Seeking Alpha

Transcripts | **Healthcare**

WellCare Health Plans, Inc. (WCG) CEO Kenneth Burdick on Q3 2019 Results - Earnings Call Transcript

Oct. 30, 2019 12:13 PM ET | 2 Likes
by: SA Transcripts

Q3: 10-30-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $5.5 beats by $1.63 | Revenue of $7.14B (41.16% Y/Y) beats by $354.41M

Earning Call Audio

Subscribers Only

00:00 -19:21

WellCare Health Plans, Inc. (NYSE:WCG) Q3 2019 Earnings Conference Call October 30, 2019 9:00 AM ET

Company Participants

Beau Garverick - Senior Vice President, Investor Relations

Kenneth Burdick - Chief Executive Officer

Andrew Asher - Executive Vice President and Chief Financial Officer

Operator

Good day, and welcome to WellCare's Third Quarter 2019 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] Please note today's event is being recorded.

At this time, I would like to turn the conference over to Beau Garverick, Senior Vice President, Investor Relations. Please go ahead.

Beau Garverick

Thank you, operator, and thank you all for joining us this morning for a discussion of WellCare's 2019 third quarter results.

Today, we'll be making forward-looking statements, including but not limited to the timing of the closing of the merger with Centene. Various risks and uncertainties, such as those described in our SEC filings, may materially impact those statements. While these risk and uncertainties may cause our future results to differ from today's statements, we are not undertaking any obligation to update or revise any forward-looking statements.

Certain financial information that we will discuss today include adjustments to expenses that we believe are not indicative of long-term business operations. Please refer to our news release published this morning available on our website at www.wellcare.com for a reconciliation of financial measures determined under Generally Accepted Accounting Principles to our adjusted measures. We will identify measures that we have adjusted.

Our discussion today will be led by Ken Burdick, WellCare's Chief Executive Officer; and Drew Asher, the Company's Chief Financial Officer.

As we stated in connection with our first quarter 2019 call, due to the previously announced definitive merger agreement with Centene Corporation, we are not updating financial guidance. The guidance for the full-year 2019 remains as of February 5, 2019. Additionally, we will not be taking questions after these prepared remarks.

I will now turn the discussion over to Ken. Ken?

Kenneth Burdick

Thank you, Beau. Good morning, everyone, and thank you for joining us today as we review our third quarter 2019 results.

This morning, I will review key items from the quarter, provide some additional insights into our business and share an update on the merger with Centene. Then Drew, will review our financial results in greater detail.

We are pleased to report third quarter adjusted earnings per diluted share of $5.50, which representing a 65% increase over the same period last year. Additionally, we reported total adjusted revenue of 7.1 billion, representing a 43% increase over the same period last year. This growth has enabled us to achieve significant operating leverage, as demonstrated by our 90 basis points year-over-year improvement in our adjusted SG&A ratio. All three business segments continue to perform very well. And we're excited about our momentum as we finish 2019 and look towards 2020.

We also continue to make progress on the pending Centene merger. We recently agreed to sell our Missouri and Nebraska health plans to Anthem. The agreement, which is subject to regulatory approvals and the closing of the Centene WellCare transaction represents an important milestone towards completing our combination with Centene.

I want to acknowledge our associates in Missouri and Nebraska for their tireless commitment to WellCare. They have done an outstanding job, serving our members, providers and government partners.

Additionally, we have received State Insurance Department conditional approvals in all the two states, Illinois and New Jersey. Parties continue to work collaboratively with the Department of Justice to obtain Hart-Scott Rodino approval. Our integration planning teams continue to work collaboratively and make significant progress to ensure we combine the best of both companies and hit the ground running once the transaction closes.

Turning back to our financial results, and starting with our Medicaid segment. At the end of the quarter, Medicaid membership was 4.1 million and adjusted Medicaid premium revenue grew to 4.8 billion, a 55% increase over last year's third quarter result. Our Medicaid segment is performing very well. I am pleased to see the 130 basis point improvement in our adjusted Medicaid MBR from 91.3% in the second quarter to 89% in the current quarter. And we're beginning to see improvement in our Illinois Medicaid business. Drew will elaborate more on this later.

