

# Centene Corp

## Recommendation



## Price

\$89.54 (as of Sep 08, 2017 4:00 PM ET)

## 12-Mo. Target Price

\$84.00

## Report Currency

USD

## Investment Style

Large-Cap Growth

Equity Analyst **Jeffrey Loo, CFA**

## GICS Sector

Health Care

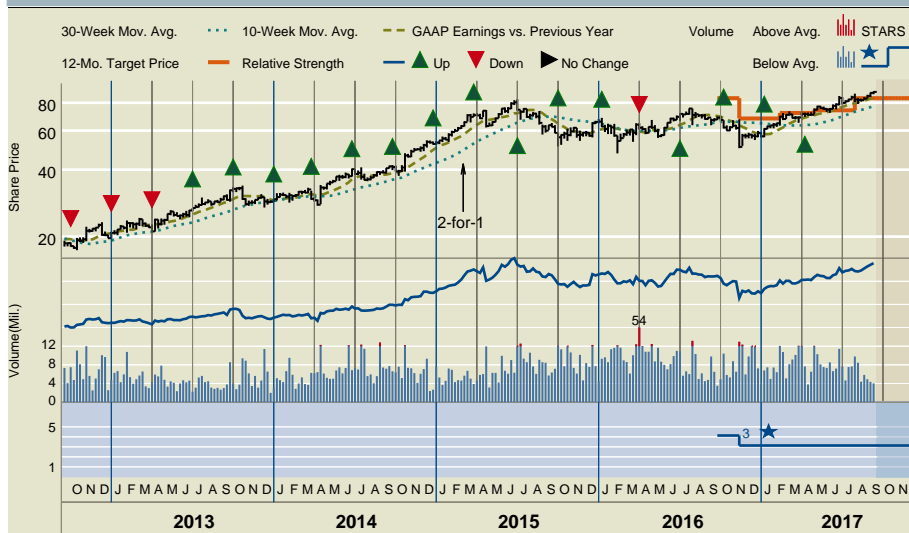
## Summary

CNC provides health insurance programs and services primarily to government-sponsored healthcare programs, in particular Medicaid and Medicare.

### Key Stock Statistics (Source CFRA, S&P Global Market Intelligence, Vickers, company reports)

52-Wk Range	<b>\$89.95–50.00</b>	Oper. EPS 2017E	<b>4.90</b>	Market Capitalization(B)	<b>\$15.444</b>	Beta	<b>0.93</b>
Trailing 12-Month EPS	<b>\$4.56</b>	Oper. EPS 2018E	<b>5.30</b>	Yield (%)	<b>Nil</b>	3-Yr. Proj. EPS CAGR(%)	<b>10</b>
Trailing 12-Month P/E	<b>19.6</b>	P/E on Oper. EPS 2017E	<b>18.3</b>	Dividend Rate/Share	<b>Nil</b>	S&P Quality Ranking	<b>B+</b>
\$10K Invested 5 Yrs Ago	<b>\$43,110</b>	Common Shares Outstg. (M)	<b>172.5</b>	Institutional Ownership (%)	<b>93</b>		

### Price Performance



Past performance is not an indication of future performance and should not be relied upon as such.

Analysis prepared by Equity Analyst **Jeffrey Loo, CFA** on Aug 02, 2017 05:45 PM, when the stock traded at **\$81.79**.

### Highlights

- We expect 2017 sales, including the Health Net acquisition, to rise 16.0% to \$47.1 billion, following the 78.4% rise in 2016. We look for health benefits ratios (HBR) of 87.2% in 2017, up from 86.5% in 2016, but down from 88.9% in 2015. We see 2017 SG&A expenses of 9.3% compared to 9.8% in 2016. CNC now offers government sponsored healthcare insurance in 25 states, but we think the company will limit pursuing more acquisitions following the election of Donald Trump as president. As of June 30, 2017 the company had 12.22 million members, including 2.8 million TRICARE eligibles, up from 11.43 million members at June 30, 2016.
- In March 2016, CNC completed its acquisition of Health Net for \$6.0 billion, which we think strengthened CNC's presence in western states and, in particular, California's Medicaid program, which is the country's largest, with more than 12 million members, as well as Medicaid and Medicare programs in Arizona, Oregon, and Washington.
- Our 2017 EPS estimate is \$4.90.

