

Managed Care

New York individual/small group increases as expected

Government Regulations

On NY's math, insurers earnings are doubling in 2024

A relatively misleading (in our view) press release from New York may have pressured managed care organization (MCO) stocks today. The state talked about lowering Affordable Care Act (ACA) insurer rate increase request by 40%-50% and limiting insurer margin 'provisions' to 1.0%. These headlines sound extreme, but individual rates are still up 12.4% (vs 22.1% proposal) and small group rates are up 7.4% (vs 15.3% request), and big reductions in proposed rates have been part of normal course operations since the ACA was implemented (eg 2024 reductions in individual requests are actually less than they were in 2023, and small group almost exactly the same). At the same time, last year the state limited insurer profit provisions to 0.5%, so technically insurance margins in New York could be 'doubling' on their math. Finally, individual rates are actually climbing faster in 2024 than 2023. Overall, we view the rates in NY as normal course, if not emblematic that rates should be solid/higher for 2024.

Provision likely understates earnings, small in context

The state may be limiting how much margin MCOs can include in their bid, but it would be surprising to hear that insurers are currently earning 0.5%-1.0% margins relative to the 3-5%+ that is typically talked about. Most likely, the bids also include significant conservatism on estimates for trend as well as other GAAP to non-GAAP adjustments, meaning insurers would expect to outperform the margin provisions in the bids.

CNC, MOH and UNH most exposed, but still small

Based on 2022 enrollment data, we estimate that CNC (1.1% of 2023E EPS) has the highest exposure to the state of New York's individual and small group markets. Meanwhile, MOH/UNH each have around 0.5% EPS exposure, with ELV at 0.3%, with the rest at nearly 0. Overall, it is difficult to come up with meaningful negative EPS impact scenarios from this announcement.

31 August 2023

Equity
United States
Managed Care

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Timestamp: 31 August 2023 03:42PM EDT

Exhibit 1: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CNC	CNC US	Centene Corporation	US\$ 61.85	B-3-9
ELV	ELV US	Elevance Health Inc	US\$ 443.38	B-1-7
MOH	MOH US	Molina	US\$ 311.02	B-2-9
UNH	UNH US	UnitedHealth Grp	US\$ 476.34	B-1-7

Source: BofA Global Research

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Price objective basis & risk

Centene Corporation (CNC)

Our \$79 price objective is based on an 12x multiple on our 2024E EPS estimate. This is below CNC's 2YR forward P/E multiple average of 12.6x as CNC should see slower growth in the near to medium term vs historical levels, as well as higher risk to 2023 numbers due to significant swings in industry enrollment lowering pricing visibility, and uncertainty around RFP awards.

Upside risks to our price objective are better-than-expected enrollment growth, lower-than-expected medical costs and better than expected margin improvement.

Downside risks to our PO are lower-than-expected enrollment growth, higher-than-expected medical costs, Medicaid rate pressure, and the potential for unexpected RFP losses.

Elevance Health Inc (ELV)

Our \$620 PO is based on 16.9x our 2024E EPS, above the 5YR average of 14.3x, reflecting more diversified business mix, multiple levers to grow (commercial margins, growing services business) and favorable backdrop broadly for MCOs.

Risks to the downside are a quicker than expected rebound in utilization, a more competitive pricing environment, Medicaid redetermination impact on revenue/MLR and government rate pressure.

Risks to the upside are better-than-expected enrollment growth, upside from capital deployment, lower than expected utilization and faster than expected growth in the services businesses.

Molina Healthcare, Inc. (MOH)

Our \$350 PO is based on 15x 2024E EPS, or just below its 5-year average FWD P/E. We see this as justified given there are a number of pending deals/contracts which could drive upside to numbers but we have a cautious view as there is a risk to 2023 MLR as the industry will face significant swings in enrollment and create a more difficult pricing environment. At near peak margins, MOH has few offsets, meanwhile M&A backdrop is more difficult (valuations, underwriting margin improvement) if industry is facing wide scale disruption.

Upside risks to our price objective are faster-than-expected profit margin expansion on either rate increases or lower cost trends, and a takeout that comes at a substantial premium.

Downside risks to our price objective are a slower pace of medical management savings,

incremental investment spending to manage growth, rate cuts and higher than expected utilization.

UnitedHealth Group (UNH)

Our \$650 price objective (PO) is based on a 2024E EPS multiple of 23.1x, a premium to UNH's five year historical average of 19.6x. This is justified, in our opinion, by the growing share of earnings coming from Optum as well as the significant growth potential of Optum, UNH's Health Care Services platform, which has higher margins and unregulated cash flow. Our PO is also supported by our sum-of-the-parts (SOTP) valuation.

