

The Henry Fund

Henry B. Tippie College of Business
John Agraz [John-agraz@uiowa.edu]



Humana Inc. (HUM)

Health Care – Managed Health Care

September 09, 2022

Stock Rating

BUY

Investment Thesis

We recommend a **BUY** for Humana Inc. with a target share price of \$535 - \$550, representing a 12.0% to 15.0% upside. Humana has a strong presence in the growing Medicare market, and we believe the Company is positioned well to improve margins through Value-Based Care and Home-Based Care offerings.

Drivers of Thesis

- The Company has 68% of their Medicare Advantage (“MA”) members in Value-Based Care (“VBC”) arrangements and is committed to expanding their VBC contracts. We forecast their Medical Benefits Ratio (“MBR”) to improve by 200 basis points by 2024.
- Roughly 50% of eligible Medicare beneficiaries are enrolled in MA plans and MA enrollment is expected to reach 58% by 2026. ^[1] We forecast Humana’s Medicare revenue to grow at a 5.0% 5-year CAGR.
- Humana has home-health care offerings, and we are convinced that home-health will gain in popularity over the next 5-years. We forecast services revenue to grow at a 13% 5-year CAGR.

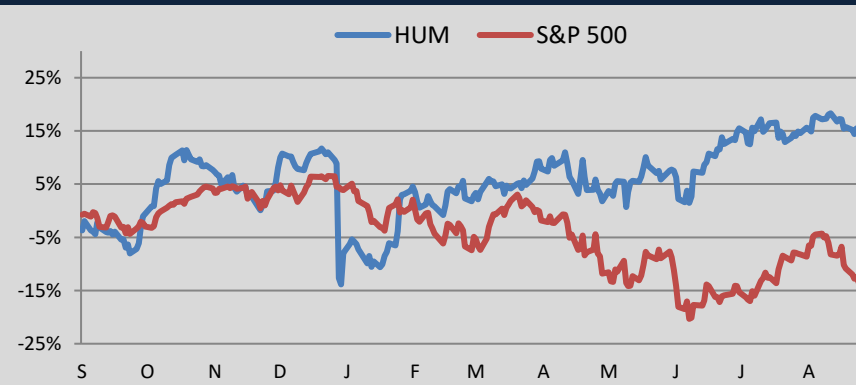
Risks to Thesis

- The MA market is extremely competitive, and we expect the Company may have a hard time growing their MA base. To be conservative, we forecast the company to add 422,000 MA members over the next 5-years.
- Humana may have trouble expanding VBC contracts, which may prevent them from improving their MBR to 85% by 2024. All else equal we believe an MBR of 85% is realistic, Humana had an MBR lower than 84% in 2018.

Earnings Estimates

Year	2019	2020	2021	2022E	2023E	2024E
EPS GAAP	\$20.19	\$25.47	\$20.64	\$20.83	\$27.26	\$30.91
HF est.				\$21.34	\$28.23	\$39.94
growth		26.15%	-18.96%	3.39%	32.28%	41.48%

12 Month Performance



Target Price

\$535-\$550

Henry Fund DCF	\$582
Henry Fund DDM	\$446
Relative Multiple	\$468

Price Data

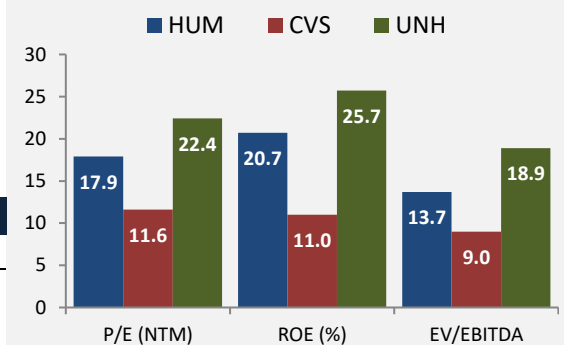
Current Price	\$478.50
52wk Range	\$351.20 – 504.99
Consensus 1yr Target	\$535.00

Key Statistics

Market Cap (B)	\$61.5
Shares Outstanding (M)	\$126.6
Institutional Ownership	95.2%
Beta	1.31
Dividend Yield	0.6%
Est. 5yr Growth	12.8%
Price/Earnings (TTM)	19.8x
Price/Earnings (FY1)	22.8x
Price/Sales (FY2)	17.2x
Price/Book (mrq)	3.8x

Profitability

Operating Margin	3.79%
Net Profit Margin	3.53%
Return on Assets	7.40%
Return on Equity	20.7%

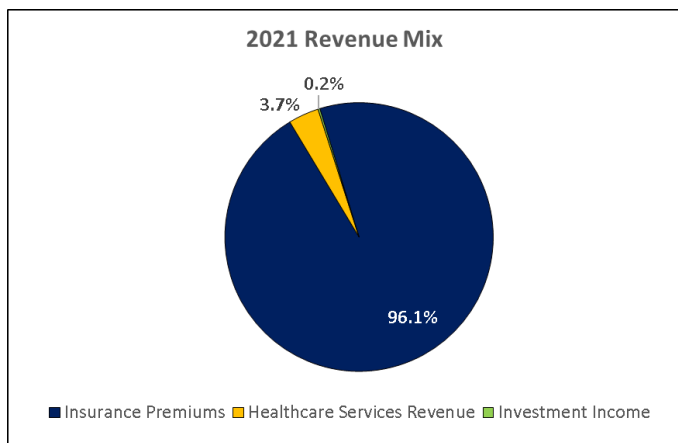


Company Description

Humana Inc. (“HUM” or the “Company”) is a Managed Care Organization (“MCO”) that offers health insurance products as well as health care services. During 2021A, Humana provided health care coverage to ~17.6 million members located in all 50 States and Puerto Rico. During the same year, the Company processed approximately 515 million prescriptions through their own Pharmacy Benefits Manager (“PBM”) and had 68% of their MA members in value-based care delivery models. The Company was founded in 1961, and is based out of Louisville, KY.

COMPANY OVERVIEW

The Company has three sources of revenue: Insurance Premiums, Healthcare Services Revenue, and Investment Income. Below is a breakdown of Humana’s 2021 revenue.

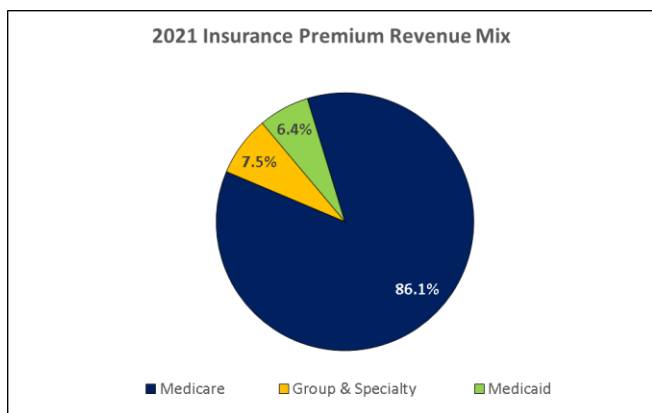


Source: Humana 2021 Annual Report

Insurance Premiums

As shown above, Humana makes most of their revenue through insurance premiums. Insurance premium revenue can be broken into three types of medical memberships.

1. Medicare
2. Group and Specialty
3. Medicaid



Source: Humana 2021 Annual Report

Medicare

As displayed, the Company relies heavily on their Medicare memberships for insurance premium revenue. Medicare is a federal government program that provides people aged

65 and older and chronically disabled people under the age of 65 medical insurance.

The Company has three primary Medicare memberships:

1. Medicare Advantage
2. Medicare Part D
3. Medicare Supplement

Group and Specialty

Humana’s Group and Specialty segments accounted for approximately 7.5% of 2021 insurance premium revenue. In our model, we broke this segment into three groups:

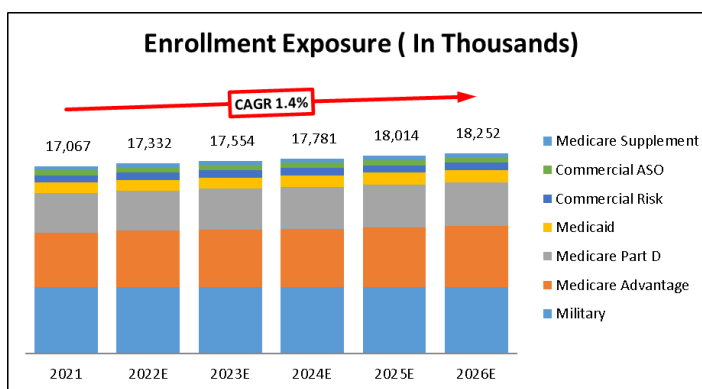
1. Commercial Risk
2. Commercial ASO
3. Military

It’s important to note that the Military category represents contracts which Humana provides administrative services to members while the federal government retains all risk associated with health care costs. [2]

Medicaid

The Company’s smallest segment of insurance premium revenue during 2021 was Medicaid. As of 2nd quarter 2022, Humana had a little over a million members under State-based Medicaid contracts. In August of 2022, the Company added ~17,000 Medicaid members through its acquisition of Inclusa, Inc. a MCO based out of Wisconsin. [3]

Enrollment Exposure



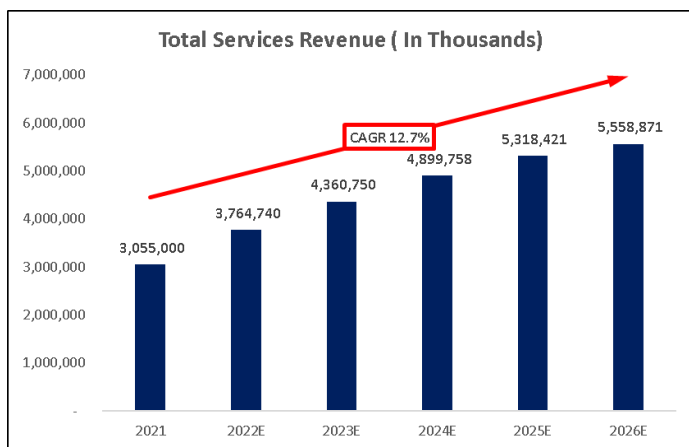
Source: Humana 2021 Annual Report, Henry Fund Model

Above is Humana’s enrollment exposure and our forecast of total number of members. Over the next five years, we expect that total members will grow at a CAGR of 1.4%. We

don't believe the Company will add a significant number of members over our forecasted period; however, we expect increases in revenue per member. Given that healthcare costs have continued to rise, we believe the Centers for Medicare & Medicaid Services organization ("CMS") will continue to increase reimbursement rates. As a result, we expect insurance premium sales to grow at a 5-year CAGR of 5%. Again, primarily driven by increases in Medicare and Medicaid revenue per member. We forecast Group and Specialty premiums revenue to grow at a 5-year CAGR of 3%.

Healthcare Services Revenue

Humana's healthcare services include pharmacy, provider, and in-home services. In our model, we expect to see the most growth in this revenue segment. We believe Humana is determined to diversify its revenue mix and will see growth in all healthcare service offerings. Additionally, we are convinced the Company will benefit significantly as MCOs and providers encourage patients to receive care in home-based settings.



Source: Humana 2021 Annual Report, Henry Fund Model

Pharmacy Services

The Company's pharmacy services include its PBM and pharmacy mail order business. As the industry encourages more patients to receive in-home care, we believe this will enable patients to order their prescriptions through the mail. Since Humana does not rely on the typical brick-and-mortar pharmacy, the shift towards mail-order services will benefit them. As Humana scales its pharmacy mail order business, their PBM will be more competitive. We forecast the pharmacy services segment to grow at a 5-

year CAGR of 15.69%. In 2021, they had about \$2.2 billion worth of revenue from pharmacy services, and we forecast \$4.5 billion worth of sales by 2026.

