Client Id: 77

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

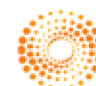
HUM - Q4 2017 Humana Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 07, 2018 / 2:00PM GMT

OVERVIEW:

HUM reported 2017 GAAP diluted EPS of $16.81. Expects 2018 adjusted diluted EPS to be $13.50-14.00.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

CORPORATE PARTICIPANTS

Amy Smith

Brian Andrew Kane *Humana Inc. - CFO*

Bruce D. Broussard *Humana Inc. - CEO, President and Director*

CONFERENCE CALL PARTICIPANTS

Albert J. William Rice *Crédit Suisse AG, Research Division - Research Analyst*

Anagha A. Gupte *Leerink Partners LLC, Research Division - MD, Healthcare Services and Senior Research Analyst*

Christian Douglas Rigg *Deutsche Bank AG, Research Division - Research Analyst*

David Howard Windley *Jefferies LLC, Research Division - Equity Analyst*

Gary Paul Taylor *JP Morgan Chase & Co, Research Division - Analyst*

Joshua Raskin

Kevin Mark Fischbeck *BofA Merrill Lynch, Research Division - MD in Equity Research*

Matthew Richard Borsch *BMO Capital Markets Equity Research - Managed Care and Providers Analyst*

Ralph Giacobbe *Citigroup Inc, Research Division - Director*

Sarah Elizabeth James *Piper Jaffray Companies, Research Division - Senior Research Analyst*

Stephen Baxter

Stephen Vartan Tanal *Goldman Sachs Group Inc., Research Division - Equity Analyst*

PRESENTATION

Operator

Good morning. My name is Caitlin, and I will be your conference operator today. At this time, I would like to welcome everyone to the Humana 4Q '17 Earnings Call. (Operator Instructions)

Amy Smith, Director of Investor Relations, you may begin your conference.

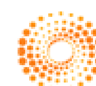
Amy Smith

Thank you, and good morning. In a moment, Bruce Broussard, Humana's President and Chief Executive Officer; and Brian Kane, Chief Financial Officer, will discuss our fourth quarter 2017 results and our financial outlook for 2018. Following these prepared remarks, we will open up the line for a question-and-answer session with industry analysts. We encourage the investing public and media to listen to both management's prepared remarks and the related Q&A with analysts.

This call is being recorded for replay purposes. That replay will be available on the Investor Relations page of Humana's website, humana.com, later today. This call is also being simulcast via the Internet, along with a virtual slide presentation. For those of you who have company firewall issues and cannot access the live presentation, an Adobe version of the slides have been posted to the Investor Relations section of Humana's website.

Before we begin our discussion, I need to advise call participants of our cautionary statement. Certain of the matters discussed in this conference call are forward looking and involve a number of risks and uncertainties. Actual results could differ materially. Investors are advised to read the

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

detailed risk factors discussed in our fourth quarter 2017 earnings press release as well as in our filings with the Securities and Exchange Commission. Today's press release, our historical financial news releases and our filings with the SEC are also available on our Investor Relations site.

Call participants should note that today's discussion includes financial measures that are not in accordance with generally accepted accounting principles, or GAAP. Management's explanation for the use of these non-GAAP measures and reconciliations of GAAP to non-GAAP financial measures are included in today's press release.

Finally, any references to earnings per share, or EPS, made during this conference call refer to diluted earnings per common share.

With that, I'll turn the call over to Bruce Broussard.

Bruce D. Broussard - *Humana Inc. - CEO, President and Director*

Good morning, and thank you for joining us. This morning, we reported full year 2017 adjusted EPS of $11.71 or $16.81 on a GAAP basis, above our previous expectations of $11.60 adjusted EPS. We continued to make strong progress in advancing our integrated care delivery strategy, especially in deepening our clinical capabilities through long-term platform investments in the home and primary care. And our focus on and commitment to improving the member experience continues to pay off as, this year, we saw significant improvement in our Stars results as well as our Net Promoter Scores, which increased by 500 basis points. It's through the combination of all our efforts, from optimizing our infrastructure and operations to making critical investments in consumer and clinical capabilities, that we've been able to achieve strong short-term results while creating long-term sustainability. We entered 2018 with a continued focus on this core strategy, dedicated to providing an integrated health care experience built around the needs of our members and clinical partners, including offering personalized local care with an emphasis on the home and primary care providers.

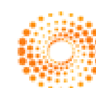
As I said at a recent investor conference, the cornerstone of our strategy is around the integration of primary care, pharmacy, home and behavioral health while leveraging technology and analytics to create a holistic 360-degree view of the customer, and from that, drive a simplified, personalized experience for members that makes it easy for them to achieve their best health. Our strategy has continued to evolve over the last year, and we've been very active in building our primary care model.

As I indicated in last quarter's earnings call, in 2017, we launched 15 new clinics in 7 markets. Including our alliance and joint venture relationships and our fully owned clinics, we currently operate 195 clinics across 27 markets with approximately 1,500 employed and affiliated physicians and advanced care providers serving nearly 260,000 individuals. We now own a number of brands in South Florida and Texas, including MetCare, Continucare and CAC Medical Centers, and we have a joint venture relationship with MCCI.

We are moving to an integrated model and are building a platform that will consolidate these brands in South Florida and Texas under one payer-agnostic physician brand called CONVIVA. CONVIVA will be a physician-centric and clinically focused, tapping into the deep knowledge and know-how of our primary care community to stimulate entrepreneurial thinking, resulting in an innovative model of care that will measurably improve our ability to serve our members and close gaps in care. The operations will be restructured as physician corporations, including physician leadership, with incentives aligned around driving improved clinical outcomes. CONVIVA will help to ease the administrative burden on clinicians, allowing more time for clinical management while at the same time providing a better care experience for patients with personalized care to meet individual needs. Our strategy is for CONVIVA to provide local depth and drive both healthcare service and Medicare Advantage growth opportunities with greater member access and engagement in health over the long term. We believe this new simplified structure will help us to continue to build trust throughout Florida and Texas markets, improving operations while continuing to make strategic investments in the business. We currently serve nearly 30% of our Florida individual Medicare Advantage HMO members and nearly 50% of our Texas individual Medicare HMO members and clinics under CONVIVA.

