The Henry Fund
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Humana, Inc (HUM)

September 17, 2023

Health Care – Managed Health Care

Stock Rating **BUY**

Investment Thesis

Henry Fund recommends a BUY rating for Humana with a target price range of $510 - $610, which is an upside of 8-30%. As HUM completed its strategic review and decided to exit the commercial business, it chose to focus on providing government-funded insurance and expanding its home health business.

Drivers of Thesis

- Humana is positioning itself uniquely in the competitive industry where its revenue heavily depends on the government. Although there is a lack in revenue diversification, the regulations and revenue per member are more structured than the other business line, making HUM unlikely to face great risk in the near future.

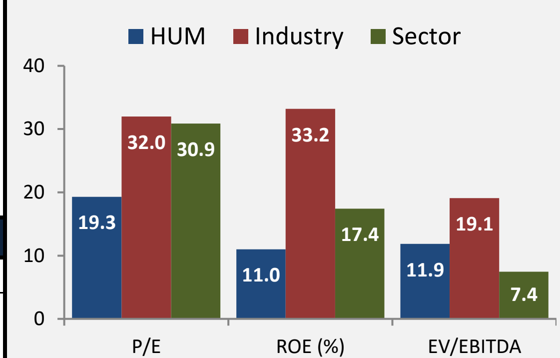
- From the chart below, we can observe that Humana is moving the opposite direction as the benchmark; therefore, since Henry Fund predicts that there is a 60% probability of recession in the next six months, we should strategically invest more in defensive stock than the aggressive ones.

Risks to Thesis

- The Medicare population tends to choose insurance carriers based on their care offering preferences and geographical coverage; therefore, HUM needs quickly adopt and execute to the industry trends; otherwise, it would not be able to gain or even maintain its market share.

- UnitedHealth Group is interested in acquiring home health company, Amedisys by the end of the year. If the deal went through, it would bring a big competitor to the segmented industry. As of 2023, Amedisys has more than 500 locations in 39 states, doubling CenterWell's footprint.

Target Price	$510 – 610
Henry Fund DCF	$607
Henry Fund DDM	$406
Relative Multiple	$441 - $554
Price Data	
Current Price	$471
52wk Range	$423 – 571
Consensus 1yr Target	$581
Key Statistics	
Market Cap (B)	$58.33
Shares Outstanding (M)	$152
Institutional Ownership	94.1%
Beta	0.89
Dividend Yield	0.9%
Est. 5yr Growth	10%
Price/Earnings (TTM)	19.3
Price/Earnings (FY1)	18.4
Price/Sales (TTM)	0.51
Profitability	
Operating Margin	4.5%
Profit Margin	6.5%
Return on Assets (TTM)	6.8%
Return on Equity (TTM)	10.9%



Earnings Estimates

Year	2020	2021	2022	2023E	2024E	2025E
EPS	$18.75	$20.64	$25.24	$28.27	$32.02	$37.36
HF est.				$24.38	$25.61	$31.84
Growth		*10.8%*	*22.3%*	*10.5%*	*5.1%*	*24.3%*

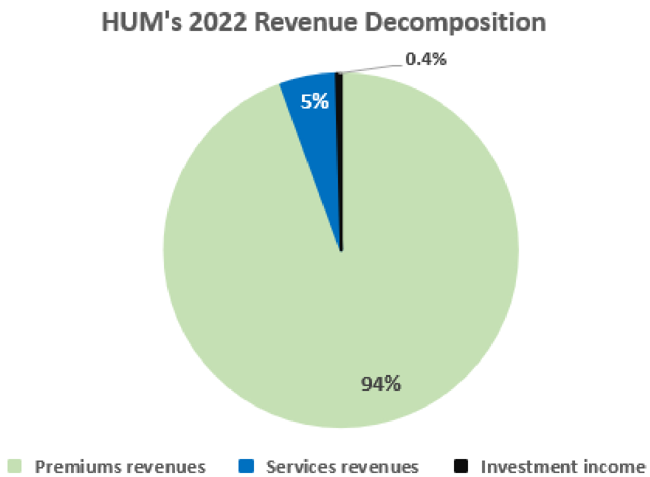
12 Month Performance

Company Description

Humana is a health insurance company that specializes in providing government-funded programs like Medicare and Medicaid. In 2023, it started a new segment named CenterWell with its acquisitions of Conviva and Kindred at Home. Now, the company is the nation's largest home health provider. Currently, Humana serves 17 million members under its medical and specialty insurance while operating 235 CenterWell centers in 12 states.

COMPANY DESCRIPTION

Humana (NYSE: HUM) is a health insurance company that operates in the Insurance and CenterWell segments. At the end of fiscal year 2022, Humana has 17 million members under its medical insurance plans and operates 235 CenterWell centers in 12 states of the country.[21]

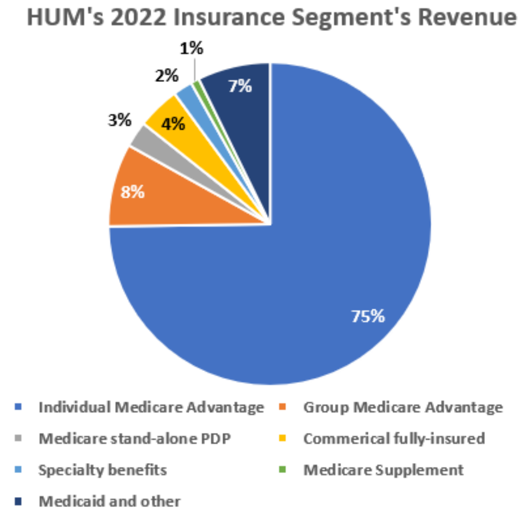


Sources: HUM's 10k

Most of HUM's competitors like UnitedHealth Group, CVS Health, and Cigna used vertical integration as a strategy to expand their business footprints; therefore, they often have pharmacy benefit management services or other technology segments to improve the company's operating efficiencies. HUM remains one of the only managed health care companies that generate more than 90% of its revenue from the insurance business line. [21] While HUM provides Pharmacy Solutions as part of its services, it still relies a lot on its competitors when it comes to negotiating drug prices.

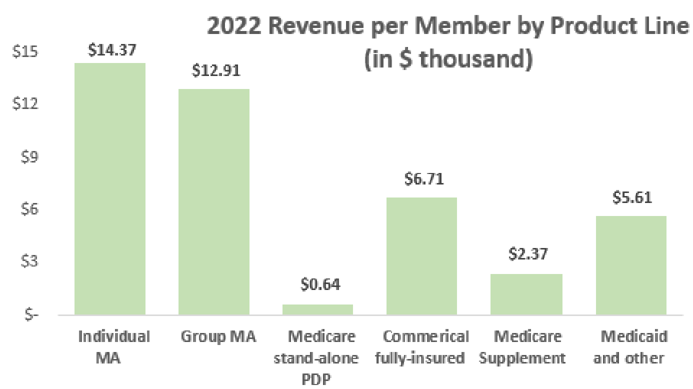
Insurance Segment

94% of HUM's revenue was premium revenue, which means it was earned by Humana selling a form of insurance to its members. Among the insurance segment, up to 75% of the revenue was generated by the individual Medicare Advantage plans, followed by 8% of the members under Group Medical Advantage plans. [21] With more than 5 million enrollments in this specific business line, HUM is the second-largest company with the most Medicare Advantage enrollment in the United States, right after UnitedHealth Group with 8 million members. [15]



Sources: HUM's 10k

Among the range of health plan offerings, the revenue generated per membership enrollment varies across the portfolio greatly, with the Medicare Advantage plans leading the portfolio to have the highest annual revenue per member compared to other plans. The Medicare Supplement and Medicare stand-alone PDP plans generate significantly lower revenue because these plans only offer prescription drug coverage and do not include any medical and hospital coverage. In contrast, the commercial fully insured marketplace is highly competitive and the insurers would need to strategically lower their premiums to gain a competitive advantage over their competitors; therefore, the aggressive environment leads to the low revenue per member.

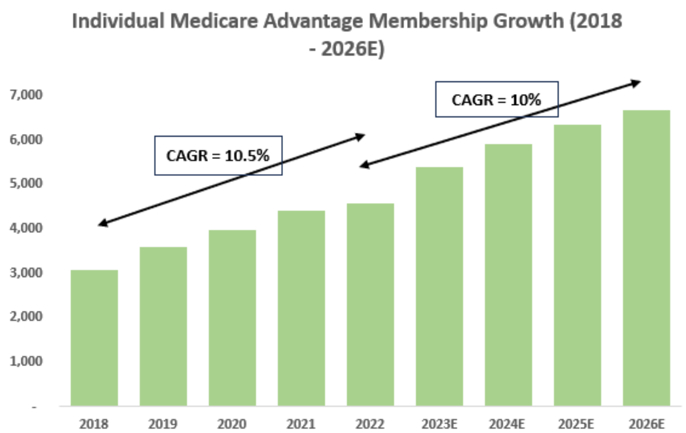


Sources: HUM's 10k

Medicare

Medicare is a government-funded health insurance program for members above 65 years old and members with certain disabilities. Medicare is split into Medicare

Part A (hospital insurance), Part B (medical insurance), Part D (prescription drug coverage), and Medicare Advantage which includes all three coverages. [7] Medicare Advantage is the product line that is expected to generate the highest growth rate for HUM, with the individual Medicare Advantage membership enrollment to grow at a CAGR of 10% from 2023 – 2026. The high growth rate is projected because HUM has a good reputation of 4.5 stars from the U.S. Centers of Medicare & Medicaid Services (CMS) and the additional bonus payments they receive every year will allow HUM to improve its offerings and benefits to its members, and further driving enrollment growth in those programs.



Sources: HUM's 10k, Henry Fund

The total premium earned is forecasted with the annual membership enrollment growth rate and an average annual revenue per member for each product line. Government-funded programs usually have a higher revenue per member than commercial businesses since HUM collects a set premium per member per month from the government rather than putting out a competitive rate to gain members. In 2022, HUM was able to collect an average of $3,600 for each Medicare member.

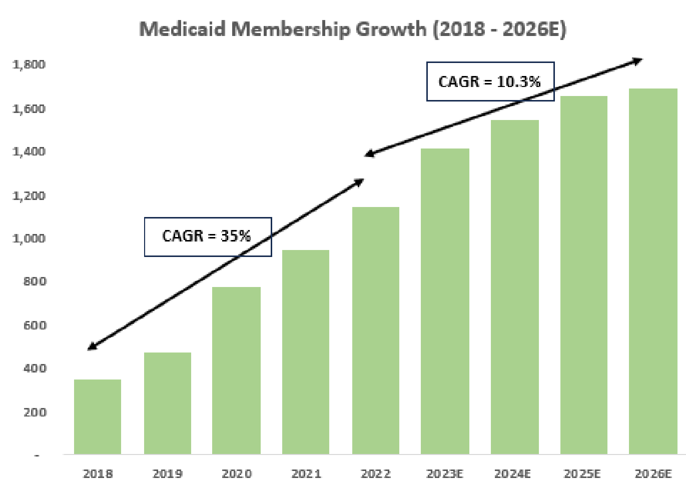
The individual Medicare Advantage is and will remain the biggest revenue line for Humana in the next 4 years.

Medicaid

Medicaid is another government-funded program, but it is for the population who falls below the federal poverty level thresholds, children, pregnant women, elderly adults, and people with disabilities.[7] The payment structure for Medicaid is slightly different than Medicare as the program is funded jointly by the states and the federal government. The insurers would place bids for the state's Medicaid contracts and the state would announce which company they won the bid and would "award" the contracts to them based on their quality scores.[9] A state would usually choose 2-4 insurers for its state's Medicaid population, and HUM is currently serving more than 1.3 million members in seven states.[9]

Due to the announcement of the Public Health Emergency (PHE) caused by COVID-19, U.S. Congress enacted the Families First Coronavirus Response Act that included a requirement that Medicaid needs to keep people continuously enrolled in the plan until the end of the emergency.[15] At the end of 2022, the World Health Organization declared the end of the global PHE and ending the continuous enrollment starting on March 2023. Due to the requirement, millions of people were eligible for Medicaid, causing the product line to experience a higher-than-usual growth rate; however, when the states started disenrolling the people starting in April 2023, the Kaiser Family Foundation (KFF) predicted at least 8 million people would lose their Medicaid coverage.[15] According to the Unwinding Tracker by KFF, it was reported that at least 6 million enrollees have been disenrolled as of the report date.[15]

While the industry tends to have negative growth for its Medicaid business, Humana proved to beat the market by gaining a fascinating 20% quarter-to-quarter membership enrollment growth in Q1 2023 as it secured Ohio and Louisiana contracts by the beginning of the year, and the enrollment is estimated to continue growing in the next year as HUM was awarded two more contracts by Indiana and Oklahoma starting in 2024.[21]

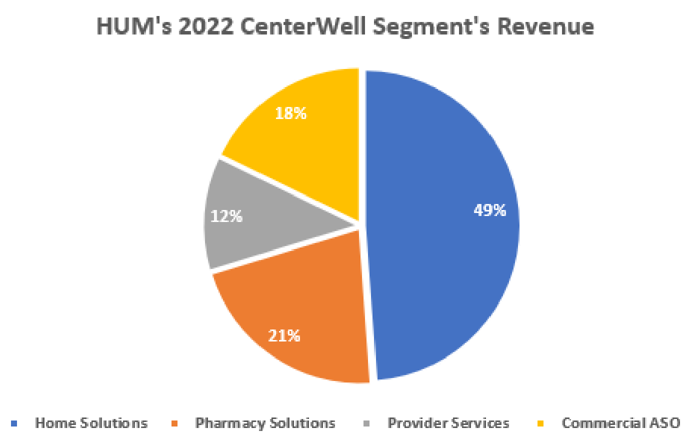


Sources: HUM's 10k, Henry Fund

The revenue per member per month that will be awarded to the Medicaid population is slightly lower than Medicare, where HUM was able to collect an average of $1,480 from the state and federal government for each enrollment. The premium earned is also forecasted with the estimated enrollment growth, which is within the range of expected members provided in the Q2 2023 earnings call by the company. With this, Medicaid is estimated to be the second-highest revenue-generating plan in 2023.

CenterWell Segment

CenterWell is a new business segment HUM created to focus on providing senior-focused primary care, pharmacy, and home care services. HUM created the new segment to integrate the numerous acquisitions it has had in the past years, including the acquisitions of Conviva and Kindred at Home. The segment is experiencing a high growth rate, with a CAGR of 98% in the past 2 years, even when it contributes to only 5% of the company's total revenue.



Sources: HUM's 10k

Home Solutions

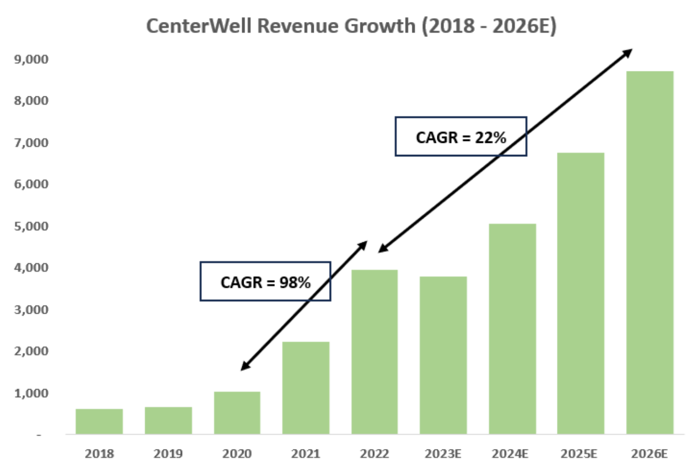
HUM's home solutions focus on providing home health services to patients and it is the largest home health provider in the nation.[21] The biggest challenge that this product is facing is the lack of home health providers; thus, the company is working on using technology to eliminate certain administrative tasks to drive efficiency for the nurses and increase its nursing capacity. While most of the home solutions are still using the traditional fee-for-service payment model, HUM is actively converting it to a full value-based care model. The home solution line is expected to be CenterWell's highest revenue-generating business out of the three.