In North Carolina, we are cautiously optimistic that all regions will go live on February 1st of 2020. A few months behind the state's original timeframe to launch certain regions in November. Thanks to the dedication of many WellCare associates, we are successfully working through the readiness review process and we are on track for the February launch date.

Our Medicare Health Plan segment continues to produce strong financial results this year. The Medicare MBR of 83.3%, a 150 basis points lower than the third quarter of 2018. Medicare premium revenue grew 16% year-over-year to 1.8 billion, driven by a combination of organic growth and the acquisition of Meridian.

Based on our initial read of the competitive landscape for the 2020 plan year, we feel that our products are well positioned to offer value and attractive benefits to seniors and we struck the appropriate balance between membership growth and margin. We entered three new states for 2020, Missouri, New Hampshire and Washington, bringing the total number of states where we offer Medicare plans to 25. We will grow our service area in 2020 by 87 new counties. And we are also expanding our product portfolio with additional PPO, and [indiscernible] products to meet the diverse needs of our Medicare beneficiaries. The level of sophistication in our bid strategy and product development improves each year. And quite frankly, is becoming a core competency at WellCare.

Our 2020 plan year Medicare star results were mixed. Although we maintained our four star ratings for our Florida and California plans, our ratings in Houston, New York and Maine dropped below four stars. On a positive side, we were also able to improve the star scores for our Medicare contracts that serves Illinois, Tennessee, Mississippi, Arkansas, South Carolina, HMO and Georgia, all of these from 3.0 to 3.5 stars. Achieving 3.5 stars in these contracts has positive financial implications, which Drew we will discuss shortly.

Over the past few years, we have made tremendous strides in improving our quality results. And we feel that this year's mixed results were the result of an isolated issue related to Universal American integration activity. We have already begun executing a plan to improve member satisfaction and operational measures in these two H contracts and expect improvement next year.

Finally, our Medicare PDP segment again demonstrated strong growth and financial performance. At the end of the quarter, we served 1.7 million members, an increase of over 641,000 members or 61% versus the third quarter last year. The strong membership growth is primarily due to the launch of our Value Script product, which has resonated well with seniors, due to its attractive premium and benefit design.

For the 2020 plan year, we are excited about the positioning of our PDP offerings. Our basic PDP plans will be below the benchmark or within the de minimis range in all 34 CMS regions. Regarding our enhanced plans, we were able to introduce a second low premium product Wellness Rx, due to our acquisition of Aetna's PDP business. We believe this product coupled with our Value Script product position us well for 2020.

The transition of the Aetna PDP membership to WellCare branded products is starting on January 1st, 2020. This remains a top priority for WellCare. The additional products, consumer insights and tools we now have as a result of the Aetna PDP acquisition, in combination with our competitive pharmacy cost structure gives us confidence in our ability to grow this profitable line of business.

In closing, I am proud of how our WellCare associates have been able to balance their Centene integration planning responsibilities, while staying focused on running our business as demonstrated by our strong year-to-date results, I am excited about the tremendous potential that will arise from a combined Centene WellCare enterprise. However, we all understand that we must remain focused on executing on our 2019 priorities, as this will allow WellCare to move into 2020 and the pending Centene merger with strong momentum.

I'll now turn the call over to Drew for a more detailed discussion of our financial results. Drew?

Andrew Asher

Thanks Ken. I am once again pleased to share details of our strong Q3 and year-to-date results. As a reminder, we are not updating 2019 financial guidance since we are under a merger agreement with Centene.

For the third quarter of 2019, our adjusted EPS was $5.50 compared with $3.33 in the third quarter of 2018, representing a 65% increase year-over-year. On a year-to-date basis, our adjusted EPS is already at $13.50 through nine months. While Q4 earnings are typically the lowest of the year, we are still on track to deliver very strong earnings in 2019, which bodes well for the strength of our business as we enter into the merger with Centene anticipated to close by the first half of 2020.

Adjusted total revenue of 7.1 billion in the quarter, which is 43% higher than Q3 of 2018 was driven by our acquisition of Meridian in September of 2018, as well as year-over-year organic growth in all three of our segments.

