




# Humana Inc. First Quarter 2015 Earnings Conference Call



April 29, 2015

**Humana.**

# Cautionary Statement

This presentation includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in investor presentations, press releases, Securities and Exchange Commission (SEC) filings, and in oral statements made by or with the approval of one of our executive officers, the words or phrases like "expects," "anticipates," "believes," "intends," "likely will result," "estimates," "projects" or variations of such words and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, and assumptions, including, among other things, information set forth in the "Risk Factors" section of our SEC filings, as listed below.

In making these statements, Humana is not undertaking to address or update these statements in future filings or communications regarding its business or results. In light of these risks, uncertainties and assumptions, the forward-looking events discussed herein might not occur. There also may be other risks that we are unable to predict at this time. Any of these risks and uncertainties may cause actual results to differ materially from the results discussed in the forward-looking statements.

Humana advises investors to read the following documents as filed by the company with the SEC:

1. Form 10-K for the year ended December 31, 2014 and
2. Form 8-Ks filed during 2015.

*Investors are also advised to read Humana's 1Q15 earnings press release dated April 29, 2015 which is available via the Investor Relations page of Humana's web site, [www.humana.com](http://www.humana.com).*

# Non-GAAP Financial Measures

This slide presentation includes financial measures which are not in accordance with Generally Accepted Accounting Principles (GAAP).

Non-GAAP financial results are as follows:

1. For the quarter ended March 31, 2015, GAAP earnings per diluted share (EPS) of \$2.82 was reduced to exclude \$0.35 per share of tax benefit associated with the pending sale of the Concentra, Inc. (Concentra) business, resulting in Adjusted EPS of \$2.47. The requirement to recognize the tax benefit in the first quarter was triggered by the signing in March 2015 of a definitive agreement to sell Concentra resulting in the recognition of a deferred tax asset.
2. For the full year 2015, the company's projected GAAP EPS range of \$9.85 to \$10.45 was reduced to exclude \$1.35 to \$1.45 per share associated with the full amount of the expected gain upon the final sale of the company's Concentra business, resulting in Adjusted EPS in the range of \$8.50 to \$9.00.
3. For the full year 2014, the company's GAAP EPS of \$7.36 was increased by \$0.15 per share to exclude expense associated with the early retirement of debt in the fourth quarter of 2014, resulting in Adjusted EPS of \$7.51.

Humana has included these non-GAAP financial measures since management believes these measures, when presented in conjunction with the comparable GAAP measure, are useful to both management and its investors in analyzing the company's ongoing business and operating performance. Consequently, management uses these non-GAAP financial measures as an indicator of business performance, as well as for operational planning and decision-making purposes.

These non-GAAP measures should be considered in addition to, but not as a substitute for, or superior to, the financial measures prepared in accordance with GAAP.