Provider Services

Humana operates full-service medical centers across nine U.S. States. The Company's Primary Care Organization ("PCO") employs or contracts with ~1,000 primary care providers across ~205 clinics. One of the goals of the PCO is to increase value-based care ("VBC") offerings. As VBC offerings increase, Humana will gain more control over their benefits expense ratio, leading to higher margins. Additionally, as VBC offerings increase, Humana's services revenues will grow and become more predictable due to the per member per month ("PMPM") arrangement for every patient within a VBC plan.

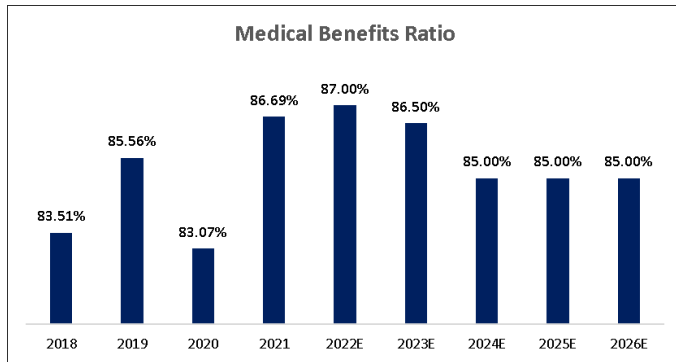
Home Services

The Company has in-home care offerings through two business segments – Humana at Home and Kindred at Home ("KAH"). Humana at Home provides care for patients living with chronic conditions and patients with disabilities. KAH is one of the nation's largest home health and hospice providers, which serves patients across 40 states. The Company acquired KAH in August 2021 and divested its majority interest in the hospice business in April 2022. We believe this divestiture will allow the Company to focus on the recent rollout of its value-based home care model. We will go into more details on KAH in a later section.

Investment Income

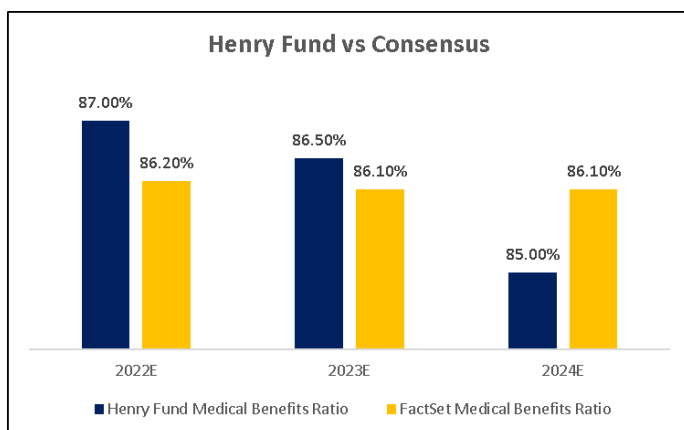
At the end of 2021, The Company's balance sheet had investment securities worth over \$13 billion. Humana's investment portfolio consists primarily of debt securities, of which 95% are investment-grade quality. Our model assumes that the Company's portfolio will yield a return equivalent to the risk-free rate. The Henry Fund team has chosen the 10-year treasury as our risk-free rate. Given the current economic climate, we wanted to be conservative with our investment income projections. However, we recognize that Humana's yield on its investment securities could be higher than the 10-year treasury. Additionally, as we expect that rates will be rising in the future, Humana should benefit from higher rates on the short end of the yield curve.

Cost Structure Analysis



Source: FactSet, Henry Fund Model

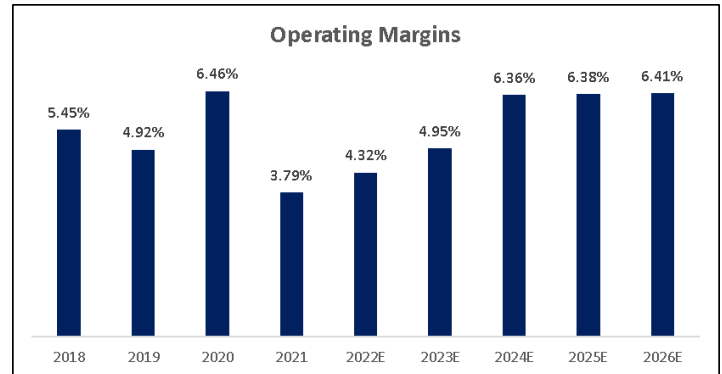
Above displays, the Company’s historical Medical Benefits Ratio (“MBR”) and our models projected MBR. The MBR is the percentage of premium revenues the Company spends on medical care for its members. As of the 2nd quarter of this year, Humana’s MBR is roughly 86.1%. We believe this will jump to 87% by the end of the year. Given the Company has a lot of exposure to the costliest people within the population, we wanted to be conservative with our forecast. We believe the MBR will stay relatively elevated until 2023 but will improve by 200 basis points by 2024. We think by 2024, VBC contracts for in-home care and other specialized care will have greatly expanded, which will improve margins. As displayed below, we are more bearish on Humana’s MBR relative to the street for 2022E and 2023E; however, we believe the street is overly pessimistic for the MBR in 2024E. As compared to earlier years, we don’t believe that an MBR of 85% by 2024E is unachievable.



Source: FactSet, Henry Fund Model

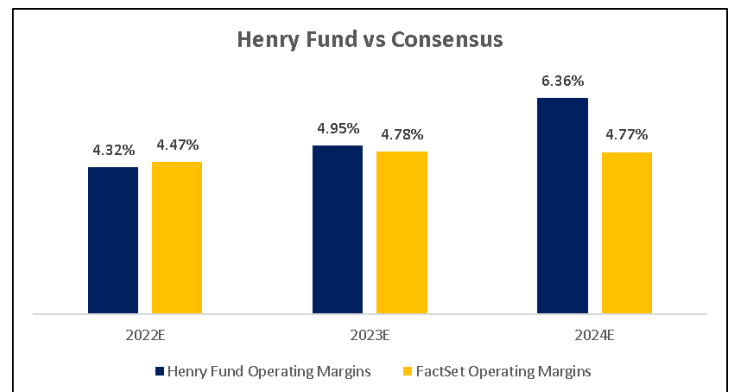
Operating Margins

As shown below, our model forecasts Humana to improve operating margins in the coming years. The main driver for margin improvements is our expectation that Humana will be able to lower their MBR to 85% by 2024.



Source: FactSet, Henry Fund Model

Since we expect considerable margin improvements, we must understand where we stand against consensus. As shown below, relative to the street, we are more conservative on operating margins for 2022E and 2023E. Of course, this is mainly to do with our MBR projections. Given current economic conditions, we feel comfortable being more cautious with Humana’s margins until 2024.



Source: FactSet, Henry Fund Model

Debt Maturity Analysis

Humana has nearly \$13 billion worth of debt outstanding as of Q2 2022. The required repayment of ~\$1.9 billion in 2022 is down to \$1.0 billion as of August 2022. Given the recurring cash flows of the business, we are not concerned with the Company’s ability to pay off debt obligations. We believe Humana may refinance some of its debt maturing in 2023. As shown below, the Company will have to repay

\$3.5 billion in debt principal by 2023 end. The Company’s current debt rating from S&P is BBB+ with a stable outlook. AMBest rates Humana’s credit as bbb- with a positive outlook. Given the rising rate environment, we do not foresee the Company refinancing all its debt with a new term loan facility or bond issuance. Additionally, since Humana utilizes the commercial paper market, we assume the Company will be cautious on how much new debt is issued, so they maintain an investment grade debt rating.

Five-Year Debt Maturity Schedule

Fiscal Year	Coupon (%)	Payment (\$mil)
2022		\$1955
2023		3500
2024		1,100
2025		600
2026		0
Thereafter		6,150
Total		\$13,305

Source: FactSet

ESG Analysis

FactSet’s ESG rank for the Company is “average,” with a positive momentum score over the last 12 months. Below we will highlight some of the Company’s initiatives relating to ESG.

Healthcare Access Expansion

The Company has shown commitment to expanding access to high quality care to the most vulnerable people in the population. During 2021, Humana grew primary care centers by 32%.^[1] Additionally, the Company has Medicaid offerings in six states and have recently expanded into Wisconsin.

Food Insecurity

Since 2020, the Company has provided roughly 1.6 million meals to more than 94,000 at-risk members. For two straight years Humana has raised over 1.0 million meals for the Uniting to Combat Hunger campaign.^[5]

RECENT DEVELOPMENTS

Recent Earnings Announcement

Humana reported Q2 earnings on July 27th. They reported an Adjusted EPS of \$8.67, which beat consensus estimates by about 13.0%. Additionally, they reported \$23.6 billion

in revenue for the quarter, which beat street estimates by nearly 1%.

Quarter	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Adj. EPS Estimate	\$ 6.83	\$ 4.68	\$ 1.16	\$ 6.80	\$ 7.67
Adj. EPS Actual	\$ 6.89	\$ 4.83	\$ 1.24	\$ 8.04	\$ 8.67
Revenue Estimate	\$ 20.51B	\$ 20.90B	\$ 21.22B	\$ 23.54B	\$ 23.45B
Revenue Actual	\$ 20.65B	\$ 20.87B	\$ 21.05B	\$ 23.97B	\$ 23.66B

Source: FactSet

The Company’s positive EPS surprise had primarily to do with better-than-anticipated medical cost trends in the individual Medicare Advantage and Medicaid businesses. Additionally, lower-than-anticipated administrative costs played to Humana’s EPS beat.^[6]

Management’s full year 2022 guidance is as follows:

GAAP EPS ~\$20.30

Adjusted EPS ~\$24.75

Expected MA Membership growth ~150,000 - ~200,000

Our model assumes 2022E revenue will be nearly \$92.0 billion, with GAAP EPS coming in at ~\$21.0. We believe revenue per member will be higher than in previous years. Additionally, we have modeled MA membership growth to be ~150,000 members for the year. Overall, we are optimistic that revenue per member will grow but are cautious about how many MA members Humana will add during the rest of the year.

Kindred at Home Acquisition

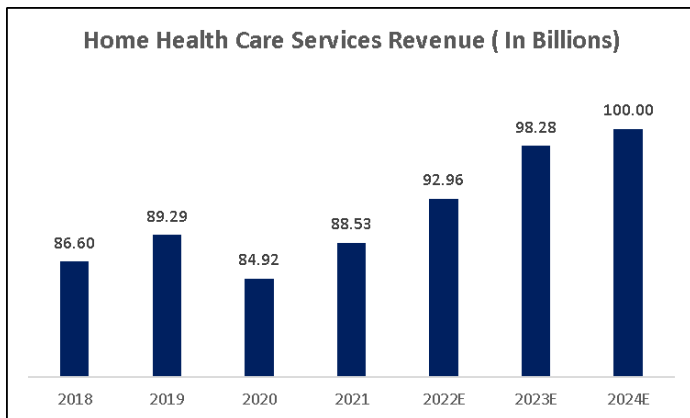
In August 2021, the Company announced the completion of its acquisition of Kindred at Home (“KAH”), the nation’s largest home health and hospice provider. Humana’s acquisition of KAH is evidence of its commitment to providing high-quality care within the home. It’s important to note that in April of 2022, the Company divested its majority interest in KAH’s Home Hospice and Personal Care Divisions for roughly \$2.8 billion. We believe this divestiture was the right decision because it will allow Humana to focus on their newly rolled-out value-based home care model and gives them a little more cash on the balance sheet to make their 2023 debt repayment.^[7]

INDUSTRY TRENDS

Two trends in the healthcare sector are home health care and the expansion of value-based care. Below we will share our thoughts on both.