### Investment Rationale/Risk

- Although Senate failed to pass their healthcare repeal of the Affordable Care Act in July 2017, we anticipate share volatility and uncertainty whenever President Trump and the Republican-controlled Congress proposes changes to the ACA. We think the Medicaid expansion, which has significantly benefited CNC by driving membership growth, remains a target for elimination. We note, current proposals call for the elimination of the Medicaid Expansion in several years. Republicans also proposed to change Medicaid funding from a shared Federal and State responsibility to a block grant that states receive annually. Although the valuation of insurers with large Medicaid memberships contracted, we think the shares, trading at 16.1X our forward 12-months EPS estimate of \$5.08, close to Medicaid peers, are near fair value. We also note ongoing concerns regarding some Health Net substance abuse treatment facility claims, resulting in increased reserves.
- Risks include larger-than-expected increases in medical costs and non-renewal of various state Medicaid contracts.
- Our 12-month target price of \$84 is 16.5X our forward 12-months EPS estimate, near peers.

### Analyst's Risk Assessment

<b>LOW</b>	<b>MEDIUM</b>	<b>HIGH</b>
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Our risk assessment reflects CNC's successful expansion in Medicaid coverage and opportunities for geographic expansion through acquisitions or winning new contracts. However, we note that there is a risk of states reducing Medicaid reimbursement amid budget reviews.

### Revenue/Earnings Data

Revenue (Million \$)	1Q	2Q	3Q	4Q	Year
2017	11,724	11,954	--	--	--
2016	6,953	10,897	10,846	11,911	40,607
2015	5,131	5,506	5,821	6,302	22,760
2014	3,460	4,024	4,352	4,725	16,560
2013	2,646	2,726	2,804	2,932	10,863
2012	1,712	2,111	2,448	2,397	8,668

### Earnings Per Share (\$)

2017	0.79	<b>E1.26</b>	<b>E1.26</b>	<b>E1.10</b>	<b>E4.90</b>
2016	-0.13	0.98	0.84	1.45	3.41
2015	0.52	0.72	0.75	0.91	2.89
2014	0.29	0.40	0.67	0.87	2.22
2013	0.21	0.35	0.44	0.42	1.44
2012	0.23	-0.34	0.04	0.09	0.02

Fiscal year ended Dec. 31. Next earnings report expected: Late October. EPS Estimates based on CFRA Operating Earnings; historical GAAP earnings are as reported in Company reports.

### Dividend Data

No cash dividends have been paid.

Past performance is not an indication of future performance and should not be relied upon as such.

# Centene Corp



## Business Summary August 02, 2017

Centene Corporation provides programs and services to government sponsored healthcare programs, focusing on under-insured and uninsured individuals, in particular Medicaid and Medicare.

The company provides member-focused services through locally based staff by assisting in accessing care, coordinating referrals to related health and social services, and addressing member concerns and questions. It also provides education and outreach programs to inform and assist members in accessing quality, appropriate healthcare services.

The company operates in two segments: Managed Care and Specialty Services. The Managed Care segment provides health plan coverage to individuals through government subsidized programs, including Medicaid, the State Children's Health Insurance Program (CHIP), long term care (LTC), Foster Care, dual-eligible individuals (Duals) and the Supplemental Security Income Program, also known as the Aged, Blind or Disabled Program, or collectively ABD.

Beginning in 2014, the company's Managed Care segment also provides health plan coverage to individuals covered through federally-facilitated and state-based Health Insurance Marketplaces. Its Managed Care membership totaled 5.1 million as of December 31, 2015. Following the March 2016 acquisition of Health Net, Inc., CNC's membership increased to about 11.4 million members including 2.8 million TRICARE eligibles.

CNC's Specialty Services segment offers diversified healthcare services and products to state programs, correctional facilities, healthcare organizations, employer groups and other commercial organizations, as well as to its own subsidiaries. For the year-ended December 31, 2015, Managed Care and Specialty Services segments accounted for 90% and 10%, respectively, of CNC's total external premium and service revenues.

The company's health plans provide various services, such as primary and specialty physician care; inpatient and outpatient hospital care; emergency and urgent care; prenatal care; laboratory and x-ray services; home health and durable medical equipment; behavioral health and substance abuse services; 24-hour nurse advice line; transportation assistance; vision care; dental care; immunizations; prescriptions and limited over-the-counter drugs; specialty pharmacy; therapies; social work services; and care coordination.

