA expansion margins, targeted margin improvement
HUM	$12.24	$12.07	$12.00	3	Some lack of visibility on 2017 growth baseline is main concern / Med Adv growth outlook uncertain for 2018	Med Adv margins and enrollment growth, HC Services returning to growth, moving parts to 2017 $11 EPS baseline
UNH	$10.83	$10.58	$10.65	2	While we think UNH may ultimately get to 2018 consensus EPS the path is unclear at this point	Optum growth, HIF timing headwind, potential to offset HIF timing w/SG&A leverage and capital deployment
WCG	$8.02	$8.00	$7.88	3	Solid 2018 core growth drivers but significant 2017 PYD leaves some uncertainty around baseline EPS	UAM Integration / PYD sustainability / move toward piercing 2.0% NI margins

Source: Wolfe Research

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QUESTIONS?

DISCLOSURE SECTION

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