

CENTENE CORP
Form 10-Q
July 26, 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 June 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 July 15, 2016, the registrant had 170,736,886 shares of common stock outstanding.

CENTENE CORPORATION
 QUARTERLY REPORT ON FORM 10-Q
 TABLE OF CONTENTS

	PAGE
Part I	
Financial Information	
Item 1. <u>Financial Statements</u>	<u>1</u>
<u>Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015</u>	<u>1</u>
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2016 and 2015 (unaudited)</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Earnings for the Three and Six Months Ended June 30, 2016 and 2015 (unaudited)</u>	<u>3</u>
<u>Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2016 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015 (unaudited)</u>	<u>5</u>
<u>Notes to the Consolidated Financial Statements (unaudited)</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
Item 4. <u>Controls and Procedures</u>	<u>37</u>
Part II	
Other Information	
Item 1. <u>Legal Proceedings</u>	<u>39</u>
Item 1A. <u>Risk Factors</u>	<u>39</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
Item 6. <u>Exhibits</u>	<u>52</u>
<u>Signatures</u>	<u>53</u>

Table of Contents

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 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 those entitled “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 projections;
- timing of regulatory contract approval;
- changes in healthcare practices;
- 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;
- changes in expected closing dates, estimated purchase price and accretion for acquisitions;
- inflation;
- foreign currency fluctuations;
- provider and state contract changes;
- new technologies;
- advances in medicine;
- rate cuts or other payment reductions by governmental payors and other risks and uncertainties affecting our Medicare and Medicaid businesses;
- major epidemics;
- disasters and numerous other factors affecting the delivery and cost of healthcare;
- the expiration, cancellation or suspension of our managed care contracts by federal or state governments (including but not limited to Medicaid, Medicare, and TRICARE);
- the outcome of our pending legal and regulatory proceedings;
- availability of debt and equity financing, on terms that are favorable to us;
- our ability to adequately price products on federally facilitated and state based Health Insurance Marketplaces;

- changes in economic, political and market conditions;
- 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; and
- the risk that acquired businesses will not be integrated successfully.

This list of important factors is not intended to be exhaustive. We discuss certain of these matters more fully, as well as certain 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 to our premium levels or our ability to control our future medical costs.

Table of Contents

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 which excludes Health Net acquisition related expenses and amortization of acquired intangible assets allows investors to understand the Company's performance more consistently. The tables below provide a reconciliation of non-GAAP items (\$ in millions, except share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
GAAP general and administrative expenses	\$949	\$437	\$1,671	\$833
Health Net acquisition related expenses	25	2	214	2
General and administrative expenses, excluding Health Net acquisition related expenses	\$924	\$435	\$1,457	\$831
GAAP net earnings from continuing operations	\$170	\$88	\$154	\$152
Health Net acquisition related expenses	25	2	214	2
Amortization of acquired intangible assets	43	5	52	12
Income tax effects of adjustments ⁽¹⁾	(14)	(2)	(101)	(5)
Adjusted net earnings from continuing operations	\$224	\$93	\$319	\$161
GAAP diluted earnings per share (EPS)	\$0.98	\$0.72	\$1.02	\$1.24
Health Net acquisition related expenses ⁽²⁾	0.16	0.01	0.89	0.01
Amortization of acquired intangible assets ⁽³⁾	0.15	0.03	0.20	0.06
Adjusted diluted EPS	\$1.29	\$0.76	\$2.11	\$1.31

The income tax effects of adjustments are based on the effective income tax rates applicable to

(1) 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 \$(0.02) and \$0.01 for the three months ended June 30, 2016 and 2015, respectively, and \$0.53 and zero for the six months ended June 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 \$0.10 and \$0.01 for the three months ended June 30, 2016 and 2015, respectively, and \$0.14 and \$0.04 for the six months ended June 30, 2016 and 2015, respectively.

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

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,710	\$ 1,760
Premium and related receivables	3,488	1,279
Short term investments	443	176
Other current assets	1,212	390
Total current assets	7,853	3,605
Long term investments	4,230	1,927
Restricted deposits	137	115
Property, software and equipment, net	626	518
Goodwill	4,707	842
Intangible assets, net	1,609	155
Other long term assets	334	177
Total assets	\$ 19,496	\$ 7,339

LIABILITIES AND STOCKHOLDERS' EQUITY