At the same time, we are continuing to invest in our care delivery organization through our wholly owned Partners in Primary Care, senior-focused, payer-agnostic clinics and through our national management service organization, Transcend. A combination of CONVIVA and our wholly owned provider assets enabled the acceleration of our commitment to creating a national footprint of high-performing, senior-focused primary care physicians, helping in their efforts to improve member health outcomes through the integrated care delivery model.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

As demonstrated on this -- on the slide, as providers move along the care continuum in the path to risk, we see higher HEDIS scores for those providers in our value-based model with shared savings and losses as compared to those in a performance bonus-only model, with both cohorts significantly exceeding the scores achieved in a fee-for-service model.

We will leverage these improved clinical capabilities to manage the health of our current members as well as drive increased membership growth in the future. One area we see opportunity for growth is the D-SNP population. We are seeing certain states begin to make a greater link between Medicare and Medicaid long-term support service capabilities for the D-SNP population. We believe the strong provider capabilities I just discussed are entry into the long-term support services, or LTSS, business via our acquisition of American Eldercare in 2013 and our focus on care in the home, including our existing Humana At Home operations and our recently announced acquisition of a 40% interest in Kindred At Home, provides us the leverage and experience we need to set the groundwork for serving the D-SNP population. Kindred At Home is the nation's largest home health provider with a 65% geographic overlap with our individual Medicare Advantage population. And we have already been successful in Florida with our LTSS offering, currently serving more than 20,000 members. We also provide LTSS benefits through our demonstration program in Illinois. We've invested in technology through our CareHub/CGX clinical workflow system to offer an integrated, comprehensive approach to utilization and care management, supporting LTSS and MA populations holistically. Most of the 20,000 members we serve under the LTSS program are established in the community, and we've been able to prevent admissions to nursing homes. In addition, and notably, we supported over 1,700 Florida LTSS members transitioning from a nursing home setting to the community since 2014. We will continue to monitor the link between the Medicare and Medicaid population as it relates to serving D-SNP members and assess the need for a broader Medicaid platform as states evolve over time. We believe the combination of our LTSS business and our strength of our Medicare Advantage offerings with our integrated care delivery model positions us to be a strong competitor to serve the Medicaid dual-eligible population.

Turning now to 2018. We recently raised our net individual Medicare Advantage membership growth expectations for the year to a range of 180,000 to 200,000, primarily as a result of better retention and strong sales during the recently completed Annual Election Period, or AEP. Approximately 40% of our individual gross sales during the AEP came from competitor Medicare Advantage offerings. From a geographic perspective, we saw market share gains in most states with some of our largest gains in Florida, Texas, Arizona and Illinois. We also raised our 2018 group Medicare Advantage membership expectations to 65,000 to 70,000, primarily as a result of increased sales in our existing group Medicare Advantage accounts. We would like to thank all of our Humana associates for their tireless efforts to ensure a successful AEP.

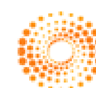
Our strong AEP growth, together with the recently passed tax reform law, provides momentum into 2018. And today, we announced initial guidance of $13.50 to $14 on an adjusted basis for the year. This represents an increase of 15% to 20% over adjusted EPS of $11.71 for 2017.

Brian will go into more detail in his remarks, but I do want to comment on tax reform. We are using roughly half of the benefit from the tax reform to recognize and reward our employees, invest in the communities we serve and invest in our business to drive long-term value creation for our shareholders. Our steadfast commitment to simplifying the health care experience, making coverage more affordable and improving health outcomes for seniors, for TRICARE beneficiaries and for our Employer Group members remain our top priority and is guiding our decision as how to allocate tax reform proceeds.

A few weeks ago, we announced to our employees that we are increasing the minimal -- minimum hourly rate in the Continental U.S. for full- and part-time employees to $15 as well as accelerating into 2018 an employee performance-based incentive compensation program originally planned to begin in 2019. The program will apply broadly to full- and part-time employees who did not otherwise participate in an incentive plan, which will add more than 28,000 employees to such programs. This tightens the alignment between our employees' performance and pay and allows them to be rewarded for our long-term business performance and for the outstanding contributions they make to those who we serve, driving long-term growth for our shareholders. In addition, we intend to make investments in the communities we serve to aid in addressing the social determinants of health for seniors. We also plan to accelerate investments in technology, including data analytics and in operational processes designed to reduce friction points for our members, making health care coverage more affordable and administrative costs, leading to increased productivity and long-term sustainability.

In closing, as described in our news release this morning, our Board of Directors has voted to raise our cash dividend to $0.50 per share, an increase of 25% from the company's previous dividends of $0.40 per share. This announcement comes on the heels of a year in which we returned over

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

$3.5 billion to shareholders in the form of share repurchases and dividends, including a 38% increase in our historical per-share dividend in early 2017.

Before I turn the call over to Brian, I want to take a moment to welcome the new TRICARE members we are serving under the contract with the United States Department of Defense, which took effect January 1. We have participated in the TRICARE program since 1996, and we are honored to serve nearly 6 million members across 32 states under the new East region contract, an increase of nearly 3 million members from our previous TRICARE contract.

With that, I'll turn the call over to Brian.

Brian Andrew Kane - *Humana Inc. - CFO*

Thank you, Bruce, and good morning, everyone. Today, we reported adjusted EPS of $2.06 for the fourth quarter and $11.71 for the full year 2017, which is ahead of our previous expectations. In addition, we posted strong operating cash flows of over $4 billion for the year. We are proud of our accomplishments in 2017, a year in which we emerged from an extended transaction process with excellent financial results driven by our clear and focused strategy to improve the health of seniors living with chronic conditions.