Home Health Care

Over the next few years, home health care is expected become more popular. Home health care is a convenient option, especially for the aging population. Medicare.gov reports that home health care can be just as effective as some treatments you would get in a medical facility and is usually less costly. Services provided range from treating chronic illnesses to conducting physical therapy. Studies have shown that patients treated in a home-based setting were less likely to be readmitted to an outpatient clinic or hospital.^[9] Additionally, the study found that home health care patients had fewer visits to the emergency room (“ER”). Fewer readmissions to the hospital and visits to the ER save money for patients and MCOs. As a result, home health care is expected to gain in popularity. As shown below, experts predict home health care services revenue will reach \$100 billion by 2024.



Source: Statista

As previously mentioned, Humana does have home health care capabilities. We expect to see services revenue growth as the industry shifts patients to home-based settings; however, we believe home-based care will benefit the Company’s costs more. A 2018 study published in the Journal of General Internal Medicine found that the median direct cost of home health care was 52% lower than if patients received the same services in an inpatient setting.^[10] Additionally, the study found that they were not any significant differences in the quality or safety of the overall care. Since the HUM has substantial exposure

to Medicare members, the shift toward home-based care will benefit the top and bottom line. Thus, this movement supports our assumption that Humana’s MBR will be lower in the coming years.

Value-Based Care

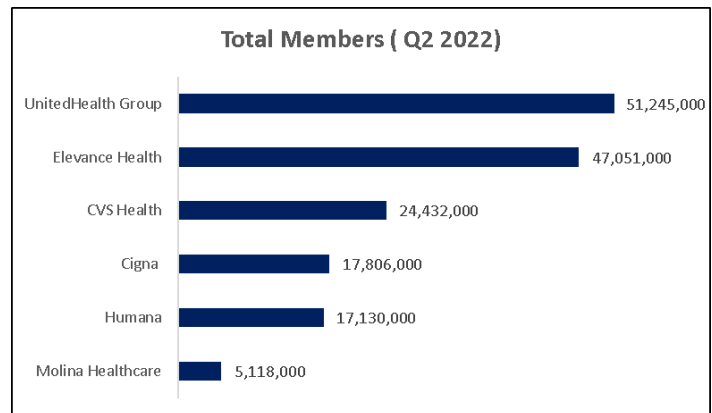
Value-Based Care (“VBC”) is a healthcare delivery model in which providers are rewarded for quality over quantity of care. Studies have shown that VBC delivery models provide better care for patients, lower costs and reduce risks for MCOs. VBC arrangements are not new; however, the healthcare industry is starting to see VBC delivery models integrate primary, specialty, and acute care. McKinsey & Company estimates that VBC contracts will grow from 15% to 22% by 2025, covering 65 million people in the United States.^[11] As the industry is forced to move away from the traditional fee-for-service (“FFS”) business model, MCOs will gain more control over their costs, which is one reason why our model forecasts Humana’s MBR to improve to 85% by 2024.

MARKETS AND COMPETITION

The Company primarily competes with other MCOs across the United States. Below we will go into the details of companies that compete directly with Humana.

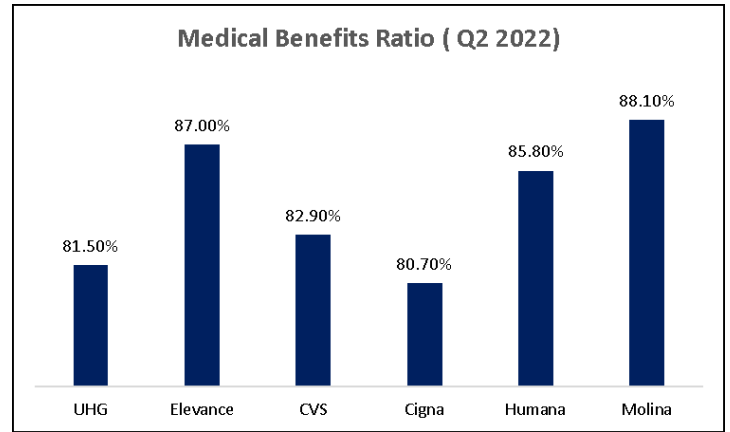
Membership Base

Below is a graph of the total medical memberships for the major players in the health insurance industry. Please note that “Members” does not necessarily mean just one person but could represent an entire family.



Source: Bloomberg

As shown above, Humana has fewer members than many other MCOs; however, this is not necessarily bad. Every health insurance provider has a different membership enrollment exposure. Below displays enrollment exposures of the previously mentioned MCOs, and shows that Humana focuses on Commercial Administrative Services Only (“ASO”) and Medicare memberships. We believe the Company’s focus on these two memberships gives them an advantage over its competitors. Firstly, Humana is not exposed to claims risk with their ASO members. The Company is only tasked with evaluating and processing claims for ASO members. Additionally, since more and more Americans will be applying for Medicare, Humana is at an advantage due to its expertise with Medicare products. As a result, we believe the Company has established itself as one of the top Medicare providers. We expect that Humana will continue to have strong retention rates and gradually grow its membership base.



Source: FactSet

Peer Comparisons

In this section we will dive a little deeper into the major players that are competitors to Humana. The table below displays key metrics for Humana and its competitors.

	Market Cap (\$B)	P/E (NTM)	ROE	Op Mrgn
UHG	\$488.0	22.4x	25.7%	8.3%
Elevance	\$116.4	17.0x	17.2%	5.8%
CVS	\$132.2	11.6x	11.0%	4.9%
Cigna	\$88.5	11.4x	11.6%	4.7%
Humana	\$61.0	17.9x	20.7%	4.7%
Molina	\$20.1	17.1x	28.9%	3.8%

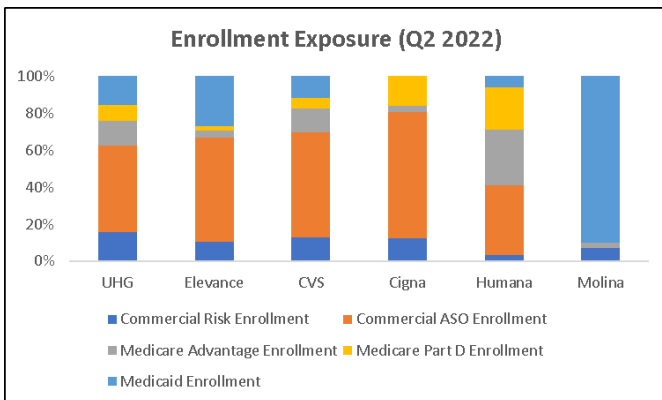
Source: FactSet

UnitedHealth Group

As of the 2nd quarter of 2022, UHG has the most members in its network. As shown in the enrollment exposure chart, UHG has exposure to all types of health insurance but focuses heavily on commercial plans. UHG generates revenue through two segments: UnitedHealthcare and Optum, which is their PBM and health care provider. Optum can be broken into three parts: OptumHealth, OptumInsight, and OptumRx. We believe UHG trades at a higher PE(NTM) relative to peers due to the street’s growth expectations for the Optum side of the business.

Elevance

Elevance, formally known as Anthem, Inc, has the 2nd largest membership base. Elevance relies heavily on commercial ASO contracts, and roughly 4% of its membership base is Medicare Advantage members. We



Source: Bloomberg

Medical Benefits Ratio

As mentioned earlier, a key metric in the MCO industry is the MBR. The Affordable Care Act requires MCOs to spend at least 80% of premiums on healthcare services and sometimes even 85% of premiums for more extensive plans. If a health insurance provider does not meet this requirement, it must give a rebate back to its members.^[12] Below displays the 2nd quarter 2022 MBRs for the MCOs previously mentioned. We can see that compared to some competitors, Humana has a higher MBR; however, given that Elevance is significantly larger than Humana, we feel comfortable with the current MBR. To be conservative with our forecast, we have the Company’s MBR at 87% for 2022 and 2023.

believe their lack of exposure to Medicare members may become an issue as more Americans retire.

CVS Health

CVS has roughly 24 million members across Commercial, Medicare, and Medicaid plans. The organization provides healthcare-related services and entered the managed care industry when it acquired Aetna in 2018. CVS has ~9,900 retail locations and about 1,200 walk-in medical clinics. We believe CVS’s greatest strength is its well-diversified revenue decomposition, membership enrollments, and its market leading PBM.

Cigna

Cigna is an American multinational managed healthcare and insurance company. Revenue segments include global health care, global supplemental benefits, group disability, life insurance, and other. As of the 2nd quarter of 2022, Cigna has ~17.8 million health insurance members. Of the MCOs mentioned, Cigna relies the most on Commercial ASO members.

Molina Healthcare

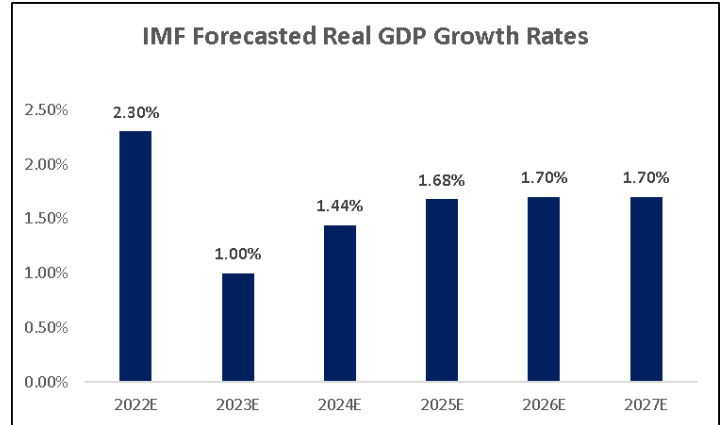
Molina Healthcare is an MCO that specializes in Medicaid memberships. As of the 2nd quarter of 2022, Molina had over 5 million members, of which ~90% were in Medicaid plans. We believe if the U.S. changed the qualifications for Medicaid, Molina would benefit greatly; however, we think this is unlikely. Additionally, it’s important to note that Molina has typically had an MBR over 87%, which signals that have had a difficult time controlling costs. [4]

ECONOMIC OUTLOOK

GDP Forecast

The next chart displays the International Monetary Fund’s (“IMF”) forecasted real GDP growth rates for the United States as of July 2022. The Henry Fund team believes the short-term forecast is overly optimistic. As of August 2022, our six-month estimate of real GDP growth within the United States is (.13%). We believe that higher rates and the rising cost of living will shrink the economy in the 2nd half of 2022. Since the Company has a lot of enrollment

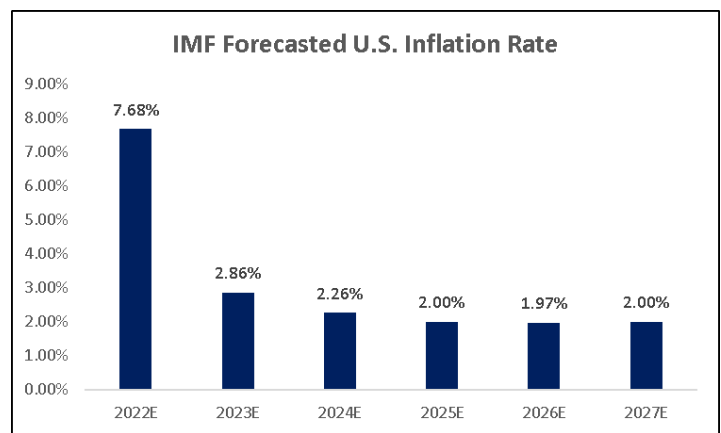
exposure to military ASO and Medicare contracts, the Henry Fund team is not necessarily concerned with the GDP shrinking as it pertains to Humana.