Pharmacy Solutions

HUM also provides mail-order pharmacy solutions for the members, and the pharmacy dispensing business has the industry-leading mail-order penetration rate at 38.6%.[21] HUM believes that Medicare Advantage members who use its in-house pharmacy have higher-than-industry-average medication adherence rates from 650 to 840 basis points, proving that the members were able to receive higher quality and more personalized care if they stick to HUM's family of businesses.[21]

Provider Services

HUM's provider services focus on providing senior-focused value-based primary care to its members and they are staffed with more than 670 primary care providers in the country.[21] By the end of 2022, HUM has 235 CenterWell centers and announced the plan to have an average of 30-50 annual centers growth for the next several years and expects to have 400-450 centers by 2025.[21] HUM believes that having a close physician-patient relationship will improve medical quality and outcomes; therefore, the value-based care model was implemented for a smaller patient panel and providers will be able to provide greater care. With the company's effort to open new centers and more acquisitions, the valuation model forecasted CenterWell to achieve the lower range of 410 centers by the end of 2025 and 460 centers by the end of 2026.



Sources: HUM's 10k, Henry Fund

Due to the lack of numerical data for home solutions and pharmacy solutions, the valuation model used the average revenue per center and the forecasted number of CenterWell centers to get the revenue for the entire segment. As the segment is still new and the revenue per center has a huge range, the model takes the average revenue per center for the most recent 2 years and grows by $2,000 every year due to the assumptions that HUM will gain more patients and improve efficiencies with the integrations. This leads to the segment having a CAGR of 22% from 2023 to 2026. While the CenterWell is expected to experience high growth, the Insurance segment is experiencing high CAGR as well, according to the valuation mode, the CenterWell segment will only contribute 6% to the total revenue by the end of 2026. In this case, the revenue diversification is still not enough for HUM.

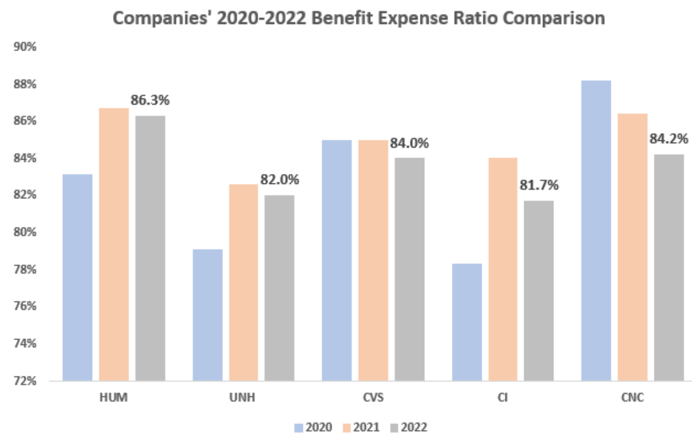
Cost Structure Analysis

Benefit Expenses

As a health insurance company, the benefit expense, also known as the Medical Cost Ratio in the industry is an important metric that shareholders pay attention to. The ratio is calculated by dividing the total medical (or benefit) expenses paid by the insurer by the total insurance premium collected in that year.[6] While a lower ratio indicates that the insurer has higher profit, the Affordable Care Act requires companies to spend at least 80% of the premium money to improve the quality of the individual and small group markets and 85% on large group markets.[7] If the company failed to meet the limit, the provider would need to provide a rebate to its customers; at the same time, shareholders would be unhappy about its cost management if the benefit expenses were above 87%.

In the most recent earnings call, HUM announced that the quarterly benefit expense for the quarter was 86.3% and revised its benefit expense for the full year up to 86.5% – 87.5%, leaning towards the higher end, and this trend will continue in the next few quarters.[21] The increase in benefit expenses was due to the increase in utilization from Medicare Advantage members; patients who delayed their non-emergency procedures started to resume the procedures this year as the WHO announced the end of the PHE. According to the Q2 2023 earnings call, HUM revealed that it experienced a higher-than-expected portion of age-ins members, which means the new enrollees are older than the average new members and they often have a higher benefit expense ratio due to old-age complications and other conditions.[21] With the guidance, the valuation model predicted that the full-year benefit expenses ratio to be 87% and kept the benefit expenses ratio to remain slightly higher in the next 2 years.

From the chart below, we can observe that HUM is one of the health insurance companies that has the highest benefit expense; however, Henry Fund thought that this is a natural result of its older members. More than half (55%) of HUM's medical members is enrolled in Medicare-related plans, which indicates that the average age of HUM members is older than its competitors; therefore, its benefit expenses are also expected to be higher since elderly are more often to require medical attention and expose to chronic illnesses as compared to working-aged adults.



Sources: Companies' 10-K

Operating Cost

Most of the costs are calculated in the benefit expenses, so the operating cost is used to measure its administrative spending efficiency, which includes marketing costs spent before the open enrollment season for the next fiscal year. Since the operating cost for HUM is pretty consistent across the quarters at 10—16%, an average of 13% was deduced for the forecasting periods.

Additional Company Analysis

Integration of Kindred at Home

Kindred at Home, now known as CenterWell Home Health is a subsidiary that HUM acquired back in late 2021. Prior to being acquired, Kindred at Home was the nation's largest provider of home health, hospice, and personal care. HUM anticipated cost savings resulting from reduced hospitalization rates among its members and recognized a majority of Medicare members prefer receiving care within a comfortable and flexible home-based setting.

Following a strategic review in 2022, HUM made the decision to divest a 60% stake in the hospice segment for $2.8 billion. .[21] The transaction aligns with HUM's overall strategy since it believes its negotiation capability and will continue to rely on partnerships in delivering these services to its members. Through the operational integrations and geographical coverage synergies between the two companies, HUM utilizes Kindred at Home's expertise in providing value-based home health services to enhance members' experience. With the acquisition of Kindred at Home, alongside smaller acquisitions like Convica and OneHome, HUM has become the largest home health provider in the nation, capturing approximately 6% of market share in the fragmented industry.[21]

Centers for Medicare & Medicaid Services (CMS)

In 2022, up to 66% of HUM's members are enrolled in either Medicare and/or Medicaid plans; therefore, the department's announcements and regulations will impact HUM's future business and payment model.

CMS uses a 5-star rating system to regulate Medicare's health and prescription drug plans to ensure providers and insurers are providing top-quality care to the members. The star rating system serves as a tool for members to compare the historical quality of care and level of customer service offered by different providers and insurers. Insurers achieving a rating of more than 4 stars rating will be eligible for the Medicare Advantage plan's reimbursement premium bonus. As a part of the post-COVID adjustments, CMS introduced new methodology changes in the way MA contracts are rated and discontinued all COVID-19 adjust bonuses. .[11] As a result, the average rating across all plans for fiscal year 2024 decreased to 4.15 stars, down from the previous year's 4.37 stars.

According to an analysis by the Kaiser Family Foundation, Humana is estimated to receive $2.3 billion in bonuses for the fiscal year 2024, with over 96% of its members enrolled in a plan that has more than 4 stars.[10] Notably, HUM is one of the only two companies among its competitors to improve in star rating in fiscal year 2024, and brought its rating up to 4.5 stars in the challenging year. This proves HUM's commitment to enhancing the quality of care it provides to its enrollees.

	Payment Year		
	2023	2024	YOY Change
CI	4.5	5.0	0.5
UNH	5.0	4.5	-0.5
HUM	4.0	4.5	0.5
ELV	4.0	4.0	0.0
CVS	4.5	3.5	-1.0
CNC	4.5	3.0	-1.5

Sources: Companies' 10-K

Each year, CMS announces proposed fee schedules, negotiation rates, or drug payment policies. However, the proposed rules have become increasingly challenging due to the government's concern about the increased National Health Expenditure. Medicare plans and care providers, especially the home health services, are facing significant reductions in payment rates or rates that are not enough to combat the high medical inflation over the past years. For fiscal year 2024, CMS unveiled that it would decrease 2.27% in benchmark funding for the Medicare Advantage plans along with a 2.2% payment reduction to home health providers.[14,21] The rate cuts pose a greater risk for the home health industry when it is already facing a severe healthcare worker shortage. Nevertheless, the rates have not been officially approved and groups like the National Association for Home Care and Hospice are taking legal action against the government over the "unlawful" payment proposal.[15] If CMS and the government persist with the unreasonable rates for Medicare plans, the home health industry, in which HUM is a leader, will face the challenges of maintaining quality care and managing its benefit expenses.

Debt Maturity Analysis

As of 2023, HUM has $11 billion worth of debt outstanding and there is a required repayment of $1.4 billion by the end of the year. Given the recurring cash flow that the company has, Henry Fund is not particularly concerned with the Company's ability to pay off its debt obligations. In August 2023, HUM received a credit upgrade from Moody's to Baa2, while its S&P rating maintained at BBB+ since 2017.[2] The Company also reported that it still has approximately $4 billion worth of borrowing capacity under its revolving credit agreements. Below is HUM's five-year debt maturity schedule:

Five-Year Debt Maturity Schedule

Fiscal Year	Coupon (%)	Payment ($mil)
2023		1,443
2024		596
2025		600
2026		500
2027		1,370
Thereafter		6,300
Total		$10,809

Sources: HUM's 10-K

ESG Analysis

HUM has been actively working to improve the healthcare access, addressing social determinants of health and other health-related social needs to the society. The Company organizes events to offer free health screening, nutritious food distribution, health literacy, and improving lifestyle factors. The Humana Foundation donated more than $22.5 million to the communities in 2022 itself. While the Company is providing solutions for the social determinants of health, it was given the highest ESG Risk Rating among its competitors and has a medium risk.

Company	ESG Risk Rating	Ranking (out of 608)
HUM	22.5	197
UNH	15.3	31
CVS	22	182
CNC	19.9	127
CI	14.2	20
ELV	11.4	5

Sources: Sustain Analytics

RECENT DEVELOPMENTS

Recent Earnings Announcement

On August 2, 2023, HUM announced its earnings for fiscal year Q2 2023. The reported revenue for the quarter was $26.8 billion, beating the consensus by 2% and the adjusted EPS was $8.94, beating the consensus by 1%. Notably, the Company also raised its adjusted EPS guidance to at least $28.25 for the full year and mentioned that they are on the way to advance to the target of $37 in 2025, indicating that HUM is confident that the Company will continue experiencing high growth for the next year.

As the nation's largest carrier for Medicare plans and the Company's largest revenue-generating segment, investors do pay greater attention to individual Medicare Advantage related news, in which the Company reported favorable news for the quarter. Due to a higher-than-expected robust 12.9% growth in the individual Medicare Advantage enrollment. As a result, HUM is now raising membership growth guidance by another 50,000 members and anticipates adding a total of 825,000 members to the portfolio by the end of the year, strengthening its leading position in the product line. Furthermore, the Company aims to capture 40% of the industry growth in 2023 and to increase its market share by 170 basis points, to reach 20% by the end of the year, showing that it is available to cater the rapid change in member preferences for health plan offerings.

HUM introduced CenterWell as a new business segment this year, and the earnings call unveiled its commitment to enhance its care delivery and service capabilities for the segment. HUM expressed confidence in the quality of care provided through CenterWell as it saw 210 basis points lower hospital admission rates from the members who received care at the CenterWell Home Health centers as compared to those choosing other providers. This not only allows HUM to increase its CMS star rating in the following year but also reduces its expected medical cost.

Although HUM's Q2 2023 earnings announcement portrayed a very positive HUM's outlook, it warned that the industry is facing a high medical cost ratio as a result of the high medical utilization and the trend will last till at least early 2024. From the earnings call, it is evident to Henry Fund that HUM is putting a great focus on implementing value-based care payment models and integrating its home health services to reduce costs and enhance healthcare quality. Additionally, HUM is starting to see the synergies through vertical integration from the various multi-billion-dollar acquisitions HUM made over the years. From a strategic standpoint, Henry Fund thinks that HUM is strengthening its competitive position by constantly leveraging its unique strengths in the industry.

Exiting Commercial Medical Business

In February 2023, HUM announced that it plans to exit the employer group commercial medical business within the next 18-24 months.[16] This release will substantially affect 900 thousands members from plans like fully insured, self-funded, and federal employee health benefit medical plans and associated wellness and rewards programs. The valuation model is built on the assumption that HUM will fully exit the business by the first quarter of 2025, and through members transitioning to other insurance carriers, rather than selling the remaining businesses to a competitor.

HUM made this decision after a strategic review and the company decided to focus on its government-funded programs and specialty businesses. In the fiercely competitive and lower profit margin commercial business, HUM sees itself as being in a disadvantage to gain more market share; thus, it made the decision to exit the marketplace and channel its complete focus to implement innovative solutions to grow its government-funded plans enrollment as well as its CenterWell's geographical footprint and service capabilities.

INDUSTRY TRENDS

Value-Based Care

Value-based care is a form of reimbursement method that ties the payments for healthcare services directly to the quality of care provided. The model would reward providers based on the efficiency and effectiveness of their services.[15] In this payment model, primary care is commonly delivered in a patient-centered medical home (PCMH), which prioritizes establishing a strong patient-provider relationship. This approach enables patients to receive care customized to their preferences in care delivery locations, unique needs and personal pace.[15] Value-based care encourages providers to work closely with their patients to ensure that care is more comprehensive and coordinated. This often results in more streamlined and appropriate care, leading to greater patient satisfaction. In contrast to the traditional fee-for-service model, where providers may choose to enroll patients in longer and often unnecessary treatments to maximize treatments, value-based care focuses on the quality of care provided rather than the quantity of patients served.[15] The industry is seeing a shift away from the fees-for-service model to the value-based care model to encourage incentive care quality over the number of patients the provider serves. In the long term, this shift is expected to reduce healthcare costs and improve health outcomes, benefiting providers, patients and insurers.

In HUM's 2022 value-based care report, it was reported that 68% of the individual Medicare Advantage members are treated by primary care physicians who entered into value-based agreements. For 2021, the Company estimated that there was a $6 billion, or 20% cost savings when comparing the value-based members to the original Medicare members. With HUM's constant effort to promote and reward its members for receiving preventive care, 74% of HUM's Medicare Advantage members received at least one preventive and annual wellness screening, allowing the patients to gain a better understanding of their health conditions and lowering the chances of the members having a sudden development of chronic conditions or emergency room visits.

Acquisitions and Collaborations

As the healthcare industry is competitive where the top 6 companies captured more than half of the market share, HUM and its peers are actively getting into sales bids and acquisition talks with other healthcare companies. The acquisitions in talk range from digital health care services to primary care services. Through vertical integration, the companies aim to reduce costs and create efficiencies, so they continue improving and expanding their product offerings. Kindred at Home is one of HUM's largest acquisitions with $5.7 billion.