We continued to exceed our initial adjusted earnings guidance expectations throughout the year, led by the Retail segment and our individual Medicare Advantage offerings. This outperformance, coupled with multiple productivity initiatives, which I will discuss in a moment, allowed us to make important investments in our business to position us well for 2018. Specifically, we were able to maintain stable benefits for our members, which resulted in strong AEP growth for our Medicare franchise in the face of significant headwinds, in particular the return of the nondeductible health insurance fee in 2018. Our Retail segment significantly outperformed our initial expectations for 2017 with individual Medicare Advantage pretax margins finishing the year above the high end of our 4.5% to 5% target. This was largely the result of favorable MA medical utilization trends relative to our pricing assumptions, which, in no small measure, was the result of our operational focus on driving our trend bender initiatives. This above-plan annual Retail performance, coupled with fourth quarter Healthcare Services and Group and Specialty pretax results that exceeded expectations, provide us with the opportunity in the quarter to enhance our AEP marketing spend; further invest in the building out of our integrated care delivery model, which delivers better care and value to members; and to increase performance-based incentive compensation for thousands of our associates. It is worth noting that the fourth quarter Retail results also reflect the slight impact from the flu, which increased above typical seasonal averages during December and has persisted through January.

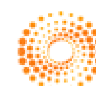
With respect to the fourth quarter outperformance in our Group and Specialty segment, our TRICARE business meaningfully exceeded expectations by earning performance bonuses related to the final settlement of several years in our prior contract. I would also like to reiterate what Bruce said in his remarks that, as an organization, we are truly honored to have the privilege to serve the approximately 6 million members under the new TRICARE contract that began on January 1, 2018.

Regarding Healthcare Services, which came in ahead of expectations in the fourth quarter as well, our provider organization benefited from claims trend improvements related to recent initiatives as well as onetime settlements related to certain joint venture arrangements. We also saw the mail order rate in our pharmacy business end the year slightly higher versus what we had contemplated when we last issued guidance.

I would like to turn now to the efforts we have made to reduce administrative spend across the company. Over the last several years and particularly in 2017, we put a tremendous amount of effort into streamlining our operations, not only to drive down costs, but also to enhance the customer and provider experience and increase the reliability of our critical processes.

As Slide 11 shows, we have made significant strides in reducing our administrative spend, resulting in meaningful cost savings. While the adjusted operating cost ratio ticked up slightly in 2017 to 11.7%, which was above our initially targeted range, this reflected, as I have mentioned previously, increased investments in a number of initiatives across the enterprise to advance our strategy as well as to recognize our associates' great work through higher compensation that was made possible by our significant outperformance on the medical cost side. The 2017 productivity initiatives focused on, among other things, rationalizing several of our critical processes end-to-end across silos, including claims processing, member

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

communications and member inquiries and issues, to streamline inefficiencies and remove friction points while simplifying the experience for our customers and providers.

One small example of our success in this regard was to reduce call transfers in our customer service areas by 13% in 2017, which reduces costs and meaningfully improves customer satisfaction. The productivity initiatives undertaken in 2017 are expected to result in hundreds of millions of dollars of incremental savings for 2018, a portion of which will be classified as a reduction in medical costs versus operating costs.

Excluding the planned incremental investment spend resulting from tax reform that Bruce discussed earlier and the impact of the health insurance fee, which returned in 2018, we expect an adjusted operating cost ratio of approximately 10.7% for 2018, a decline of 230 basis points from 2013 on an apples-to-apples basis. This improvement is significant, and this is a result of the tremendous effort of our associates, and I would like to thank them for all the diligent and essential work they did in 2017 to position us well for 2018 and beyond.

We are committed as an organization to continuing these productivity initiatives in the years ahead to enhance our processes across the board, to further drive down costs while also improving customer and provider satisfaction and clinical outcomes.

I would like to turn now to 2018 and the tax reform law. The new tax law has taken our effective tax rate to approximately 33% for 2018. The excess above the federal rate of 21% in the tax reform legislation for 2018 is primarily due to the return of the health insurance fee, which is nondeductible for tax purposes, as well as state and local taxes. Excluding the HIF, our effective tax rate would be approximately 24%. The incremental gross benefit from tax reform for the company is an estimated $550 million of savings on an after-tax basis or approximately $4 of EPS.

First, we do not expect a material impact from either MER rebates or the reimbursement of the nondeductible HIF in relation to group accounts. As Bruce described earlier, we intend to invest approximately $275 million of the after-tax benefit from tax reform or approximately $2 of EPS. We are taking the opportunity to recognize and align all of our associates' incentives directly with our shareholders, in particular by accelerating into 2018 the previously planned performance incentives for 2019, as well as by investing both in the communities we serve and directly in our business to drive long-term value creation and sustainability. It is important to note that a majority of the investments will show up in the operating cost line and will be allocated to the Retail segment, which will therefore result in a decline in pretax margins for our individual MA business and the Retail segment as a whole. However, we remain committed over time to achieving individual MA pretax margins in the range of 4.5% to 5%, providing an important source of earnings growth in the years ahead.

Turning to 2018 guidance. We're guiding to adjusted 2018 EPS of $13.50 to $14, which includes approximately $2 per share net benefit from tax reform after taking into account the investments we have discussed.

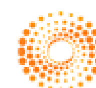
Slide 13 walks from the adjusted 2017 EPS to the reset 2017 baseline that we discussed in prior quarters. It is important to reiterate that in 2017, we experienced meaningful outperformance in our Retail segment with individual MA pretax margins running above our targeted range. As previously communicated, we invested the approximately 100 basis points of outperformance in the Retail segment benefit ratio or $380 million in our benefit design for 2018. This investment, combined with the productivity initiatives discussed above, coupled with medical cost trend benders, allowed us to overcome the return of the health insurance fee and our remaining, though significantly reduced, Stars headwind as well as stranded costs associated with our Individual commercial business. This helped fuel our solid MA membership growth during AEP.

In addition, we do not forecast Group and Specialty segment PPD. And therefore, we exclude PPD experience in 2017 from the baseline.

Lastly, we incurred a number of onetime expenses of approximately $250 million that we have discussed today and in prior quarters, which we do not expect to recur in 2018. Adjusting for these items, our 2017 baseline remains approximately $11, consistent with our commentary in prior quarters.