Source: IMF

Inflation Forecast

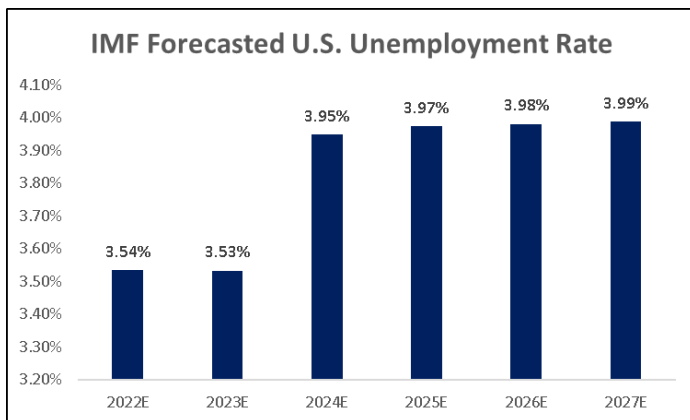
The following chart displays IMF’s forecasted U.S. inflation rate. As shown, IMF expects inflation to normalize by 2025. Our model tried to capture inflation expectations by slightly raising the revenue per member input and forecasting costs on the higher end until 2024. Our thought is that since CMS controls reimbursement rates for Medicare and Medicaid products, Humana would likely see increases in revenue for members in those plans. Additionally, some commercial plans use government-based health insurance plans as a reference rate, so if one goes up, the other will likely follow suit. Finally, as mentioned previously, we modeled the Company’s MBR to stay elevated until the end of 2023, which we believe captures inflation expectations.



Source: IMF

Unemployment Forecast

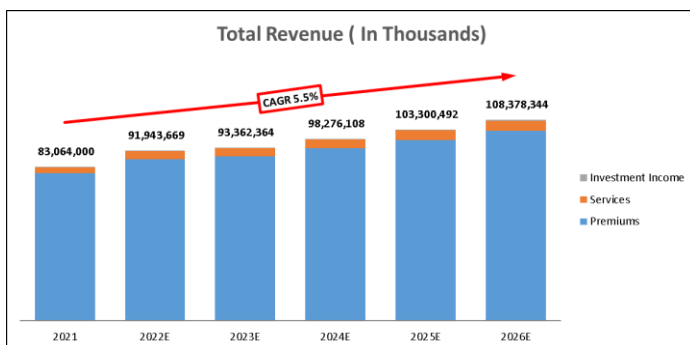
A low unemployment rate is often a sign of a strong economy; however, significantly low unemployment rates can contribute to wage inflation and reduced productivity. Overall, the IMF expects the labor market to remain competitive. The IMF forecasts the U.S. unemployment rate to increase by 42 basis points from 2023 to 2024 and stay below 4% until 2027. The Henry Fund team believes the IMF might be too optimistic here. As of August 2022, our two-year U.S. unemployment forecast is between 4.13% - 4.25%. We believe that the Federal Reserve will continue to raise rates to help fight against inflation which will naturally cause a slight rise in the unemployment rate.



Source: IMF

VALUATION

Revenue Growth



Source: Henry Fund Model

As previously mentioned, we expect revenue growth in all the Company's business segments. We don't expect to see Humana add that many members to their network; rather, we expect revenue per member will increase. We predict that CMS will increase reimbursement rates due to higher

costs of care, and this will then increase revenue per member. Additionally, as Humana focuses on diversifying its revenue mix, we forecast services revenue to grow as well. As shown in the chart, we have revenue growing from ~\$83 billion in 2021 to ~\$108 billion by 2026. The growth implies a ~5.5% 5-year revenue CAGR which we believe is an attainable projection.

DCF/EP

We utilized a 5-year DCF/EP model which resulted in a share price of roughly \$582. In our model, we estimated the Company's WACC to be 8.61% and the carrying value growth rate of NOPLAT to be 2.0%. We recognize that our DCF is much higher than the current share price; however, we believe our main assumptions driving the model are reasonable and that the current market is underestimating Humana's ability to lower their MBR in the coming years.

DCF/EP		CV Growth of NOPLAT						
		0.50%	1.00%	1.50%	2.00%	2.50%	3.00%	3.50%
WACC	7.00%	632.89	673.52	721.55	779.18	849.62	937.66	1,050.86
	7.50%	585.17	619.16	658.81	705.68	761.91	830.65	916.56
	8.00%	543.86	572.60	605.77	644.47	690.21	745.09	812.16
	8.61%	500.42	524.16	551.23	582.40	618.68	661.42	712.52
	9.00%	475.94	497.08	521.04	548.42	580.02	616.87	660.44
	9.50%	447.70	466.04	486.67	510.06	536.78	567.62	603.59
	10.00%	422.47	438.48	456.39	476.53	499.35	525.43	555.53

Source: Henry Fund Model

WACC

The WACC we used in our model is 8.61%. We used the capital asset pricing model ("CAPM") for the cost of equity, which is 9.75%. The Henry Fund team used 5.15% for the equity risk premium. We used a 3-year weekly beta of 1.31 within the CAPM. Our risk-free rate we used is 3.0%. For the pre-tax cost of debt, we used Humana's yield on their 10-year corporate bond of 4.49%, leading to an after-tax cost of debt of 3.5%.

Relative P/E

Our relative P/E model indicates a target share price close to \$468 for 2023. We utilized UHG, Elevance, and Molina Healthcare as comparable companies. We choose these three companies because they typically trade at a multiple similar to Humana. Below displays our comps table.

Ticker	Company	P/E 2022	P/E 2023
HUM	Humana Inc.	22.4x	17.0x
UNH	UnitedHealth Group	22.4x	19.6x
ELV	Elevance	17.0x	15.0x
MOH	Molina Healthcare	11.4x	10.3x

Source: FactSet, Henry Fund Model

DDM

The Company's current dividend yield is 0.7%. Our 5-year DDM model estimates Humana's share price to be \$446. We recognize this is lower than the current market price; however, our implied P/E multiple for the CV year is 12.8x which we believe is too low. If the implied PE increased to 15x, the model would value Humana at roughly \$521.

KEYS TO MONITOR

In the coming months, it will be crucial to monitor three things:

Medical Benefits Ratio

Our investment thesis is heavily based on our belief that Humana will lower its MBR to 85% by 2024. We believe this is an attainable goal; however, we will continually have to update this assumption in the model as we receive more data.

Revenue per Member

Due to rising costs of care, we predict CMS will raise reimbursement rates for government sponsored plans. Higher reimbursement rates will lead to more revenue per member and will likely lead to higher revenue per member for commercial plans as well. If CMS does not increase rates, we will then have to update our assumptions within our model.

Membership Growth

In our model, we expect the Company to add roughly 1.2 million members to their network over the next 5 years. Our expectation is that these members will be acquired organically, and that Humana will have strong retention rates with their current members.

CONCLUSION

We recommend a buy rating for Humana with a share price range of \$535 - \$550, representing a ~12.0% to ~15.0% upside, supported by our belief that the Company will improve its MBR and increase revenue in all segments. We are convinced that Humana's expertise in government-based health plans positions them as a leader within the Managed Care Industry.

REFERENCES

1. [Kaiser Family Foundation](#)
2. [Humana 2021 Annual Report](#)
3. [Inclusa, Inc. Acquisition Press Release](#)
4. [FactSet](#)
5. [Humana 2021 Impact Report](#)
6. [Humana Q2 2022 Earnings Release](#)
7. [Divestiture of Majority Interest in KAH](#)
8. [Medicare & Home Health Care](#)
9. [American Journal of Managed Care](#)
10. [National Library of Medicine](#)
11. [McKinsey & Company](#)
12. [Investopedia \(MBR\)](#)
13. [International Monetary Fund](#)

DISCLAIMER

Henry Fund reports are created by graduate students in the Applied Securities Management program at the University of Iowa's Tippie College of Business. These reports provide potential employers and other interested parties an example of the analytical skills, investment knowledge, and communication abilities of our students. Henry Fund analysts are not registered investment advisors, brokers or licensed financial professionals. The investment opinion contained in this report does not represent an offer or solicitation to buy or sell any of the aforementioned securities. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Henry Fund may hold an investment position in the companies mentioned in this report.

Humana Inc.
Revenue Decomposition
(In Thousands)

<i>Fiscal Years Ending Dec. 31</i>	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
PREMIUMS REVENUE								
Premium Revenue	62,948,000	74,186,000	79,822,000	84,462,839	88,661,533	93,030,570	97,619,252	102,438,759
<i>Growth</i>	14.57%	17.85%	7.60%	5.81%	4.97%	4.93%	4.93%	4.94%
Medicare								
Medicare Advantage Revenue	49,603,000	59,471,000	65,609,000	69,604,588	73,126,580	76,826,785	80,714,221	84,798,360
<i>Growth</i>	18.78%	19.89%	10.32%	6.09%	5.06%	5.06%	5.06%	5.06%
Medicare Advantage Members	4,113	4,576	4,970	5,119	5,221	5,326	5,432	5,541
<i>Growth</i>	15.46%	11.27%	8.61%	3.00%	2.00%	2.00%	2.00%	2.00%
Revenue per Medicare Advantage Member	12,062	12,997	13,202	13,598	14,006	14,426	14,859	15,305
<i>Growth</i>	2.88%	7.75%	1.58%	3.00%	3.00%	3.00%	3.00%	3.00%
Medicare Part D Revenue	3,165,000	2,742,000	2,371,000	2,490,973	2,591,608	2,696,309	2,805,240	2,918,571
<i>Growth</i>	-11.69%	-13.36%	-13.53%	5.06%	4.04%	4.04%	4.04%	4.04%
Medicare Part D Members	4,365	3,867	3,606	3,678	3,752	3,827	3,903	3,982
<i>Growth</i>	-12.77%	-11.42%	-6.74%	2.00%	2.00%	2.00%	2.00%	2.00%
Revenue per Part D Member	725	709	657	677	691	705	719	733
<i>Growth</i>	1.24%	-2.20%	-7.28%	3.00%	2.00%	2.00%	2.00%	2.00%
Medicare Supplement Revenue	588,000	688,000	731,000	782,901	822,516	864,135	907,860	953,798
<i>Growth</i>	15.29%	17.01%	6.25%	7.10%	5.06%	5.06%	5.06%	5.06%
Medicare Supplement Members	298	336	332	339	345	352	359	366
<i>Growth</i>	17.34%	12.47%	-1.10%	2.00%	2.00%	2.00%	2.00%	2.00%
Revenue per Medicare Supplement Member	1,971	2,050	2,202	2,313	2,382	2,453	2,527	2,603
<i>Growth</i>	-1.74%	4.04%	7.43%	5.00%	3.00%	3.00%	3.00%	3.00%
Total Medicare Revenue	53,356,000	62,901,000	68,711,000	72,878,462	76,540,704	80,387,229	84,427,321	88,670,730
<i>Growth</i>	16.36%	17.89%	9.24%	6.07%	5.03%	5.03%	5.03%	5.03%