Primary Care Disruptors

Walgreens Boots Alliance

Walgreens is originally a retail pharmacy company that operates over 9,000 locations in the U.S. Back in 2021, the retailer first entered the primary care space by investing $5.2 billion to acquire VillageMD, a value-based primary care company.[17]In early 2023, Walgreens further invested another $3.5 billion in Summit Health. This strategic move broadened Walgreens' service capabilities to include primary, specialty and urgent care. The Company announced that the closing of the transaction is set to create one of the largest independent provider groups in the U.S., with the combined companies operating more than 850 locations in 26 states.[15]

To compete with its main rival CVS Health, Walgreens has evolved beyond being merely a drug retail store; it is now capable of providing full primary care services in selected locations. As of September 2023, there are already more than 210 Walgreens locations offering Village Medical services. Walgreens plans to further expand its primary care footprint by extending VillageMD care capabilities to at least 600 Walgreens locations by the end of 2025.[17]

With these investments, Walgreens is competing with Humana in the primary care domain. As Walgreens strategically expands its footprint, it is fascinating to see 50% of Village Medical located in medically underserved areas.[17] HUM should consider opening care clinics in these underserved regions to expand its footprints and ensure it remains competitive in the market and responsive to the customers' demand.

Amazon

Amazon is renowned as a multinational online retail giant company with technology platforms like AWS. In 2019, the Fortune 5 company initiated a pilot program for Amazon Care which quickly expanded as services to all 50 states. Amazon Care offered comprehensive in-person and virtual medical services in certain states.[15] In February 2023, Amazon decided to launch a bigger scale of health care services and completed an acquisition of $3.9 billion with 1Life Healthcare.[2] One Medical is a members-only technology platform that offers concierge medical services and focuses on providing primary care to enterprise and at-risk members. Upon completing the acquisition, Amazon Care offers services in 188 clinics and offers 24/7 virtual health visits.[2] The same year, Amazon tried to bid for Signify Health but lost the bid to CVS Health and failed to add another home health provider to its portfolio.

Shortly after the acquisition of One Medical, Amazon made a strategic decision that it would shut down Amazon Care and introduce Amazon Clinic with support from One Medical. Amazon Clinic first started as a virtual healthcare marketplace that only offers text-based services in certain states but starting from August 2023, patients can access to video visits and receives medical prescriptions from all 50 states; patients can also receive free mail-order deliveries and automatic refills from Amazon Pharmacy.[19] Amazon leverages its position as a mega online retailer and provides exclusive discounts to Prime members.

While Amazon is a disruptor in the healthcare space, Henry Fund does not see it poses a significant risk to HUM since the two companies are operating in different spaces within the industry; however, it is worthwhile to observe what strategies would Amazon launch and if it is planning to participate more into the competition, especially seeing its recent efforts of getting into the healthcare industry.

Walmart

Walmart is a well-known retail and wholesale company more commonly recognized for offering merchandise and services at a competitive price. In May 2019, Walmart stepped into the industry by acquiring telehealth provider, MeMD, and enabled Walmart Health that leverage data and technology to improve engagement, health equity and outcomes.[18]

In the fall of 2019, the wholesaler launched its first Walmart Health clinic in Georgia, attaching it to a Walmart Supercenter. The clinic offers primary care, dental care, vision care, and psychiatric counseling with education and wellness programs.[15] One of the interesting and unique services Walmart Health offers is to have the nutritionists take the patients through the grocery department and assist them in making dietary choices tailored to the patient-specific needs after the diagnosis. Walmart Health aims to establish at least 49 clinics by the end of the year, with the plan to have approximately 80 centers across seven states by the end of 2024.[12] The clinics will be conveniently located in Walmart Supercenters and will feature a wide range of health services, including primary care, senior care, dental care, behavioral health, labs and x-rays, audiology and virtual visits.

On September 7, 2022, the giant retailer Walmart and the largest health insurance insurer, UnitedHealth Group announced that they had entered a 10-year collaboration to offer high-quality and affordable health services to the people.[25] The collaboration started with 15 Walmart Health locations expanding into new states over time and eventually serving hundreds of thousands of Medicare beneficiaries in value-based arrangements with the assistance of Optum.[25] Optum would be providing analytical and decision-supporting tools to assist Walmart in delivering the services. Starting in January 2023, the companies introduced a co-branded Medicare Advantage plan, as well as offering Walmart Health Virtual Care for UNH's PPO commercial members.

The most recent development from Walmart expressed interest in acquiring ChenMed, a primary care clinic chain that operates 125 primary care clinics across 15 states.[15] Walmart has been building out its network of primary clinics and this rumor of acquiring a large primary care chain definitely supports Walmart's ambitious and aggressive movement in disrupting the primary care space. If Walmart successfully integrates ChenMed into

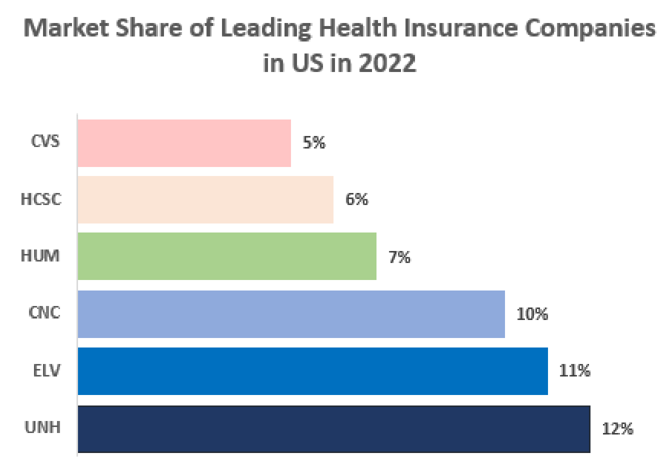
Walmart Health, we could see Walmart Health operations being supported by experienced physicians and make it easier for them to build a brand name for its health centers. Furthermore, ChenMed also offers home health and hospice services, making them Kindred at Home's direct competitor. With the financial backing of Walmart, the primary care clinics could grow their footprint across the nation rapidly. Walmart's strategy is reshaping the healthcare landscape and reflecting the company's commitment to delivering accessible and affordable healthcare solutions to a broader audience.

MARKETS AND COMPETITION

Managed Health Care

The Managed Healthcare industry captures more than 23.4% of the profit share of the entire healthcare industry with a relatively low EBITDA margin.[6] This is due to the United States of America's unique healthcare structure that strongly encourages the population to purchase insurance plans to protect them from high medical costs.

While the industry is competitive among the top players, it is dominated by 6 players, and they capture over 50% of the market share.



Sources: Statista

Industry Key Metrics

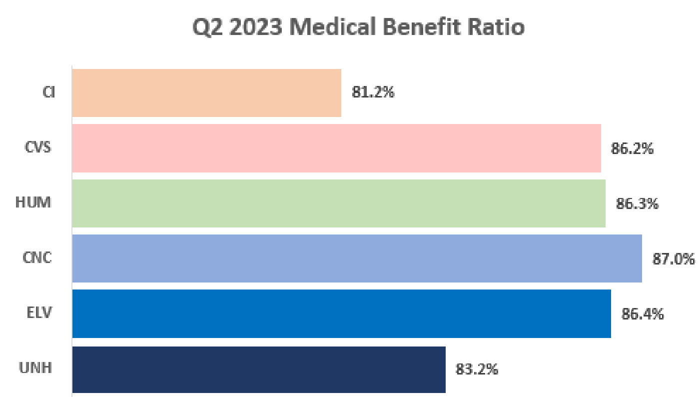
Below is a summary table of the operating metrics for the managed healthcare players, and it showcases United Health Group's position as the sole leader in the industry, with a market capitalization that is more than the next 5 companies' market cap combined. UNH also has the highest P/E ratio which is closely followed with HUM. The two companies have a relatively higher P/E ratio due to the fact that the two companies use different strategies to generate higher earnings per share; therefore, they are able to outperform the industry average.

	Market Cap ($ million)	P/E (NTM)	Operational Margin
UNH	457.5	18.0	8.8%
ELV	105.1	12.3	5.6%
CVS	91.9	8.2	4.6%
CI	85.2	10.4	4.3%
HUM	58.3	15.2	4.5%
CNC	36.2	10.3	2.4%

Sources: Companies' 10-K

Medical Cost Ratio

As highlighted in the cost structure analysis, the medical cost ratio is an important metric within the industry. In this regard, HUM is performing on par with its competitors, primarily because it has a higher percentage of elderly who typically require more medical attention and long-term care. While the Company acknowledged that it is expected to experience a high medical benefit ratio until the end of the year, Henry Fund holds a positive outlook for HUM. The integration of CenterWell's services and expertise is anticipated to bring operating efficiencies and synergies to the Company over time.

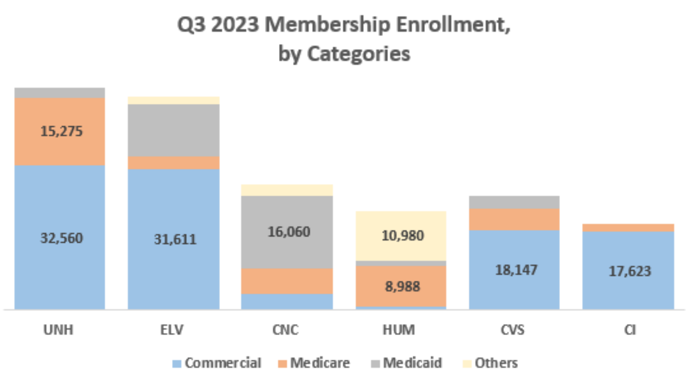


Sources: Companies' 10-K

Membership Enrollments

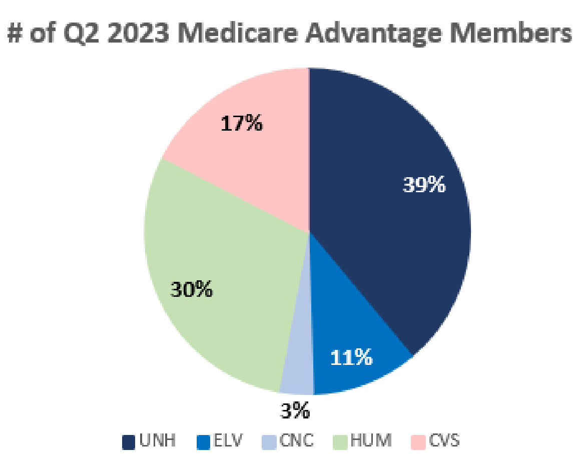
Within the managed healthcare industry, companies adopt unique strategies to position themselves in the niche market. For instance, companies like UNH and ELV concentrate on providing commercial health insurance while CNC and HUM invest heavily in government-funded programs. The membership distribution is crucial to look at because the plans serve different average revenue generated per member.

As HUM will be exiting the commercial business soon, all its revenue will be contributed by government-funded plans, along with its specialty and military business. The benefit of HUM's membership distribution is that it would receive a relatively stable revenue from the government every year and the only differentiator would be the premium bonus each company receives, depending on its star rating.



Sources: Companies' 10-K

Although HUM has fewer overall Medicare membership compared to UNH, it is remarkable that a substantial portion (65%) of HUM's Medicare population is enrolled in Medicare Advantage. In contrast, UNH has less than half of its Medicare population enrolling in Medicare Advantage. According to HUM's most recent report, Medicare Advantage generates revenue per member that is at least 5 times higher than Medicare Supplement members, and 18 times higher than Medicare Prescription Drug Plan.

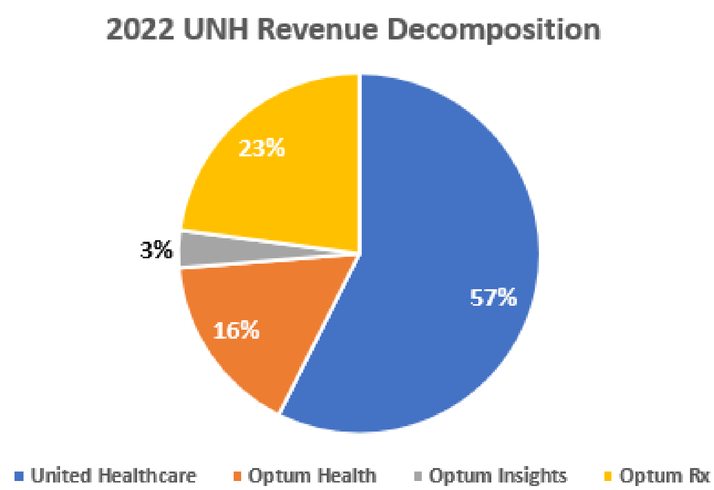


Sources: Companies' 10-K

Peer Comparison

UnitedHealth Group (UNH)

UNH is the largest health insurance carrier in the nation with a total of 56 million members enrolling in their plans. Other than health insurance, it also provides other healthcare services like pharmacy benefit management, value-based care arrangements, and technology analytical tools.[25] In 2022, it saw a total revenue of $324 billion. UNH experiences a high intersegment elimination cost as it is able to internally manage its cost.



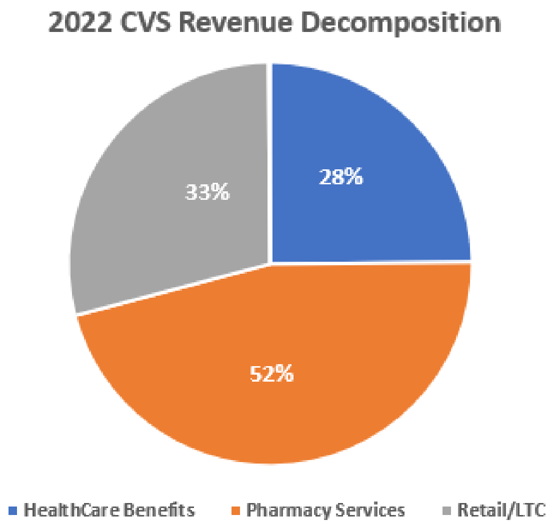
Sources: UNH 10-K

Undoubtedly, UNH is the largest healthcare company in the U.S. and it is currently competing with HUM in the Medicare industry as it is the country's largest Medicare insurer; however, it was reported that UNH is looking to acquire home health company, Amedisys for $3.3B by the end of the year. With the acquisition, UNH will further strengthen its position as a primary care and home health provider and reduce its medical costs as a result of the integration.

While it warned about the high medical utilization, the overall management outlook for UNH is positive and it revised its EPS higher to $23.45 - $23.75 for the fiscal year in the most recent earnings call.[25]

CVS Health (CVS)

CVS is a non-traditional insurance player who joined the managed healthcare industry after the acquisition of Atena in 2018. It is more commonly known as a retail pharmacy company with more than 9,000 locations around the U.S., it is also one of the largest pharmacy benefit managers in the nation, gaining negotiation power. The healthcare benefit segment manages plans for 25.6 million members in the nation and the company saw a total of $322 billion in revenue.[23] While trying to integrate more primary care services to its pharmacy front stores, CVS recently faced a headwind of a reduction in CMS star rating and will no longer be eligible for the premium bonus until it improves the quality of its services.



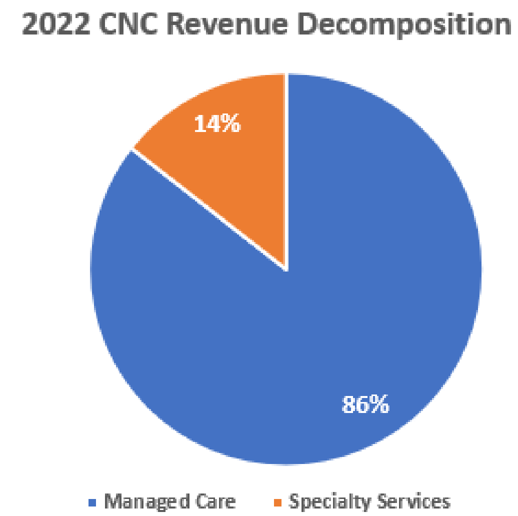
Sources: CVS 10-K

CVS is a primary competitor of HUM in the primary care space as they recently closed the acquisition of Oak Street Health and Signify Health, which could help the company adopt primary care and home health services to its retail locations. CVS announced its plan to expand the home health clinic's geographical footprint to four new states this year and will continue to build more clinics at accessible locations. Henry Fund does not think that CVS poses a great risk to HUM since it is financially struggling to maintain its revenue and recently adjusted its EPS outlook down to $8.50 - $8.70 for the fiscal year.[23]

Centene Corporation (CNC)

CNC is a health insurance carrier that focuses its primary business on government-funded plans but has more members under Medicaid than Medicare. By June 2023, CNC has a total enrollment of 28.4 million members; as compared to HUM, it is a company whose entire revenue stream is based on health insurance plans and not diversifying it to another line of business.[22] In fiscal year 2022, CNC had revenue of $145 billion.