On Slide 14, we build off this baseline, showing the net operating improvement in our business as well as the impact of share repurchase prior to the tax reform investments. In addition, we also show a $0.62 EPS headwind from pre-reform tax items, primarily the increase in the nondeductible HIF in 2018 over the HIF assumed in our 2017 adjusted results.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Finally, we layer in the $2 impact of tax reform, net of investments, to arrive at our adjusted 2018 EPS of $13.50 to $14. As the slide shows, prior to tax reform-related investments, we expect to see approximately $190 million in pretax improvement or $0.83 of EPS over the 2017 baseline while also generating approximately $0.54 of EPS from capital deployment, primarily the result of the accelerated $1 billion repurchase we commenced in December of 2017 as well as the $500 million of open-market repurchases we completed in the fourth quarter of 2017. All in, these numbers, apart from the impact of tax reform and adjusting slightly for an elevated flu season, are consistent with the high-level guidance we provided our investors on the third quarter conference call.

Now I will provide some additional 2018 color on each of our business segments. In our Retail segment, whose results are primarily driven by individual Medicare Advantage performance, we experienced solid growth during AEP, exceeding our initial expectations, and we continue to expect individual MA membership growth of 180,000 to 200,000 members, up 6% to 7% as a result of both strong sales and better-than-expected retention. It is important to remind investors that new Humana members are typically breakeven in the first year as it takes time to get them into our clinical programs and accurately document it from a risk core perspective. Taking into account this higher-than-expected growth, which increases revenue while not impacting profitability, coupled with the decision to maintain stable benefits for our members in the face of the headwinds we have described, our guidance assumes we'll be below our target margin range for individual MA. Again, this is consistent with our discussion on our third quarter call. Additionally, once we layer in the investments we are making for long-term sustainability as a result of tax reform, this will further reduce the pretax margin of the segment. Though, of course, this is more than offset on the after-tax line by the lower tax rate we will pay. It is important to reiterate what I said above, namely that individual MA pretax margin improvement into our targeted range over time provides a significant source of earnings growth in the years ahead.

Turning now to our Group and Specialty segment. We expect core trend to run 6%, plus or minus 50 basis points, slightly higher than what we saw in 2017, which was closer to the low end of this range. In addition, recall that I noted earlier that 4Q '17 includes higher earned incentive payments under our previous TRICARE contract that are not expected to recur in 2018. In addition, while we expect to realize operating cost efficiency in 2018 from the 2017 productivity initiatives, some of the investment spend related to tax reform will show up in Group and Specialty. And as described above, we do not assume prior period development will recur. Given these items taken as a whole, we are guiding to a pretax range of $350 million to $400 million of pretax, slightly below 2017 levels.

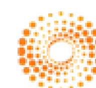
Moving to Healthcare Services. We expect 2018 pretax to be below that of 2017. This is primarily the result of 3 factors. First, the segment will feel the full year impact in 2018 from the optimization of our chronic care management programs that took place throughout 2017, ensuring that our clinicians and social workers engage only with members who truly can benefit from clinical intervention. Second, our provider services business will experience lower pretax due to lower Medicare rates year-over-year in geographies where our provider assets are primarily located as well as the cost of the organic build-out of our primary care assets in certain markets. Finally, this segment will bear some of the costs of the incremental investments we are making as a result of tax reform. While we do expect an increase in the pretax results of our pharmacy business, it will not be sufficient to offset these items, in part because the increases were more modest this year than in prior years as the segment impact from the growth in our MA membership is partially offset by the loss of members in our standalone PDP plans. Furthermore, while our PDP losses are concentrated in low-income auto-assigns, who are lower utilizers of mail order, there are some traditional PBM services pretax associated with them. And more importantly, growth in our low price Walmart plan, where we have seen the highest mail order usage relative to our other products, will, as previously discussed, be lower growth than what we've seen historically. As a result, we're guiding to a pretax range for the segment of $825 million to $875 million.

Turning to our expected quarterly progression of earnings. We expect first quarter to represent approximately 23% of full year 2018 adjusted EPS with the remaining quarters following the normal seasonal pattern we have seen historically.

I'd like to now briefly discuss capital deployment for 2018. We recognize the importance of returning capital to shareholders. And as I mentioned, this past December, we announced the refreshed -- a refreshed stock repurchase program of $3 billion through the end of 2020 and launched an accelerated share repurchase program of $1 billion. Our guidance also assumes approximately $500 million of repurchase in 2018 after the ASR is completed.

In addition, as Bruce discussed, today we announced that our Board of Directors increased our cash dividend by 25% to $0.50 per share, a meaningful increase.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

As it relates to parent cash and tax reform, while income generated by the Healthcare Services business gets the benefit of tax reform immediately, it is important to keep in mind that the timing of a majority of the cash benefit of reform to the parent will be realized in 2019 as there is a middle impact expected for current year dividends from our regulated insurance subsidiaries. This is because subsidiary dividends are generally based on prior year net income.

From an M&A perspective, we continue to look at strategic acquisitions to build our capabilities, particularly in the primary care arena, but we also continually look for any other assets that could enhance our Healthcare Services segments. Additionally, we would also have interest in Medicare Advantage assets that increase our presence in underpenetrated markets.

We continue to target a total debt-to-capitalization ratio of 30% to 35%, consistent with rating agency expectations, with the ability to go higher for the right strategic opportunity.

Finally, I would like to make a brief comment about the health insurance fee, or HIF. We are very pleased that Congress waived the fee for 2019, recognizing that the imposition of the HIF falls disproportionately on Medicare beneficiaries and reduces affordability. As we gear up for the 2019 bid season, we will analyze both the pretax and post-tax impacts of the HIF moratorium, along with other critical factors, including the final rate notice in April that benefits the tax reform and the expectations for whether the HIF will be reimposed in 2020. From a competitive perspective, we will be limited in what we will say about our 2019 bid strategy until our bids are approved later in the year.

With that, we will open the lines up for your questions. (Operator Instructions)

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Ana Gupte with Leerink.

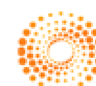
Anagha A. Gupte - *Leerink Partners LLC, Research Division - MD, Healthcare Services and Senior Research Analyst*

The question was about capital deployment and your decision on the $2 in EPS for 2018. Is that assumed to be on a continuing basis into 2019? And as far as the disposition of that, will it remain the same? Might you consider thinking about deploying it into more physician purchase or to a Star ratings or maybe even flow through the benefits? And is that going to drive membership gains and/or margins into '19 from the '18 expenditure and then going into -- forward from '19?