Humana Inc.								
<i>Revenue Decomposition</i>								
<i>(In Thousands)</i>								
Fiscal Years Ending Dec. 31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Medicaid								
	28.51%	45.72%	20.98%	6.08%	6.08%	6.08%	6.08%	6.08%
Total Medicaid Members (In Thousands)	469	772	940	978	1,017	1,057	1,100	1,144
<i>Growth</i>	37.50%	64.69%	21.71%	4.00%	4.00%	4.00%	4.00%	4.00%
Revenue per Medicaid Member	6,179	5,467	5,435	5,543	5,654	5,767	5,883	6,000
<i>Growth</i>	-6.53%	-11.52%	-0.60%	2.00%	2.00%	2.00%	2.00%	2.00%
Total Medicaid Revenue	2,898,000	4,223,000	5,109,000	5,419,627	5,749,141	6,098,688	6,469,489	6,862,833
	28.51%	45.72%	20.98%	6.08%	6.08%	6.08%	6.08%	6.08%
Group & Specialty								
Fully-insured Commercial Group Revenue	5,123,000	5,062,000	4,271,000	4,399,130	4,553,100	4,689,693	4,830,383	4,975,295
<i>Growth</i>	-6.07%	-1.19%	-15.63%	3.00%	3.50%	3.00%	3.00%	3.00%
Commercial Risk Members (In Thousands)	909	777	675	675	675	675	675	675
<i>Growth</i>	-9.57%	-14.44%	-13.22%	0.00%	0.00%	0.00%	0.00%	0.00%
Revenue per Fully-insured Commercial Group Member	5,638	6,511	6,331	6,521	6,749	6,952	7,160	7,375
<i>Growth</i>	3.87%	15.49%	-2.77%	3.00%	3.50%	3.00%	3.00%	3.00%
Specialty Group Revenue	1,571,000	2,000,000	1,731,000	1,765,620	1,818,589	1,854,960	1,892,060	1,929,901
<i>Growth</i>	13.92%	27.31%	-13.45%	2.00%	3.00%	2.00%	2.00%	2.00%
Commercial ASO Members (In Thousands)	529	505	496	496	496	496	496	496
<i>Growth</i>	9.82%	-4.59%	-1.86%	0.00%	0.00%	0.00%	0.00%	0.00%
Military Members (In Thousands)	5,984	5,999	6,049	6,049	6,049	6,049	6,049	6,049
<i>Growth</i>	0.94%	0.24%	0.84%	0.00%	0.00%	0.00%	0.00%	0.00%
Average Revenue ASO / Military	241	308	264	270	278	283	289	295
<i>Growth</i>	12.12%	27.50%	-13.99%	2.00%	3.00%	2.00%	2.00%	2.00%
Total Group & Specialty Revenue	6,694,000	7,062,000	6,002,000	6,164,750	6,371,688	6,544,653	6,722,443	6,905,196
Total Number of Members	16,667	16,832	17,067	17,332	17,554	17,781	18,014	18,252
<i>Growth</i>	0.55%	0.99%	1.40%	1.56%	1.28%	1.29%	1.31%	1.32%

Humana Inc.
Revenue Decomposition
(In Thousands)

<i>Fiscal Years Ending Dec. 31</i>	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
SERVICES REVENUE								
Retail	17,000	19,000	23,000	27,140	29,854	32,839	36,123	39,736
<i>Growth</i>	54.55%	11.76%	21.05%	18.00%	10.00%	10.00%	10.00%	10.00%
Group & Specialty	790,000	780,000	816,000	856,800	873,936	891,415	909,243	927,428
<i>Growth</i>	-5.84%	-1.27%	4.62%	5.00%	2.00%	2.00%	2.00%	2.00%
Pharmacy Services	632,000	1,016,000	2,216,000	2,880,800	3,456,960	3,975,504	4,373,054	4,591,707
<i>Growth</i>	4.12%	60.76%	118.11%	30.00%	20.00%	15.00%	10.00%	5.00%
Total Services Revenue	1,439,000	1,815,000	3,055,000	3,764,740	4,360,750	4,899,758	5,318,421	5,558,871
<i>Growth</i>	-1.24%	26.13%	68.32%	23.23%	15.83%	12.36%	8.54%	4.52%
INVESTMENT REVENUE								
Net Investment Income	501,000	1,154,000	187,000	395,760	340,082	345,780	362,819	380,715
<i>Growth</i>	-2.53%	130.34%	-83.80%	111.64%	-14.07%	1.68%	4.93%	4.93%
TOTAL REVENUE								
Total Revenue	64,888,000	77,155,000	83,064,000	91,943,669	93,362,364	98,276,108	103,300,492	108,378,344
<i>Growth</i>	14.01%	18.90%	7.66%	10.69%	1.54%	5.26%	5.11%	4.92%

Humana Inc.
Value Driver Estimation

Fiscal Years Ending Dec. 31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
NOPLAT:								
EBITA								
Revenue	64,888,000	77,155,000	83,064,000	91,943,669	93,362,364	98,276,108	103,300,492	108,378,344
(-) Benefits	53,857,000	61,628,000	69,199,000	75,465,335	76,692,226	79,075,985	82,976,364	87,072,945
(-) Operating Costs	7,381,000	10,052,000	10,121,000	11,810,655	11,203,484	11,970,030	12,654,310	13,200,482
(-) Depreciation and Amortization	458,000	489,000	596,000	695,815	844,871	979,838	1,081,706	1,160,316
(+) Interest on Operating Leases	17,764	19,770	21,435	31,629	-	-	-	-
Total EBITA	3,209,764	5,005,770	3,169,435	4,003,494	4,621,784	6,250,255	6,588,111	6,944,602
ADJUSTED TAXES								
(+) Provision (benefit) for income taxes	763,000	1,307,000	485,000	983,513	951,699	1,325,992	1,412,195	1,497,610
(+) Tax Shield on Interest of Op Leases	3,922	5,617	3,100	-	-	-	-	-
(-) Gain on sale of business	-	-	-	-	-	-	-	-
(+) Tax Shield on Interest Expense	53,428	80,409	47,141	103,728	104,104	69,531	58,665	52,739
(+) Tax Shield on Other Income (Expense)	111,712	(29,265)	76,929	15,671	39,011	20,467	21,476	22,537
Total Adjusted Taxes	932,062	1,363,761	612,169	1,102,912	1,094,815	1,415,990	1,492,337	1,572,885
CHANGE IN DEFERRED TAXES	162,000	195,000	15,000	-	-	-	-	-
TOTAL NOPLAT	2,439,702	3,837,009	2,572,266	2,900,582	3,526,969	4,834,266	5,095,774	5,371,716
Growth	-10.72%	57.27%	-32.96%	12.76%	21.60%	37.07%	5.41%	5.42%
INVESTED CAPITAL (IC):								
OPERATING CURRENT ASSETS								
Normal Cash	2,651,328	3,152,558	3,394,000	3,756,824	3,814,792	4,015,568	4,220,864	4,428,346
Accounts Receivable	1,056,000	1,138,000	1,814,000	2,015,204	2,046,298	2,153,997	2,264,120	2,375,416
Other Current Assets	3,806,000	5,276,000	6,493,000	7,355,494	6,535,365	7,862,089	8,264,039	8,670,268
Total Current Assets	7,513,328	9,566,558	11,701,000	13,127,521	12,396,456	14,031,653	14,749,024	15,474,029
OPERATING CURRENT LIABILITIES								
Benefits Payable	6,004,000	8,143,000	8,289,000	9,097,191	9,245,090	9,532,447	10,002,630	10,496,465
Trade Accounts Payable & Accrued Expenses	3,754,000	4,013,000	4,509,000	5,260,471	5,297,824	5,487,705	5,764,041	6,043,878
Unearned Revenues	247,000	318,000	254,000	321,803	326,768	343,966	361,552	379,324
Total Current Liabilities	10,005,000	12,474,000	13,052,000	14,679,465	14,869,682	15,364,119	16,128,223	16,919,667
Operating Working Capital	(2,491,672)	(2,907,442)	(1,351,000)	(1,551,943)	(2,473,226)	(1,332,466)	(1,379,199)	(1,445,638)
OTHER OPERATING LONG-TERM ASSETS								
Property and equipment, net	1,955,000	2,371,000	3,073,000	3,700,370	4,291,499	4,737,661	5,081,955	5,347,639
Other long-term assets	1,834,000	2,128,000	4,379,000	4,597,183	3,734,495	3,931,044	4,132,020	4,335,134
PV Operating lease assets	440,316	477,402	704,425	-	-	-	-	-
Total Other Operating Long-Term Assets	4,229,316	4,976,402	8,156,425	8,297,554	8,025,994	8,668,705	9,213,974	9,682,773
OTHER OPERATING LONG-TERM LIABILITIES								
Other long-term liabilities	1,141,000	1,787,000	2,383,000	1,838,873	1,867,247	1,965,522	2,066,010	2,167,567
Total Other Long-Term Liabilities	1,141,000	1,787,000	2,383,000	1,838,873	1,867,247	1,965,522	2,066,010	2,167,567
TOTAL INVESTED CAPITAL	596,644	281,960	4,422,425	4,906,737	3,685,520	5,370,718	5,768,766	6,069,568
Growth	-57.32%	-52.74%	1468.46%	10.95%	-24.89%	45.72%	7.41%	5.21%
Free Cash Flow (FCF):								
NOPLAT	2,439,702	3,837,009	2,572,266	2,900,582	3,526,969	4,834,266	5,095,774	5,371,716
Change in IC	(801,417)	(314,684)	4,140,465	484,312	(1,221,217)	1,685,197	398,049	300,802
FCF	3,241,119	4,151,693	(1,568,199)	2,416,270	4,748,186	3,149,068	4,697,726	5,070,914
Return on Invested Capital (ROIC):								
NOPLAT	2,439,702	3,837,009	2,572,266	2,900,582	3,526,969	4,834,266	5,095,774	5,371,716
Beginning IC	1,398,061	596,644	281,960	4,422,425	4,906,737	3,685,520	5,370,718	5,768,766
ROIC	175%	643%	912%	66%	72%	131%	95%	93%
Economic Profit (EP):								
Beginning IC	1,398,061	596,644	281,960	4,422,425	4,906,737	3,685,520	5,370,718	5,768,766
x (ROIC - WACC)	165.9%	634.5%	903.7%	57.0%	63.3%	122.6%	86.3%	84.5%
EP	2,319,338	3,785,642	2,547,991	2,519,840	3,104,532	4,516,967	4,633,391	4,875,064

Humana Inc.*Income Statement*

(In Thousands)

<i>Fiscal Years Ending Dec. 31</i>	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Premiums	62,948,000	74,186,000	79,822,000	87,200,419	88,661,533	93,030,570	97,619,252	102,438,759
Services revenues	1,439,000	1,815,000	3,055,000	4,495,370	4,360,750	4,899,758	5,318,421	5,558,871
Investment income	501,000	1,154,000	187,000	247,880	340,082	345,780	362,819	380,715
Total revenues	64,888,000	77,155,000	83,064,000	91,943,669	93,362,364	98,276,108	103,300,492	108,378,344
Benefits expense	53,857,000	61,628,000	69,199,000	75,465,335	76,692,226	79,075,985	82,976,364	87,072,945
Operating costs	7,381,000	10,052,000	10,121,000	11,810,655	11,203,484	11,970,030	12,654,310	13,200,482
Depreciation & amortization expense	458,000	489,000	596,000	695,815	844,871	979,838	1,081,706	1,160,316
Total operating expenses	61,696,000	72,169,000	79,916,000	87,971,804	88,740,581	92,025,853	96,712,381	101,433,743
Income (loss) from operations	3,192,000	4,986,000	3,148,000	3,971,865	4,621,784	6,250,255	6,588,111	6,944,602
Gain (loss) on sale of business	-	-	-	-	-	-	-	-
Interest expense	242,000	283,000	326,000	471,490	473,201	316,051	266,661	239,721
Other income (expense), net	506,000	(103,000)	532,000	71,231	177,323	93,031	97,619	102,439
Income (loss) before income taxes	3,456,000	4,600,000	3,354,000	3,571,606	4,325,906	6,027,235	6,419,069	6,807,319
Provision (benefit) for income taxes	763,000	1,307,000	485,000	983,513	951,699	1,325,992	1,412,195	1,497,610
Equity in net earnings	14,000	74,000	65,000	(2,000)	-	-	-	-
Net income (loss)	2,707,000	3,367,000	2,934,000	2,586,093	3,374,206	4,701,243	5,006,874	5,309,709
Weighted average shares outstanding - basic	134,055	132,199	128,688	121,183	119,532	117,699	115,877	114,207
Net earnings (loss) per common share - basic	20.19	25.47	20.64	21.34	28.23	39.94	43.21	46.49
Dividends per common share	2.15	2.43	2.73	3.15	3.15	3.15	3.15	3.15
Dividends Paid Out	288,218	321,244	351,318	381,970	376,764	370,988	365,246	359,979

Humana Inc.