**Pharmacy Solutions:** Services include claims processing, pharmacy network management, benefit design consultation, drug utilization review, formulary and rebate management, online drug management tools, mail order pharmacy services, home delivery services, analytics and clinical consulting and patient and physician intervention. AcariaHealth offers specialized care management services for complex diseases and enhances the patient care offering through collaboration with providers and the capture of relevant data to measure patient outcomes.

**Health, Triage, Wellness and Disease Management Services:** The company's networks feature a range of services and levels of care to help people with mental illness reach their recovery and wellness goals. It utilizes telephonic health and work/life balance coaching, in-home and online interaction and informatics processes to deliver clinical outcomes and enhanced patient-provider satisfaction. The company offers telehealth services where members reach bilingual customer service representatives and nursing staff who provide health education, triage advice and offer continuous access to health plan functions.

## Corporate Information

**Investor Contact**  
E.E. Kroll (212-759-0382)

**Office**  
Centene Plaza, 7700 Forsyth Boulevard, St. Louis, MO 63105.

**Telephone**  
314-725-4477.

**Fax**  
314-558-2428.

**Email**  
investors@centene.com

**Website**  
<http://www.centene.com>

### Officers

**Chrmn, CEO & Pres**  
M.F. Neidorff

**EVP, Secy & General Counsel**  
K.H. Williamson

**EVP, CFO & Treas**  
J.A. Schwaneke

**SVP, Chief Acctg Officer & Cntrl**  
C.R. Isaak

**EVP & Chief Admin Officer**  
C.E. Goldman

### Board Members

R. K. Ditmore  
R. A. Gephardt  
M. F. Neidorff  
D. L. Steward

F. H. Eppinger, Jr.  
O. A. Lozano  
J. R. Roberts  
T. G. Thompson

**Domicile**  
Delaware

**Auditor**  
KPMG

**Founded**  
1993

**Employees**  
30,500

**Stockholders**  
322

# Centene Corp

## Quantitative Evaluations

<b>Fair Value Rank</b>	4-	1	2	3	4	5
		LOWEST				HIGHEST

Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

<b>Fair Value Calculation</b>	<b>\$103.80</b>	Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that CNC is slightly undervalued by \$14.26 or 15.9%.
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<b>Investability Quotient Percentile</b>	<b>97</b>	LOWEST = 1 HIGHEST = 100
		CNC scored higher than 97% of all companies for which a Report is available.

<b>Volatility</b>	<b>LOW</b>	<b>AVERAGE</b>	<b>HIGH</b>
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<b>Technical Evaluation</b>	<b>BULLISH</b>	Since March, 2017, the technical indicators for CNC have been BULLISH.
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<b>Insider Activity</b>	<b>UNFAVORABLE</b>	<b>NEUTRAL</b>	<b>FAVORABLE</b>
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## Expanded Ratio Analysis

	2016	2015	2014	2013
Price/Sales	0.23	0.36	0.38	0.31
Price/Pretax Income	8.01	11.62	13.68	12.33
P/E Ratio	16.58	22.75	23.32	20.57
Avg. Diluted Shares Outstg (M)	164.0	123.1	120.4	112.5

Figures based on calendar year-end price

## Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	78.41	53.32	46.90	33.13
Net Income	57.02	49.39	NM	24.96

## Ratio Analysis (Annual Avg.)

	1.38	1.52	1.21	1.65
Net Margin (%)				
Return on Equity (%)	13.88	16.71	16.22	15.62

## Company Financials Fiscal Year Ended Dec. 31

Per Share Data (\$)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Tangible Book Value	NM	9.64	7.35	7.57	6.47	6.16	4.91	4.09	3.73	2.99
Cash Flow	NA	NA	NA	NA	NA	NA	NA	NA	1.30	0.77
Earnings	3.41	2.89	2.23	1.44	0.02	1.06	0.90	0.97	0.95	0.46
Core Earnings	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Dividends	NA	NA	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Payout Ratio	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Prices:High	75.57	83.00	54.24	33.92	25.49	20.41	13.22	11.25	14.25	13.87
Prices:Low	47.36	50.93	27.56	20.29	12.13	12.54	8.80	7.50	6.55	8.83
P/E Ratio:High	22	NM	24	24	NM	19	15	12	15	30
P/E Ratio:Low	14	NM	12	14	NM	12	10	8	7	19