Brian Andrew Kane - *Humana Inc. - CFO*

Well, let me take that in 2 parts. There's really 2 elements to your question. One is how do we think about the earnings benefit of the tax reform, and the other is what do we do with the additional cash that we have. From the earnings benefit, we're really not prepared to talk about 2019. We -- what we've said is that the 4.5% to 5% pretax margin is important to us. We've remained committed to that over time. But we'll assess the strategic landscape as we go into the bid season for 2019, including the tax reform, including the rate notice that we just got the preliminary rates on. Obviously, the HIF is a very good thing for beneficiaries and for all our constituents at Humana not coming back or being waived for 2019, and so we'll take all that into account as we think about our 2019 bid design and what portion we reinvest in benefits versus taking to shareholders. But again, I would just reiterate our 4.5% to 5% pretax margin over time as we think about the redeployment of these tax proceeds over time. From a cash perspective, again, I think where Bruce was going and what I talked about in our remarks, we are continually looking for M&A opportunities. This does result in additional cash. We'll invest that in our communities. We'll invest that in our business. We're investing it in our customers. We're looking for opportunities to expand and enhance our integrated care delivery model and really add additional capabilities to our assets, and so we will continually do that with these proceeds.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Operator

Your next question comes from the line of Justin Lake with Wolfe Research.

Stephen Baxter

This is Steve Baxter on for Justin. I wanted to ask about the outlook for the individual Medicare Advantage business. Guidance for the Retail segment margins, clearly in the low 3% range, which presumably individual Medicare Advantage would need to be around given the size of that business. I guess, first, can you clarify in your discussion about margins and margin targets, whether that includes or excludes the reinvestment spend, specifically for Medicare Advantage? It would seem to be about a 50 basis point margin headwind if included. And then finally, given that we're now 5 years out from the introduction of the health insurer fee in 2014, can you give some perspective on how long you think it's going to take to realize target margins? Is this something that's possible in 2019 given the suspension of the health insurer fee?

Brian Andrew Kane - *Humana Inc. - CFO*

Sure. Let me start with the margin question and then talk about the HIF. We're not giving specifics on our individual MA margin. I would just remind you some of the commentary that we've made, which is we finished the year slightly above our margin target. So we finished above the 5%. We said on the third quarter call that we would be slightly below our margin target before tax reform came about, and that was the result of investing this outperformance into our benefit design for the reasons we have discussed to overcome meaningful headwinds and to ensure that we would really produce a good product that our customers would be excited about, and I think we accomplished that goal. And so the margin then, if you then go from there, I think you got to think about that the revenue was a little bit higher than we had forecast. And as I mentioned in my remarks, these new members tend not to generate significant profitability until they get into our clinical programs and are documented appropriately. And then from there, I think it's important to think about the tax reform $2 allocated really primarily to individual Medicare Advantage given just the size of the business and also the nature of the investments that we want to make. They're naturally going to fall in the individual MA category, and so that would further impact the margin. And then finally, there is some flu impact that we're assuming. And so taken all together, I think that gives you a sense of how we're thinking about our individual MA margin for 2018. We're not prepared to comment today on the timing as it relates to getting back to our 4.5% to 5%. Again, as I said in the prior question, it's important to assess where we are from a strategic perspective and how our product is positioned. But we are, as I said, committed to that over time. And therefore that, we believe, provides significant earnings power for the company going forward.

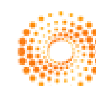
Operator

Your next question comes from the line of A.J. Rice with Credit Suisse.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

Let me ask about MA -- M&A for a second. One is you're in the midst, obviously, the home health joint venture you're setting up. I think in the prepared remarks, you said you were at 65% overlap with your MA lives. What is the thought about that going forward? Are you -- is that 65% is sort of good for you? Are you trying to get more overlap? Is that going to grow organically? Are you going to end up putting more capital into that business? And any comment on why that structure. And then also just on M&A, there was a comment in the prepared remarks about evaluating whether it makes sense to have a broader Medicaid platform. What are the pros and cons of that in your mind? And what are you guys thinking about there?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Bruce D. Broussard - *Humana Inc. - CEO, President and Director*

Let me try to take those 2. First, on the home side, we'll continue to build out geographic presence over time. It's not an urgency for us today, but we would do it through the Kindred platform. They, traditionally, as you probably know, have always been in the market of buying smaller agencies and being able to expand their geographic coverage. And so we would do it through the capital that would be coming from the cash flow of the Kindred and use it from that particular capital base. The second part of your question is really around the Medicaid platform. We continue to have a high interest in the dual-eligible population, and we've been consistent of that since, really, the demo project came out in 2011. We find today that we have a great opportunity with the long-term support service and the D-SNP combination, and we're seeing that in the marketplace as being a more direct way to support the dual-eligible and going through the long-term support service contracting mechanism. What we -- and so we'll continue down that road and continue to participate in RFPs, and there's a few of them out there right now in the long-term support service area and then combine that with the D-SNP product. What we don't know is how the procurement process will evolve over time, and we've been pretty consistent about this. If the procurement process is going to require us to be in the TANF business in a more comprehensive fashion, then we would look at a Medicaid platform. But in the short run, we're not convinced that's going to be the case. We believe that we have the solid capability from the long-term support service area as evidenced between our platform that we have today and the servicing of that in Florida specifically but in other states and our Medicare Advantage being able to support a very large number of D-SNP. And the combination of those 2 we think will carry us and the Medicaid program going forward. But if we couldn't, then we would look at a procurement. Or if it was wrapped into the procurement, we would look at a Medicaid platform.

Operator

Your next question comes from the line of Chris Rigg with Deutsche Bank.

Christian Douglas Rigg - *Deutsche Bank AG, Research Division - Research Analyst*

Bruce, just wanted to come back to some of your comments early in the call on CONVIVA. I'm trying to better understand. Are you trying to signal that the brand, the single brand marks an acceleration in provider consolidation? Or is this just simply done for seniors to help with retention and just overall MA selling?