Balance Sheet

(In Thousands)

Fiscal Years Ending Dec. 31	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Current assets:												
Cash and cash equivalents	2,571,000	3,877,000	4,042,000	2,343,000	4,054,000	4,673,000	3,394,000	2,458,642	2,477,070	2,525,213	4,711,982	7,933,625
Investment securities	7,267,000	7,595,000	9,557,000	10,026,000	10,972,000	12,554,000	13,192,000	11,336,055	11,525,999	12,093,974	12,690,503	13,317,039
Accounts Receivable	1,161,000	1,280,000	854,000	1,015,000	1,056,000	1,138,000	1,814,000	2,015,204	2,046,298	2,153,997	2,264,120	2,375,416
Other current assets	4,712,000	3,438,000	2,949,000	3,564,000	3,806,000	5,276,000	6,493,000	7,355,494	6,535,365	7,862,089	8,264,039	8,670,268
Total current assets	15,711,000	16,190,000	17,402,000	16,948,000	19,888,000	23,641,000	24,893,000	23,165,393	22,584,733	24,635,272	27,930,645	32,296,347
Property and equipment, net	1,384,000	1,505,000	1,584,000	1,735,000	1,955,000	2,371,000	3,073,000	3,700,370	4,291,499	4,737,661	5,081,955	5,347,639
Long-term investment securities	1,843,000	2,203,000	2,745,000	411,000	406,000	1,212,000	780,000	1,379,155	933,624	982,761	1,033,005	1,083,783
Goodwill	3,265,000	3,272,000	3,281,000	3,897,000	3,928,000	4,447,000	11,092,000	11,092,000	11,092,000	11,092,000	11,092,000	11,092,000
Equity method investments	-	-	-	1,047,000	1,063,000	1,170,000	141,000	141,000	141,000	141,000	141,000	141,000
Other long-term assets	2,475,000	2,226,000	2,166,000	1,375,000	1,834,000	2,128,000	4,379,000	4,597,183	3,734,495	3,931,044	4,132,020	4,335,134
Total assets	24,678,000	25,396,000	27,178,000	25,413,000	29,074,000	34,969,000	44,358,000	44,075,102	42,777,350	45,519,739	49,410,624	54,295,904
Current liabilities:												
Benefits payable	4,976,000	4,563,000	4,668,000	4,862,000	6,004,000	8,143,000	8,289,000	9,097,191	9,245,090	9,532,447	10,002,630	10,496,465
Accounts payable & Accrued Expenses	2,212,000	2,467,000	4,069,000	3,067,000	3,754,000	4,013,000	4,509,000	5,260,471	5,297,824	5,487,705	5,764,041	6,043,878
Book overdraft	301,000	212,000	141,000	171,000	225,000	320,000	326,000	367,775	373,449	393,104	413,202	433,513
Unearned revenues	364,000	280,000	378,000	283,000	247,000	318,000	254,000	321,803	326,768	343,966	361,552	379,324
Short-term debt	299,000	300,000	150,000	1,694,000	699,000	600,000	1,953,000	1,152,546	1,073,193	1,046,292	1,141,289	1,293,955
Total current liabilities	8,152,000	7,822,000	9,406,000	10,077,000	10,929,000	13,394,000	15,331,000	16,199,785	16,316,324	16,803,516	17,682,713	18,647,135
Long-term debt	3,794,000	3,792,000	4,770,000	4,375,000	4,967,000	6,060,000	10,541,000	10,539,000	7,039,000	5,939,000	5,339,000	5,339,000
Other long-term liabilities	2,386,000	3,097,000	3,160,000	800,000	1,141,000	1,787,000	2,383,000	1,838,873	1,867,247	1,965,522	2,066,010	2,167,567
Total liabilities	14,332,000	14,711,000	17,336,000	15,252,000	17,037,000	21,241,000	28,255,000	28,577,658	25,222,572	24,708,038	25,087,723	26,153,701
Stockholders' equity:												
Common stock	2,563,000	2,595,000	2,478,000	2,568,000	2,853,000	2,738,000	3,115,000	3,305,320	3,495,641	3,552,737	3,552,737	3,552,737
Retained earnings	11,017,000	11,454,000	13,670,000	15,072,000	17,483,000	20,517,000	23,086,000	25,290,123	28,287,566	32,617,821	37,259,450	42,209,179
AOCI	58,000	(66,000)	19,000	(159,000)	156,000	391,000	42,000	42,000	42,000	42,000	42,000	42,000
Treasury stock	(3,292,000)	(3,298,000)	(6,325,000)	(7,320,000)	(8,455,000)	(9,918,000)	(10,163,000)	(13,163,000)	(14,293,429)	(15,423,857)	(16,554,286)	(17,684,714)
Noncontrolling interests	-	-	-	-	-	-	23,000	23,000	23,000	23,000	23,000	23,000
Total stockholders' equity	10,346,000	10,685,000	9,842,000	10,161,000	12,037,000	13,728,000	16,103,000	15,497,444	17,554,778	20,811,701	24,322,901	28,142,202
Total liabilities and stockholders' equity	24,678,000	25,396,000	27,178,000	25,413,000	29,074,000	34,969,000	44,358,000	44,075,102	42,777,350	45,519,739	49,410,624	54,295,904

Humana Inc.

Historical Cash Flow Statement

In Thousands

Fiscal Years Ending Dec. 31	2015	2016	2017	2018	2019	2020	2021
Net income (loss)	1,276,000	614,000	2,448,000	1,683,000	2,707,000	3,367,000	2,934,000
Loss (gain) on sale of business	(270,000)	-	-	786,000	-	-	-
Loss (gain) on investment securities, net	-	-	-	-	-	(838,000)	130,000
Loss (gain) on Kindred at Home equity method investment	-	-	-	-	-	-	(1,129,000)
Depreciation	354,000	388,000	410,000	444,000	505,000	528,000	640,000
Amortization	93,000	77,000	75,000	90,000	70,000	88,000	73,000
Stock compensation	109,000	115,000	157,000	137,000	163,000	181,000	180,000
Net realized capital losses (gains)	(146,000)	(96,000)	(14,000)	(90,000)	(62,000)	-	-
Equity in net loss (earnings)	-	-	-	(11,000)	(14,000)	(74,000)	(65,000)
Provision (benefit) for deferred income taxes	(2,000)	(71,000)	132,000	194,000	162,000	195,000	15,000
Provision for doubtful accounts	61,000	39,000	20,000	36,000	-	-	-
Receivables	(180,000)	(158,000)	406,000	(200,000)	(32,000)	(85,000)	(280,000)
Other assets	(872,000)	426,000	(582,000)	(484,000)	118,000	(581,000)	(491,000)
Benefits payable	501,000	(413,000)	105,000	252,000	1,142,000	2,139,000	104,000
Other liabilities	(129,000)	937,000	641,000	(676,000)	471,000	599,000	176,000
Unearned revenues	3,000	(84,000)	98,000	(95,000)	(36,000)	71,000	(65,000)
Other operating activities	70,000	162,000	155,000	107,000	90,000	49,000	40,000
Net cash flows from operating activities	868,000	1,936,000	4,051,000	2,173,000	5,284,000	5,639,000	2,262,000
Acquisition, equity method investment in Kindred at Home	-	-	-	(1,095,000)	-	-	-
Acquisitions, net of cash & cash equivalents acquired	(38,000)	(7,000)	(31,000)	(354,000)	-	(709,000)	(4,187,000)
Proceeds from sale of business	1,061,000	-	-	-	-	-	-
Purchases of property & equipment, net	(523,000)	(527,000)	(526,000)	(612,000)	(736,000)	(964,000)	(1,316,000)
Cash transferred in sale of business	-	-	-	(805,000)	-	-	-
Proceeds from sales of property & equipment	1,000	-	2,000	-	-	-	-
Purchases of investment securities	(6,739,000)	(6,566,000)	(6,265,000)	(4,687,000)	(6,361,000)	(9,125,000)	(7,197,000)
Proceeds from maturities of investment securities	1,065,000	1,426,000	1,111,000	972,000	1,733,000	4,986,000	2,597,000
Proceeds from sales of investment securities	5,493,000	4,312,000	2,768,000	3,494,000	4,086,000	2,747,000	3,547,000
Net cash flows from investing activities	320,000	(1,362,000)	(2,941,000)	(3,087,000)	(1,278,000)	(3,065,000)	(6,556,000)
Withdrawals receipts from contract deposits, net	(296,000)	1,093,000	1,823,000	(640,000)	(623,000)	(939,000)	(306,000)
Proceeds from issuance of senior notes, net	-	-	1,779,000	-	987,000	1,088,000	2,984,000
Repayment of senior notes	-	-	-	-	-	(400,000)	-
Proceeds (repayments) from issuance of commercial paper, net	298,000	(2,000)	(153,000)	485,000	(360,000)	295,000	352,000
Proceeds from term loan	-	-	-	1,000,000	-	1,000,000	2,500,000
Repayment of term loan	-	-	-	(350,000)	(650,000)	(1,000,000)	(2,078,000)
Repayment of long-term debt	-	-	(800,000)	-	(400,000)	-	-
Common stock repurchases	(385,000)	(104,000)	(3,365,000)	(1,090,000)	(1,070,000)	(1,820,000)	(79,000)
Debt issue costs	-	-	-	-	-	-	(31,000)
Dividends paid	(172,000)	(177,000)	(220,000)	(265,000)	(291,000)	(323,000)	(354,000)
Excess tax benefit from stock-based compensation	15,000	-	-	-	-	-	-
Change in book overdraft	(33,000)	(89,000)	(71,000)	30,000	54,000	95,000	6,000
Proceeds from stock options exercises & other financing activities, net	21,000	11,000	62,000	45,000	58,000	49,000	21,000
Net cash flows from financing activities	(552,000)	732,000	(945,000)	(785,000)	(2,295,000)	(1,955,000)	3,015,000
Increase (decrease) in cash & cash equivalents	636,000	1,306,000	165,000	(1,699,000)	1,711,000	619,000	(1,279,000)
Cash & cash equivalents at beginning of period	1,935,000	2,571,000	3,877,000	4,042,000	2,343,000	4,054,000	4,673,000
Cash & cash equivalents at end of period	2,571,000	3,877,000	4,042,000	2,343,000	4,054,000	4,673,000	3,394,000