The lack of revenue diversification caused CNC who lost a CMS star, extra concern to the shareholders as it would not be eligible for bonus payments like CVS. While the management mentioned that it anticipates seeing positive development in the star rating as soon as this October, the new star rating would not be implemented until at least months later and the company would definitely see a higher medical cost ratio for the fiscal year.



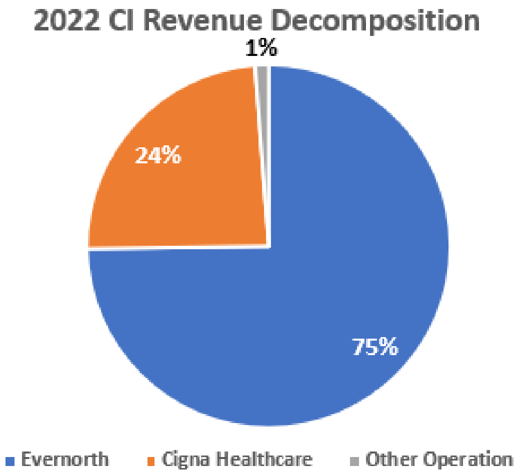
Sources: CNC 10-K

As the country's largest Medicaid carrier, HUM should be looking closely at CNC's strategy for retaining its Medicaid members. Based on the most recent earnings call, the company is well-positioned for the redetermination process and has been actively trying to educate and promote the renewal process to their members and has seen a higher successful renewal rate as compared to other carriers.

Although CNC adjusted its EPS slightly higher to $6.45, it is the company out of the other peers to have the lowest EPS estimation for the fiscal year.[22]

The Cigna Group (CI)

CI started as a health insurance carrier but in late 2018, it acquired one of the nation's biggest pharmacy benefit management companies, Express Scripts. Therefore, the company now generates most of its revenue from its Evernorth Health segment and competes as CVS's largest competitor. As of June 2023, the company has 19.5 million members with a primary focus on the commercial business and generated $181 billion in revenue.[20]

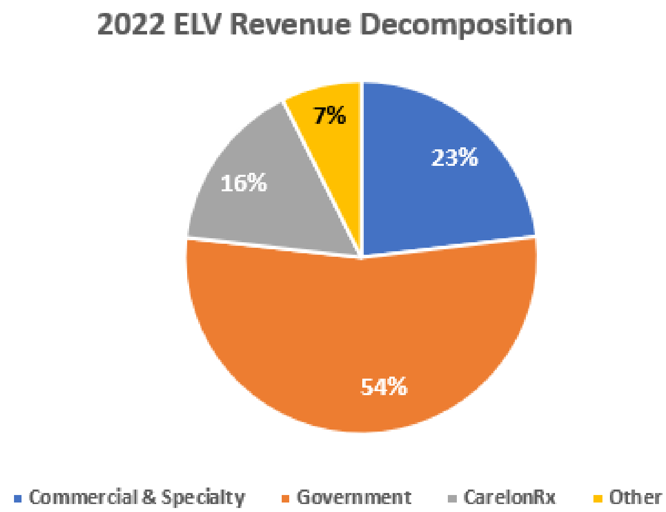


Sources: CI 10-K

Overall, CI is not HUM's direct competitor as it mainly functions as a pharmacy benefit manager and has most of its members under the commercial business line, where HUM will no longer be a part of in a couple of months. The only overlap in business between the two companies is Ci's over a million Medicare members. The company delivered positive earnings for the latest quarter and adjusted its EPS higher to at least $24.70 for the full year, from the growth generated from Evernorth.[20]

Elevance Health (ELV)

Elevance Health is the publicly traded company under the Blue Cross Blue Shield Association independent license and has over 48 million members enrolled in their plans, making them the second biggest health insurance carrier in the nation.[24] In 2022, the company had a total revenue of $156 billion. ELV is trying to engage in more acquisitions to expand its Carelon Rx service capabilities and geographical footprint for health plans.



Sources: ELV 10-K

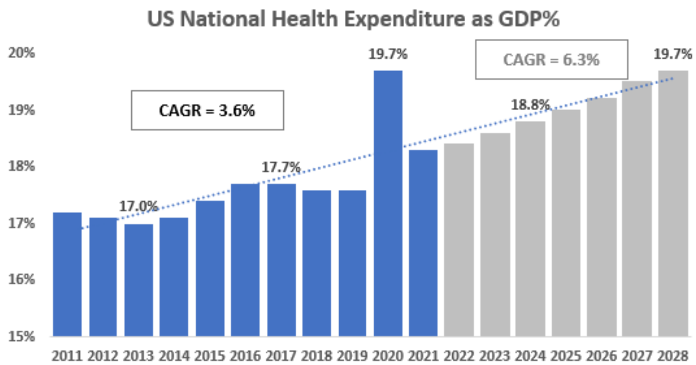
ELV is competing with HUM for the Medicaid contracts as the company has more than half of its revenue generated from the segment and has over 11.7 million Medicaid members, the second highest in the country. While Medicaid is contracting with the government and getting awarded the contract, ELV does have a reputation in the government business as they have the broadest national provider network. Just like any other peers, ELV also delivered better-than-expected result for the quarter and adjusted its EPS higher to be greater than $32.85 for 2023.

Overall, HUM is positioned at its unique spot where it is one of the largest carriers for Medicare Advantage plans and also a home health care center; therefore, it would not face a major impact from its peers' strategic movement. However, HUM should look out for UNH and its movement in the home health and primary care industry since the healthcare giant is able to perform various services across the industry as well as having excess cash to be involved in multi-billion dollar acquisitions and collaborations with other companies to further improve and expand its service capabilities.

ECONOMIC OUTLOOK

National Health Care Expenditure (NHE)

In 2022, up to $4.3 trillion was spent on healthcare expenditures by the U.S. government, and 66% ($2.84 trillion) was spent on Medicare, Medicaid or Private Health Insurance.[1] The NHE has been growing at a CAGR of 3.6% in the past decade and economists project that it will grow at an even greater rate of 6.3% in the next five years, indicating the spending will not slow down any time soon. If this develops accordingly, the NHE will be growing at a higher than the expected average U.S. GDP rate of 2% and further increasing the government balance sheet deficit.

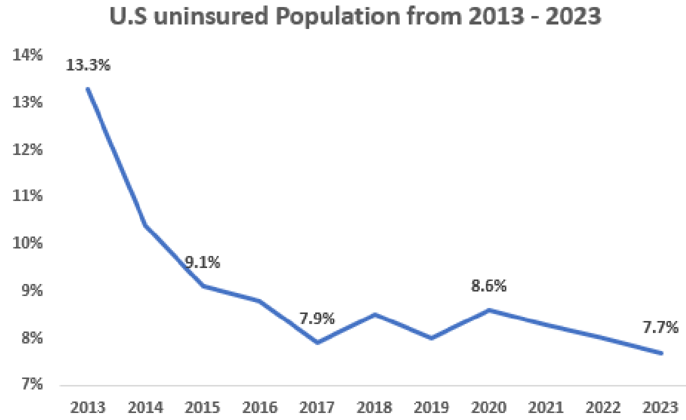


Sources: Satista

The economic indicator should be monitored because it affects the government budget for government-funded plans like Medicare and Medicaid. While noticing the end of the public health emergency, one of the reasons why the government started, and raised the eligibility bar for Medicaid renewal was to hope to reduce the % of NHE it had to spend on the plans. Insurers are also seeing that CMS raised the assessment method for the Medicare Advantage star rating and mentioned that they are going to increasingly make it harder for the insurers and providers to stay above the 4 stars benchmark. While one could argue that the government is prioritizing the quality of care that the members would be getting, one could also argue that the government is starting to find ways to reduce its NHE to insurers through reimbursement.

Uninsured Rate

As of early 2023, the U.S. Department of Health and Human Services estimates that 302 million people in the U.S. are enrolled in some form of health insurance, with the uninsured population dropping to 7.7%, representing about 25.3 million people.[15] This is the lowest uninsured rate the country has ever experienced, due to the efforts of the American Rescue Plan's subsidiaries. However, it is worth taking note that the government is unwinding the automated renewal progress for Medicaid since it marks the end of the pandemic, and now the enrollees are required to re-enroll themselves into the program, receive a case review and recertification of eligibility, which a lot of them no longer are.[15]



Sources: HHS.gov

According to KFF's Medicaid and Unwinding Tracker, at least 6.6 million, or 36% of the Medicaid enrollees who have gone through the renewal process have been disenrolled from the government-funded program. Depending on the state's policies and system capacity, the disenrollment rate varies across states, ranging from 9% in Michigan to 69% in Texas; therefore, it is hard to estimate the exact number of enrollees to lose Medicaid. KFF estimated three potential scenarios of how the Medicaid redetermination process might roll out, and the result could be summarized in the table below.

5% Disenroll	7.8 M
18% Disenroll	16.6 M
28% Disenroll	24.4 M

Sources: Kaiser Family Foundation

Assuming the mid scenario that 18% of the Medicaid population is disenrolled from the program, the U.S. is expected to see a huge increase in the uninsured rate, with a high rate of 12% if most of the members do not get enrolled in a private or employer-sponsored plan. However, as mentioned at the beginning of the report, the Medicaid redetermination process would not affect HUM's portfolio as much as the negative news sounds since it is in the right position to grow its membership by securing new state contracts. While the table below does not reflect the disenrollment, we can see that HUM is the only company that received a double-digit year-to-year growth for the program, showing its strong ability to grow the program despite the tough market condition.

	Medicaid Membership Enrollment		
	Q2 2022	Q3 2022	YOY % Changes
HUM	1,053	1,330	26.31%
UNH	7,990	8,355	4.57%
CVS	2,909	2,728	-6.22%
CNC	15,446	16,060	3.98%
ELV	11,181	11,759	5.17%

Sources: Companies' 10-K

Unemployment Rate

Similar to the uninsured rate, the unemployment rate is significant for the health insurance industry as 50.1% of the population's health insurance plans were offered by their employers.[1] Moreover, employer-sponsored, also mentioned in the report as commercial plans can provide coverage for employee's family members as well. While there is no federal law saying that companies must offer health insurance to their employee, nearly all large firms with more than 200 employees offer health benefits to at least some workers to retain talent; meanwhile, smaller firms with 3-199 workers are less likely to do so.[15] In 2022, KFF found out that only 51% of firms are offering health benefits to their employees, and the percentage is reducing as some small companies are not able to afford the increasing premiums.

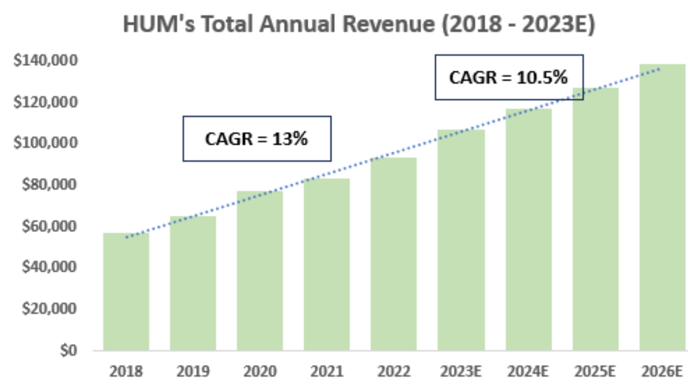
Due to the rising insurance premiums, insurance carriers are developing commercial administrative services only (ASO), level-funded plans, health reimbursement account, and other innovative products to provide coverage within the company's budget. While employers are searching for solutions, insurance carriers including HUM and its competitors should routinely search for opportunities within the industry and implement new products as quickly as possible to capture the rapidly changing market.

Henry Fund forecasts that the unemployment rate will increase slightly in the near future to at least 3.6% as the country is experiencing a very low unemployment rate of 3.5% now.[3] With more companies announcing hiring freeze and corporate layoff, we might see some slowdown in the economy soon; thus, Henry Fund is using the unemployment rate as a recession warning indictor.

VALUATION

Revenue Growth

Overall, Henry Fund forecasts that HUM will continue experiencing a 10.5% CAGR for its annual revenue projection. HUM's greatest strength is in the individual Medicare Advantage segment and HUM has shown confidence in capturing the market share for the product. The forecast is calculated with the growth projection in the membership enrollment and average revenue earned per member.



Sources: HUM's 10-K, Henry Fund

At the same time, the CenterWell segment is expected to experience a high growth rate with revenue doubling within the next four years, reaching at least $8.7 billion in revenue by 2026. Henry Fund is projecting this in a more conservative 45 new centers growth a year, while HUM is likely to be involved in more acquisitions in the upcoming years to boost its position in the home health industry.

Benefit Expenses

Henry Fund is following the earnings call guidance given by HUM to project the benefit expenses. The benefit expenses are expected to be maintained at a steady rate by the improving margin from the operational efficiencies getting offset by the aging of HUM's largest revenue product, Medicare Advantage members and the increasing medical cost for their procedures.

Earnings Estimates Relative to Consensus

The table below compares the estimated revenue given on the Q4 2021 earnings call to the actual revenue reported in 2022 to observe the accuracy of the revenue projection of the management. As mentioned in the report, HUM increased the EPS projection for fiscal year 2023 as it saw a surprising Q1 membership growth, it did not adjust the revenue outlook. Therefore, the Henry Fund's valuation model has slightly higher revenue than the reported range as an adjustment to the latest earnings call.

	Management Outlook 2022	Management Outlook 2023E
	Total Revenues	
Estimation	$92B - $93B	$101B - 103B
2022 Act. / Henry Fund Est.	$92.9B	$106.5B
Management vs Henry Fund	Within	Beats

Sources: HUM's 10-K, Henry Fund

Valuation Models

DCF/EP

The target price that the DCF and EEP model found for HUM is $607, which represents a 29% upside from the most current closing price on September 15, 2023. The target price is currently on par with the average street consensus for HUM. Compared to the Wall Street Journal's stock price target range of $468 - $640 for HUM, Henry Fund's estimated stock price is leaning towards the mid-higher end of the target. (WSJ)Henry Fund is making an average estimation because HUM is a small player positioning uniquely in a niche industry and has seen increasing entrances of non-traditional players in the past few years. Nevertheless, HUM's growth strategies show that HUM has a great upside, making it a BUY.

DDM

The target price that the DDM model estimated was $368.77, a 20% downside from the most recent closing price for the Company. Henry Fund is not relying too much on this valuation model because HUM does not have a steady stream of dividend yield per share, but rather pays a fixed amount of dividends per quarter. Based on the historical trend, HUM will be paying a standard dividend amount to the shareholders in the first three quarters and a slightly lower dividend per share in the last quarter as an operation adjustment for the last quarter. Due to the reasons above, Henry Fund is only DDM for sanity check.

Relative Valuation

Henry Fund used 5 other companies' multiples for the relative valuation, including UNH, CVS, CNC, CI, and ELV. The company descriptions can be found in the earlier part of the report. One observation Henry Fund noticed from the relative valuation is that HUM and UNH are the two companies that outperform their peers in the multiples. Therefore, to show HUM's competitive position in the industry more clearly, Henry Fund uses the higher end of industry averages for the target price.