Bruce D. Broussard - *Humana Inc. - CEO, President and Director*

It's actually a combination of both. I would say first, we have had these platforms in the organization for a period of time, and they've been performing quite well. But we see the opportunity to leverage the platform into one, both from an administrative point of view; secondarily, really converting it from a staff model to more of a model that is physician-led and a PC model to create and stimulate entrepreneurship in the leadership area of the physicians. And then thirdly, we see it as a platform to continue to grow in the marketplace, both via acquisition, and in addition, organically. And this is a continued step in our belief that primary care with a senior focus is a differentiation and an active part of how we feel we can continue to increase the member experience and decrease the cost of care. And this is just one of those that is also complemented by a more national approach with our -- this is more Florida and Texas orientation, but a more national focus with our primary care -- Partners in Primary Care platform we have.

Operator

Your next question comes from the line of Kevin Fischbeck with Bank of America Merrill Lynch.

Kevin Mark Fischbeck - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Great. Wanted to go back to the tax reform discussion. Because I guess what you're saying is you're not changing your long-term pretax margin target. But over time, you expect to maintain more than 50%, I guess, of the tax reform benefit. So I guess I just want to understand a little bit more

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

about how you get back to maintaining more of that benefit. It sounds like, to some degree, you're implementing a 2019 initiative that you would have done anyway now in 2018, so that really wouldn't impact your long-term view about that aspect of the cost. But then anything else like that, that you're kind of accelerating into this year that you would have planned to do anyway? And then on top of that, when you think about the investments for growth, how do you think about the returns of those investments? And are those things that you're going to do now? And if they generate growth, that helps you leverage margin, great. If not, you'll dial that back over time. How do you think about that?

Brian Andrew Kane - *Humana Inc. - CFO*

Sure. So I would say in terms of how we get back to that margin, you are correct in pointing out the acceleration of those performance measures for the broader associate base, which is not an insignificant number in terms of the money that we're investing. And so that is one area. But I think it's important just to step back and really look at our productivity initiatives that we're taking. A lot of the work that we're doing around the trend bender side, the Kindred acquisition, all the elements that Bruce discussed in terms of deploying our assets on the primary care side, making it easier for our customers, ultimately that results in better outcomes for our members. They're healthier, and that results in lower costs, and that results in higher margins and higher growth. And so it's really a combination of factors that leads us to commit to and believe that, that 4.5% to 5% over time is something that we feel good about. Obviously, it's a year-by-year discussion as it is every year, and you'd take into account a whole host of factors as we did this year in '18 when, for example, the health insurance fee came back. The rate environment was a little bit less than trend as we know. Going into 2019, we'll see where the final rate environment ends up, but that feels a little better. I would say the HIF is going away for the year, and so there are a number of elements that you consider as you think about bidding margin. Over time, we are committed, as we've said multiple times, to our EPS target of 11% to 15%. And that's ultimately what we're trying to achieve to grow a very large company at an 11% to 15%. It's something that we're committed to doing, and it's something that we believe we can do. And we want to create multiple levers to be able to create that growth. And whether that's top line growth or increasing margin, every year, it's a different calculus. But ultimately, that's what we're trying to achieve.

Operator

Your next question comes from the line of Dave Windley with Jefferies.

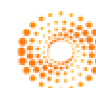
David Howard Windley - *Jefferies LLC, Research Division - Equity Analyst*

Try to comment the 4.5% to 5% a little different way. I guess I'm curious what you would -- Brian, you've emphasized several times this morning over time. What would management view as a reasonable period of time to achieve that? Or said differently, what would be the amount of time that could pass and you not get there and that would be unreasonable?

Brian Andrew Kane - *Humana Inc. - CFO*

Well, again, we're not giving multiyear guidance, specific EPS guidance here on this call. I understand the need to understand that, and we're -- I think what we're trying to communicate is that we're committed to this margin level. Obviously, we'll evaluate where we are in 2019 and beyond and see what makes sense. It's important that to create sustainability for the enterprise that we have top line growth. We are -- I think demonstrated that we are back in the markets in a very significant way. This year, our intention is to do that again in 2019. And the good news is we have some tailwinds, particularly the HIF. And so those are the types of things that we consider as we think about our long-term margin targets. But again, I think, over time, as you think about your modeling and what you want -- what we want to generate is that 11% to 15% EPS growth over time. And over the last few years, if you I think look at our EPS growth, you've seen that, and that's really our target here.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

David Howard Windley - *Jefferies LLC, Research Division - Equity Analyst*

If I could ask quickly. So in your answer to Kevin, you talked about the investment in incentives from employees being a significant number. Is it possible to give us kind of ballpark how the $2 of reinvestment breaks out in terms of what would seem to be more permanent and what's more discretionary?

Brian Andrew Kane - *Humana Inc. - CFO*

Sure. I would -- if you take the $2, I would say a little bit less than half of the $2 relates to some of the employee initiatives that we've undertaken here.

Operator

Your next question comes from the line of Sarah James with Piper Jaffray.

Sarah Elizabeth James - *Piper Jaffray Companies, Research Division - Senior Research Analyst*

Can you talk about your view of increased MA market, the long-term or midterm growth profile of that market? And then it seems like several of your competitors are talking about stepping up their effort in the group MA market. So what is Humana's strategy to either maintain or grow market share?

Bruce D. Broussard - *Humana Inc. - CEO, President and Director*

The -- I would say the group market is sort of bumpy. It's more lumpy maybe is a better description that we'll get some large employers that will put contracts out for bid and you get a large number. And so when we think about the group business, we think about it, first, it's a very lumpy business. The second is we have seen employers, and we don't know what this year's rate notice is going to do. But we've seen employers also begin to move some of their membership to an individual product and create a subsidy there as opposed to just doing a group membership or a large contract. So we see that trend going forward. We -- and then the third thing we see, it's very competitive. And we are much more thoughtful on how we price our products and go after those particular groups because they seem to be on the low end of the margin, and they seem to also be very aggressive on the renewals and the contracts. And so you invest a significant amount of time. So I would say that we are more cautious than probably our competitors on this for the reasons it's lumpy, it's very price competitive and we also see trends of people moving away from the group to an individual product.

Sarah Elizabeth James - *Piper Jaffray Companies, Research Division - Senior Research Analyst*

Got it. So all in, does that mean that you see the market to improve growing slower than the retail Medicare market?