Humana Inc.*Forecasted Cash Flow Statement*

Fiscal Years Ending Dec. 31	2022E	2023E	2024E	2025E	2026E
<i>In Thousands</i>					
Operating Cash Flow					
Net Income	2,586,093	3,374,206	4,701,243	5,006,874	5,309,709
Depreciation & Amortization	701,630	844,871	979,838	1,081,706	1,160,316
Changes in Networking Capital	2,461,487	794,981	(1,488,305)	(324,402)	(332,304)
Cash Flows from Operating Activities	5,749,210	5,014,059	4,192,777	5,764,179	6,137,721
Investing Cash Flow					
Purchases of property & equipment	(1,329,000)	(1,436,000)	(1,426,000)	(1,426,000)	(1,426,000)
Purchases of investment securities	(599,155)	445,531	(49,137)	(50,244)	(50,779)
Changes in other long term assets	(218,183)	862,689	(196,550)	(200,975)	(203,114)
Changes in other long term liabilities	(544,127)	28,374	98,275	100,488	101,557
Cash Flows from Investing Activities	(2,690,465)	(99,406)	(1,573,412)	(1,576,732)	(1,578,336)
Financing Cash Flow					
Debt repayments	(2,000)	(3,500,000)	(1,100,000)	(600,000)	-
Changes in Short-term debt	(800,454)	(79,353)	(26,901)	94,996	152,666
Additional Paid in Capital	190,320	190,320	57,096	-	-
Share Repurchases	(3,000,000)	(1,130,429)	(1,130,429)	(1,130,429)	(1,130,429)
Dividends paid	(381,970)	(376,764)	(370,988)	(365,246)	(359,979)
Cash Flow From Financing Activities	(3,994,103)	(4,896,225)	(2,571,221)	(2,000,678)	(1,337,742)
Increase (decrease) in cash & cash equivalents	(935,358)	18,428	48,143	2,186,769	3,221,643
Cash & cash equivalents at beginning of period	3,394,000	2,458,642	2,477,070	2,525,213	4,711,982
Cash & cash equivalents at end of period	2,458,642	2,477,070	2,525,213	4,711,982	7,933,625

Humana Inc.*Common Size Income Statement*

Fiscal Years Ending Dec. 31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Premiums	97.01%	96.15%	96.10%	94.84%	94.96%	94.66%	94.50%	94.52%
Services revenues	2.22%	2.35%	3.68%	4.89%	4.67%	4.99%	5.15%	5.13%
Investment income	0.77%	1.50%	0.23%	0.27%	0.36%	0.35%	0.35%	0.35%
Total revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Benefits expense	83.00%	79.88%	83.31%	82.08%	82.14%	80.46%	80.33%	80.34%
Operating costs	11.37%	13.03%	12.18%	12.85%	12.00%	12.18%	12.25%	12.18%
Depreciation & amortization expense	0.71%	0.63%	0.72%	0.76%	0.90%	1.00%	1.05%	1.07%
Total operating expenses	95.08%	93.54%	96.21%	95.68%	95.05%	93.64%	93.62%	93.59%
Income (loss) from operations	4.92%	6.46%	3.79%	4.32%	4.95%	6.36%	6.38%	6.41%
Gain (loss) on sale of business	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Interest expense	0.37%	0.37%	0.39%	0.51%	0.51%	0.32%	0.26%	0.22%
Other income (expense), net	0.78%	-0.13%	0.64%	0.08%	0.19%	0.09%	0.09%	0.09%
Income (loss) before income taxes	5.33%	5.96%	4.04%	3.88%	4.63%	6.13%	6.21%	6.28%
Provision (benefit) for income taxes	1.18%	1.69%	0.58%	1.07%	1.02%	1.35%	1.37%	1.38%
Equity in net earnings	0.02%	0.10%	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income (loss)	4.17%	4.36%	3.53%	2.81%	3.61%	4.78%	4.85%	4.90%

Humana Inc.
Common Size Balance Sheet

Fiscal Years Ending Dec. 31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Current assets:								
Cash and cash equivalents	6.25%	6.06%	4.09%	2.67%	2.65%	2.57%	4.56%	7.32%
Investment securities	16.91%	16.27%	15.88%	12.33%	12.35%	12.31%	12.29%	12.29%
accounts Receivable	1.63%	1.47%	2.18%	2.19%	2.19%	2.19%	2.19%	2.19%
Other current assets	5.87%	6.84%	7.82%	8.00%	7.00%	8.00%	8.00%	8.00%
Total current assets	30.65%	30.64%	29.97%	25.20%	24.19%	25.07%	27.04%	29.80%
Property and equipment, net	3.01%	3.07%	3.70%	4.02%	4.60%	4.82%	4.92%	4.93%
Long-term investment securities	0.63%	1.57%	0.94%	1.50%	1.00%	1.00%	1.00%	1.00%
Goodwill	6.05%	5.76%	13.35%	12.06%	11.88%	11.29%	10.74%	10.23%
Equity method investments	1.64%	1.52%	0.17%	0.15%	0.15%	0.14%	0.14%	0.13%
Other long-term assets	2.83%	2.76%	5.27%	5.00%	4.00%	4.00%	4.00%	4.00%
Total assets	44.81%	45.32%	53.40%	47.94%	45.82%	46.32%	47.83%	50.10%
Current liabilities:	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Benefits payable	9.25%	10.55%	9.98%	9.89%	9.90%	9.70%	9.68%	9.69%
Trade accounts payable and accrued expenses	5.79%	5.20%	5.43%	5.72%	5.67%	5.58%	5.58%	5.58%
Book overdraft	0.35%	0.41%	0.39%	0.40%	0.40%	0.40%	0.40%	0.40%
Unearned revenues	0.38%	0.41%	0.31%	0.35%	0.35%	0.35%	0.35%	0.35%
Short-term debt	1.08%	0.78%	2.35%	1.25%	1.15%	1.06%	1.10%	1.19%
Total current liabilities	16.84%	17.36%	18.46%	17.62%	17.48%	17.10%	17.12%	17.21%
Long-term debt	7.65%	7.85%	12.69%	11.46%	7.54%	6.04%	5.17%	4.93%
Other long-term liabilities	1.76%	2.32%	2.87%	2.00%	2.00%	2.00%	2.00%	2.00%
Total liabilities	26.26%	27.53%	34.02%	31.08%	27.02%	25.14%	24.29%	24.13%
Stockholders' equity:	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Common stock	4.40%	3.55%	3.75%	3.59%	3.74%	3.62%	3.44%	3.28%
Capital in excess of par value	NA	NA	NA	NA	NA	NA	NA	NA
Retained earnings	26.94%	26.59%	27.79%	27.51%	30.30%	33.19%	36.07%	38.95%
AOCI	0.24%	0.51%	0.05%	0.05%	0.04%	0.04%	0.04%	0.04%
Treasury stock	-13.03%	-12.85%	-12.24%	-14.32%	-15.31%	-15.69%	-16.03%	-16.32%
Noncontrolling interests	0.00%	0.00%	0.03%	0.03%	0.02%	0.02%	0.02%	0.02%
Total stockholders' equity	18.55%	17.79%	19.39%	16.86%	18.80%	21.18%	23.55%	25.97%
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total liabilities and stockholders' equity	44.81%	45.32%	53.40%	47.94%	45.82%	46.32%	47.83%	50.10%

Humana Inc.*Relative Valuation Models*

Ticker	Company	Price	EPS 2022E	EPS 2023E	P/E 22	P/E 23
UNH	UnitedHealth Group	\$485.40	\$21.69	\$24.72	22.38	19.64
ELV	Elevance	\$486.45	\$28.61	\$32.43	17.00	15.00
CI	Cigna	\$259.19	\$22.68	\$25.23	11.43	10.27
CVS	CVS Health	\$97.48	\$8.40	\$9.02	11.60	10.81
CNC	Centene	\$82.32	\$5.50	\$6.30	14.97	13.07
MOH	Molina Healthcare	\$295.89	\$17.26	\$19.57	17.14	15.12
			Average		18.84	16.59
HUM	Humana Inc.	\$478.50	21.34	28.23	22.4	17.0

Implied Relative Value:**P/E (EPS22) \$ 402.09****P/E (EPS23) \$ 468.18**

Humana Inc.

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending Dec. 31	2022E	2023E	2024E	2025E	2026E
EPS	\$ 21.34	\$ 28.23	\$ 39.94	\$ 43.21	\$ 46.49
Key Assumptions					
CV growth of EPS	3.00%				
CV Year ROE	21.83%				
Cost of Equity	9.75%				
Future Cash Flows					
P/E Multiple (CV Year)					12.79
EPS (CV Year)					\$ 46.49
Future Stock Price					\$ 594.43
Dividends Per Share	3.15	3.15	3.15	3.15	
Discounted Cash Flows	2.87	2.62	2.38	2.17	\$ 409.77
Intrinsic Value as of Last FYE	\$ 419.81				
Implied Price as of Today	\$ 445.68				

Humana Inc.*Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models*

Key Inputs:

CV Growth of NOPLAT	2.00%
CV Year ROIC	93.12%
WACC	8.61%
Cost of Equity	9.75%

Fiscal Years Ending Dec. 31	2022E	2023E	2024E	2025E	2026E
------------------------------------	--------------	--------------	--------------	--------------	--------------

DCF Model:

Free Cash Flow (FCF)	2,416,270	4,748,186	3,149,068	4,697,726	5,070,914
Continuing Value (CV)					79,529,019
PV of FCF	2,224,735	4,025,255	2,457,993	3,376,129	57,155,362

Value of Operating Assets:	69,239,473
Non-Operating Adjustments	
(+) Excess Cash	-
(+) Investment Securities	13,192,000
(+) Long Term Investment Securities	780,000
(+) Equity Method Investments	141,000
(-) Book Overdraft	(326,000)
(-) Current Portion LTD	(1,953,000)
(-) Long Term Debt	(10,541,000)
(-) PV Operating Leases	(704,425)
(-) ESOP	(182,376)
Value of Equity	69,645,672
Shares Outstanding	126,938
Intrinsic Value of Last FYE	\$ 548.66
Implied Price as of Today	\$ 582.47

EP Model:

Economic Profit (EP)	2,519,840	3,104,532	4,516,967	4,633,391	4,875,064
Continuing Value (CV)					73,760,253
PV of EP	2,320,095	2,631,854	3,525,701	3,329,893	53,009,505

Total PV of EP	64,817,048
Invested Capital (last FYE)	4,422,425
Value of Operating Assets:	69,239,473
Non-Operating Adjustments	
(+) Excess Cash	-
(+) Investment Securities	13,192,000
(+) Long Term Investment Securities	780,000
(+) Equity Method Investments	141,000
(-) Book Overdraft	(326,000)
(-) Current Portion LTD	(1,953,000)
(-) Long Term Debt	(10,541,000)
(-) PV Operating Leases	(704,425)
(-) ESOP	(182,376)
Value of Equity	69,645,672
Shares Outstanding	126,938
Intrinsic Value of Last FYE	\$ 548.66
Implied Price as of Today	\$ 582.47

Humana Inc.*Weighted Average Cost of Capital (WACC) Estimation***Cost of Equity:**

Risk-Free Rate	3.00%
Beta	1.31
Equity Risk Premium	5.15%
Cost of Equity	9.75%

ASSUMPTIONS:

10-year Treasury Bond
Bloomberg 3 Year Weekly Beta
Henry Fund Estimate

Cost of Debt:

Risk-Free Rate	3.00%
Implied Default Premium	1.49%
Pre-Tax Cost of Debt	4.49%
Marginal Tax Rate	22%
After-Tax Cost of Debt	3.50%

10-year Treasury Bond

YTM on company's 10-year corporate bond

CUSIP 444859BR2

Market Value of Common Equity:

Total Shares Outstanding	126,938
Current Stock Price	\$479
MV of Equity	60,739,833

MV Weights

81.79%

Market Value of Debt:

Book Overdraft	326,000
Current Portion of LTD	1,953,000
Long-Term Debt	10,541,000
PV of Operating Leases	704,425
MV of Total Debt	13,524,425

18.21%

Market Value of the Firm

74,264,258

100.00%

Estimated WACC

8.61%

Humana Inc.*Valuation of Options Granted under ESOP*

Current Stock Price	\$478.50
Risk Free Rate	3.00%
Current Dividend Yield	0.70%
Annualized St. Dev. of Stock Returns	31.82%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	310	339.08	3.70	\$ 194.75	\$ 60,373
Range 2	873	380.55	1.80	\$ 139.75	\$ 122,003
Range 3				NA	NA
Range 4				NA	NA
Range 5				NA	NA
Range 6				\$	-
Range 7				\$	-
Range 8				\$	-
Range 9				\$	-
Total	1,183	\$ 369.68	2.30	\$ 162.01	\$ 182,376

Humana Inc.