Downside risks to our PO are that healthcare utilization rebounds faster than expected, that growth targets for Optum are not achieved, or that political/regulatory risk intensifies.

Analyst Certification

I, Kevin Fischbeck, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

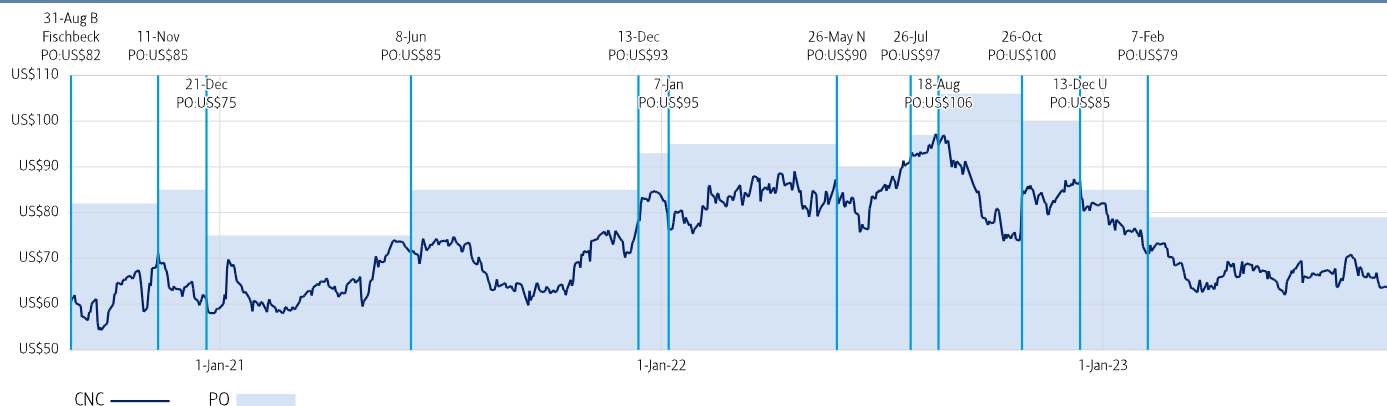
US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Alignment Healthcare	ALHC	ALHC US	Kevin Fischbeck, CFA
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Privia Health	PRVA	PRVA US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
NEUTRAL				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agility Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Community Health Systems	CYH	CYH US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Oscar Health	OSCR	OSCR US	Kevin Fischbeck, CFA
UNDERPERFORM				
	Brookdale	BKD	BKD US	Joanna Gajuk
	Cano Health	CANO	CANO US	Adam Ron
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Clover Health	CLOV	CLOV US	Kevin Fischbeck, CFA
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatrix Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

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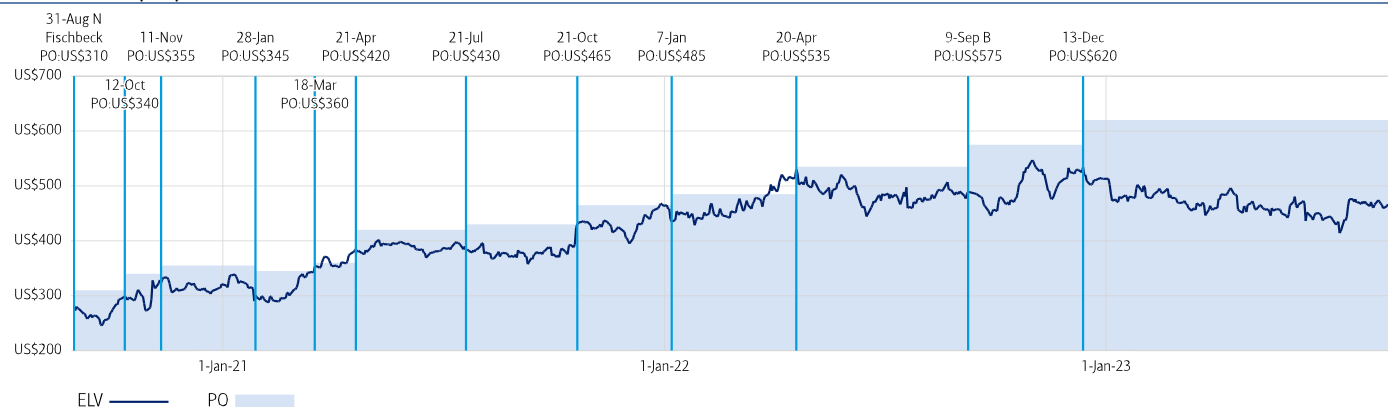
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Centene Corporation (CNC) Price Chart