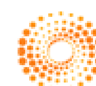
Bruce D. Broussard - *Humana Inc. - CEO, President and Director*

We see it -- yes. In some years, like this year, was a really good year for group, and so you might see it exceed it. But I would say that the individual market, we believe, is a better growing and more consistent growth than what we would see in group.

Operator

Your next question comes from the line of Josh Raskin with Nephron Research.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Joshua Raskin

I apologize for harping on this tax benefit, but I just want to understand a little bit more about the decision-making process. So first, if you think about the gross benefit of $4 and I think of that in percentage terms, your screen is a little bit higher than the peers. So I'm just curious if there's any reason why you guys would see a bigger tax benefit than the others. And then more specifically on the reinvestment. As you guys were thinking about the process by which you were going to reinvest that, putting back 50% just to reinvest. And that similarly screen is above what your peers have done. And so my question was -- is more around the thought process. Was that, hey, things are good. We're going to be able to make our long-term EPS growth rate even with reinvesting 50% of it in, so we might as well take advantage? Or was it, a, the competitive environment is really tough. We've got to make sure that we stay competitive that these investments are really needed to make sure that we can get, hopefully, market-like growth next year.

Bruce D. Broussard - *Humana Inc. - CEO, President and Director*

I think the orientation really was around how do we -- what is the best use of the proceeds from a long-term return to the shareholders. And really, we went through a number of different levels. First is just to ensure we're shored up on the employee side and continue to reward employees to be excited about being part of Humana, and that was the first level of discussion. And we looked at that as 2 ways. First is to pay an adequate wage. And there were some of our staff that was not at the levels that I think sort of the labor environment is looking at, and so that's why we raised the $15. The second was really to create an alignment, and we had been planning for this for some time, alignment of our non-bonus associates to be aligned with the performance of the organization. And we feel that benefits everybody, and it creates some transparency to our employees on the performance and gives them a sort of a vested interest into it. And then in addition, I think having 28,000 additional employees working on behalf of the shareholders and our customers is a good thing. And so we felt that as opposed to giving $1,000 bonus or some other factor, we felt that this bonus and accelerating the bonus was much more valuable to the shareholders. So those 2 things were around our associates. Around the investment side, we really then led to how do we invest in the areas that are really important for the organization longer term, in technology and analytics and all those aspects that really are on the income statement. There is some capital deployment, but there's a lot of income-statement-related investments there that we were going to do over a period of time. And what this has allowed us to do is to accelerate those investments and put those in and do it in a more proactive fashion. And that's why Brian continues to reassure the investors that the 4.5% to 5% margin is an important part for us in the longer term because what we're doing is we are accelerating some things that we have been doing and anticipating to do in the current year and maybe into 2019 to allow us to accelerate, both the success of the organization, increase productivity, better experience and et cetera, but at the same time, to focus on getting to those longer-term margins. So I would say that it's an acceleration of investments, not an additional investment outside the $15 an hour investment. So I don't know if that helps you, Josh.

Brian Andrew Kane - *Humana Inc. - CFO*

Yes, let me just answer the first part of your...

Joshua Raskin

Yes.

Brian Andrew Kane - *Humana Inc. - CFO*

Sorry. Go ahead, Josh.

Joshua Raskin

Yes. No. I was going to say on the first part as well.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Brian Andrew Kane - *Humana Inc. - CFO*

Yes. So the first part of the question, it's important to remember that because we are Medicare-focused, we bear a disproportionate amount of the health insurance fee. Health insurance fee is a premium tax, and it's nondeductible. And so because our per-member per-month premiums are higher, we get a higher amount of the HIF allocated to us relative to other businesses. And so because it's nondeductible, we get a bigger benefit from a lower tax rate. So the impact of the nondeductibility is effectively higher for us because we have more HIF, so we get a bigger benefit when the tax rate goes down.

Joshua Raskin

Okay. And I'm sorry. This is sort of -- yes. I know that makes a ton of sense. Just on the first part that Bruce was speaking to. I guess I just want to sort of again bring this back to did you feel as though this was required from a competitive standpoint? Or was this really Humana's got this long-term plan, and now we've got a great opportunity to really accelerate that while still taking care of our employees?

Bruce D. Broussard - *Humana Inc. - CEO, President and Director*

I think it's the latter more than the former. I think we're -- I mean, we still -- our strategy continues to -- we have a higher degree of confidence in being able to compete, so I don't think it was a competitive reaction. It was much more around accelerating our capabilities and creating that alignment.

Operator

Your next question comes from the line of Ralph Giacobbe with Citigroup.

Ralph Giacobbe - *Citigroup Inc, Research Division - Director*

You talked about allocating all the investment spending in the MA segment. Why would that be the case? I guess, at least some, if not the healthy portion of the investment spending would be related to the services segment. And then also want to ask on the HIF, obviously back in 2018 but you get reprieved in 2019. Last year, for the holiday, you didn't run it through the adjusted EPS. Just wondering how you're thinking about it? Or what would trigger your assumption to actually sort of run it through to the adjusted EPS line for next year.

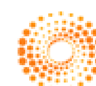
Brian Andrew Kane - *Humana Inc. - CFO*

Sure. So it is true that the Healthcare Services segment will absolutely get some of the investment dollars. So it's just that the individual MA business, given its relative size and also some of the investments we're making, will fall in the individual MA. But Healthcare Services, just by virtue of obviously a number of employees in Healthcare Services and the like, they will get their allocations and other investments as well. So I just want to make that clear that it will be allocated. The Group and Specialty business will get some of it as well. As it relates to excluding or not excluding the tax benefit of the HIF from EPS, we would -- our expectation is to include it as part of our normal earnings. In light of the fact that it's now -- had a holiday twice, we would really not be able to exclude it from earnings. So you should assume it will be included in our earnings guidance in 2019, the tax benefit.

Ralph Giacobbe - *Citigroup Inc, Research Division - Director*

And that was $2.15 that didn't get run through last year? Is that right?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Brian Andrew Kane - *Humana Inc. - CFO*

That's right. It was $2.15. If you think about the 2019 benefit more as sort of north of $1.75 is the way I think about it because of the lower -- and that's just the tax benefit. But remember, you get nondeductibility at a lower rate, so. I would think of $1.75, $1.80-ish for 2019. It's the tax benefit only, yes.