Implied Relative Value:			
P/E (EPS23)	$	472.23	*using UNH multiple
P/E (EPS24)	$	441.64	*using UNH multiple
EV/EBITDA (2023)	$	511.92	*using UNH and ELV multiples
EV/Sales (2023)	$	554.39	*using industry average

Sources: Henry Fund

Sensitivity Analysis

Beta vs Risk-free Rate

Henry Fund used FactSet 5-years monthly adjusted beta of 0.89 and the 4.25% risk-free rate, which is the US 10-year treasury yield. The two inputs are used for the sensitivity analysis because the inputs are likely to change depending on the market environment. For instance, Yahoo! Finance gave HUM a beta value of 0.66, which is a much lower value than FactSet estimation and would increase the target stock price by over $100. At the same time, the market is experiencing a high risk-free rate due to the raising of fed funds rates, so the sensitivity analysis will be able to test what will the target stock price be depending on the inputs. Both inputs were needed to compute WACC which would then affect the DCF valuation.

Risk-free Rate \ Beta	607.32	0.74	0.79	0.84	0.89	0.94	0.99	1.04
	2.75%	866.62	824.70	786.70	752.11	720.49	691.47	664.74
	3.25%	793.34	758.17	726.04	696.57	669.44	644.40	621.21
	3.75%	731.67	701.74	674.21	648.81	625.30	603.47	583.15
	4.25%	679.05	653.28	629.44	607.32	586.74	567.55	549.61
	4.75%	633.64	611.22	590.37	570.94	552.78	535.78	519.82
	5.25%	594.05	574.37	555.99	538.79	522.65	507.48	493.20
	5.75%	559.24	541.83	525.51	510.17	495.73	482.12	469.27

Equity Risk Premium vs Pre-tax Cost of Debt

The Equity Risk Premium that Henry Fund estimated and used is 5.5%, which is an average ERP over the past decade as well as Damodaran's cash yield ERIP. The cost of debt was taken from HUM's 10-K and it is the average cost of borrowing that the company has. Both values were needed to compute the WACC value as well, so it affects the DCF stock price.

Equity Risk Premium (columns) / Pre-tax cost of debt (rows)

607.32	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%
3%	791.54	736.42	688.61	646.74	609.77	576.90	547.48
4%	770.90	718.58	673.02	633.02	597.60	566.03	537.72
5%	751.35	701.61	658.16	619.89	585.93	555.59	528.32
6%	732.81	685.45	643.96	607.32	574.72	545.54	519.26
7%	715.18	670.05	630.39	595.27	563.95	535.86	510.51
8%	698.41	655.34	617.39	583.70	553.59	526.53	502.07
9%	682.43	641.29	604.94	572.59	543.62	517.53	493.91

Annual Operating Adjustment vs Q4 Benefit Expenses

The annual operating adjusting is a value that Henry Fund used to estimate the decreasing membership growth or the increase in benefit expenses that the Company will experience over the years. Depending on the value used and how much could HUM maintained its growth strategy, the target stock price is expected to change according as well. For the benefit expenses, we observed that there is a trend of higher Q4 utilization rate due to the industry's seasonality; therefore, by analyzing how the benefit expense HUM will use in the next few years will be valuable for the target price estimation.

Annual Operating Adjustment (columns) / Q4 Benefit Expenses (rows)

607.32	-2%	-1%	1%	2%	3%	4%	5%
85%	1,263.06	1,062.50	887.41	735.29	603.81	490.88	394.56
86%	1,209.45	1,012.83	841.39	692.63	564.28	454.23	360.57
87%	1,155.84	963.16	795.36	649.97	524.74	417.58	326.59
88%	1,102.22	913.48	749.33	607.32	485.20	380.92	292.61
89%	1,048.61	863.81	703.31	564.66	445.66	344.27	258.62
90%	995.00	814.14	657.28	522.01	406.13	307.62	224.64
91%	941.38	764.47	611.25	479.35	366.59	270.97	190.65

Home Solutions Quarterly New Center vs Revenue per CenterWell Center Growth

In the most recent earnings call, HUM mentioned that it anticipates opening 30 – 50 new centers per year; seeing how each center is historically available to bring in $16,000 in revenue for HUM in a quarter, the number of new centers per year will affect the Company's income as well. The model is currently using a mid range of 45 centers a year, and testing the range of the target price depending on the growth rate. At the same time, Henry Fund also tests on the revenue per CenterWell Center growth. Since CenterWell is still a new segment for the Company, the average revenue per center could be generating in a quarter is still unknown. For example, each center brought $11,000 per center in every quarter in 2021 but was able to bring $16,700 per center per quarter in 2022. Therefore, the Henry Fund is taking a conservation estimate of the mean of the two numbers and adjusting the sensitivity and assuming that each center will be able to bring $1,000 more revenue for the next three years. It is still hard to have the exact amount of revenue for the segment but the snsitivty table will be able to show how much the target price will change accordingly.

Home Solution Quarterly New Centers (2023 - 2026) (columns) / Revenue per CenterWell Center Annual Growth (rows)

607.32	-	5	10	15	20	25	30
$ (0.50)	249.18	314.86	380.54	446.22	511.91	577.59	643.27
$ -	280.12	353.39	426.66	499.92	573.19	646.45	719.72
$ 0.50	311.07	391.92	472.77	553.62	634.47	715.32	796.17
$ 1.00	342.01	430.45	518.88	607.32	695.75	784.19	872.62
$ 1.50	372.96	468.98	565.00	661.02	757.04	853.06	949.08
$ 2.00	403.90	507.51	611.11	714.72	818.32	921.92	1,025.53
$ 2.50	434.85	546.04	657.23	768.41	879.60	990.79	1,101.98

Individual MA Q1 2024 Revenue Growth vs Medicare Advantage Q1 2024 Enrollment Growth

Medicare Advantage and every other insurance plans have an open enrollment period that usually falls in the October of each year. That being said, the insurance segment will commonly experience a higher growth rate in the forth quarter of the year because that basically represents the growth for the next fiscal year. Therefore, one of the sensitivity analysis is based on the revenue growth and membership enrollment growth for individual Medicare Advantage, the largest product line of HUM. Currently, both are the average growth rate that the product experienced in the past few years. While the stock price changes for the variables are not significantly large, the sensitivity test was done to show how a single product growth will contribute to the overall target stock price.

Individual MA Q1 2024 Revenue Growth (columns) / Medicare Advantage Q1 2024 Enrollment Growth (rows)

607.32	5%	6%	7%	8%	9%	10%	11%
-9%	604.21	604.32	604.43	604.54	604.67	604.80	604.94
-4%	604.76	604.91	605.06	605.23	605.40	605.58	605.77
1%	605.53	605.72	605.93	606.14	606.36	606.60	606.84
6%	606.53	606.78	607.05	607.32	607.60	607.90	608.21
11%	607.74	608.05	608.38	608.72	609.07	609.43	609.81
16%	609.22	609.60	610.00	610.41	610.84	611.28	611.73
21%	610.96	611.42	611.90	612.39	612.90	613.43	613.97

KEYS TO MONITOR

Medicare Advantage

In the most recent quarter, over 80% of HUM's revenue was contributed by Medicare Advantage plans. While the Company is indeed one of the market leaders in the government-funded program, any announcements from the CMS or losing market share to competitors will affect HUM's future revenue. Unlike Medicaid which is awarded by the state government, Medicare's contracts depend on member's personal medical care and hospital network coverage preference and how well each insurer is able to match their unique needs. Younger Medicare members are likely to shop around for the first few years based on the services and premium costs while the older Medicare members are more likely to stick with their current insurer. As the U.S. population is aging, HUM should continue to adopt to the market quickly and provide care services that the members would like to use. At the same time, the contracts are typically be signed once a year, during the open enrollment period. Therefore, if HUM was not able to strategically able to gain enrollment growth in the forth quarter that year, it is unlikely for them to meet the revenue target.

Industry Disruptors

HUM is aggressively getting into the home health and primary care industry, as well as a few of its peers and non-traditional players. The industry is seeing increasing interest in the home health industry and believes that a flexible environment is more appropriate for the members to receive longer-term care; therefore, the home health industry remains fragmented and will likely continue to stay that way. That being said, locations are extremely important for the home health centers because it is more likely for members to go to the closest possible location to receive care, if the care quality is almost the same. This is when the non-traditional players like Walmart, Walgreens and even CVS Health will be disrupting the market because it will be easier for them the implement the care services in the already-available locations than HUM who needs to build new centers to provide the services. Of course, the three companies mentioned above are still in the process of expanding its service capabilities, but HUM should also look out to their future acquisitions and see if they will further expand their footprint in the industry.

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7. Medicare.gov
8. Sustain Analytics
9. DesMoines Register
10. Fierce Healthcare
11. Becker's Payer
12. Healthcare Dive
13. Wall Street Journals
14. Home HealthCare News
15. Kaiser Family Foundation
16. Press Humana
17. Walgreens Newsroom
18. Corporate Walmart
19. Amazon Newsroom
20. Cigna 10Q, 10K
21. Humana 10Q, 10K
22. Centene 10Q, 10K
23. CVS Health 10Q, 10K
24. Elevance Health 10Q, 10K
25. UnitedHealth Group 10Q, 10K

DISCLAIMER

Humana, Inc

Revenue Decomposition

Fiscal Years Ending Dec. 31	2022				2023E				2024E				2025E				2026E			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Premium Revenue																				
Individual Medicare Advantage	17,052	16,692	16,007	15,840	19,809	19,749	19,714	19,621	22,571	22,464	22,357	22,251	24,885	24,767	24,650	24,533	26,664	26,537	26,412	26,286
Group Medicare Advantage	1,875	1,857	1,792	1,773	1,765	1,732	1,708	1,685	1,556	1,534	1,513	1,492	1,356	1,337	1,319	1,301	1,163	1,147	1,131	1,115
Medicare stand-alone PDP	639	606	534	490	616	568	496	479	512	495	432	418	439	424	370	358	370	357	312	302
Total Medicare	**19,566**	**19,155**	**18,333**	**18,103**	**22,190**	**22,049**	**21,919**	**21,785**	**24,638**	**24,493**	**24,302**	**24,161**	**26,680**	**26,528**	**26,339**	**26,191**	**28,196**	**28,041**	**27,855**	**27,703**
Commerical fully-insured	1,140	1,109	1,100	384	1,018	950	779	638	523	429	352	288	236	-	-	-	-	-	-	-
Specialty benefits	261	261	237	944	254	252	253	254	261	262	263	264	271	272	273	274	281	283	284	285
Medicare Supplement	182	185	188	188	179	182	185	188	183	186	188	191	183	186	189	192	181	184	187	190
Medicaid and other	1,554	1,556	1,610	1,656	1,909	2,062	2,106	2,178	2,342	2,357	2,372	2,388	2,532	2,548	2,565	2,581	2,698	2,675	2,653	2,630
Total Premium	**22,703**	**22,266**	**21,468**	**21,275**	**25,550**	**25,495**	**25,242**	**25,044**	**27,947**	**27,726**	**27,478**	**27,292**	**29,902**	**29,535**	**29,366**	**29,239**	**31,357**	**31,183**	**30,978**	**30,808**
Membership Enrollment (in thousands):																				
Individual Medicare Advantage	4,538	4,555	4,564	4,566	5,153	5,269	5,339	5,393	5,720	5,778	5,837	5,897	6,166	6,229	6,292	6,356	6,551	6,618	6,685	6,753
Group Medicare Advantage	562	563	565	565	511	510	511	512	481	482	483	484	447	448	449	450	409	410	411	412
Medicare stand-alone PDP	3,607	3,581	3,569	3,551	2,956	2,915	2,899	2,883	2,648	2,633	2,618	2,604	2,352	2,339	2,326	2,313	2,055	2,043	2,032	2,021
Total Medicare	8,707	8,698	8,698	8,682	8,621	8,694	8,749	8,788	8,848	8,893	8,938	8,985	8,965	9,016	9,067	9,120	9,015	9,071	9,128	9,186
Medicare Supplement	318	317	317	314	294	294	294	294	282	282	282	282	266	265	265	265	246	246	246	246
Commerical fully-insured	624	595	575	556	523	476	390	320	262	215	176	144	118	-	-	-	-	-	-	-
Medicaid and other	1,010	1,053	1,099	1,137	1,372	1,330	1,360	1,408	1,527	1,538	1,549	1,561	1,669	1,681	1,694	1,706	1,799	1,785	1,772	1,758
Military	6,028	6,018	5,978	5,960	5,931	5,939	5,939	5,939	5,940	5,940	5,940	5,940	5,940	5,940	5,940	5,941	5,941	5,941	5,941	5,941
Commercial ASO	452	448	439	430	415	395	358	324	294	266	241	219	198	-	-	-	-	-	-	-
Total Medical Membership	17,140	17,130	17,104	17,079	17,154	17,128	17,090	17,073	17,152	17,133	17,126	17,130	17,156	16,903	16,967	17,032	17,001	17,044	17,087	17,131
Total Specialty Membership	5,183	5,156	5,210	5,195	5,115	5,041	5,015	4,989	4,963	4,937	4,912	4,886	4,861	4,835	4,810	4,785	4,760	4,736	4,711	4,687
Revenue per member (in $ thousands):																				
Individual Medicare Advantage	3.76	3.66	3.51	3.47	3.84	3.75	3.69	3.64	3.95	3.89	3.83	3.77	4.04	3.98	3.92	3.86	4.07	4.01	3.95	3.89
Group Medicare Advantage	3.34	3.30	3.17	3.14	3.45	3.40	3.34	3.29	3.24	3.18	3.13	3.08	3.03	2.98	2.94	2.89	2.84	2.80	2.75	2.71
Medicare stand-alone PDP	0.18	0.17	0.15	0.14	0.21	0.19	0.17	0.17	0.19	0.19	0.17	0.16	0.19	0.18	0.16	0.15	0.18	0.17	0.15	0.15
Medicare Supplement	0.57	0.58	0.59	0.60	0.61	0.62	0.63	0.64	0.65	0.66	0.67	0.68	0.69	0.70	0.71	0.72	0.74	0.75	0.76	0.77
Commerical fully-insured	1.83	1.86	1.91	0.69	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Medicaid and other	1.54	1.48	1.47	1.46	1.39	1.55	1.55	1.55	1.53	1.53	1.53	1.53	1.52	1.52	1.51	1.51	1.50	1.50	1.50	1.50
Specialty Benefit	0.05	0.05	0.05	0.18	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Commercial ASO	0.17	0.17	0.47	1.14	0.17	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
Service Revenue																				
Home Solutions	726	752	519	336	314	341	619	678	625	657	689	721	803	837	871	905	998	1,034	1,070	1,106
Pharmacy solutions	221	254	274	276	242	216	282	309	285	299	314	328	366	381	397	412	454	471	487	504
Provider services	113	137	159	159	201	190	184	201	186	195	205	214	238	249	259	269	296	307	318	329
CenterWell Revenue	1,060	1,143	952	771	757	747	1,084	1,188	1,096	1,152	1,207	1,263	1,407	1,467	1,526	1,586	1,749	1,812	1,875	1,939
Commercial ASO	77	75	207	491	71	64	58	53	48	43	39	35	32	-	-	-	-	-	-	-
Total Services Revenue	**1,137**	**1,218**	**1,159**	**1,262**	**828**	**811**	**1,142**	**1,241**	**1,143**	**1,195**	**1,246**	**1,298**	**1,439**	**1,467**	**1,526**	**1,586**	**1,749**	**1,812**	**1,875**	**1,939**
Numbers of CenterWell Centers				235	243	250	265	280	295	310	325	340	355	370	385	400	415	430	445	460
Revenue per center (in $ thousands)				16.71				13.86				14.86				15.86				16.86
Investment income	3	47	172	160	193	274	155	155	154	170	169	168	167	183	182	181	181	194	193	192
Total Revenue	**23,843**	**23,531**	**22,799**	**22,697**	**26,571**	**26,580**	**26,539**	**26,439**	**29,244**	**29,091**	**28,894**	**28,759**	**31,509**	**31,185**	**31,074**	**31,005**	**33,287**	**33,189**	**33,046**	**32,939**
Benefit Ratio	86.9%	85.8%	85.6%	86.3%	86.1%	86.3%	86.41%	89.03%	86.41%	86.41%	86.41%	89.03%	86.41%	86.41%	86.41%	89.03%	86.41%	86.41%	86.41%	89.03%