Sensitivity Tables

DCF/EP

Risk Free Rate

	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%
Pre-tax Cost of Debt	645.81	626.81	609.04	592.39	576.76	562.06	548.21
3.75%	645.81	626.81	609.04	592.39	576.76	562.06	548.21
4.00%	641.75	622.99	605.44	589.00	573.56	559.02	545.33
4.25%	637.74	619.22	601.89	585.65	570.39	556.02	542.48
4.49%	633.93	615.64	598.52	582.47	567.38	553.17	539.77
4.75%	629.86	611.81	594.91	579.06	564.15	550.12	536.87
5.00%	626.00	608.18	591.49	575.82	561.09	547.21	534.12
5.25%	622.19	604.59	588.10	572.62	558.06	544.34	531.39

DCF/EP

Equity Risk Premium

	4.25%	4.50%	4.75%	5.15%	5.25%	5.50%	5.75%
Beta	842.22	806.17	773.09	725.47	714.47	688.38	664.14
1.00	842.22	806.17	773.09	725.47	714.47	688.38	664.14
1.10	782.72	748.52	717.19	672.19	661.81	637.23	614.41
1.20	731.09	698.58	668.85	626.23	616.42	593.18	571.65
1.31	681.66	650.85	622.72	582.47	573.21	551.31	531.03
1.40	645.95	616.42	589.48	550.99	542.14	521.23	501.89
1.50	610.44	582.21	556.50	519.80	511.38	491.47	473.08
1.60	578.65	551.63	527.04	491.99	483.95	464.96	447.43

DCF/EP

CV Growth of NOPLAT

	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%	3.50%
WACC	632.89	673.52	721.55	779.18	849.62	937.66	1,050.86
7.00%	632.89	673.52	721.55	779.18	849.62	937.66	1,050.86
7.50%	585.17	619.16	658.81	705.68	761.91	830.65	916.56
8.00%	543.86	572.60	605.77	644.47	690.21	745.09	812.16
8.61%	500.46	524.20	551.29	582.47	618.75	661.50	712.62
9.00%	475.94	497.08	521.04	548.42	580.02	616.87	660.44
9.50%	447.70	466.04	486.67	510.06	536.78	567.62	603.59
10.00%	422.47	438.48	456.39	476.53	499.35	525.43	555.53

DCF/EP

2022 Medicare Advantage Revenue Per Member Growth

	4.25%	4.50%	4.75%	5.00%	5.25%	5.50%	6.00%
2022 Medicare Advantage Membership Growth	578.27	579.32	579.84	580.36	580.88	581.40	581.92
8.50%	578.27	579.32	579.84	580.36	580.88	581.40	581.92
9.00%	579.32	580.36	580.89	581.41	581.94	582.46	582.98
9.50%	579.84	580.89	581.41	581.94	582.46	582.99	583.51
10.00%	580.36	581.41	581.94	582.47	582.99	583.52	584.04
10.50%	580.88	581.94	582.46	582.99	583.52	584.05	584.57
11.00%	581.40	582.46	582.99	583.52	584.05	584.58	585.10
11.50%	581.92	582.98	583.51	584.04	584.57	585.10	585.64

DCF/EP

2022 Pharmacy Services Growth

	15.00%	20.00%	25.00%	30.00%	35.00%	40.00%	45.00%
2022 Retail Services Growth	542.89	555.97	569.06	582.14	595.23	608.31	621.40
5.00%	542.89	555.97	569.06	582.14	595.23	608.31	621.40
10.00%	543.01	556.10	569.18	582.27	595.35	608.44	621.52
15.00%	543.13	556.22	569.31	582.39	595.48	608.56	621.65
18.00%	543.21	556.29	569.38	582.47	595.55	608.64	621.72
20.00%	543.26	556.34	569.43	582.52	595.60	608.69	621.77
25.00%	543.38	556.47	569.55	582.64	595.72	608.81	621.90
30.00%	543.51	556.59	569.68	582.76	595.85	608.93	622.02

DCF/EP

2022 Medical Cost Ratio

	85.50%	86.00%	86.50%	87.00%	87.50%	88.00%	88.50%
2022 Operating Costs	592.76	591.52	590.27	589.03	587.78	586.54	585.29
10.50%	592.76	591.52	590.27	589.03	587.78	586.54	585.29
11.00%	591.44	590.19	588.95	587.70	586.46	585.21	583.97
11.50%	590.11	588.87	587.63	586.38	585.14	583.89	582.65
12.98%	586.20	584.96	583.71	582.47	581.22	579.98	578.73
12.50%	587.47	586.22	584.98	583.73	582.49	581.25	580.00
13.00%	586.15	584.90	583.66	582.41	581.17	579.92	578.68
13.50%	584.82	583.58	582.33	581.09	579.84	578.60	577.35

Humana Inc.

Key Management Ratios

<i>Fiscal Years Ending Dec. 31</i>		2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Liquidity Ratios:									
Cash Ratio	Cash / Current Liabilities	37.09%	34.89%	22.14%	15.18%	15.18%	15.03%	26.65%	42.55%
Quick Ratio	(Cash + Total Receivables) / Current Liabilities	46.76%	43.39%	33.97%	27.62%	27.72%	27.85%	39.45%	55.28%
Liquidity Ratio	Current Assets / Current Liabilities	181.97%	176.50%	162.37%	143.00%	138.42%	146.61%	157.95%	173.20%
Asset-Management Ratios:									
Accounts Receivable Turnover	Sales /AR	61.45	67.80	45.79	45.63	45.63	45.63	45.63	45.63
Days Sales Outstanding	365/AR Turnover	5.94	5.38	7.97	8.00	8.00	8.00	8.00	8.00
Net Working Capital Turnover	Sales / (Current Assets + Current Liabilities)	2.11	2.08	2.07	2.34	2.40	2.37	2.26	2.13
Total Asset Turnover	Sales /Total Assets	2.23	2.21	1.87	2.09	2.18	2.16	2.09	2.00
Financial Leverage Ratios:									
Debt to Equity	Total Debt/Equity	47.07%	48.51%	77.59%	75.44%	46.21%	33.56%	26.64%	23.57%
Equity Multiplier	Total Assets/Total Equity	241.54%	254.73%	275.46%	284.40%	243.68%	218.72%	203.14%	192.93%
Interest Coverage Ratio	EBIT/Interest Expense, Net	13.19	17.62	9.66	8.42	9.77	19.78	24.71	28.97
Debt Capitalization	(SD+LD)/(SD+LD+SE)	32.01%	32.67%	43.69%	43.00%	31.61%	25.13%	21.04%	19.07%
Profitability Ratios:									
Return on Equity	NI/Beg TSE	26.64%	27.97%	21.37%	16.06%	21.77%	26.78%	24.06%	21.83%
Returns on Assets	NI/Total Assets	9.31%	9.63%	6.61%	5.87%	7.89%	10.33%	10.13%	9.78%
Operating Margin	(Operating Income)/Revenue	4.92%	6.46%	3.79%	4.32%	4.95%	6.36%	6.38%	6.41%
Net Profit Margin	NI/Sales	4.17%	4.36%	3.53%	2.81%	3.61%	4.78%	4.85%	4.90%
Payout Policy Ratios:									
Dividend Payout Ratio (Dividend/EPS)	Dividend/EPS	10.65%	9.54%	13.23%	14.77%	11.17%	7.89%	7.29%	6.78%
Total Payout Ratio ((Divs. + Repurchases)/NI)	(Divs. + Repurchases)/NI	50.17%	63.59%	14.67%	14.77%	11.17%	7.89%	7.29%	6.78%

Humana Inc.*Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding*

Number of Options Outstanding (shares):	1,183
Average Time to Maturity (years):	2.30
Expected Annual Number of Options Exercised:	515

Current Average Strike Price:	\$ 369.68
Cost of Equity:	9.75%
Current Stock Price:	\$478.50

Fiscal Years Ending Dec. 31	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Increase in Shares Outstanding:	515	515	154						
Average Strike Price:	\$ 369.68	\$ 369.68	\$ 369.68	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Increase in Common Stock Account:	190,320	190,320	57,096	-	-	-	-	-	-
Share Repurchases (\$)	3,000,000	1,130,429	1,130,429	1,130,429	1,130,429	0	0	0	0
Expected Price of Repurchased Shares:	\$ 478.50	\$ 521.79	\$ 568.99	\$ 620.46	\$ 676.60	\$ 737.80	\$ 804.55	\$ 877.33	\$ 956.70
Number of Shares Repurchased:	6,270	2,166	1,987	1,822	1,671	-	-	-	-
Shares Outstanding (beginning of the year)	126,938	121,183	119,532	117,699	115,877	114,207	114,207	114,207	114,207
Plus: Shares Issued Through ESOP	515	515	154	0	0	0	0	0	0
Less: Shares Repurchased in Treasury	6,270	2,166	1,987	1,822	1,671	-	-	-	-
Shares Outstanding (end of the year)	121,183	119,532	117,699	115,877	114,207	114,207	114,207	114,207	114,207

Humana Inc.*Present Value of Operating Lease Obligations**In Thousands*

Fiscal Years Ending Dec. 31	2015	2016	2017	2018	2019	2020	2021
Year 1	157,000	166,000	138,000	134,000	133,000	146,000	210,000
Year 2	143,000	139,000	116,000	101,000	117,000	129,000	170,000
Year 3	113,000	112,000	79,000	86,000	97,000	82,000	133,000
Year 4	83,000	70,000	50,000	70,000	52,000	59,000	105,000
Year 5	47,000	45,000	32,000	25,000	31,000	41,000	58,000
Thereafter	45,000	78,000	1,000	27,000	70,000	87,000	129,000
Total Minimum Payments	588,000	610,000	416,000	443,000	500,000	544,000	805,000
Less: Cumulative Interest	65,786	71,817	40,034	47,367	59,684	66,598	100,575
PV of Minimum Payments	522,214	538,183	375,966	395,633	440,316	477,402	704,425
Implied Interest in Year 1 Payment		23,447.39	24,164.41	16,880.85	17,763.93	19,770.19	21,435.36
Pre-Tax Cost of Debt	4.49%	4.49%	4.49%	4.49%	4.49%	4.49%	4.49%
Years Implied by Year 6 Payment	1.0	1.7	1.0	1.1	2.3	2.1	2.2
Expected Obligation in Year 6 & Beyond	45000	45000	1000	25000	31000	41000	58000
Present Value of Lease Payments							
PV of Year 1	150253.6	158866.9	132070.1	128241.9	127284.9	139726.3	200976.2
PV of Year 2	130974.4	127310.8	106245.0	92506.4	107160.9	118151.8	155703.9
PV of Year 3	99049.9	98173.4	69247.3	75383.1	85025.2	71877.0	116580.9
PV of Year 4	69627.2	58721.8	41944.1	58721.8	43621.9	49494.1	88082.7
PV of Year 5	37733.2	36127.6	25690.7	20070.9	24887.9	32916.2	46564.4
PV of 6 & beyond	34575.2	58982.4	768.3	20709.0	52335.2	65236.8	96517.1
Capitalized PV of Payments	522213.7	538182.8	375965.6	395633.1	440316.0	477402.1	704425.1