Humana Inc

Focus: 7 reasons why the ramp to $37 isn't so steep

Reiterate Rating: BUY | PO: 640.00 USD | Price: 523.69 USD

02 November 2023

Equity

Too much focus on 2025 ramp, not enough on DD 2024

Q3 was a mixed quarter with an uptick in trend driving MLR 40bps above Humana's (HUM) internal expectations, offset by outperformance in CenterWell. The stock was down 6% as their quarter (and CVS's) lowered visibility into whether MA trend had truly plateaued and guiding to the low end of 11-15% for 2024 implies a steeper 2025 ramp. However, we believe that there is too much focus on the implied 18% growth in 2025, and not enough on HUM's ability to grow at least double digits in a year with trend concerns. If HUM can grow 11% with trend pressures, then growing 18% during a repricing year should be an easy lift (see below). In many ways 18% is more a function of the depressed 2024 number (easy comp) rather than an unusual growth target, in our view. We maintain our 2023 and 2025 EPS estimates but cut 2024 given the guidance. Our $640 PO is now based on 20.2x 2024E EPS vs 19.9x prior due to the fact that 2025 and beyond remain unchanged. HUM remains our top pick.

Focus: 7 reasons why 2025 EPS ramp isn't so steep

Although the earnings ramp to 2025 now looks a little steeper (11% in 2024 to 18% in 2025 vs consensus expectations of 13% -> 16% previously) after the quarter, we still see it as easily achievable. First, a large amount of the 2023 pressures relate to excess (19%) membership growth, particularly on age-ins which likely start at -10% pre-tax margins and flip to profitable in 2025. Second, investment income is likely still a tailwind in 2025 even if the Fed starts to cut rates, given the duration of MCO investments and the rapid rise in rates. Third, cost cutting initiatives are expected to continue in 2024, creating additional annualized G&A savings in 2025. Fourth, Medicaid MLR pressure should ease. Fifth, capital deployment remains a potential upside lever (the way CVS and ELV have pursued aggressive share repurchase). Sixth, the ramp is based on the assumption that HUM only hits its guidance, when MCOs have a history of beating, creating a higher starting point (HUM has beat its initial guidance by 6.4% on average since 2011). Seventh and most importantly, HUM's history has shown pushing margin can be a strong lever for earnings growth. For example, just last year HUM grew Individual MA membership 4% as a result of conservative pricing which led to 22% EPS growth. See body of note for more context around each of these tailwinds.

Estimates (Dec) (US$)	2021A	2022A	2023E	2024E	2025E
EPS	20.61	25.22	28.25	31.65	37.00
GAAP EPS	22.65	22.05	26.11	29.46	34.77
EPS Change (YoY)	10.0%	22.4%	12.0%	12.0%	16.9%
Consensus EPS (Bloomberg)			28.30	31.99	37.11
DPS	2.80	3.09	3.44	3.99	4.53
Valuation (Dec)					
P/E	25.4x	20.8x	18.5x	16.5x	14.2x
GAAP P/E	23.1x	23.8x	20.1x	17.8x	15.1x
Dividend Yield	0.5%	0.6%	0.7%	0.8%	0.9%

Key Changes

(US$)	Previous	Current
2023E Rev (m)	106,609.6	106,052.1
2024E Rev (m)	113,203.4	113,486.1
2025E Rev (m)	124,755.9	125,691.4
2024E EPS	32.10	31.65
2023E DPS	3.46	3.44

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Stock Data

Price	523.69 USD
Price Objective	640.00 USD
Date Established	3-Nov-2022
Investment Opinion	B-1-7
52-Week Range	423.29 USD - 571.30 USD
Mrkt Val (mn) / Shares Out (mn)	64,929 USD / 124.0
Average Daily Value (mn)	501.48 USD
BofA Ticker / Exchange	HUM / NYS
Bloomberg / Reuters	HUM US / HUM.N
ROE (2023E)	21.7%
Net Dbt to Eqty (Dec-2022A)	39.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

See page 7 for acronym definitions

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Income Statement Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premiums	79,822	87,712	101,813	109,246	121,451
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	**82,873**	**92,488**	**106,052**	**113,486**	**125,691**
Total Cost of Benefits and Claims	(69,199)	(75,690)	(88,379)	(94,971)	(105,217)
S,G & A (Including Commissions)	(10,121)	(12,671)	(13,131)	(13,492)	(14,574)
Total Operating Expenses	**(79,916)**	**(89,070)**	**(102,289)**	**(109,247)**	**(120,554)**
Pre-Tax Operating Earnings	**2,957**	**3,418**	**3,764**	**4,239**	**5,137**
Income Tax Expense	(24)	(784)	(988)	(1,088)	(1,283)
Operating Earnings After Tax	**2,663**	**3,200**	**3,518**	**3,877**	**4,530**
Net Income (Reported)	**2,930**	**2,804**	**3,293**	**3,612**	**4,254**
Diluted Shares	129	127	125	123	122
Operating Earnings Per Share	20.61	25.22	28.25	31.65	37.00
Net Income (Reported) Per Share	22.65	22.05	26.11	29.46	34.77

Balance Sheet Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	16,586	18,942	24,659	28,185	0
Total Assets	**44,358**	**43,055**	**56,709**	**61,445**	**0**
Reserves	8,289	9,264	11,603	12,678	0
LT Debt	10,541	9,034	9,483	9,483	0
Total Liabilities	**28,255**	**27,685**	**39,675**	**41,999**	**0**
Total Equity	**16,103**	**15,370**	**17,034**	**19,446**	**0**
Total Equity (Ex FAS 115)	**16,103**	**15,370**	**17,034**	**19,446**	**0**
Book Value per Share (Reported)	124.64	121.13	136.80	158.73	0
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Expense Ratio	12.2%	13.7%	12.4%	11.9%	11.6%
Loss Ratio	86.7%	86.3%	86.8%	86.9%	86.6%
Combined Ratio	**98.9%**	**100.0%**	**99.2%**	**98.8%**	**98.2%**
Avg Assets / Avg Eq (Ex FAS 115) Ratio	2.7x	2.8x	3.1x	3.2x	3.2x

Growth Rates (YoY) (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premium	7.6%	9.9%	16.1%	7.3%	11.2%
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	9.0%	11.6%	14.7%	7.0%	10.8%
Operating Earnings per Share	10.0%	22.4%	12.0%	12.0%	16.9%
Asset	26.8%	-2.9%	31.7%	8.4%	-100.0%
Reported Book Value per Share	20.6%	-2.8%	12.9%	16.0%	NA

Performance Metrics (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating ROE	17.9%	20.3%	21.7%	21.3%	46.6%
Operating ROE (Ex FAS 115)	17.9%	20.3%	21.7%	21.3%	46.6%
Operating Return on Average Assets	6.7%	7.3%	7.1%	6.6%	14.7%
Operating Margin	3.2%	3.5%	3.3%	3.4%	3.6%
Long Term Debt to Cap Ratio (Ex FAS 115)	39.6%	37.0%	35.8%	32.8%	NA
Net Income % Operating Income	124.9%	87.0%	93.6%	93.1%	93.9%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Managed Health Care

Company Description

HUM is one of the largest managed care organizations in the United States, offering health insurance to members in the government and commercial segments. The company has a focus on Medicare Advantage, but also participates in other government programs including TRICARE and Medicaid. The company also has an increasingly large healthcare services business to service its installed base of membership through pharmacy, home care and primary care.

Investment Rationale

HUM is a strong player in the fastest growing market under our coverage. with additional upside potential from share repurchases and several non-healthcare catalysts, margin normalization, and the rebound in risk coding.

Stock Data

Average Daily Volume	1,031,509

Quarterly Earnings Estimates

	2022	2023
Q1	8.05A	9.38A
Q2	8.67A	8.95A
Q3	6.88A	7.78A
Q4	1.62A	2.14E

Fischbeck Focus: 2025 ramp looks achievable

In the Fischbeck Focus section, we choose a theme to explore in more detail, either in response to recent investor questions or because of an unexpected development in the quarter. This quarter, we focus on the $37 EPS target and how achievable the implied 18% EPS growth HUM needs to achieve in 2025 vs the LT average growth of 11-15%. We believe that there is too much focus on the implied 18% growth in 2025, and not enough on HUM's ability to grow at least double digits in a year with trend concerns. If HUM can grow 11% with trend pressures, then growing 18% during a repricing year should be an easy lift. In many ways 18% is more a function of the depressed 2024 number (easy comp) rather than an unusual growth target, in our view.

1) Even a few age-ins can be a sizable 2025 tailwind

One of the dynamics that has pressured margins through 2025 has been an a higher number of members joining as age-ins than expected. For context, most of Medicare Advantage membership growth actually comes from plan switchers from other insurers or from Original Medicare on January 1. However, a small number of members join Medicare Advantage directly after turning 65 during the year. According to HUM these members typically run at 100% MLR because they are new to the Medicare system and are not properly risk adjusted since they have not yet been documented, meaning that insurers aren't getting adequately reimbursed for the risk they are taking. Since there is a lag in getting proper risk coding, and these member join in-year and must have at least 12 months of claims data to begin documentations, it takes 2 years before companies get proper risk scoring (vs the 1 year for the typical January 1 add).

Age-ins aren't new, but the amount of age-ins exceeded internal forecasts

Absorbing losses from age-ins isn't new, and is built into the run-rate of the growth algorithm. However, HUM is parsing out that full year MLR has been pressured 20bps due to the excess growth in age-ins beyond internal expectations that were built into the guidance. Excess growth makes sense given that HUM is growing individual MA enrollment 19% this year, meaning that HUM has priced its plans attractively on a relative basis to other insurers.

Will take until 2025 to get these members to target margin

HUM expects that it will take until 2025 to see margin improvement on these members as many of the excess membership has joined throughout the year, meaning there isn't enough time to get the members fully documented. Therefore, risk score capture occurring in 2024, will not impact risk adjustment payments until 2025.

Age-ins alone could add 1-2% to EPS growth in 2025 as margins normalize

HUM's disclosures imply these excess members represent ~$200m in premiums in 2023. However, since they joined throughout the year, the average member months are likely far lower than 12. Therefore, the implied 'excess' membership associated with $200m in premiums is likely closer to 50k-100k (out of the 240k total age-ins HUM expects for the year) or $400-$800m in annualized premiums. Since the members run at 100% MLR, its likely HUM is running at least a -10% margin. Therefore, moving to a 5% target margin in 2025 is a 1,500bps step up. Overall we estimate that just these members alone could add 1-2% to 2025 EPS growth as margins normalize.

Exhibit 1: Even less than 100k members could be material to earnings
Estimating 2025E EPS impact from ramping margins on excess age-ins in 2023

2023E Annual Premiums (implied guidance)	**$103,839**	**$103,839**	**$103,839**	**$103,839**
Disclosed MLR Pressure	0.20%	0.20%	0.20%	0.20%
Medical Costs associated with age-ins	$208	$208	$208	$208
MLR on Age-ins	100%	100%	100%	100%
Premiums on Age-ins	$208	$208	$208	$208
PMPM in 2023E (Age-ins have much lower revenue)	$700	$700	$700	$700
Average member months of age-ins	9	6	4	3
Excess age-ins members	**32,965**	**49,447**	**74,171**	**98,894**

Annualized Premiums	$277	$415	$623	$831
Margin in 2024	-10%	-10%	-10%	-10%
Earnings hole from age-ins	-$28	-$42	-$62	-$83
Margin in 2025	5.0%	5.0%	5.0%	5.0%
Normalized earnings on age-ins	$14	$21	$31	$42
2025 Tailwind from excess age-ins in 2023	**$42**	**$62**	**$93**	**$125**
Tax Rate	26%	26%	26%	26%
Net Tailwind	$31	$46	$69	$92
2024 Shares (Consensus)	123.1	123.1	123.1	123.1
EPS Impact	$0.25	$0.37	$0.56	$0.75
% of 2024 EPS (2025 Growth)	**0.8%**	**1.2%**	**1.8%**	**2.4%**
2024E EPS (11% growth on guidance)	*$31.36*	*$31.36*	*$31.36*	*$31.36*

Source: Company Filings, BofA Global Research, Visible Alpha

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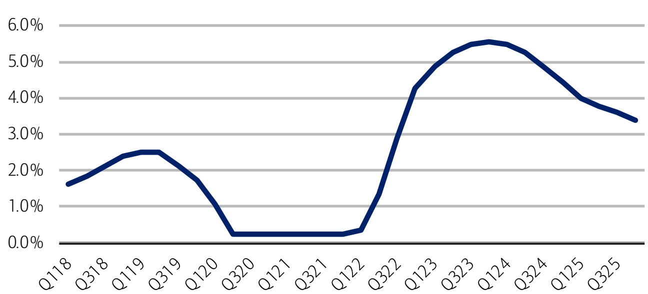
2) Investment income should grow even if fed cuts rates

The next, somewhat counterintuitive tailwind HUM mentioned was investment income. This could be a surprise to some as rates are expected to decline at some point in 2024. However, based on current economist forecasts, the average benchmark rate is likely to be 5.0% throughout 2024 vs 5.3% in 2023, which creates an immediate 30bps decrease to any variable rate securities. The thing to remember is that the average fixed income portfolio duration is around 3.5 years (and maturities are evenly weighted across each historical period). Therefore, the weighted interest rates would actually step up 130bps to 3.1% in 2024 vs 1.7% in 2023. Since the majority of investment portfolios MCOs hold are fixed (we assume a 2/3 fixed 1/3 variable split), these estimates imply that on a weighted basis, MCOs should see approximately 80bps of interest rate tailwinds into 2024 even if interest rates fall as predicted. Additionally, even if rates continue to fall, the same dynamic would imply that average yields could rise slightly again in 2025. As investments grow high single digits to support revenue growth, interest income could easily be up double digits.

Exhibit 2: Rates have moved abnormally quickly in recent years

Actual and expected midpoint of benchmark federal funds rate over time (market expectations through 2024, then assuming 20bps cut per quarter in starting in 2Q25)



Source: Bloomberg, BofA Global Research

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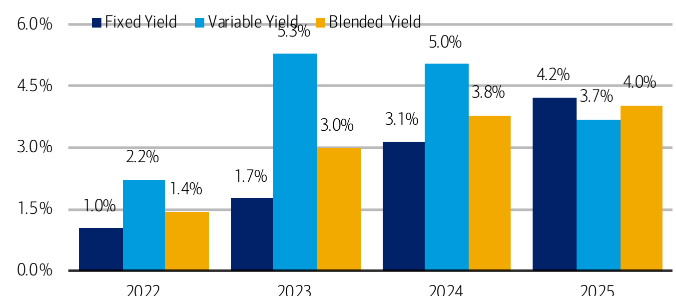
Exhibit 3: Timing of rate changes will still benefit MCOs into 2025

Estimate for weighted fixed and variable interest rate exposure at MCOs



Source: Bloomberg, BofA Global Research, Company Filings

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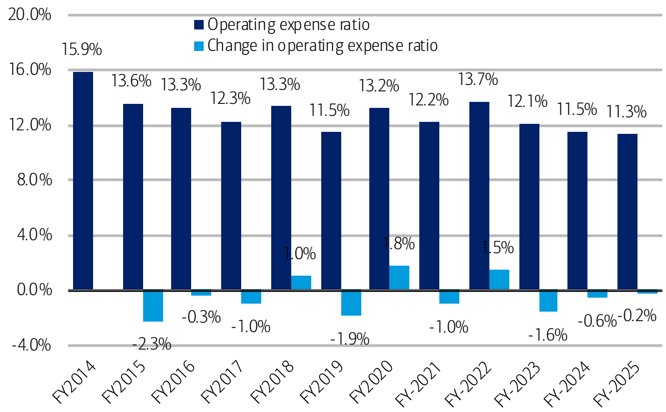
3) SG&A leverage opportunity beyond the normal 20bps

Back at its 2022 Investor Day, Humana outlined a 20bps/year enterprise margin expansion plan as one of the drivers to its $37 EPS target. However, on the Q3 earnings call, the company highlighted additional value-creation initiatives in 2024 (streamlining real estate portfolio, rationalizing IT portfolio, consolidating systems) which should help margins more than the normal 20bps of improvement. We note that although the operating cost ratio has fluctuated much more wildly than 20bps, it is because HUM means it on a product mix basis (every product has a different operating cost ratio, so shifts in mix will affect the consolidated number). Coincidentally, consensus is calling for 20bps of consolidated operating margin improvement already, and below we show a sensitivity table of what excess savings could mean, with each 10bps of outperformance adding another 2.4% to 2025 EPS growth.

Exhibit 4: Operating costs have gradually dropped over time…
Operating expense ratio over time, as well as y/y change, consensus



Source: Company Filings, BofA Global Research, Visible Alpha

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Exhibit 5: …and can be a significant earnings driver
Sensitivity analysis of G&A leverage impact on EPS growth

2025E Revenue	**$124,278**	**$124,278**	**$124,278**	**$124,278**
Change in Opex Ratio	0.1%	0.2%	0.3%	0.4%
Savings from operating cost leverage	$124	$249	$373	$497
Tax Rate	26%	26%	26%	26%
Net Tailwind	$92	$184	$276	$368
2024 Shares (Consensus)	123.1	123.1	123.1	123.1
EPS Impact	$0.75	$1.49	$2.24	$2.99
% of 2024 EPS (2025 Growth)	2.4%	4.8%	7.1%	9.5%
2024E EPS (11% growth on guidance)	*$31.36*	*$31.36*	*$31.36*	*$31.36*

Source: Company Filings, BofA Global Research, Visible Alpha

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4) Medicaid margins could also end up being a tailwind

One item HUM didn't mention was Medicaid redeterminations. The company has explicitly told investors it has built in margin pressure into its Medicaid business as a result of expected reimbursement headwinds. These pressures should clear in 2025 when redeterminations finish and states have time to appropriately adjust rates. Below we show a sensitivity analysis sizing that 20-100bps of Medicaid MLR improvement would be 0.3%-1.7% of EPS growth in 2025. We also note that HUM is onboarding two new states in 2024, which likely are slightly unprofitable in year 1 and should ramp to target margins over the next 3 years.

Exhibit 6: As rate pressure eases in Medicaid, could be a tailwind to growth in 2025
Sensitivity analysis of Medicaid MLR on EPS growth

2025 Medicaid Premiums (Consensus)	**$8,945**	**$8,945**	**$8,945**	**$8,945**	**$8,945**
Change in MLR	0.2%	0.4%	0.6%	0.8%	1.0%
Medicaid MLR improvement	$18	$36	$54	$72	$89
Tax Rate	26%	26%	26%	26%	26%
Net Tailwind	$13	$26	$40	$53	$66
2024 Shares (Consensus)	123.1	123.1	123.1	123.1	123.1
EPS Impact	$0.11	$0.22	$0.32	$0.43	$0.54
% of 2024 EPS (2025 Growth)	0.3%	0.7%	1.0%	1.4%	1.7%
2024E EPS (11% growth on guidance)	*$31.36*	*$31.36*	*$31.36*	*$31.36*	*$31.36*

Source: Company Filings, BofA Global Research, Visible Alpha

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5) Capital deployment a potential tailwind

HUM cited capital deployment as another tailwind for 2025. However, to us it was the least compelling point because the 11-15% long term EPS outlook has always reflected the impact of fully allocating capital deployment through share repurchase or acquisitions. What the company likely meant was the addition of another accelerated share repurchase program which it has executed on from time to time, which would be incremental upside depending on the timing of it.

6) MCOs are historically conservative with initial guidance

We note that MCOs historically guide conservatively and often beat their initial guidance by a few percent. Since 2011, HUM has guided, on average 2.6% below consensus, making this year's guidance of 11% growth vs 13% at consensus very much a normal year. Although HUM doesn't always beat guidance, on average, it then beats that guidance by 6.4%. If HUM "only" beats guidance by 3% in 2024, then the growth would actually be pretty consistent from 2024 to 2025 and not require a hockey stick acceleration.

Exhibit 7: Companies almost always talk down numbers with initial guidance
Large cap managed care (CI, CVS, ELV, HUM, UNH) initial guidance versus initial consensus and actual

Unweighted Average	ELV, CI, CVS, HUM, UNH Average Initial guidance midpoint vs initial consensus	Actual vs initial consensus	Actual vs initial guidance	HUM Initial guidance midpoint vs initial consensus	Actual vs initial consensus	Actual vs initial guidance
2011	-1.5%	23.5%	25.4%	-10.3%	39.3%	55.2%
2012	-3.8%	3.1%	7.2%	-5.0%	-3.0%	2.1%
2013	-3.1%	6.4%	9.8%	-3.3%	5.9%	9.5%
2014	-4.0%	2.6%	6.8%	-9.5%	-9.4%	0.1%
2015	-1.0%	2.1%	3.2%	-1.2%	-12.5%	-11.4%
2016	-0.9%	2.6%	3.4%	1.1%	9.2%	8.0%
2017	-0.4%	8.6%	9.2%	0.3%	7.6%	7.3%
2018	-0.9%	7.4%	8.4%	-3.9%	1.7%	5.9%
2019	-0.6%	3.1%	3.8%	-1.2%	2.1%	3.4%
2020	-1.4%	1.2%	2.6%	-0.7%	0.6%	1.4%
2021	-1.8%	2.6%	4.5%	-1.1%	-5.0%	-4.0%
2022	-0.4%	4.7%	5.2%	0.7%	5.9%	5.1%
2023	-1.0%	-0.6%	0.4%	0.3%	1.3%	1.1%
2011-2023	**-1.6%**	**5.2%**	**6.9%**	**-2.6%**	**3.4%**	**6.4%**

Source: Company Filings, BofA Global Research, Visible Alpha

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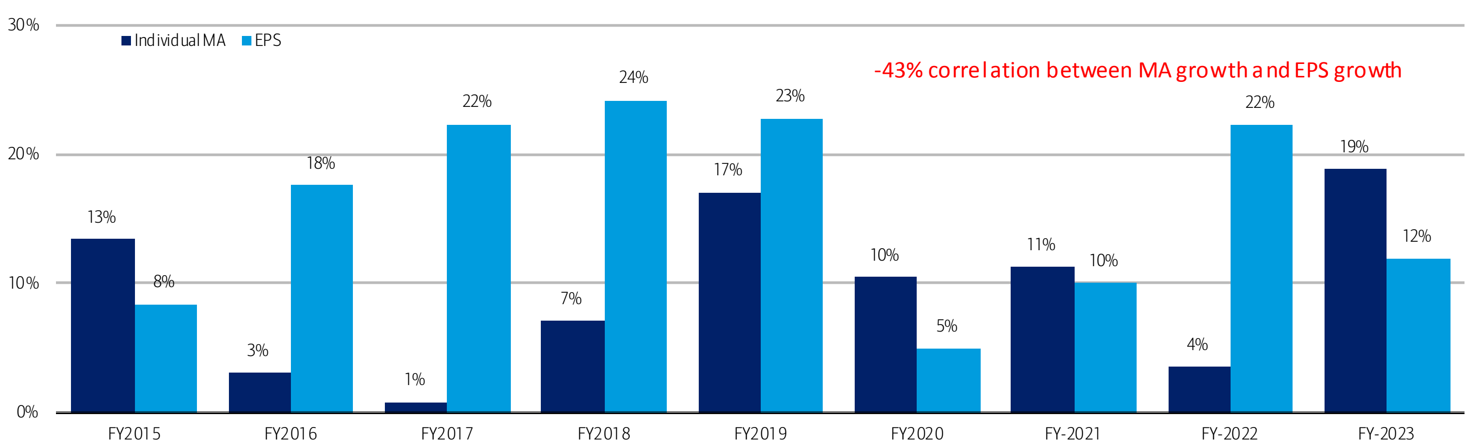
7) Repricing for margin by far the biggest lever

The biggest lever for earnings growth in 2025 would be repricing for margin expansion. Historically, there has oftentimes been an inverse relationship between MA membership and EPS (-43% correlation), as gaining market share in the competitive MA landscape normally requires concessions to margins. The best case-study for this was 2022, when the company came off three years of above average growth (and declining margins) and decided to reprice for margin. HUM grew membership by only 4% but grew earnings 22%.

But HUM is far ahead of its membership targets that build to its 2025 EPS target. In 2022, HUM expected to grow below average in 2023, then at/above average in 2024/25. If we assume this meant they'd grow membership by 6% in 2023, 9% in 2024, and 9% in 2025, they should have 5.7 million members by 2025, or 25% membership growth. However, as of Q323, HUM had almost 5.4 million members – well above their 2023 YE target. Being above target means HUM could be even more aggressive in repricing 2025 than it was in 2022. Given HUM's commentary and datapoints that indicate trend is stabilizing it doesn't appear major repricing is actually necessary. But even if it is, the membership growth trajectory into 2024 combined with the ability to reprice 2025, means we see a number of ways that HUM can hit its $37 target.

Exhibit 8: There is a moderate inverse relationship between EPS and MA membership growth
Adjusted EPS growth vs Individual MA membership growth



Source: Visible Alpha, BofA Global Research estimates

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Conclusion: 2025 EPS appears easily achievable

Although the earnings ramp to 2025 now looks a little steeper than expected, (11% in 2024 to 18% in 2025 vs consensus expectations of 13% -> 16% previously) after the quarter, we still see it as achievable. This steep ramp is based on the belief that HUM will only hit its 2024 guidance, despite a track record of 6% beats since 2011. Meanwhile, the implied above average growth is based on a relatively depressed 2024 outlook, creating an easier comp to gross off of. With HUM growing double digits in 2024 during a year of trend pressure, and a number of potential levers to growth in 2025, we have a high degree of confidence in the $37+ 2025 guidance and see HUM as undervalued.

Acronyms

MCO = Managed care organization

MA = Medicare Advantage

CVS = CVS Health

ELV = Elevance Health

MLR = medical loss ratio

Price objective basis & risk

Humana Inc (HUM)

Our $640 PO is based on 20.2x our 2024 EPS estimate, a premium to its 5-year average of 17.1x justified by the strong growth trajectory we expect for HUM's core business, Medicare Advantage.

Upside risks are potential for share repurchase and several non-healthcare catalysts, margin normalization, and the rebound in risk coding.

Downside risks are regular industry sensitivity points (cost trend, MA rates), as well as unknowns from a new administration.

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	Adam Ron
	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
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Oscar Health	OSCR	OSCR US	Adam Ron
UNDERPERFORM				
	Agiliti Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Brookdale	BKD	BKD US	Joanna Gajuk
	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

*iQ*method [SM] Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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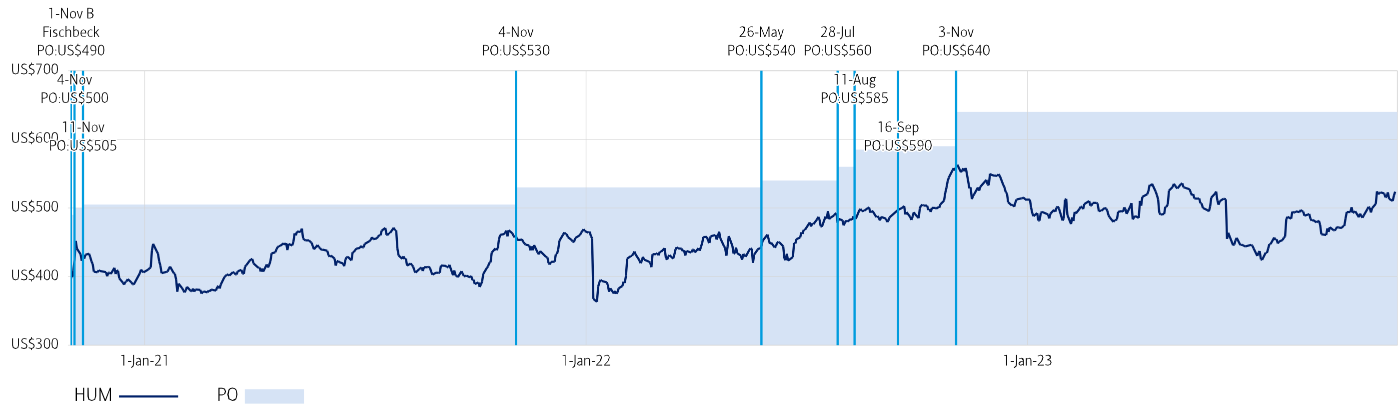
Humana Inc (HUM) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	233	60.21%	Buy	113	48.50%
Hold	83	21.45%	Hold	33	39.76%
Sell	71	18.35%	Sell	25	35.21%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

[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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