Humana, Inc

Revenue Decomposition

Fiscal Years Ending Dec. 31	2022				2023E				2024E				2025E				2026E			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Growth %																				
Premium Revenue																				
Individual Medicare Advantage	16.70%	-2.11%	-4.10%	-1.04%	25.06%	-0.30%	-0.18%	-0.47%	15.03%	-0.47%	-0.47%	-0.47%	11.84%	-0.47%	-0.47%	-0.47%	8.69%	-0.47%	-0.47%	-0.47%
annual %				11.83%				20.28%				13.62%				10.25%				7.15%
Group Medicare Advantage	11.08%	-0.96%	-3.50%	-1.06%	-0.45%	-1.87%	-1.37%	-1.37%	-7.67%	-1.37%	-1.37%	-1.37%	-9.15%	-1.37%	-1.37%	-1.37%	-10.63%	-1.37%	-1.37%	-1.37%
annual %				4.92%				-5.58%				-11.53%				-12.84%				-14.25%
Medicare stand-alone PDP	26.79%	-5.16%	-11.88%	-8.24%	25.71%	-7.79%	-12.64%	-3.39%	6.82%	-3.39%	-12.64%	-3.39%	5.08%	-3.39%	-12.64%	-3.39%	3.33%	-3.39%	-12.64%	-3.39%
annual %				-4.30%				-4.82%				-14.02%				-14.31%				-15.74%
Total Medicare	16.44%	-2.10%	-4.29%	-1.25%	22.58%	-0.64%	-0.59%	-0.61%	13.10%	-0.59%	-0.78%	-0.58%	10.42%	-0.57%	-0.71%	-0.56%	7.66%	-0.55%	-0.67%	-0.54%
annual %				10.56%				17.01%				10.97%				8.34%				5.73%
Commerical fully-insured	-6.86%	-2.72%	-0.81%	-65.09%	165.10%	-6.68%	-18.03%	-18.03%	-18.03%	-18.03%	-18.03%	-18.03%	-18.03%	-100.00%						
annual %				-25.37%				-9.32%				-52.96%								
Specialty benefits	-57.77%	0.00%	-9.20%	298.31%	-73.09%	-0.79%	0.41%	0.41%	2.62%	0.41%	0.41%	0.41%	2.62%	0.41%	0.41%	0.41%	2.62%	0.41%	0.41%	0.41%
annual %				-1.62%				-40.51%				3.58%				3.89%				3.89%
Medicare Supplement		1.65%	1.62%	0.00%	-4.79%	1.68%	1.55%	1.55%	-2.66%	1.55%	1.55%	1.55%	-4.19%	1.55%	1.55%	1.55%	-5.71%	1.55%	1.55%	1.55%
								-1.27%				1.98%				0.35%				-1.24%
Medicaid and other	13.10%	0.13%	3.47%	2.86%	15.28%	8.01%	2.14%	3.43%	7.52%	0.65%	0.65%	0.65%	6.03%	0.65%	0.65%	0.65%	4.54%	-0.85%	-0.85%	-0.85%
annual %				24.80%				29.48%				14.58%				8.10%				4.21%
Total Premium	**13.40%**	**-1.92%**	**-3.58%**	**-0.90%**	**20.09%**	**-0.22%**	-0.99%	-0.78%	11.59%	-0.79%	-0.90%	-0.68%	9.56%	-1.23%	-0.57%	-0.43%	7.25%	-0.55%	-0.66%	-0.55%
				9.88%				15.53%				8.99%				6.88%				5.32%
Membership Enrollment (in thousands):																				
Individual Medicare Advantage	2.93%	0.37%	0.20%	0.03%	12.87%	2.25%	1.32%	1.02%	6.07%	1.02%	1.02%	1.02%	4.57%	1.02%	1.02%	1.02%	3.07%	1.02%	1.02%	1.02%
annual %				3.55%				18.12%				9.34%				7.79%				6.25%
Group Medicare Advantage	0.29%	0.05%	0.37%	0.09%	-9.54%	-0.33%	0.25%	0.25%	-6.16%	0.25%	0.25%	0.25%	-7.66%	0.25%	0.25%	0.25%	-9.16%	0.25%	0.25%	0.25%
annual %				0.80%				-9.39%				-5.45%				-6.96%				-8.47%
Medicare stand-alone PDP	0.02%	-0.73%	-0.32%	-0.50%	-16.75%	-1.39%	-0.55%	-0.55%	-8.17%	-0.55%	-0.55%	-0.55%	-9.67%	-0.55%	-0.55%	-0.55%	-11.17%	-0.55%	-0.55%	-0.55%
annual %				-1.52%				-18.81%				-9.69%				-11.16%				-12.64%
Total Medicare	1.53%	-0.10%	0.00%	-0.18%	-0.71%	0.85%	0.63%	0.45%	0.69%	0.51%	0.51%	0.52%	-0.22%	0.57%	0.57%	0.58%	-1.15%	0.62%	0.63%	0.63%
annual %				1.24%				1.22%				2.24%				1.50%				0.73%
Medicare Supplement	-4.07%	-0.31%	-0.28%	-0.92%	-6.25%	0.10%	-0.03%	-0.03%	-4.18%	-0.03%	-0.03%	-0.03%	-5.68%	-0.03%	-0.03%	-0.03%	-7.18%	-0.03%	-0.03%	-0.03%
annual %				-5.51%				-6.21%				-4.28%				-5.77%				-7.27%
Commerical fully-insured	-7.44%	-4.64%	-3.51%	-3.17%	-6.06%	-9.01%	-18.03%	-18.03%	-18.03%	-18.03%	-18.03%	-18.03%	-18.03%	-100.00%						
annual %				-17.54%				-42.56%				-54.84%								
Medicaid and other	7.47%	4.23%	4.36%	3.49%	20.59%	-3.01%	2.23%	3.52%	8.45%	0.73%	0.73%	0.73%	6.95%	0.73%	0.73%	0.73%	5.45%	-0.77%	-0.77%	-0.77%
annual %				20.98%				23.78%				10.86%				9.32%				3.05%
Military	-0.36%	-0.16%	-0.66%	-0.30%	-0.49%	0.14%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
annual %				-1.47%				-0.34%				0.01%				0.01%				0.01%
Commercial ASO	-8.82%	-0.82%	-2.12%	-1.94%	-3.56%	-4.70%	-9.40%	-9.40%	-9.40%	-9.40%	-9.40%	-9.40%	-9.40%	-100.00%						
annual %				-13.20%				-24.56%				-32.63%								
Total Medical Membership	0.43%	-0.06%	-0.15%	-0.15%	0.44%	-0.15%	-0.22%	-0.10%	0.46%	-0.11%	-0.04%	0.02%	0.16%	-1.48%	0.38%	0.38%	-0.18%	0.25%	0.25%	0.26%
annual %				0.07%				-0.03%				0.33%				-0.57%				0.59%
Total Specialty Membership	-2.11%	-0.51%	1.04%	-0.29%	-1.54%	-1.44%	-0.52%	-0.52%	-0.52%	-0.52%	-0.52%	-0.52%	-0.52%	-0.52%	-0.52%	-0.52%	-0.52%	-0.52%	-0.52%	-0.52%
annual %				-1.88%				-3.96%				-2.06%				-2.06%				-2.06%
Revenue per member (in thousands):																				
Individual Medicare Advantage	13.38%	-2.47%	-4.29%	-1.07%	10.80%	-2.50%	-1.48%	-1.48%	8.45%	-1.48%	-1.48%	-1.48%	6.95%	-1.48%	-1.48%	-1.48%	5.45%	-1.48%	-1.48%	-1.48%
annual %				7.01%				3.65%				3.44%				2.28%				0.85%
Group Medicare Advantage	10.76%	-1.01%	-3.86%	-1.15%	10.05%	-1.54%	-1.62%	-1.62%	-1.62%	-1.62%	-1.62%	-1.62%	-1.62%	-1.62%	-1.62%	-1.62%	-1.62%	-1.62%	-1.62%	-1.62%
annual %				3.99%				4.16%				-6.30%				-6.32%				-6.32%
Medicare stand-alone PDP	26.76%	-4.47%	-11.59%	-7.78%	51.02%	-6.50%	-12.15%	-2.85%	16.33%	-2.85%	-12.15%	-2.85%	16.33%	-2.85%	-12.15%	-2.85%	16.33%	-2.85%	-12.15%	-2.85%
annual %				-2.58%				16.82%				-4.56%				-3.55%				-3.55%
Medicare Supplement		1.97%	1.91%	0.92%	1.56%	1.57%	1.59%	1.59%	1.59%	1.59%	1.59%	1.59%	1.59%	1.59%	1.59%	1.59%	1.59%	1.59%	1.59%	1.59%
								6.21%				6.50%				6.50%				6.50%
Commerical fully-insured	0.63%	2.02%	2.80%	-63.95%	182.20%	2.56%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
annual %				-12.20%				26.19%				0.63%				0.00%				0.00%
Medicaid and other	5.24%	-3.93%	-0.85%	-0.62%	-4.41%	11.37%	-0.09%	-0.09%	-0.86%	-0.09%	-0.09%	-0.09%	-0.86%	-0.09%	-0.09%	-0.09%	-0.86%	-0.09%	-0.09%	-0.09%
annual %				3.64%				1.70%				1.49%				-1.12%				-1.12%
Specialty Benefit	-56.86%	0.51%	-10.13%	299.49%	-72.67%	0.66%	0.94%	0.94%	3.15%	0.94%	0.94%	0.94%	3.15%	0.94%	0.94%	0.94%	3.15%	0.94%	0.94%	0.94%
annual %				0.73%				-38.74%				6.01%				6.08%				6.08%
Commercial ASO	-66.75%	-1.79%	181.98%	141.89%	-85.01%	-5.41%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
annual %				13.80%				-66.34%				-1.41%				0.00%				0.00%
Service Revenue																				
Home Solutions	-8.33%	3.58%	-30.98%	-35.26%	-6.55%	8.60%	81.47%	9.59%	-7.77%	5.08%	4.84%	4.62%	11.44%	4.23%	4.05%	3.90%	10.29%	3.61%	3.49%	3.37%
annual %				100.09%				-16.33%				37.94%				26.90%				23.20%
Pharmacy solutions	56.74%	14.93%	7.87%	0.73%	-12.32%	-10.74%	30.41%	9.59%	-7.77%	5.08%	4.84%	4.62%	11.44%	4.23%	4.05%	3.90%	10.29%	3.61%	3.49%	3.37%
annual %				64.53%				2.28%				16.91%				26.90%				23.20%
Provider services	71.21%	21.24%	16.06%	0.00%	26.42%	-5.47%	-3.30%	9.59%	-7.77%	5.08%	4.84%	4.62%	11.44%	4.23%	4.05%	3.90%	10.29%	3.61%	3.49%	3.37%
annual %				37.53%				36.63%				3.01%				26.90%				23.20%
CenterWell Revenue	6.11%	7.83%	-16.71%	-19.01%	-1.82%	-1.32%	45.14%	9.59%	-7.77%	5.08%	4.84%	4.62%	11.44%	4.23%	4.05%	3.90%	10.29%	3.61%	3.49%	3.37%
annual %				78.29%				-3.81%				24.92%				26.90%				23.20%
Commercial ASO	-69.69%	-2.60%	176.00%	137.20%	-85.54%	-9.86%	-9.40%	-9.40%	-9.40%	-9.40%	-9.40%	-9.40%	-9.40%	-100.00%						
annual %				-0.35%				-71.12%				-32.73%								
Total Services Revenue	**-9.26%**	**7.12%**	**-4.84%**	**8.89%**	**-34.39%**	**-2.05%**	40.84%	8.62%	-7.84%	4.48%	4.32%	4.18%	10.87%	1.90%	4.05%	3.90%	10.29%	3.61%	3.49%	3.37%
annual %				**56.33%**				-15.79%				21.40%				23.26%				22.55%
Investment income	0.01%	0.20%	0.73%	0.70%	0.85%	1.03%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%
annual %				104.28%				103.22%				-14.74%				7.79%				6.53%
Total Revenue	**12.26%**	**-1.31%**	**-3.11%**	**-0.45%**	**17.07%**	**0.03%**	-0.16%	-0.38%	10.61%	-0.52%	-0.68%	-0.47%	9.56%	-1.03%	-0.36%	-0.22%	7.36%	-0.29%	-0.43%	-0.33%
annual %				**11.81%**				14.28%				9.29%				7.57%				6.16%

Humana, Inc
Income Statement

Fiscal Years Ending Dec. 31	2022				2023E				2024E				2025E				2026E			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenues:																				
Premiums revenues	22,703	22,266	21,468	21,275	25,550	25,495	25,242	25,044	27,947	27,726	27,478	27,292	29,902	29,535	29,366	29,239	31,357	31,183	30,978	30,808
Services revenues	1,264	1,349	1,159	1,004	999	978	1,142	1,241	1,143	1,195	1,246	1,298	1,439	1,467	1,526	1,586	1,749	1,812	1,875	1,939
Investment income	3	47	172	160	193	274	155	155	154	170	169	168	167	183	182	181	181	194	193	192
Total revenues	23,970	23,662	22,799	22,439	26,742	26,747	26,539	26,439	29,244	29,091	28,894	28,759	31,509	31,185	31,074	31,005	33,287	33,189	33,046	32,939
Operating costs:								86.82%				87.06%				87.06%				
Benefits expense	19,625	19,099	18,384	18,582	21,858	22,009	21,811	22,297	24,148	23,957	23,743	24,299	25,837	25,520	25,374	26,032	27,095	26,944	26,767	27,429
Operating costs	2,886	3,173	3,061	3,551	2,979	3,111	3,139	4,023	3,461	3,441	3,417	4,376	3,729	3,688	3,675	4,718	3,939	3,926	3,909	5,012
Depreciation & amortization expense	170	175	182	182	186	191	188	188	212	212	212	212	238	238	238	238	261	261	261	261
Depreciation				628				690				795				899				1,003
Amortization				81				63				55				53				43
Total operating expenses	22,681	22,447	21,627	22,315	25,023	25,311	25,138	26,509	27,822	27,611	27,373	28,888	29,804	29,446	29,287	30,989	31,295	31,132	30,937	32,703
Income (loss) from operations	1,289	1,215	1,172	124	1,719	1,436	1,401	(70)	1,423	1,480	1,521	(129)	1,705	1,738	1,786	17	1,992	2,058	2,109	236
Interest expense	90	101	102	108	113	120	114	114	88	88	88	88	118	118	118	118	157	157	157	157
Other income (expense), net	21	8	227	(87)	8	(54)	59	(3)	60	62	64	(5)	72	73	75	1	84	86	89	10
Income (loss) before income taxes & equity in net earnings (losses)	1,220	1,122	1,297	(71)	1,614	1,262	1,346	(187)	1,395	1,455	1,497	(222)	1,658	1,694	1,743	(100)	1,919	1,988	2,041	89
Current provision (benefit) for income taxes - federal	286	427	107	(58)	359	296	321	6	326	339	349	11	391	398	409	(1)	457	472	484	(19)
Deferred income taxes expense (benefit)	-	-	-	(100)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity in net earnings (losses)	(4)	2	3	(5)	(17)	(10)	21	22	(4)	23	24	25	(5)	27	28	29	(2)	32	33	34
Net income (loss)	930	697	1,193	(18)	1,238	956	1,024	(192)	1,069	1,115	1,148	(233)	1,268	1,295	1,334	(99)	1,462	1,516	1,558	109
Basic earnings per share:																				
Net earnings (loss)	7.32	5.50	9.45	(0.07)	9.91	7.70	8.34	(1.57)	8.83	9.22	9.49	(1.92)	10.63	10.86	11.18	(0.83)	12.26	12.71	13.06	0.91
Year end shares outstanding	126	127	127	125	125	125	123	123	121	121	121	121	119	119	119	119	119	119	119	119
Dividends declared per share	0.79	0.79	0.79	0.70	0.79	0.89	0.89	0.89	0.89	0.89	0.89	0.89	0.99	0.99	0.99	0.99	0.99	0.99	0.99	0.99