Let's go deeper into each line of business. Our Medicaid business experienced year-over-year adjusted premium revenue growth of 55%, driven by our acquisition of Meridian along with organic growth from our expanded footprint and mix of products in Florida. We were also pleased with the overall performance of the Medicaid business as our adjusted Medicaid MBR was 89.0% in Q3, down from 91.3% in the prior quarter. This is driven by strong execution on quality and healthcare affordability initiatives, as well as rates.

To follow up on last quarter's commentary, our Illinois business is making progress such that our current and projected performance no longer warrants a premium deficiency reserve or PDR. As such, we released the remaining 10.1 million in Q3, which was worth about 20 basis points on the adjusted Medicaid MBR. While we've made progress, there is still more wood to chop in Illinois. And while overall Medicaid performance was strong in the quarter, we are never satisfied and always looked for additional levers to improve the performance of our businesses and deliver value to our state customers.

As Ken mentioned, we continue to prepare for the North Carolina statewide contract. The startup spending for North Carolina continue to ramp up in Q3, as we incurred $9.2 million pre-tax or minus $0.14 of adjusted EPS during Q3. Those costs are embedded within adjusted earnings.

Our Medicare Advantage business certainly contributed to the strength of the Q3 earnings. The absolute MBR was very strong at 83.3% both for Q3 and year-to-date 2019. This is a great result that should bode well for 2020. We are pedal to the metal with the annual enrollment period and we're pleased to be able to hold aggregate benefits relatively flat in our overall Medicare Advantage product portfolio as previously planned, despite the return of the ACA.

Looking ahead to 2021, our aggregate economic positioning from recently released star ratings is consistent with our positioning in 2020 in terms of aggregate revenue and economic star capture. This is because the lift to 3.5 stars in many of our Medicare plans, including Georgia, Tennessee, Arkansas, Mississippi, South Carolina, HMO and Illinois, helped to offset a couple of our legacy Universal American age contracts which fell to 3.5 stars. As Ken stated, we have identified the root cause and have a plan to regain star momentum in these two contracts now that the Universal American integration is behind us.

Moving on to PDP. The strength in our PDP business continued from a membership, revenue and MBR perspective. Our membership and revenue grew 60% and 32% respectively year-over-year, and we liked the positioning of our products for 2020. The PDP MBR continues to track ahead of our expectations with a year-to-date MBR of 82.6 before we enter the fourth quarter, which has a seasonally lower MBR.

If you look at the public PDP data, we are well positioned in 2020 with multiple attractive products including year two of our Value Script product, which is performing very well in 2019, a new WellCare Wellness Rx PDP product we designed to be attracted to choosers and the best auto assign benchmark positioning since I've been at WellCare with 32 regions below the benchmark and two de minimis.

We continue to work on the integration of the Aetna PDP business and take the appropriate steps in 2019 to maximize aggregate PDP membership retention and growth, including legacy WellCare and Aetna products for 1/1/2020.

On one last pharmacy note, we continue to work through the PBM RFP with multiple parties as we seek to select the partner for 2021 and beyond, and expect to wrap up the RFP process in the fourth quarter of 2019.

Regarding other elements of the third quarter, the adjusted SG&A ratio at 7.6% for the quarter compares favorably to 8.5% in Q3 2018. The ratio at 7.2% year-to-date compares favorably to 8.1% in the same period in 2018. As Ken mentioned, very nice operating leverage in 2019.

Year-to-date favorable developments stands at 247 million versus 215 million in the same period in 2018. Days and claims payable was at 51.4, up from 48.8 days in Q2. Our adjusted effective income tax rate was 23.25% in the quarter, bringing the year-to-date rate to 22.8%. We had 434 million of cash on hand apparent compared to 249 million last quarter end and 1.2 billion available on our credit facility as of September 30th. Finally, our debt-to-capital ratio as of September 30th, 2019 was 29.5%.

We continue to work very well with Centene on integration planning, so that we can hit the ground running upon closing of the transaction. I am really pleased with the focus and execution by the WellCare team in 2019 and the resulting strength of our businesses as we work towards closing the transaction.

Thank you for your support at WellCare through the years, especially the last five. We appreciate your interest in WellCare.

Question-and-Answer Session

Q -

Operator

The conference has now concluded. And we thank you for attending today's presentation. You may now disconnect your lines.