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Analyst's Notes

Analysis by David Toung, May 21, 2025

ARGUS RATING: **HOLD**

- Seeking path to higher margins
- While we are encouraged that medical utilization is within projections for 2025 year-to-date, we look for evidence of sustained growth in profitability in order to build a constructive case on the stock.
- Management is now prioritizing profit margin expansion above membership growth as it seeks to restore EPS growth.
- We see the CenterWell primary care services unit becoming a growth vehicle for Humana.
- The stock has underperformed its managed-care peers and the broader equity market over the past 52 weeks.

INVESTMENT THESIS

HOLD-rated Humana (NYSE: HUM) faces headwinds to earnings growth as medical utilization rises. The company said that higher medical cost trends will continue in 2025, leading it to focus on margin recovery over membership growth in Medicare Advantage.

Despite the favorable demographics of an aging population, with some 26 million Americans aging into Medicare-eligibility from 2023 through 2030, we are concerned that Medicare Advantage is not an unalloyed growth vehicle. Humana and other MA insurers have had to reprice their plan premiums and modify their benefit designs. Among the drivers of cost trends are higher hospital admissions and greater volume of complex elective procedures.

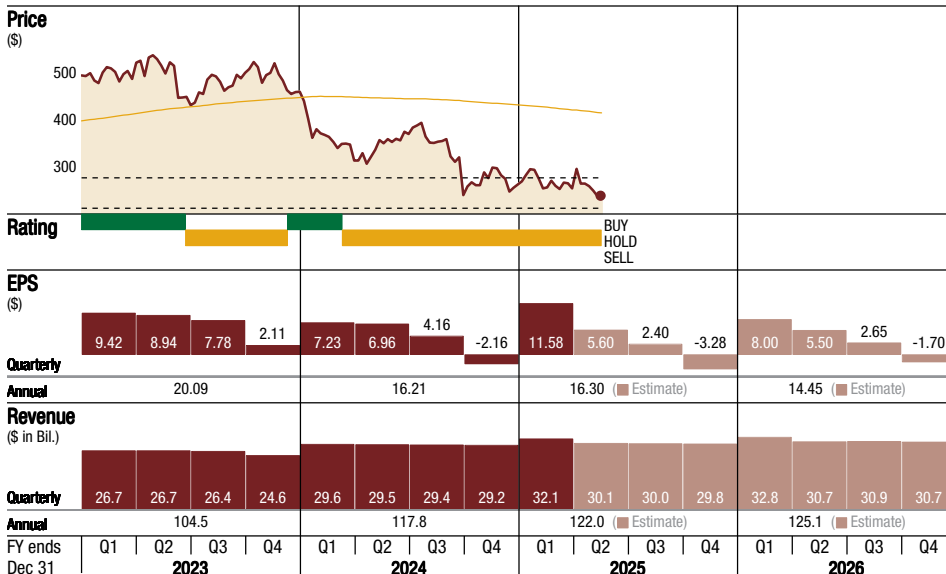
RECENT DEVELOPMENTS

We are encouraged by the progress Humana is making towards improving profitability of its Insurance segment that includes its Medicare Advantage operations. The company is repositioning the individual MA business by exiting unprofitable benefit plans and county markets and by selective premium hikes.

In contrast to results in 2024 when cost trends accelerated beyond forecasts, Humana

Market Data Pricing reflects previous trading week's closing price.

— 200-Day Moving Average — 52 Week High: \$276.14 — 52 Week Low: \$212.45 — Closed at \$237.96 on 5/16



Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 73% Buy, 27% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	\$245.77
Target Price	--
52 Week Price Range	\$212.45 to \$406.46
Shares Outstanding	120.69 Million
Dividend	\$3.54

Sector Overview

Sector	Healthcare
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	10.80%

Financial Strength

Financial Strength Rating	MEDIUM-HIGH
Debt/Capital Ratio	42.4%
Return on Equity	11.1%
Net Margin	1.4%
Payout Ratio	0.22
Current Ratio	1.76
Revenue	\$120.26 Billion
After-Tax Income	\$1.71 Billion

Valuation

Current FY P/E	15.08
Prior FY P/E	15.16
Price/Sales	0.25
Price/Book	1.67
Book Value/Share	\$147.08
Market Capitalization	\$29.66 Billion

Forecasted Growth

1 Year EPS Growth Forecast	0.56%
5 Year EPS Growth Forecast	10.00%
1 Year Dividend Growth Forecast	0%

Risk

Beta	0.46
Institutional Ownership	94.32%

Analyst's Notes ...Continued

indicated that so far in 2025 medical cost and pharmacy cost trends are in line with expectations.