## Income Statement Analysis (Million \$)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenue	40,607	22,760	16,560	10,863	8,668	5,341	4,448	4,103	3,365	2,919
Operating Income	NA	NA	NA	NA	NA	NA	NA	NA	162	89.1
Depreciation	NA	NA	NA	NA	NA	NA	NA	NA	30.9	25.6
Interest Expense	217	43.0	35.0	27.0	20.5	20.3	18.0	16.3	16.7	15.6
Pretax Income	1,157	697	457	269	-11.6	175	154	138	137	63.6
Effective Tax Rate	51.8%	48.6%	42.9%	39.8%	NM	38.0%	38.8%	35.5%	38.4%	35.2%
Net Income	559	356	268	161	1.86	108	94.4	86.1	84.2	41.3
Core Earnings	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

## Balance Sheet & Other Financial Data (Million \$)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Cash	3,930	1,760	1,546	974	844	574	434	401	371	315
Current Assets	NA	NA	NA	NA	NA	NA	NA	NA	666	446
Total Assets	20,197	7,339	5,838	3,529	2,742	2,190	1,944	1,702	1,451	1,119
Current Liabilities	NA	NA	NA	NA	NA	NA	NA	NA	641	487
Long Term Debt	4,713	1,218	888	666	535	348	328	307	265	206
Common Equity	5,895	2,157	1,744	1,234	953	936	794	601	501	415
Total Capital	NA	NA	NA	NA	NA	NA	NA	NA	766	622
Capital Expenditures	NA	NA	NA	NA	NA	NA	NA	NA	65.2	53.9
Cash Flow	NA	NA	NA	NA	NA	NA	NA	NA	115	66.8
Current Ratio	1.0	1.0	1.1	1.2	1.2	1.1	0.9	0.9	1.0	0.9
% Long Term Debt of Capitalization	43.8	34.3	31.9	34.8	35.9	27.1	29.1	33.8	34.5	33.2
% Net Income of Revenue	NA	NA	NA	NA	NA	2.0	2.1	2.1	2.5	1.4
% Return on Assets	4.1	5.4	5.7	5.1	NA	5.2	5.2	5.5	6.6	4.1
% Return on Equity	13.9	18.3	18.0	14.7	NA	12.5	13.5	15.6	18.4	11.1

Data as originally reported in Company reports.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

# Centene Corp

## Sub-Industry Outlook

Our fundamental outlook for the managed health care sub-industry for the next 12 months remains positive. However, with the Presidential election of Donald Trump and the Republicans retaining control of Congress, we believe the GOP has the ability to substantially alter the Affordable Care Act (ACA). Although health insurers have seen a sizable increase in membership, driven by the ACA, many have reported operating losses as these new members have utilized health care services at a higher rate. Several large insurers have drastically reduced their health care exchange offerings in 2017 as a result of these losses. Insurers that have a large Medicaid presence benefited from the ACA through the Medicaid expansion, but we think this may be in jeopardy as Republicans have threatened to repeal and replace the ACA and to potentially eliminate the individual mandate and Medicaid expansion components of the law. According to the Department of Health and Human Services (HHS), approximately 22 million people have obtained health insurance coverage, primarily through the Medicaid expansion and the public health exchanges since the ACA was passed in 2010. Since October 2013, when enrollment for Medicaid expansion began, membership increased 28.4% to 72.4 million from 56.4 million. In 2016, 12.7 million people signed up for insurance through the public health care exchanges.

To help pay for health care reform, managed care organizations (MCOs) face nondeductible fees totaling \$67 billion during a 10-year period beginning in 2014. These fees and taxes include the Comparative Effectiveness Research Fee, Reinsurance Fee, Health Insurance Industry Fee, and the Excise "Cadillac" Tax. The Health Insurance Industry Fee started at \$8 billion in 2014 and increases every year to reach \$14.3 billion in 2018. After 2018, the fee will increase with premium

growth. However, the Health Insurance Industry Fee was temporarily suspended for 2017. Meanwhile, the law placed certain restrictions on the group starting in 2010. Beginning in 2011, commercial plans faced floors for medical spending as a percentage of premiums (referred to as the medical cost ratio -- MCR, or medical loss ratio -- MLR). In 2014, Medicare Advantage (MA) plans begin to face MCR floors.