Humana, Inc
Balance Sheet

Fiscal Years Ending 44926	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
	Q4	Q4	Q4	Q4	Q4	Q4	Q4	Q4	Q4
Assets:									
Cash & cash equivalents	2,343	4,054	4,673	3,394	5,061	3,893	5,219	6,944	10,427
Investment securities	10,026	10,972	12,554	13,192	13,881	14,640	15,441	16,286	17,177
Receivables, net	1,015	1,056	1,138	1,814	1,674	1,889	2,058	2,214	2,350
Other current assets	3,564	3,806	5,276	6,493	5,567	6,979	7,604	8,179	8,683
Total current assets	16,948	19,888	23,641	24,893	26,183	27,402	30,322	33,623	38,638
Accumulated depreciation	2,313	2,660	3,123	2,874	3,136	3,826	4,621	5,520	6,523
Property & equipment, net	1,735	1,955	2,371	3,073	3,221	3,709	4,198	4,679	5,143
Long-term investment securities	411	406	1,212	780	380	399	420	441	463
Equity method investments	1,047	1,063	1,170	141	749	526	553	581	611
Goodwill	3,897	3,928	4,447	11,092	9,142	9,142	9,142	9,142	9,142
Other long-term assets	1,375	1,834	2,128	4,379	3,380	3,601	3,923	4,220	4,480
Total assets	25,413	29,074	34,969	44,358	43,055	44,780	48,558	52,686	58,476
Liabilities:									
Benefits payable	4,862	6,004	8,143	8,289	9,264	8,967	9,774	10,446	11,002
Trade accounts payable & accrued	3,067	3,754	4,013	4,509	5,238	5,912	6,462	6,906	7,274
Book overdraft	171	225	320	326	298	336	374	399	424
Unearned revenues	283	247	318	254	286	405	442	475	504
Short-term debt	1,694	699	600	1,953	2,092	1,744	1,941	2,073	2,203
Total current liabilities	10,077	10,929	13,394	15,331	17,178	17,365	18,992	20,299	21,407
Long-term debt	4,375	4,967	6,060	10,541	9,034	9,327	9,629	9,941	10,263
Future policy benefits payable	219	206	-	-	-	-	-	-	-
Other long-term liabilities	581	935	1,787	2,383	1,473	1,087	1,184	1,274	1,352
Total liabilities	15,252	17,037	21,241	28,255	27,685	27,778	29,805	31,514	33,022
Common Equity	2,568	2,853	2,738	3,115	3,279	3,301	3,322	3,344	3,357
Accumulated other comprehensive	(159)	156	391	42	(1,304)	(1,304)	(1,304)	(1,304)	(1,304)
Retained earnings	15,072	17,483	20,517	23,086	25,492	28,086	30,748	34,067	38,239
Treasury stock, at cost	7,320	8,455	9,918	10,163	12,156	13,156	14,156	15,156	15,156
Total stockholders' equity	10,161	12,037	13,728	16,080	15,311	16,927	18,610	20,951	25,136
Noncontrolling interests	-	-	-	23	59	75	143	222	318
Total equity	10,161	12,037	13,728	16,103	15,370	17,002	18,753	21,173	25,454

Humana, Inc
Historical Cash Flow Statement

Fiscal Years Ending Dec. 31	2018	2019	2020	2021	2022
	Q4	Q4	Q4	Q4	Q4
Net income (loss)	1,683	2,707	3,367	2,934	2,802
Depreciation	444	505	528	640	749
Amortization	90	70	88	73	96
Cash flows from operating activities					
Loss (gain) on sale of business	786	-	-	-	(237)
Loss (gain) on investment securities, net	-	-	(838)	130	205
Loss (gain) on Kindred at Home equity method investment	-	-	-	(1,129)	-
Net realized capital losses (gains)	-	-	-	-	-
Equity in net losses (earnings)	(11)	(14)	(74)	(65)	4
Stock-based compensation	137	163	181	180	216
Impairment of property & equipment	-	-	-	-	248
Net realized capital losses (gains)	(90)	(62)	-	-	-
Provision (benefit) for deferred income taxes	194	162	195	15	(100)
Deferred income taxes	-	-	-	-	-
Other intangible amortization	-	-	-	-	-
Provision for doubtful accounts	36	-	-	-	-
Receivables	(200)	(32)	(85)	(280)	(54)
Other assets	(484)	118	(581)	(491)	(463)
Benefits payable	252	1,142	2,139	104	975
Other liabilities	(676)	471	599	176	44
Unearned revenues	(95)	(36)	71	(65)	32
Other operating activities, net	107	90	49	40	70
Net cash flows from operating activities	2,173	5,284	5,639	2,262	4,587
Cash flows from investment activities					
Proceeds from sale of KAH Hospice, net	-	-	-	-	2,701
Purchases of property & equipment, net	(612)	(736)	(964)	(1,316)	(1,120)
Cash transferred in sale of business	(805)	-	-	-	-
Acquisitions, net of cash acquired	(354)	-	(709)	(4,187)	(337)
Acquisition, equity method investment in Kindred at Home	-	-	-	-	-
Proceeds from sales of property & equipment	-	-	-	-	-
Purchases of investment securities	(4,687)	(6,361)	(9,125)	(7,197)	(6,049)
Proceeds from maturities of investment securities	972	1,733	4,986	2,597	1,365
Proceeds from sales of investment securities	3,494	4,086	2,747	3,547	2,434
Net cash flows from investing activities	(3,087)	(1,278)	(3,065)	(6,556)	(1,006)
Cash flows from financing activities					
Receipts (withdrawals) from contract deposits, net	(640)	(623)	(939)	(306)	1,993
Proceeds from issuance of senior notes, net	-	987	1,088	2,984	1,982
Proceeds (repayments) from issuance of commercial paper, net	485	(360)	295	352	(376)
Proceeds from term loan	1,000	-	1,000	2,500	-
Repayment of term loan	(350)	(650)	(1,000)	(2,078)	(2,000)
Repayment of long-term debt	-	(400)	-	-	-
Debt issue costs	-	-	-	(31)	(6)
Change in book overdraft	30	54	95	6	(28)
Common stock repurchases	(1,090)	(1,070)	(1,820)	(79)	(2,096)
Dividends paid	(265)	(291)	(323)	(354)	(392)
Proceeds from stock options exercises & other financing activities, net	45	58	49	21	-
Other financing activities, net	-	-	-	-	9
Net cash flows from financing activities	(785)	(2,295)	(1,955)	3,015	(1,914)
Increase (decrease) in cash & cash equivalents	(1,699)	1,711	619	(1,279)	1,667
Cash & cash equivalents at beginning of period	4,042	2,343	4,054	4,673	3,394
Cash & cash equivalents at end of period	2,343	4,054	4,673	3,394	5,061
Interest payments	195	212	258	285	354
Income tax payments (refunded), net	631	518	1,132	227	758

Humana, Inc

Forecasted Cash Flow Statement

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E
	Q4	Q4	Q4	Q4
Net Income	3,026	3,099	3,798	4,644
Depreciation	690	795	899	1,003
Cash flows from operating activities				
Receivables	(215)	(169)	(156)	(136)
Other current assets	(1,412)	(624)	(576)	(504)
Other long-term assets	(221)	(322)	(297)	(260)
Benefit payable	(297)	806	672	556
Trade account payable & accrued expensed	674	549	445	368
Book overdraft	38	38	25	25
Unearned revenue	119	36	33	29
Other long-term liabilities	(386)	97	90	78
Net cash flows from operating activities	2,016	4,306	4,934	5,803
Cash flows from investing activities				
Purchase of investment securities	(759)	(801)	(845)	(891)
Purchase of PPE, gross	(1,178)	(1,284)	(1,381)	(1,466)
Purchase of equity method investment	223	(27)	(28)	(29)
Purchase of long-term investment securities	(19)	(20)	(21)	(22)
Noncontrolling interest	16	68	79	96
Net cash flows from investing activities	(1,718)	(2,063)	(2,195)	(2,312)
Cash flows from financing activities				
Net repayment of short-term debt	(348)	197	132	130
Net repayment of long-term debt	293	302	312	322
Common stock	22	22	22	13
Treasury repurchase	(1,000)	(1,000)	(1,000)	-
Dividend Paid	(432)	(438)	(479)	(472)
Net cash flows from financing activities	(1,466)	(917)	(1,014)	(7)
Increase/(decrease) in cash and cash equivalents	(1,168)	1,326	1,725	3,484
Cash and cash equivalent, beginning of period	5,061	3,893	5,219	6,944
Cash and cash equivalent, end of period	3,893	5,219	6,944	10,427

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Humana, Inc
Common Size Income Statement

Fiscal Years Ending 44926	2022				2023E			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenues:								
Premiums revenues	94.71%	94.10%	94.16%	94.81%	95.54%	95.32%	95.11%	94.72%
Services revenues	5.27%	5.70%	5.08%	4.47%	3.74%	3.66%	4.30%	4.69%
Investment income	0.01%	0.20%	0.75%	0.71%	0.72%	1.02%	0.58%	0.58%
Total revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Operating costs:								
Benefits expense	86.44%	85.78%	85.63%	87.34%	85.55%	82.29%	86.41%	89.03%
Operating costs	12.04%	13.44%	13.53%	15.94%	11.22%	11.75%	11.90%	15.31%
Depreciation & amortization expense	0.71%	0.74%	0.80%	0.81%	0.74%	0.71%	0.75%	0.71%
Depreciation				20.44%				21.43%
Amortization				11.42%				8.36%
Total operating expenses	94.62%	94.87%	94.86%	99.45%	93.57%	94.63%	94.72%	100.26%
Income (loss) from operations	5.38%	5.13%	5.14%	0.55%	6.43%	5.37%	5.28%	-0.26%
Interest expense	0.38%	0.43%	0.45%	0.48%	0.42%	0.45%	0.43%	0.43%
Other income (expense), net	1.63%	0.66%	19.37%	-70.16%	0.47%	-3.76%	4.20%	4.20%
Income (loss) before income taxes & equity in net earnings (losses)	94.65%	92.35%	110.67%	-57.26%	93.89%	87.88%	96.05%	268.14%
Current provision (benefit) for income taxes - federal	23.44%	38.06%	8.25%	81.69%	22.24%	23.45%	23.87%	-3.06%
Deferred income taxes expense (benefit)	0.00%	0.00%	0.00%	140.85%	0.00%	0.00%	0.00%	0.00%
Equity in net earnings (losses)	30.77%	0.22%	0.43%	-0.42%	94.44%	-0.81%	2.16%	2.16%
Net income (loss)	**3.88%**	**2.95%**	**5.23%**	**-0.08%**	**4.63%**	**3.57%**	**3.86%**	**-0.73%**

Fiscal Years Ending 44926	2024E				2025E				2026E			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenues:												
Premiums revenues	95.56%	95.31%	95.10%	94.90%	94.90%	94.71%	94.50%	94.30%	94.20%	93.96%	93.74%	93.53%
Services revenues	3.91%	4.11%	4.31%	4.51%	4.57%	4.70%	4.91%	5.11%	5.25%	5.46%	5.68%	5.89%
Investment income	0.53%	0.59%	0.59%	0.58%	0.53%	0.59%	0.58%	0.58%	0.54%	0.58%	0.58%	0.58%
Total revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Operating costs:												
Benefits expense	86.41%	86.41%	86.41%	89.03%	86.41%	86.41%	86.41%	89.03%	86.41%	86.41%	86.41%	89.03%
Operating costs	11.90%	11.90%	11.90%	15.31%	11.90%	11.90%	11.90%	15.31%	11.90%	11.90%	11.90%	15.31%
Depreciation & amortization expense	0.76%	0.77%	0.78%	0.74%	0.80%	0.81%	0.81%	0.77%	0.84%	0.84%	0.84%	0.80%
Depreciation				21.43%				21.43%				21.43%
Amortization				6.47%				5.56%				4.11%
Total operating expenses	95.14%	94.91%	94.74%	100.45%	94.59%	94.43%	94.25%	99.95%	94.02%	93.80%	93.62%	99.28%
Income (loss) from operations	4.86%	5.09%	5.26%	-0.45%	5.41%	5.57%	5.75%	0.05%	5.98%	6.20%	6.38%	0.72%
Interest expense	0.30%	0.30%	0.30%	0.31%	0.37%	0.38%	0.38%	0.38%	0.47%	0.47%	0.47%	0.48%
Other income (expense), net	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%
Income (loss) before income taxes & equity in net earnings (losses)	98.03%	98.27%	98.43%	172.26%	97.29%	97.43%	97.61%	-590.25%	96.34%	96.59%	96.77%	37.79%
Current provision (benefit) for income taxes - federal	23.38%	23.33%	23.29%	-4.77%	23.56%	23.53%	23.48%	1.39%	23.79%	23.73%	23.69%	-21.73%
Deferred income taxes expense (benefit)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity in net earnings (losses)	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%	2.16%
Net income (loss)	**3.65%**	**3.83%**	**3.97%**	**-0.81%**	**4.02%**	**4.15%**	**4.29%**	**-0.32%**	**4.39%**	**4.57%**	**4.71%**	**0.33%**