Importantly, the company reaffirmed its financial guidance for 2025.

In 1Q25, MA membership declined approximately 446,000 from the end of 2024 level of 5,215,800. Individual MA represented 75.8% of total revenue in 1Q25. The company indicates it 'prioritizes membership that is expected to drive sustainable, long-term value creation.'

Humana reported 1Q25 results that beat the consensus. On April 30, management revealed 1Q25 EPS was \$11.58, beating the consensus estimate by \$1.49 and increasing 60.2% from a year ago. GAAP net income was \$1.244 billion or \$10.30 per share, compared to \$741 million or \$6.11 per share a year ago.

Total revenue was \$32.1 billion, increasing 8.4%. Premium revenue was \$30.5 billion, increasing 8.0%. The consolidated medical cost ratio was 87.0%, down 290 basis points from a year ago.

For 2025, not only is Humana taking pricing and market actions to improve profitability, it is also increasing investments in its Medicare Advantage plans in order to improve its Star ratings. These Star ratings, issued by the Centers for Medicare and Medicaid (CMS), measure the performance of MA plans in several categories, including quality of care and customer service. The Star ratings, which range from 1 to 5 (the highest), determine bonus payments. Higher ratings also allow the insurers to have a longer

annual enrollment period.

EARNINGS & GROWTH ANALYSIS

Humana reaffirmed guidance for 2025. It continues to expect adjusted EPS to be approximately \$16.25 and consolidated revenue to be \$126 billion-\$128 billion. It expects the GAAP basis MCR to be 90.1%-90.5%, compared to 89.8% in 2024. Humana expects individual Medicare Advantage membership to decline approximately 550,000.

We are maintaining our estimate for adjusted EPS at \$16.30 for 2025. We are raising our estimate for 2026 to \$14.45 from \$13.60 for 2026.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Humana is Medium-High, the second-highest rank on our five-point scale. Cash flow from operations in 2024 was \$2.966 billion, compared to \$3.981 billion in the year-earlier period.

Humana pays a dividend at an annualized rate of \$3.54 per share, for a yield of about 1.4%. Our dividend estimates are \$3.54 for 2025 and \$3.70 for 2026.

MANAGEMENT & RISKS

Jim Rehtin is CEO. He joined the company in January 2024 as COO and officially took the position of CEO effective July 2024. He succeeded Bruce Broussard. Celeste Mellet joined the company as CFO in January 2025. She succeeded Susan Diamond.

Growth & Valuation Analysis

GROWTH ANALYSIS

(\$ in Millions, except per share data)

	2020	2021	2022	2023	2024
Revenue	77,155	83,064	92,870	106,374	117,761
COGS	—	—	—	—	—
Gross Profit	—	—	—	—	—
SG&A	10,052	—	—	—	—
R&D	—	—	—	—	—
Operating Income	—	—	—	—	—
Interest Expense	283	326	401	493	660
Pretax Income	4,600	3,354	3,568	3,383	1,721
Income Taxes	1,307	485	762	836	413
Tax Rate (%)	28	14	21	25	24
Net Income	3,367	2,933	2,806	2,489	1,207
Diluted Shares Outstanding	133	129	127	124	121
EPS	25.31	22.67	22.08	20.00	9.98
Dividend	2.50	2.80	3.15	3.54	3.54

GROWTH RATES (%)

Revenue	18.9	7.7	11.8	14.5	10.7
Operating Income	—	—	—	—	—
Net Income	24.4	-12.9	-4.3	-11.3	-51.5
EPS	25.9	-10.4	-2.6	-9.4	-50.1
Dividend	13.6	12.0	12.5	12.4	—
Sustainable Growth Rate	28.0	14.5	14.9	15.6	5.4

VALUATION ANALYSIS

Price: High	\$474.70	\$475.44	\$571.30	\$541.21	\$475.00
Price: Low	\$208.25	\$370.22	\$351.20	\$423.29	\$213.31
Price/Sales: High-Low	0.8 - 0.4	0.7 - 0.6	0.8 - 0.5	0.6 - 0.5	0.5 - 0.2
P/E: High-Low	18.8 - 8.2	21.0 - 16.3	25.9 - 15.9	27.1 - 21.2	47.6 - 21.4
Price/Cash Flow: High-Low	10.8 - 4.7	23.5 - 18.3	7.6 - 4.7	11.3 - 8.9	— - —