To encourage health insurer participation in the public health insurance exchanges, the health care reform law included provisions designed to help insurers manage financial risks as the law requires the insurers to accept every person regardless of their health status. Also, the law prohibits medical underwriting based on a person's health status, so therefore insurers can not adjust premiums based on health status. The law's provisions to help insurers' manage financial risk are known as the "3 R's" for risk corridors, reinsurance, and risk adjustment. Risk corridors essentially limits a plan's losses and profits. Actual claims are compared to the claims anticipated when the insurers set their premiums. If actual claims are below the anticipated claims, then the insurer returns part of the premiums. If actual claims are higher, then HHS reimburses the insurer. Risk adjustment redistributes money from insurers that are covering healthier people to insurers who have a membership enrollment consisting of sicker patients. The reinsurance provision compensates insurers who have enrollees with substantial high claims.

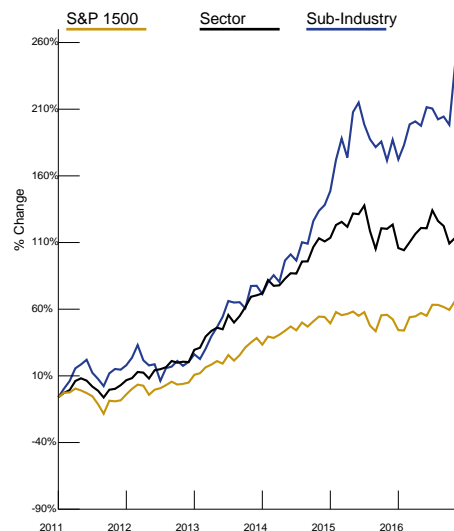
In 2016, the S&P Managed Health Care Index rose 18.2% vs. a 10.6% rise in the S&P 1500 Composite Index.

--Jeffrey Loo, CFA

## Industry Performance

**GICS Sector: Health Care**  
**Sub-Industry: Managed Health Care**

Based on S&P 1500 Indexes  
Five-Year market price performance through Sep 9, 2017



**NOTE:** All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

Past performance is not an indication of future performance and should not be relied upon as such.

## Sub-Industry : Managed Health Care Peer Group\*: Based on market capitalizations within GICS Sub-Industry

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	S&P Quality Ranking	IQ %ile	Return on Revenue (%)	LTD to Cap (%)
<b>Centene Corp</b>	<b>CNC</b>	<b>15,444</b>	<b>89.54</b>	<b>89.95/50.00</b>	<b>0.93</b>	<b>Nil</b>	<b>20</b>	<b>103.80</b>	<b>B+</b>	<b>97</b>	<b>NA</b>	<b>43.8</b>
Amacore Group 'A'	ACGI	NA	0.00	0.09/0.00	NM	Nil	NM	NA	NR	NA	NA	NA
Anthem Inc Corp Unit	ANTX	NA	52.20	54.24/41.00	NA	5.0	NM	NA	NR	99	NA	NA
Comprehensive Care	CHCR	10	0.16	7.44/0.05	NM	Nil	NM	NA	C	17	NA	NA
HealthEquity Inc	HQY	2,677	44.64	54.95/30.34	NA	Nil	67	44.20	NR	80	NA	NA
Magellan Health	MGLN	1,941	81.95	84.71/49.50	0.62	Nil	23	103.40	B	94	NA	12.7
Triple-S Management 'B'	GTS	585	24.11	25.41/15.05	0.92	Nil	32	26.20	B	70	NA	3.9
Universal American	UAM	NA	0.00	10.12/6.97	1.29	Nil	NM	NA	C	18	NA	33.0

NA-Not Available NM-Not Meaningful NR-Not Rated. \*For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

**Centene Corp****Analyst Research Notes and other Company News****July 25, 2017**

04:44 pm ET ... CFRA KEEPS HOLD OPINION ON SHARES OF CENTENE CORPORATION (CNC 82.85\*\*\*): We raise our 12-month target \$10 to \$84 on below-peers 16.5X our forward 12-months EPS estimate of \$5.06. Q2 EPS of \$1.59 vs. \$1.29 is \$0.33 ahead of our estimate. We raise our 2017 EPS estimate \$0.20 to \$4.90. Sales rose 10% on a 788K increase in membership to 12.2 million members. Health benefit ratio improved 30bps to 86.3%. We are encouraged by CNC's robust membership growth, but remain cautious as Congressional Republicans continue to work on a healthcare bill. There continues to be significant uncertainty, but we believe Medicaid cuts will remain a target for Republicans. /Jeffrey Loo, CFA