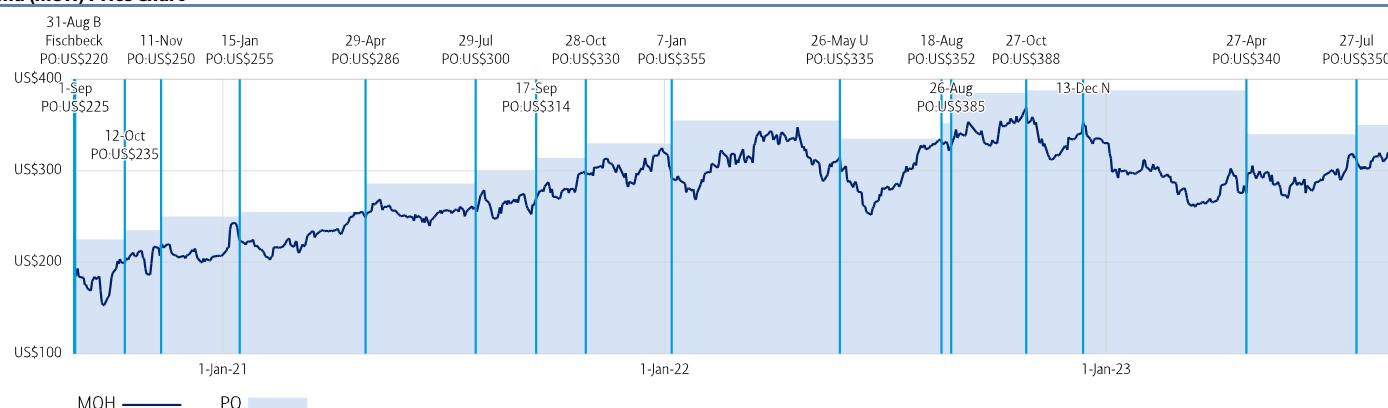
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Centene Corporation (CNC) Price Chart**Elevance Health Inc (ELV) Price Chart**

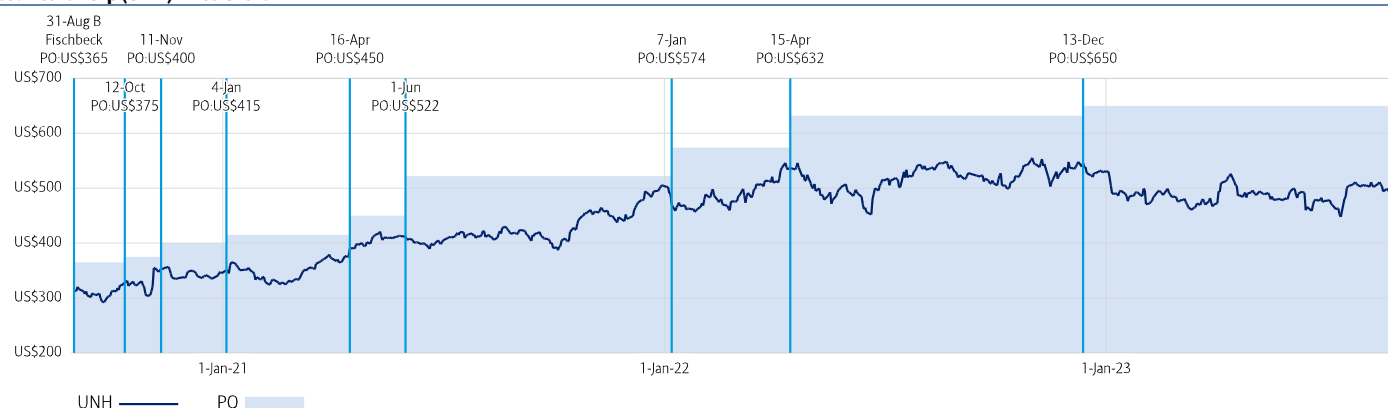
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Molina (MOH) Price Chart

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UnitedHealth Grp (UNH) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Health Care Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	236	57.84%	Buy	105	44.49%
Hold	87	21.32%	Hold	38	43.68%
Sell	85	20.83%	Sell	22	25.88%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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