Humana, Inc
Common Size Balance Sheet

Fiscal Years Ending Dec. 31	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
	Q4	Q4	Q4	Q4	Q4	Q4	Q4	Q4	Q4
Assets:									
Cash & cash equivalents	4.12%	6.25%	6.06%	4.09%	5.45%	3.66%	4.50%	5.57%	7.87%
Investment securities	4.91%	9.44%	14.42%	5.08%	5.22%	5.47%	5.47%	5.47%	5.47%
Receivables, net	1.78%	1.63%	1.47%	2.18%	1.80%	1.77%	1.77%	1.77%	1.77%
Other current assets	6.26%	5.87%	6.84%	7.82%	5.99%	6.56%	6.56%	6.56%	6.56%
Total current assets	62.36%	78.26%	81.31%	71.19%	59.03%	63.64%	67.71%	69.24%	73.34%
Accumulated depreciation	146.02%	153.31%	159.74%	121.21%	102.05%	118.79%	124.58%	131.50%	139.40%
Property & equipment, net	9.53%	12.68%	21.28%	29.61%	4.82%	15.58%	15.58%	15.58%	15.58%
Long-term investment securities	-85.03%	-1.22%	198.52%	-35.64%	-51.28%	5.07%	5.07%	5.07%	5.07%
Equity method investments	38.14%	258.64%	288.18%	11.63%	96.03%	138.52%	138.52%	138.52%	138.52%
Goodwill	18.77%	0.80%	13.21%	149.43%	-17.58%	0.00%	0.00%	0.00%	0.00%
Other long-term assets	2.42%	2.83%	2.76%	5.27%	3.64%	3.38%	3.38%	3.38%	3.38%
Total assets	44.65%	44.81%	45.32%	53.40%	46.36%	42.06%	41.86%	42.23%	44.15%
Liabilities:									
Benefits payable	8.85%	9.54%	10.98%	10.38%	10.56%	8.85%	8.85%	8.85%	8.85%
Trade accounts payable & accrued expenses	6.68%	6.97%	6.51%	6.52%	6.92%	6.72%	6.72%	6.72%	6.72%
Book overdraft	1.28%	1.54%	2.02%	1.72%	1.39%	1.59%	1.59%	1.59%	1.59%
Unearned revenues	0.50%	0.38%	0.41%	0.31%	0.31%	0.38%	0.38%	0.38%	0.38%
Short-term debt	12.68%	4.79%	3.79%	10.30%	9.73%	8.26%	8.26%	8.26%	8.26%
Total current liabilities	66.07%	64.15%	63.06%	54.26%	62.05%	62.51%	63.72%	64.41%	64.83%
Long-term debt	-8.28%	13.53%	22.01%	73.94%	-14.30%	3.24%	3.24%	3.24%	3.24%
Future policy benefits payable	0.40%	0.33%	0.00%	0.00%	0.00%	0.15%	0.15%	0.15%	0.15%
Other long-term liabilities	1.02%	1.44%	2.32%	2.87%	1.59%	1.02%	1.02%	1.02%	1.02%
Total liabilities	26.80%	26.26%	27.53%	34.02%	29.81%	26.09%	25.70%	25.26%	24.93%
Common Equity	152.58%	105.39%	81.32%	106.17%	117.02%	109.07%			
Accumulated other comprehensive income (loss)	-9.45%	5.76%	11.61%	1.43%	-46.54%	2.34%	2.34%	2.34%	2.34%
Retained earnings	148.33%	145.24%	149.45%	143.57%	166.49%	165.93%	165.22%	162.61%	152.13%
Treasury stock, at cost	72.04%	70.24%	72.25%	63.20%	79.39%	77.72%	76.07%	72.34%	60.30%
Total stockholders' equity	17.85%	18.55%	17.79%	19.36%	16.49%	17.70%	18.85%	20.45%	23.61%
Noncontrolling interests	0.00%	0.00%	0.00%	0.22%	0.65%	0.17%	0.17%	0.17%	0.17%
Total equity	17.85%	18.55%	17.79%	19.39%	16.55%	15.97%	16.17%	16.97%	19.22%

Humana, Inc

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:			*ASSUMPTIONS:*
Risk-Free Rate	4.25%		*US 10-year Treasury Yi*
Beta	0.89		*FactSet 5 years adjuste*
Equity Risk Premium	5.00%		*Henry Fund Estimated*
Cost of Equity	**8.70%**		
Cost of Debt:			
Risk-Free Rate	4.25%		*Type risk-free rate assu*
Implied Default Premium	1.63%		
Pre-Tax Cost of Debt	5.88%		*Humana 10-years seni*
Marginal Tax Rate	23%		
After-Tax Cost of Debt	**4.53%**		
Market Value of Common Equity:			**MV Weights**
Total Shares Outstanding	125		
Current Stock Price	$470.77		
MV of Equity	**58,845.37**		83.08%
Market Value of Debt:			
Short-Term Debt	2,092		
Long-Term Debt	9,034		
Book Overdraft	298		
PV of Operating Leases	557		
MV of Total Debt	**11,980.66**		16.92%
Market Value of the Firm	**70,826.03**		100.00%
		Estimated WACC	**7.99%**

Humana, Inc
Value Driver Estimation

Fiscal Years Ending Dec. 31	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
NOPLAT:									
Revenue	56,912	64,888	77,155	83,064	92,870	106,467	115,988	124,773	132,461
- Depreciation and Amortization	405	458	489	596	709	753	850	952	1,046
- Benefit expenses	45,882	53,857	61,628	69,199	75,690	87,975	96,148	102,764	108,235
- Operating costs	7,525	7,381	10,052	10,121	12,671	13,252	14,696	15,811	16,786
+ Implied interest on operating lease	26	25	27	40	33	30	30	30	30
EBIT	3,126	3,217	5,013	3,188	3,833	4,516	4,325	5,276	6,425
Marginal Tax Rate	12.61%	23.90%	26.21%	15.41%	20.05%	21.39%	21.39%	21.39%	21.39%
Provision for Income Taxes	391	763	1,307	485	762	982	1,025	1,197	1,392
- Tax shield on interest expense	27	58	74	50	80	99	75	101	134
+ Tax shiled on impled interest on operating lease	3	6	7	6	7	6	6	6	6
+ Tax shield on other income (expense)	(103)	121	(27)	82	34	2	39	47	57
Adjusted tax	263	832	1,213	523	722	892	995	1,150	1,322
NOPLAT:	**2,863**	**2,385**	**3,800**	**2,665**	**3,111**	3,625	3,330	4,126	5,103
Invested Capital (IC):									
Normal Cash	2,325	2,651	3,153	3,394	3,795	4,350	4,739	5,098	5,412
Receivables	1,015	1,056	1,138	1,814	1,674	1,889	2,058	2,214	2,350
Other current assets	3,564	3,806	5,276	6,493	5,567	6,979	7,604	8,179	8,683
Operating Current Assets	6,904	7,513	9,567	11,701	11,036	13,219	14,401	15,492	16,446
Benefits payable	4,862	6,004	8,143	8,289	9,264	8,967	9,774	10,446	11,002
Trade accounts payable & accrued expenses	3,067	3,754	4,013	4,509	5,238	5,912	6,462	6,906	7,274
Unearned revenue	283	247	318	254	286	405	442	475	504
Operating Current Liabilities	8,212	10,005	12,474	13,052	14,788	15,285	16,677	17,827	18,781
Operating Working Capital	(1,308)	(2,492)	(2,907)	(1,351)	(3,752)	(2,066)	(2,276)	(2,336)	(2,334)
Property and Equipment, net	1,735	1,955	2,371	3,073	3,221	3,709	4,198	4,679	5,143
Other long-term assets	1,375	1,834	2,128	4,379	3,380	3,601	3,923	4,220	4,480
Other long-term liabilities	581	935	1,787	2,383	1,473	1,087	1,184	1,274	1,352
Invested Capital:	**1,221**	**362**	**(195)**	**3,718**	**1,376**	**4,157**	**4,661**	**5,290**	**5,936**
Free Cash Flow (FCF):									
NOPLAT	2,863	2,385	3,800	2,665	3,111	3,625	3,330	4,126	5,103
Change in IC		(859)	(558)	3,913	(2,342)	2,781	504	629	646
FCF		3,244	4,358	(1,248)	5,453	843	2,827	3,497	4,456
Return on Invested Capital (ROIC):									
NOPLAT	2,863	2,385	3,800	2,665	3,111	3,625	3,330	4,126	5,103
Beginning IC		1,221	362	(195)	3,718	1,376	4,157	4,661	5,290
ROIC		195.25%	1048.81%	-1363.56%	83.67%	263.49%	80.12%	88.53%	96.46%
Economic Profit (EP):									
Beginning IC		1,221	362	(195)	3,718	1,376	4,157	4,661	5,290
x (ROIC - WACC)	-7.99%	187.26%	1040.81%	-1371.55%	75.67%	255.49%	72.12%	80.53%	88.46%
EP		2,287	3,771	2,681	2,813	3,515	2,998	3,753	4,680

Humana, Inc

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation

Key Inputs:

CV Growth of NOPLAT	2.00%
CV Year ROIC	96.46%
WACC	7.99%
Cost of Equity	8.70%

Fiscal Years Ending Dec. 31	2023E	2024E
DCF Model:		
Free Cash Flow (FCF)	843	2,827
Continuing Value (CV)		
PV of FCF	781	2,424
Value of Operating Assets:	72,157	
Non-Operating Adjustments		
- Debt Obligation	(11,981)	
- ESOP	(34)	
+ Investment securities	14,640	
+ Long-term investment securit	399	
+ Equity Method Investment	749	
Value of Equity	75,931	
Shares Outstanding	125	
Intrinsic Value of Last FYE	$ 607.46	
Implied Price as of Today	$ 643.96	
EP Model:		
Economic Profit (EP)	3,515	2,998
Continuing Value (CV)		
PV of EP	3,255	2,571
Total PV of EP	70,781	
Invested Capital (last FYE)	1,376	
Value of Operating Assets:	72,157	
Non-Operating Adjustments		
- Debt Obligation	(11,981)	
- ESOP	(34)	
+ Investment securities	14,640	
+ Long-term investment securit	399	
+ Equity Method Investment	749	
Value of Equity	75,931	
Shares Outstanding	125	
Intrinsic Value of Last FYE	$ 607.46	
Implied Price as of Today	$ 643.96	

Humana, Inc

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

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E
EPS	$ 24.38	$ 25.61	$ 31.85	$ 38.94
		0.050576	0.243413	0.22280031
Key Assumptions				
CV growth of EPS	2.00%			
CV Year ROE	18.25%			
Cost of Equity	8.70%			
Future Cash Flows				
P/E Multiple (CV Year)				13.29
EPS (CV Year)				$ 38.94
Future Stock Price				$ 517.52
Dividends Per Share	3.46	$ 3.56	$ 3.96	$ 3.96
Discounted Cash Flows	3.18	3.01	3.08	402.94
Intrinsic Value as of Last FYE	$ 412.21			
Implied Price as of Today	$ 436.98			

Humana, Inc

Relative Valuation Models

Ticker	Company	Price	EPS 2023E	EPS 2024E	P/E 23	P/E 24	Enterprise Value	EV/EBITDA	EV/Sales
UNH	UnitedHealth Group	$480.77	$24.82	$27.88	19.37	17.24	478,919	13.48	1.32
CVS	CVS Health	$65.84	$8.60	$8.60	7.66	7.66	150,003	6.63	0.37
CNC	Centene	$65.41	$6.48	$6.73	10.09	9.72	39,712	6.99	0.24
Cigna	CI	$281.48	$24.79	$28.23	11.35	9.97	106,542	9.03	0.56
ELV	Elevance Health	$448.75	$32.93	$37.02	13.63	12.12	121,882	10.40	0.71
				Average	13.61	12.26		9.31	0.64
HUM	Humana, Inc	$470.77	24.38	$25.61	19.3	18.4	53,542	11.85	0.58

Implied Relative Value:			
P/E (EPS23)	**$**	**472.23**	**using UNH multiple*
P/E (EPS24)	**$**	**441.66**	**using UNH multiple*
EV/EBITDA (2023)	**$**	**511.92**	**using UNH and ELV multiples*
EV/Sales (2023)	**$**	**554.39**	**using industry average*

Humana, Inc

Key Management Ratios

Fiscal Years Ending Dec. 31	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Liquidity Ratios:									
Current Ratio (Current Assets/Current Liabilities)	1.68	1.82	1.77	1.62	1.52	1.58	1.60	1.66	1.80
Quick Ratio (Cash + Receivables + Investment Securities)/	1.33	1.47	1.37	1.20	1.20	1.18	1.20	1.25	1.40
Asset-Management Ratios:									
Total Asset Turnover (Revenue/Total Assets)	2.24	2.23	2.21	1.87	2.16	2.38	2.39	2.37	2.27
Net Working Capital Turnover (Revenue/Net Working Ca	(43.52)	(26.04)	(26.54)	(61.48)	(24.75)	(51.53)	(50.96)	(53.42)	(56.74)
Receivables Turnover (Revenue/Net Receivable)	56.07	61.45	67.80	45.79	55.48	56.36	56.36	56.36	56.36
Financial Leverage Ratios:									
Debt to Equity (Total Liabilities/Total Shareholder's Equi	1.50	1.42	1.55	1.76	1.81	1.64	1.60	1.50	1.31
Equity Multiplier (Total Asset/Total Equity)	2.50	2.42	2.55	2.75	2.80	2.63	2.59	2.49	2.30
Debt to Asset (Total Liabilities/Total Assets)	0.60	0.59	0.61	0.64	0.64	0.62	0.61	0.60	0.56
Profitability Ratios:									
Return on Equity (Net Income/Total Shareholder's Equity	0.11	0.16	0.16	0.10	3.35	0.11	0.10	0.12	0.14
Return on Assets (Net Income / Total Assets)	0.07	0.09	0.10	0.07	0.07	0.07	0.06	0.07	0.08
Gross Profit Margin (Operating Income/Revenue)	0.05	0.05	0.06	0.04	0.04	0.04	0.04	0.04	0.05
Payout Policy Ratios:									
Dividend Payout Ratio (Dividend/EPS)	0.16	0.11	0.10	0.12	0.14	0.14	0.14	0.12	0.10
Total Payout Ratio ((Divs. + Repurchases)/NI)			0.64	0.15	0.89	0.47	0.46	0.39	0.10

Humana, Inc

Present Value of Operating Lease Obligations

Fiscal Years Ending Dec. 31	2018	2019	2020	2021	2022
Year 1	147	133	146	210	171
Year 2	113	117	129	170	141
Year 3	96	97	82	133	114
Year 4	79	52	59	105	72
Year 5	34	31	41	58	49
Thereafter	50	70	87	129	116
Total Minimum Payments	519.0	500.0	544.0	805.0	663.0
Less: Cumulative Interest	75.1	75.7	84.4	127.4	106.3
PV of Minimum Payments	**443.9**	**424.3**	**459.6**	**677.6**	**556.7**
		448.0	*484.0*	*731.0*	*608.0*
Implied Interest in Year 1 Payment		**26.1**	**25.0**	**27.0**	**39.8**
Pre-Tax Cost of Debt	5.88%	5.88%	5.88%	5.88%	5.88%
Years Implied by Year 6 Payment	1.5	2.3	2.1	2.2	2.4
Expected Obligation in Year 6 & Beyond	34	31	41	58	49

Humana, Inc

Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	0.20
Average Time to Maturity (years):	3.60
Expected Annual Number of Options Exercised:	0.06
Current Average Strike Price:	$ 381.16
Cost of Equity:	8.70%
Current Stock Price:	$470.77

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E
Increase in Shares Outstanding:	0.06	0.06	0.06	0.03
Average Strike Price:	$ 381.16	$ 381.16	$ 381.16	$ 381.16
Increase in Common Stock Account:	**22**	**22**	**22**	**13**
Share Repurchases ($)	1,000	1,000	1,000	
Expected Price of Repurchased Shares:	$ 470.77	$ 511.29	$ 555.30	
Number of Shares Repurchased:	**2**	**2**	**2**	
Shares Outstanding (beginning of the year)	125.0	122.9	121.0	
Plus: Shares Issued Through ESOP	0.06	0.06	0.06	
Less: Shares Repurchased in Treasury	2.12	1.96	1.80	
Shares Outstanding (end of the year)	**123**	**121**	**119**	

Humana, Inc

Valuation of Options Granted under ESOP

Current Stock Price	$470.77
Risk Free Rate	1.80%
Current Dividend Yield	0.70%
Annualized St. Dev. of Stock Returns	36.10%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Nonvested restricted stock at December 31, 2021	0.31	339.08	3.60	$ 188.62	$ 58
Granted	0.07	425.32	3.60	$ 147.48	$ 10
Exercised	-0.16	319.27	3.60	$ 199.65	$ (33)
Forfeited	-0.01	370.26	3.60	$ 172.51	$ (1)
Nonvested restricted stock at December 31, 2022	0.20	$ 381.16	3.60	$ 176.13	$ 34