Operator

Your next question comes from of the line of Steve Tanal with Goldman Sachs.

Stephen Vartan Tanal - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I actually had 2, one on CONVIVA and then maybe one more on just the sort of the numbers around tax reform. On CONVIVA, you guys mentioned building out a national footprint for provider assets. And understanding that these are multi-payer sort of local businesses, I'd be curious to get some color on which markets you'll focus on first and what kind of local characteristics you're looking at to decide whether that investment is worthwhile. And then on tax reform, is it fair to think about the $2 figure as an after-tax number and then take your consolidated tax rate and say the reinvestment in our pretax base is probably closer to $400 million plus. And it sounded like maybe $200 million of that would be recurring in employee wages, suggesting nonrecurring investments that are somewhere in that range, $200 million plus? And if I just look at that on the Retail segment, it's maybe about 45 bps of the margin rate compression that's being guided to here. Is that all fair?

Brian Andrew Kane - *Humana Inc. - CFO*

Why don't I start with that then let Bruce answer the CONVIVA question. Without getting into too much detail, I think it's fair to say that of the $4 of the $2 is clearly an after-tax number, and so you would gross that up by our effective tax rate, excluding the HIF. So we said, call it, the 24-ish percent is what you would effectively gross it up by to get to the pretax equivalent, which would then be invested. I'm not going to give allocations of how that fracs out between the segments, other than just refer back to my prior commentary on how it will be allocated. All the segments will get some. It's fair to say that Retail will get a good portion of the investment dollars. But broadly, you're thinking about it right. You should gross it up to get it to a pretax equivalent level using our tax rate, ex the HIF, and that will give you a sense of what the pretax dollars of investment are.

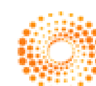
Bruce D. Broussard - *Humana Inc. - CEO, President and Director*

On CONVIVA, the short-term strategy today is really focused on the existing markets they're in and operationalize the combined organization and to continue to penetrate that, so that would be South Florida and Texas as being the 2 primary oriented markets there. Keep in mind, we also have a national opportunity, too, through our Partners in Primary Care. As I said today, we have opened up a number of those clinics, along with our investments in our affiliated clinics that we have. And so as we think about this and we've done this over the years, there's really a multipronged approach geographically in what we bring to the marketplace. I would say we continue to focus on it being agnostic. And today, all our assets that we have in investments in are agnostic and are taking other payers. And so we will continue to do that. And frankly, that's why they're branded as a non-Humana brand. We will -- but we will orient in areas where we have either a significant amount of membership that is really oriented -- isn't required to find value-based partners. And if we can't find them in the marketplace, then we'll bring our capabilities. We always start with what is in the market. And if there are strong players in the marketplace that we can create a deeper relationship with, then we'll leverage that relationship. If there is not, then we'll bring our particular capabilities to the marketplace. So I would say it's locally specific. It is highly dependent on the fragmentation and the risk level of the providers in the marketplace, and I would also say that CONVIVA will be more Texas and South Florida oriented.

Operator

Your next question comes from the line of Matt Borsch with BMO Capital Markets.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Matthew Richard Borsch - *BMO Capital Markets Equity Research - Managed Care and Providers Analyst*

Maybe I'll just continue on the thread that you were talking to. I've been around long enough to remember when you had wholly owned centers, or what you called WOCs. Can you just talk to what's changed environmentally that makes you comfortable owning providers today where you were divesting them, call it 20 years ago, and maybe how your strategy about owning is different than it was then?

Bruce D. Broussard - *Humana Inc. - CEO, President and Director*

Sure, sure. I think you're referring to the good old days of the physician practice management times and the staff model. A few things. First, 20 years ago, Medicare Advantage wasn't operating at the level it was, and it was much more oriented to an employer model or the Medicare choice model. So that was probably a large difference than what's today. The second is that these assets, specifically the ones in South Florida, and for that matter our Partners in Primary Care, have matured. And you see an operating model today that is much more stable than they have been 20 years ago when the industry just started to formulate. And then the last thing I would say is that this strategy has been with us really since the 2010 area. I mean, we've owned CAC. We've had an investment in MCCI. We bought MetCare back in the early parts of 2010 through 2012, so these assets have been around with us for some time. And we -- and as I've mentioned in our call, we've opened up 190-some centers over the last 5 or 6 years. And so I would say that this is not a new thing for us. I would also say that we've walked a lot before we've taken any large commitment to capital. And we've done this, I would say, in a very conservative fashion. And all you see and what we're talking about today is just the continuation of that, taking assets that we've owned, bring them together under one brand and be able to mature that and then continue to open up the clinics. So I wouldn't want the investors to talk away that this is an acceleration that hasn't -- and that we don't have a platform. It actually has just been developed for a number of years, and this just continues that.

Operator

Your next question comes from the line of Gary Taylor with JPMorgan.

Gary Paul Taylor - *JP Morgan Chase & Co, Research Division - Analyst*

Just had a couple clarifications. So first, when you talked about the advance notice comments and looking at Retail MA up about 2.1%, Humana being approximately in line with that, was that inclusive of what you described as kind of the modest Star rating headwinds?

Brian Andrew Kane - *Humana Inc. - CFO*

Yes.

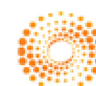
Gary Paul Taylor - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And then the second one, Brian, was I wrote down that you said, and maybe I didn't write this down quickly, but your 2018 guidance, you're assuming no prior year development?

Brian Andrew Kane - *Humana Inc. - CFO*

No. We're assuming no Group and Specialty prior period development. There is, inherent in our Retail forecast, a -- what we would term as a normalized level of prior period development. And so the 100 basis points that we reinvested in the product includes some -- inherently the 100 basis points includes some prior period development, what I'll call excess prior period development that we don't expect to recur.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Amy Smith

Okay. Thank you.

Bruce D. Broussard - *Humana Inc. - CEO, President and Director*

Well, we appreciate everyone's support continuing to invest in the organization. And like always, we really appreciate the 50,000 associates that dedicate their every day to advancing both on behalf of our customers and our shareholders. So thank you, and have a wonderful day.

Operator

This concludes today's conference call. You may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS