

CENTENE CORP
Form 10-Q
October 25, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended September 30, 2016
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____

Commission file number: 001-31826

CENTENE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware 42-1406317
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

7700 Forsyth Boulevard
St. Louis, Missouri 63105
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:

(314) 725-4477

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer x Accelerated filer o Non-accelerated filer o (do

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not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of October 14, 2016, the registrant had 170,892,049 shares of common stock outstanding.

CENTENE CORPORATION
 QUARTERLY REPORT ON FORM 10-Q
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CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

All statements, other than statements of current or historical fact, contained in this filing or incorporated by reference herein are forward-looking statements. We intend such forward looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we are including this statement for purposes of complying with these safe-harbor provisions. We have attempted to identify these statements by terminology including “believe,” “anticipate,” “plan,” “expect,” “estimate,” “intend,” “seek,” “target,” “may,” “will,” “would,” “could,” “should,” “can,” “continue” and other similar words or expressions (and the negative thereof) in connection with, among other things, any discussion of future operating or financial performance. In particular, these statements include without limitation statements about our market opportunity, our growth strategy, competition, expected activities and future acquisitions, investments and the adequacy of our available cash resources. These statements may be found in the various sections of this filing, such as Part I, Item 2. “Management's Discussion and Analysis of Financial Condition and Results of Operations,” Part II, Item 1. “Legal Proceedings,” and Part II, Item 1A. “Risk Factors.” Readers are cautioned that matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, regulatory, competitive and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions.

All forward-looking statements included in this filing are based on information available to us on the date of this filing. Except as may be otherwise required by law, we undertake no obligation to update or revise the forward-looking statements included in this filing, whether as a result of new information, future events or otherwise, after the date of this filing. You should not place undue reliance on any forward looking statements, as actual results may differ materially from projections, estimates, or other forward-looking statements due to a variety of important factors, including but not limited to:

- our ability to accurately predict and effectively manage health benefits and other operating expenses and reserves;
- competition;
- membership and revenue declines or unexpected trends;
- changes in healthcare practices, new technologies, and advances in medicine;
- increased health care costs;
- inflation;
- foreign currency fluctuations;
- tax matters;
- availability of debt and equity financing, on terms that are favorable to us;
- disasters or major epidemics;
- changes in economic, political or market conditions;
- the outcome of legal and regulatory proceedings;
- changes in federal or state laws or regulations, including the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act and any regulations enacted thereunder;
- changes in expected contract start dates;
- provider, state, federal and other contract changes and timing of regulatory approval of contracts;
- the expiration, suspension, or termination of our contracts with federal or state governments (including but not limited to Medicaid, Medicare, and TRICARE);
- challenges to our contract awards;
- rate cuts or other payment reductions or delays by governmental payors and other risks and uncertainties affecting our government businesses;
- our ability to adequately price products on federally facilitated and state based Health Insurance Marketplaces;

- cyber-attacks or other privacy or data security incidents;
 - the possibility that the expected synergies and value creation from acquired businesses, including, without limitation, the acquisition of Health Net, Inc., will not be realized, or will not be realized within the expected time period, including, but not limited to, as a result of conditions, terms, obligations or restrictions imposed by regulators in connection with their approval of, or consent to, the acquisition;
 - the exertion of management's time and our resources, and other expenses incurred and business changes required in connection with complying with the undertakings in connection with certain regulatory approvals;
 - disruption from the acquisition making it more difficult to maintain business and operational relationships;
 - the risk that unexpected costs will be incurred in connection with, among other things, the acquisition and/or the integration;
 - changes in expected closing dates, estimated purchase price and accretion for acquisitions;
 - the risk that acquired businesses will not be integrated successfully; and
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our ability to maintain or achieve improvement in the Centers for Medicare and Medicaid Services (CMS) Star ratings and other quality scores that impact revenue.

This list of important factors is not intended to be exhaustive. We discuss certain of these matters more fully, as well as certain other risk factors that may affect our business operations, financial condition and results of operations, in our filings with the Securities and Exchange Commission, including our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Item 1A. "Risk Factors" of Part II of this filing contains a further discussion of these and other important factors that could cause actual results to differ from expectations. Due to these important factors and risks, we cannot give assurances with respect to our future performance, including without limitation our ability to maintain adequate premium levels or our ability to control our future medical costs.

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Non-GAAP Financial Presentation

The Company is providing certain non-GAAP financial measures in this report as the Company believes that these figures are helpful in allowing investors to more accurately assess the ongoing nature of the Company's operations and measure the Company's performance more consistently across periods. The Company uses the presented non-GAAP financial measures internally to allow management to focus on period-to-period changes in the Company's core business operations. Therefore, the Company believes that this information is meaningful in addition to the information contained in the GAAP presentation of financial information. The presentation of this additional non-GAAP financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP.

Specifically, the Company believes the presentation of non-GAAP financial information that excludes Health Net acquisition related expenses and amortization of acquired intangible assets allows investors to develop a more meaningful understanding of the Company's performance over time. The tables below provide a reconciliation of non-GAAP items (\$ in millions, except per share data):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
GAAP general and administrative expenses	\$940	\$458	\$2,611	\$1,291
Health Net acquisition related expenses	10	18	224	20
General and administrative expenses, excluding Health Net acquisition related expenses	\$930	\$440	\$2,387	\$1,271
GAAP net earnings from continuing operations	\$146	\$92	\$300	\$244
Health Net acquisition related expenses	10	18	224	20
Amortization of acquired intangible assets	43	6	95	18
Income tax effects of adjustments ⁽¹⁾	(5)	(9)	(106)	(14)
Adjusted net earnings from continuing operations	\$194	\$107	\$513	\$268
GAAP diluted earnings per share (EPS)	\$0.84	\$0.75	\$1.89	\$1.99
Health Net acquisition related expenses ⁽²⁾	0.12	0.09	0.98	0.10
Amortization of acquired intangible assets ⁽³⁾	0.15	0.03	0.36	0.09
Adjusted diluted EPS	\$1.11	\$0.87	\$3.23	\$2.18

(1) The income tax effects of adjustments are based on the effective income tax rates applicable to adjusted (non-GAAP) results. The amounts are based on the annual estimated effective income tax rate that would increase or decrease based on the exclusion of these expenses.

The Health Net acquisition related expenses per diluted share presented above are net of the income tax benefit (2)(expense) of \$(0.06) and \$0.05 for the three months ended September 30, 2016 and 2015, respectively, and \$0.44 and \$0.06 for the nine months ended September 30, 2016 and 2015, respectively.

The amortization of acquired intangible assets per diluted share presented above are net of the income tax benefit (3) of \$0.09 and \$0.02 for the three months ended September 30, 2016 and 2015, respectively, and \$0.23 and \$0.05 for the nine months ended September 30, 2016 and 2015, respectively.

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FINANCIAL INFORMATIONITEM 1. Financial Statements.
CENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	September 30, 2016	December 31, 2015
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,982	\$ 1,760
Premium and related receivables	3,445	1,279
Short term investments	406	176
Other current assets	922	390
Total current assets	7,755	3,605
Long term investments	4,568	1,927
Restricted deposits	137	115
Property, software and equipment, net	725	518
Goodwill	4,730	842
Intangible assets, net	1,566	