**April 26, 2017**

05:04 pm ET ... CFRA KEEPS HOLD OPINION ON SHARES OF CENTENE CORPORATION (CNC 72.80\*\*\*): We raise our 12-month target \$2 to \$74 on below peers 15.7X our 2017 EPS estimate of \$4.70, up \$0.05. Q1 EPS of \$1.12 vs. \$0.74 is \$0.07 ahead of our estimate. Membership rose 5% or by 605K to 12.1 million members. CNC's health benefit ratio fell 110bps to 87.6%. Amid uncertainty over the Republicans' efforts to repeal the Affordable Care Act, and in particular, the Medicaid expansion component, we remain cautious on CNC's mid-term growth. CNC has enrolled about 1.1 million members through the Medicaid expansion. CNC raises its 2017 EPS guidance to \$4.50-\$4.90 from \$4.40-\$4.85. /Jeffrey Loo, CFA

**March 6, 2017**

On March 1, 2017, Vicki B. Escarra informed Centene Corporation that continued service on the Board of Directors would unduly interfere with a business opportunity, and as a result had decided not to stand for reelection to its Board of Directors at the company's 2017 Annual Meeting of Stockholders.

**February 21, 2017**

Centene Corporation announced the appointment of former Missouri Attorney General Chris Koster to Senior Vice President, Corporate Services effective February 20, 2017. Mr. Koster will report directly to Chairman, President and CEO Michael F. Neidorff, and will assist in business-related issues, outside of Government Relations, for Centene's locally-based health plans across the country. Mr. Koster served as Missouri Attorney General for the past eight years. Before he was elected Attorney General, he served in the Missouri Senate for four years, and Prosecuting Attorney in Cass County for 10 years.

**February 7, 2017**

01:33 pm ET ... S&P CAPITAL IQ KEEPS HOLD OPINION ON SHARES OF CENTENE CORPORATION (CNC 67.29\*\*\*): We raise our 12-month target price \$4 to \$72 on slightly below peers 15.5X our 2017 EPS estimate of \$4.65, down \$0.20. We set our 2018 EPS estimate at \$5.30. Q4 EPS of \$1.19 vs. \$0.97 is \$0.08 ahead of our estimate. Health benefits ratio of 84.8% improved 320 basis points and benefited from HealthNet's higher commercial business mix. CNC ended 2016 with 11.4 million members, up 124%, aided by acquisitions, but we are cautious on growth amid uncertainty over the future of the Medicaid expansion. CNC guides 2017 sales of \$46.0B-\$46.8B and EPS of \$4.40-\$4.85. /Jeffrey Loo, CFA, /

**November 10, 2016**

12:03 pm ET ... S&P CAPITAL IQ LOWERS OPINION ON SHARES OF CENTENE TO HOLD FROM BUY (CNC 55.22\*\*\*): We lower our 12-month target \$16 to \$68 on below peers 14.5X our forward 12-months EPS of \$4.69 following Donald Trump's presidential election along with continued Republican control of Congress. Although Republicans did not obtain a 60-person super majority in the Senate and our belief Democrats will use a filibuster to try to stop drastic changes to the ACA, we believe several ACA related benefits could end. We believe Republicans will try to end the Medicaid expansion which has been the main growth driver for MOH. We also see a much lower appetite for acquisitions now. /Jeffrey Loo, CFA

**November 9, 2016**

12:03 pm ET ... S&P CAPITAL IQ LOWERS OPINION ON SHARES OF CENTENE TO HOLD FROM BUY (CNC 55.22\*\*\*): We lower our 12-month target \$16 to \$68 on below peers 14.5X our forward 12-months EPS of \$4.69 following Donald Trump's presidential election along with continued Republican control of Congress. Although Republicans did not obtain a 60-person super majority in the Senate and our belief Democrats will use a filibuster to try to stop drastic changes to the ACA, we believe several ACA related benefits could end. We believe Republicans

will try to end the Medicaid expansion which has been the main growth driver for MOH. We also see a much lower appetite for acquisitions now. /Jeffrey Loo, CFA

**November 9, 2016**

K. Rone Baldwin, Executive Vice President of Markets, has announced that he will be leaving Centene Corporation in December 2016 in order to pursue other interests. Christopher D. Bowers, Senior Vice President of Health Plans, has assumed Mr. Baldwin's responsibilities, effective as of November 7, 2016. Mr. Bowers has been with the company in positions with increasing levels of responsibility since 2002.