Financial & Risk Analysis

FINANCIAL STRENGTH

	2022	2023	2024
Cash (\$ in Millions)	5,061	4,694	2,221
Working Capital (\$ in Millions)	—	—	—
Current Ratio	—	—	—
LT Debt/Equity Ratio (%)	51.8	62.8	68.1
Total Debt/Equity Ratio (%)	72.7	71.7	71.6

RATIOS (%)

Gross Profit Margin	—	—	—
Operating Margin	—	—	—
Net Margin	3.0	2.3	1.0
Return On Assets	6.4	5.5	2.6
Return On Equity	17.9	15.8	7.4

RISK ANALYSIS

Cash Cycle (days)	—	—	—
Cash Flow/Cap Ex	4.0	4.0	5.2
Oper. Income/Int. Exp. (ratio)	9.9	7.9	3.6
Payout Ratio	13.2	13.9	14.2

Analyst's Notes ...Continued

Humana faces risks if medical utilization by its members rises faster than the actuarial projections that are used to set premiums.

Humana also faces competitive risks in both the commercial and government markets as rival insurers, both for-profit and not-for-profit, seek to expand share.

The federal government is seeking to rein in rising Medicare costs, and these efforts could hamper Humana's ability to grow and sustain margins in its Medicare Advantage business.

COMPANY DESCRIPTION

Humana is a health benefits company that offers coordinated health insurance coverage and related services through a variety of plans for retirees, employer groups, and government-sponsored programs, such as Medicare Advantage and Medicaid. Humana serves more than 16 million medical members, including 5.7 million individual MA members and 5 million specialty and dental members. The company's CenterWell health services segment offers PBM services, home care services, and primary care services. HUM shares are a component of the S&P 500.

VALUATION

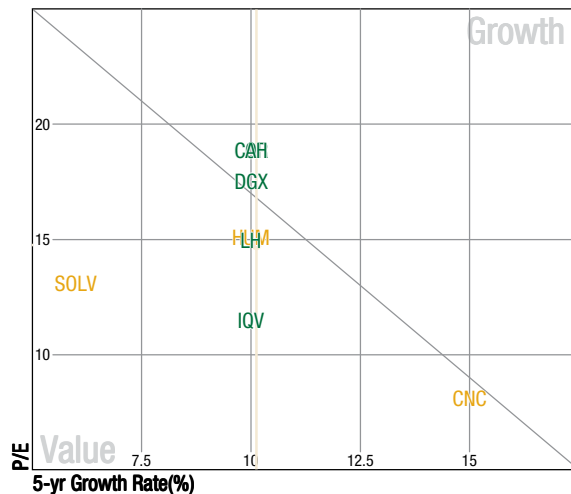
Humana trades at 16.5-times our 2026 EPS estimate, compared to the average multiple of 12.7 for our coverage universe of managed care stocks. As noted above, HOLD-rated Humana faces rising medical costs and pressures to expand profit margins.

On May 21, HOLD-rated HUM closed at \$245.77, down \$9.54.

Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare HUM versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how HUM stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how HUM might fit into or modify a diversified portfolio.

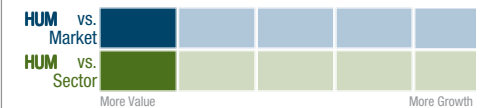


Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
COR	Cencora Inc	56,472	10.0	18.9	.5	8.4	BUY
CAH	Cardinal Health, Inc.	36,592	10.0	18.9	.7	11.9	BUY
CNC	Centene Corp.	30,224	15.0	8.1	2.0	6.7	HOLD
HUM	Humana Inc.	29,663	10.0	15.1	1.4	-11.3	HOLD
IQV	IQVIA Holdings Inc	23,751	10.0	11.5	8.6	10.9	BUY
LH	Labcorp Holdings Inc.	20,200	10.0	15.0	5.5	9.6	BUY
DGX	Quest Diagnostics, Inc.	19,032	10.0	17.5	8.8	9.8	BUY
SOLV	Solventum Corp	12,588	6.0	13.1	4.6	7.2	HOLD
Peer Average		28,565	10.1	14.8	4.0	6.6	

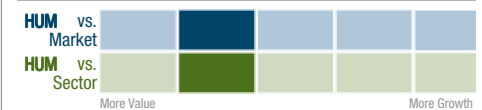
P/E



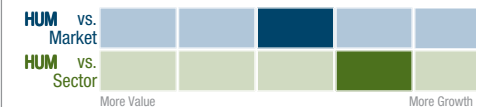
Price/Sales



Price/Book



PEG



5 Year Growth



Debt/Capital



About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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