**October 26, 2016**

03:53 pm ET ... CFRA REITERATES BUY OPINION ON SHARES OF CENTENE CORPORATION (CNC 65.01\*\*\*\*): We keep our 12-month target at \$84 on in-line to peers 17.9X our next 12-months EPS estimate of \$4.69. Q3 EPS of \$1.11 vs. \$0.87 is \$0.06 below our estimate, but included a \$0.05 risk adjustment charge. We lower our 2016 EPS estimate \$0.07 to \$4.30. Sales, including Health Net, rose 86% while its medical loss ratio was 87.0%. Membership rose 6.6M to 11.4M. CNC recorded a premium deficiency reserve of \$300M due to unfavorable performance in Health Net's operations. But we believe CNC is addressing these issues with plan design changes and price increases and exiting some markets. /Jeffrey Loo, CFA

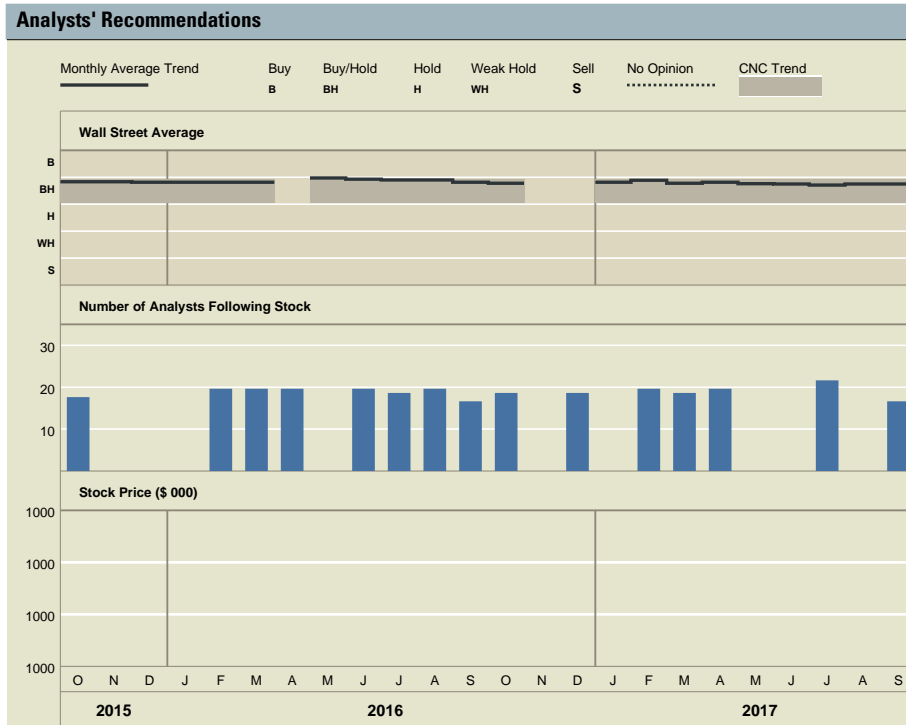
**October 25, 2016**

03:53 pm ET ... CFRA REITERATES BUY OPINION ON SHARES OF CENTENE CORPORATION (CNC 65.01\*\*\*\*): We keep our 12-month target at \$84 on in-line to peers 17.9X our next 12-months EPS estimate of \$4.69. Q3 EPS of \$1.11 vs. \$0.87 is \$0.06 below our estimate, but included a \$0.05 risk adjustment charge. We lower our 2016 EPS estimate \$0.07 to \$4.30. Sales, including Health Net, rose 86% while its medical loss ratio was 87.0%. Membership rose 6.6M to 11.4M. CNC recorded a premium deficiency reserve of \$300M due to unfavorable performance in Health Net's operations. But we believe CNC is addressing these issues with plan design changes and price increases and exiting some markets. /Jeffrey Loo, CFA

**September 20, 2016**

12:54 pm ET ... S&P GLOBAL INITIATES COVERAGE ON SHARES OF CENTENE WITH A BUY OPINION (CNC 67.47\*\*\*\*): We initiate coverage on health insurer CNC with a Buy recommendation and a 12-month target of \$84, based on in-line to peers 18.3X our forward 12-months EPS estimate of \$4.60. We set '16 and '17 EPS estimates at \$4.37 and \$4.85. We believe the shares trading at 14.6X our forward 12-month EPS estimate, below peers, are attractively valued. The shares should trade in-line with peers as we balance robust sales growth with its dependence on government programs that generate lower margins, in our view. We see CNC growing its market share through geographic expansion and acquisitions. /Jeffrey Loo, CFA

# Centene Corp



### Wall Street Consensus Opinion

**BUY/HOLD**

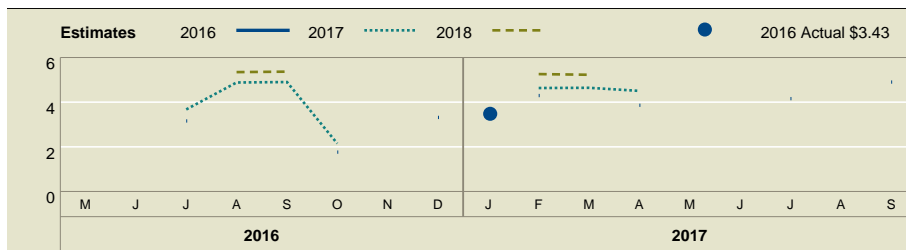
### Companies Offering Coverage

- BofA Merrill Lynch
- Cantor Fitzgerald & Co.
- Citigroup Inc
- Cowen and Company
- Deutsche Bank
- Evercore ISI
- JP Morgan
- Jefferies LLC
- Leerink Partners LLC
- Morgan Stanley
- Oppenheimer & Co. Inc.
- Piper Jaffray Companies
- Raymond James & Associates
- Sanford C. Bernstein & Co., Inc.
- Wells Fargo Securities, LLC
- Wolfe Research, LLC.

Of the total 16 companies following CNC, 16 analysts currently publish recommendations.

	No. of Recommendations	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	9	56	9	0
Buy/Hold	2	12	2	0
Hold	5	31	5	0
Weak Hold	0	0	0	0
Sell	0	0	0	0
No Opinion	0	0	0	0
<b>Total</b>	<b>16</b>	<b>100</b>	<b>16</b>	<b>0</b>

### Wall Street Consensus Estimates



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2018	5.42	5.64	5.07	15	16.5
2017	4.95	5.06	4.75	15	18.1
<b>2018 vs. 2017</b>	<b>▲ 9%</b>	<b>▲ 11%</b>	<b>▲ 7%</b>	<b>0%</b>	<b>▼ -9%</b>
Q3'18	1.41	1.46	1.35	6	63.5
Q3'17	1.23	1.34	1.11	13	72.8
<b>Q3'18 vs. Q3'17</b>	<b>▲ 15%</b>	<b>▲ 9%</b>	<b>▲ 22%</b>	<b>▼ -54%</b>	<b>▼ -13%</b>

### Wall Street Consensus vs. Performance

For fiscal year 2017, analysts estimate that CNC will earn US\$ 4.95. For the 2nd quarter of fiscal year 2017, CNC announced earnings per share of US\$ 1.44, representing 29% of the total annual estimate. For fiscal year 2018, analysts estimate that CNC's earnings per share will grow by 9% to US\$ 5.42.

A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

## Glossary

### STARS

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (STock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

### S&P Capital IQ Quality Ranking

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Capital IQ's earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization
NR Not Ranked	

### EPS Estimates

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

### Core Earnings

Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

### 12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

### CFRA Equity Research

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### Abbreviations Used in Equity Research Reports

CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
CY - Calendar Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model
EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization
EPS - Earnings Per Share
EV - Enterprise Value

FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value
PEG Ratio - P/E-to-Growth Ratio
PV - Present Value
R&D - Research & Development
ROCE - Return on Capital Employed
ROE - Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
SG&A - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

### Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

### Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

### STARS Ranking system and definition:

#### ★★★★★ 5-STARS (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

#### ★★★★☆ 4-STARS (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

#### ★★★☆☆ 3-STARS (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

#### ★★☆☆☆ 2-STARS (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

#### ★☆☆☆☆ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

### Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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### Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

### STARS Stock Reports and Quantitative Stock Reports:

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### STARS Stock Reports:

#### Global STARS Distribution as of June 30, 2017

Ranking	North America	Europe	Asia	Global
Buy	37.4%	25.9%	36.6%	35.4%
Hold	55.1%	56.1%	39.4%	53.5%
Sell	7.5%	18.0%	24.0%	11.1%
Total	100%	100%	100%	100%

### Analyst Certification

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