# Strategy and Operations Update

**Bruce D. Broussard**

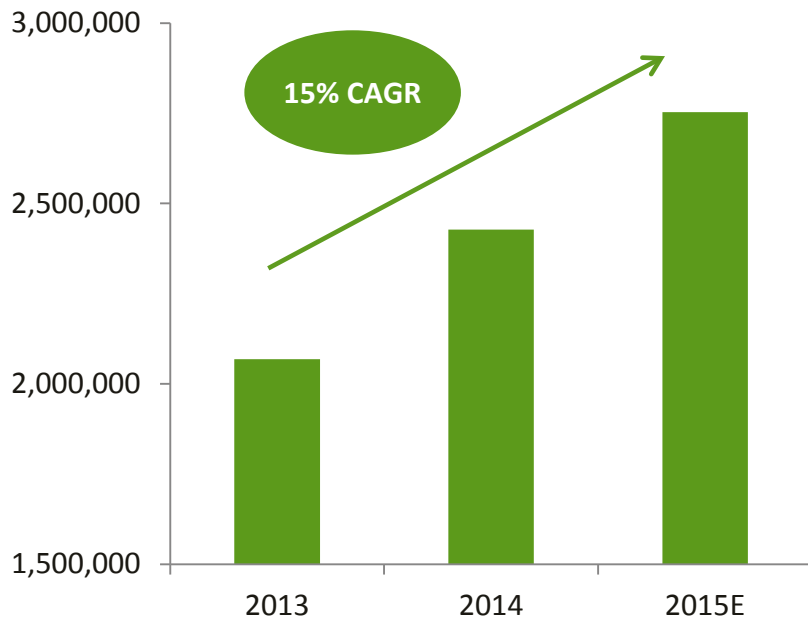
*President and Chief Executive Officer*

## 1Q15 results and significant achievements demonstrate continued progress

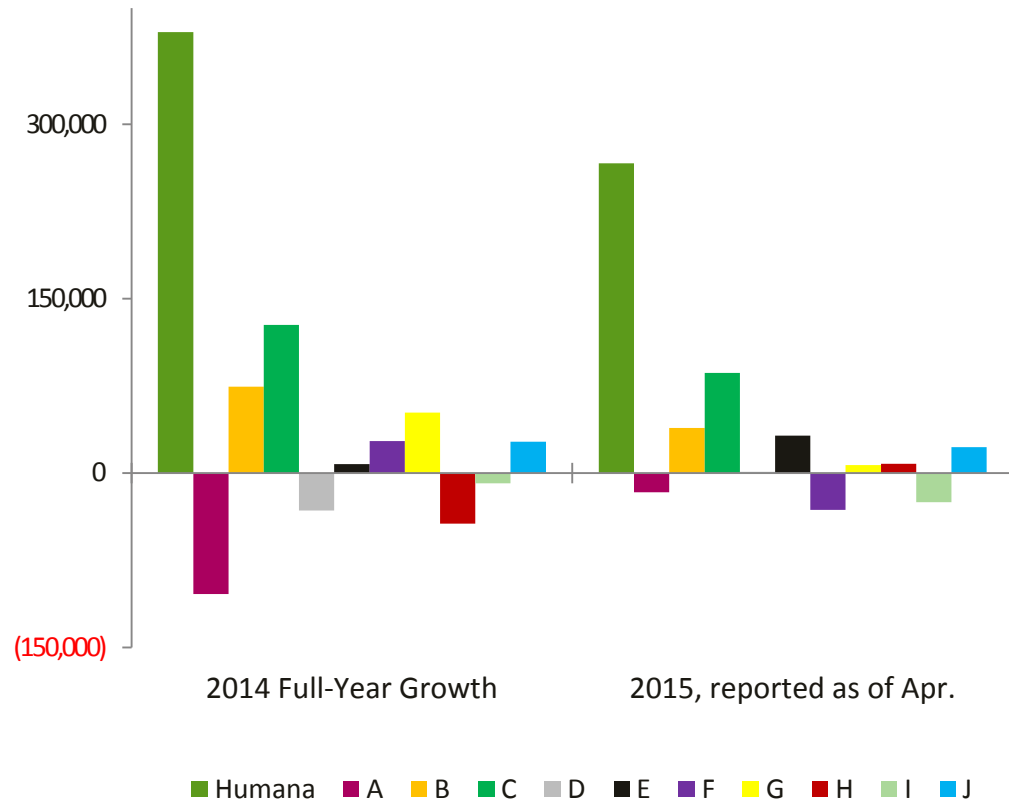
- Strong pretax results; reaffirmation of 2015 EPS guidance
- Substantial organic membership growth
  - ✓ Medicare Advantage
  - ✓ Stand-alone PDP
  - ✓ Humana*One*
- Launch of Transcend Insights™ business
- Announcement of pending sale of Concentra
- Completion of \$500 million accelerated share repurchase program

# Continuing to lead industry in individual MA growth

## Humana Individual Medicare Advantage Membership



## Individual MA Net Membership Growth: Humana vs. Top 10 Competitors <sup>1</sup>

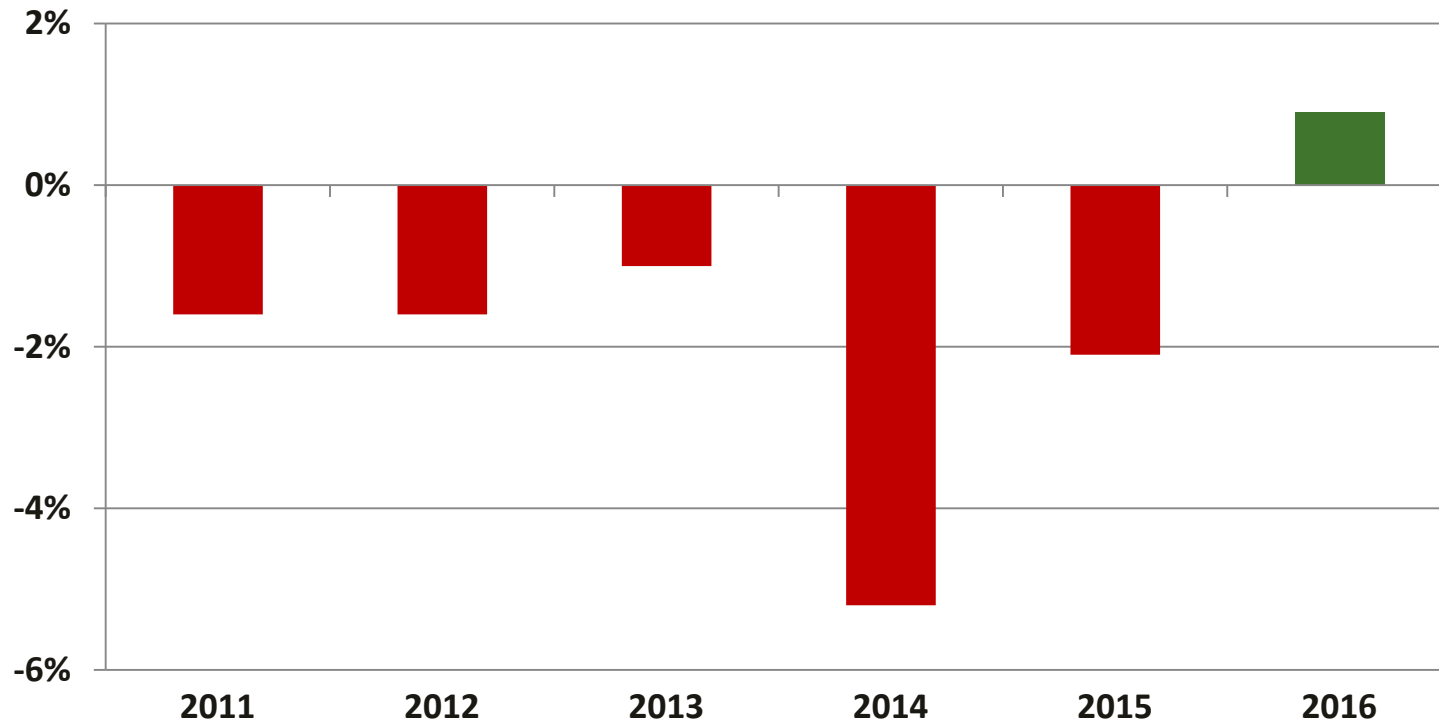


## Integrated Care Delivery model helps drive strength in Star ratings

- Recent McKinsey study\* indicates HMO model and integrated care delivery networks have favorable correlation to higher Star ratings
  - ✓ Approximately 56 percent of Humana individual Medicare Advantage members are in an HMO plan
- Integrated care delivery model expected to help us maintain our high-quality ratings despite potential pressure from CMS changes

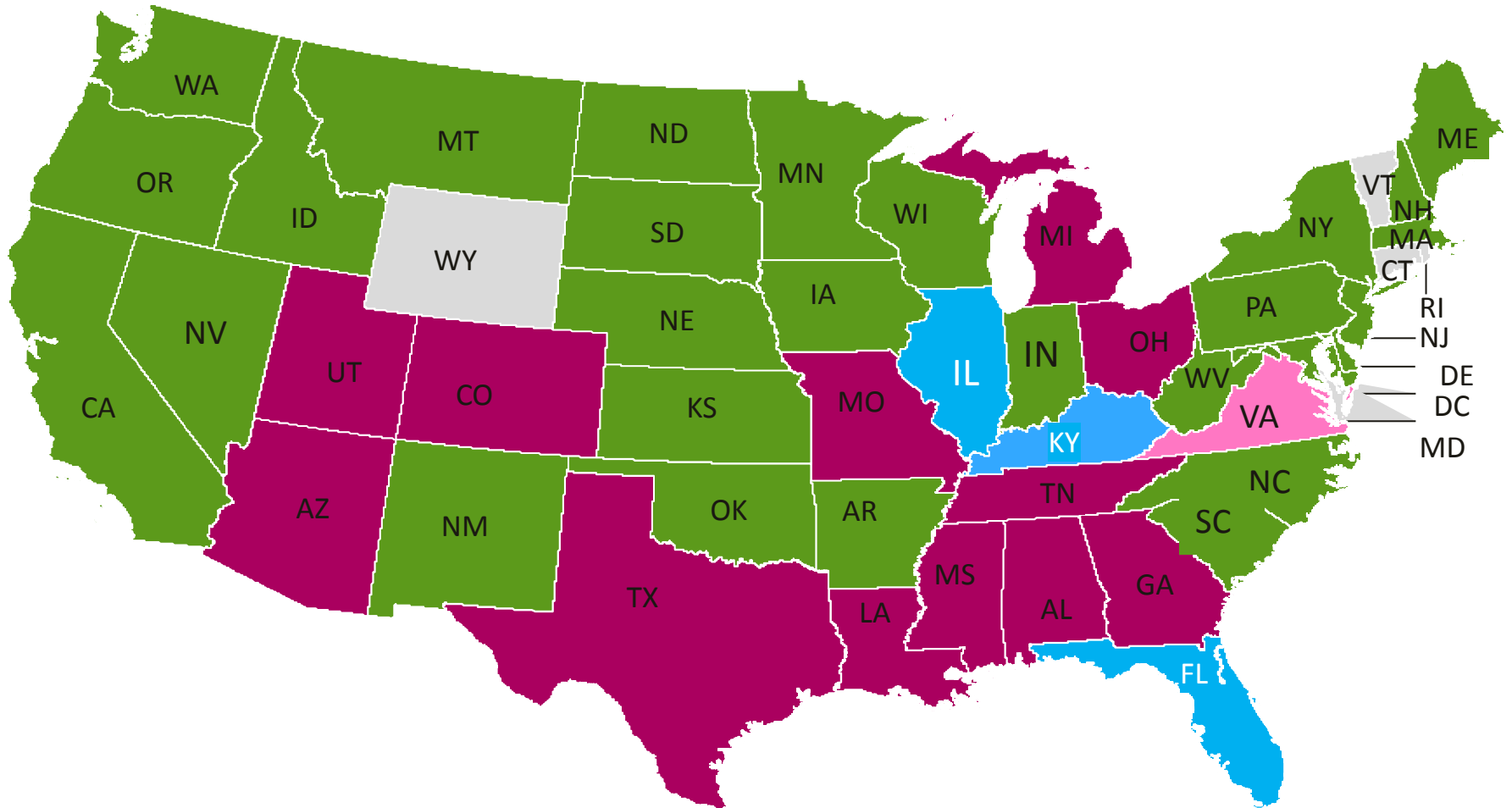
# Medicare rate increase for 2016 encouraging but still not keeping up with medical cost trends





*Change in Humana Medicare Advantage Funding by CMS*





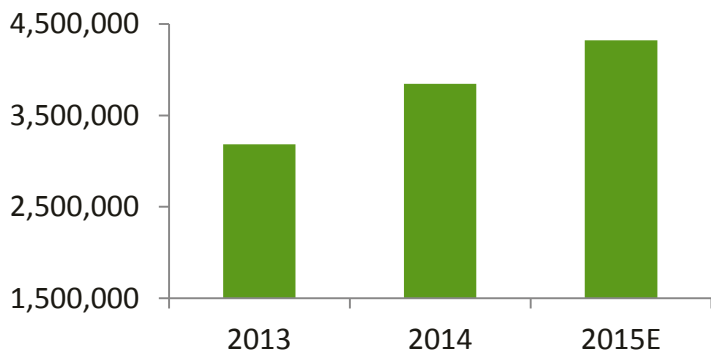
# Multiple product offerings build scale and deepen relationships with providers



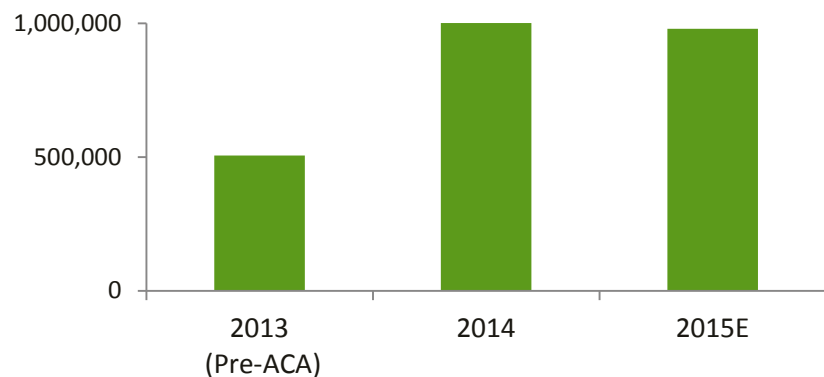
-  = MA, HumanaOne On-Exchange and State Based Contracts Footprint
-  = MA and HumanaOne On-Exchange Footprint
-  = MA and State Based Contracts Footprint
-  = MA only Footprint

# Robust organic membership growth continues across a number of other fronts

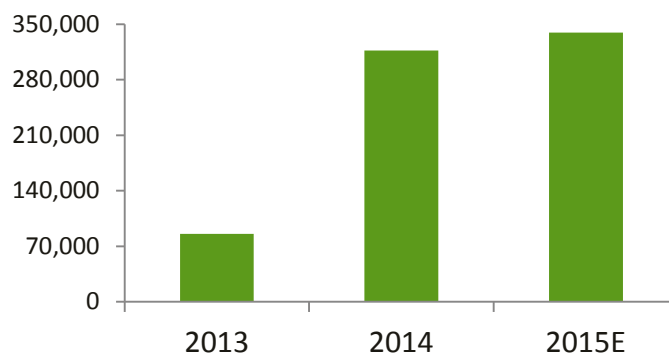
## Stand-alone PDP Membership<sup>1</sup>



## HumanaOne Membership<sup>2</sup>

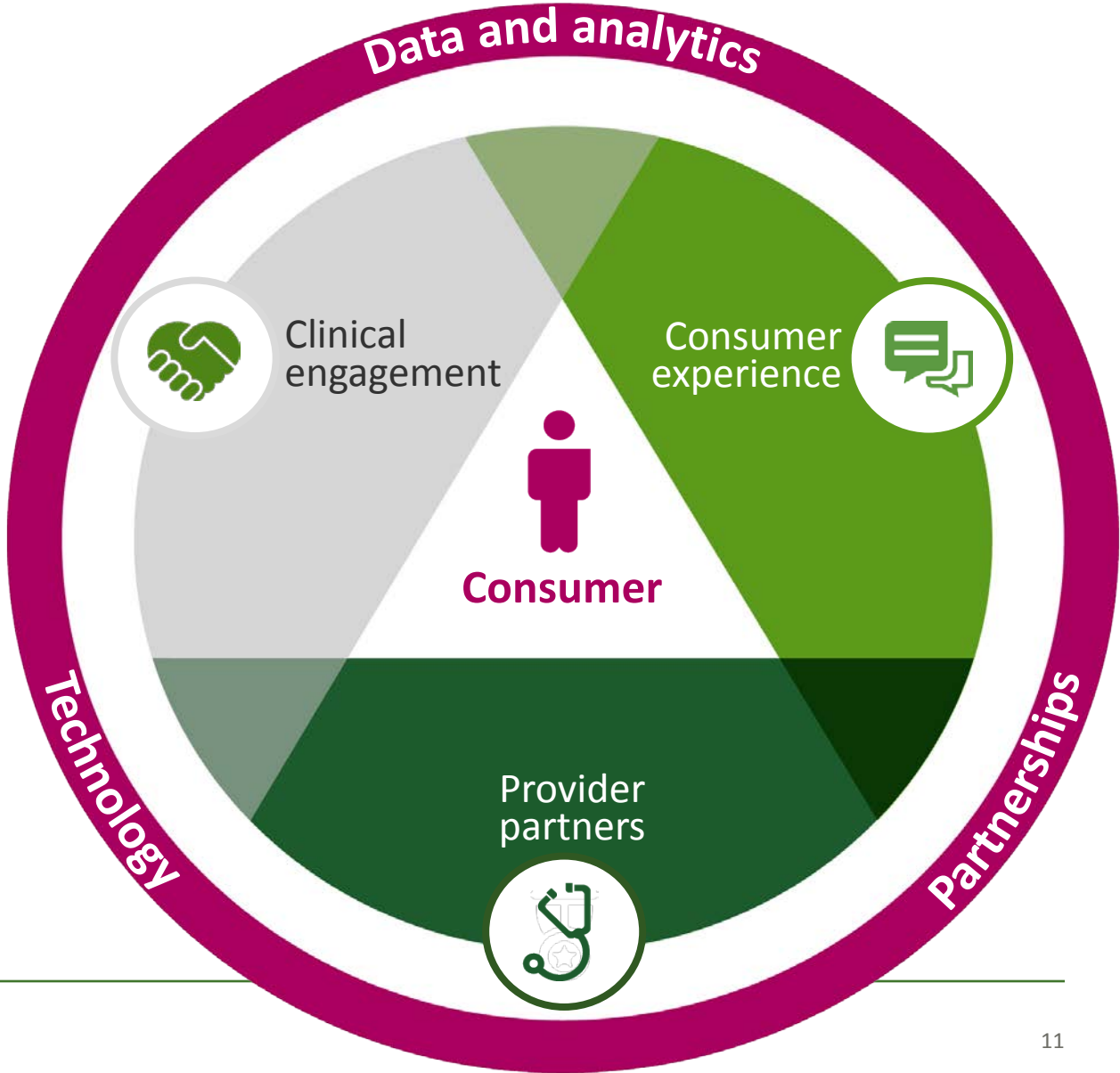


## State-based Contract Membership<sup>3</sup>



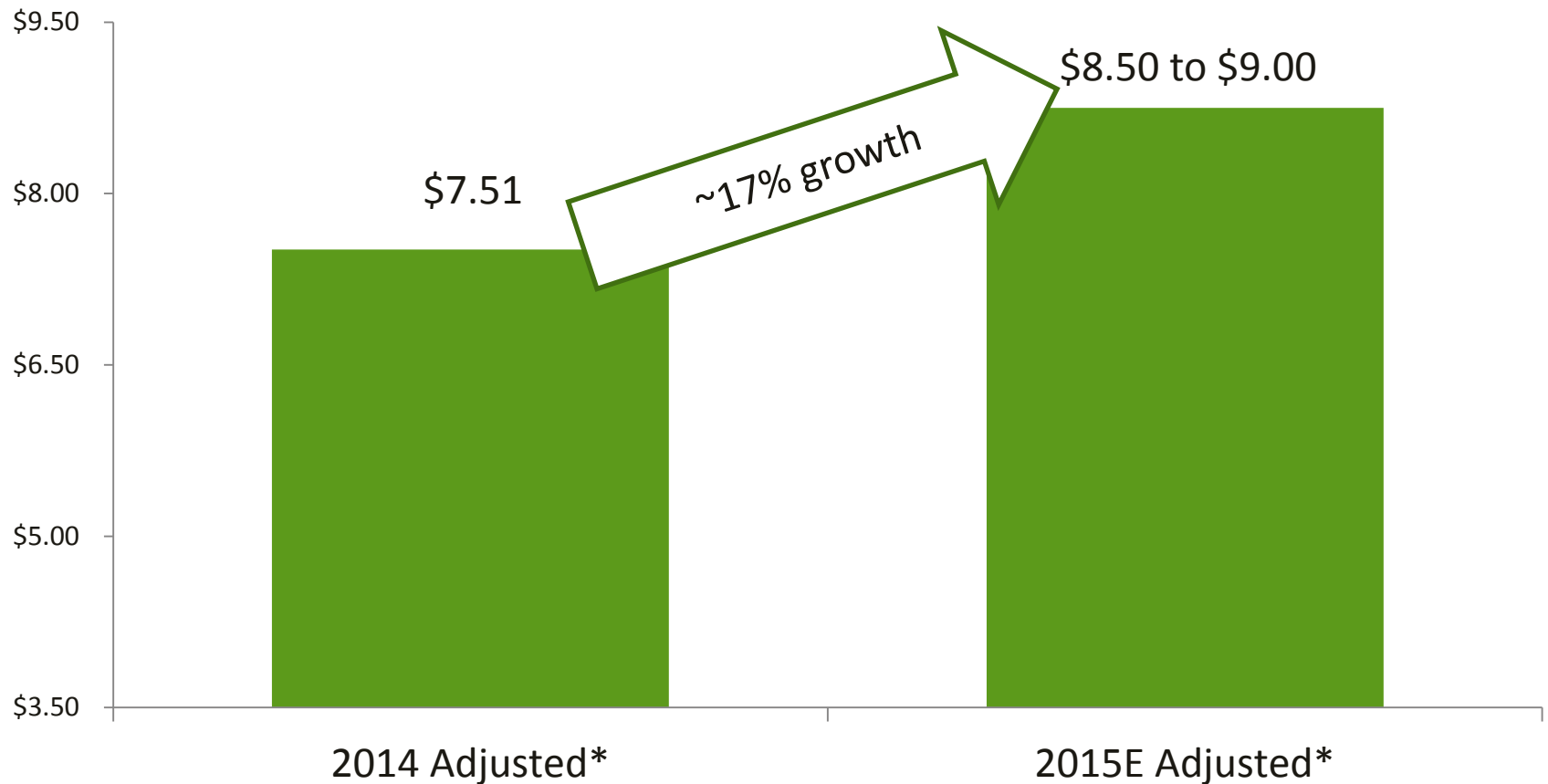
# Our commitment to our strategy remains strong

Our capabilities, partnerships and tools all woven together and informed by insights and technology result in an improved consumer experience – *making healthcare easy*



# Continue to expect industry-leading growth in earnings in 2015

*Diluted Earnings per Common Share*



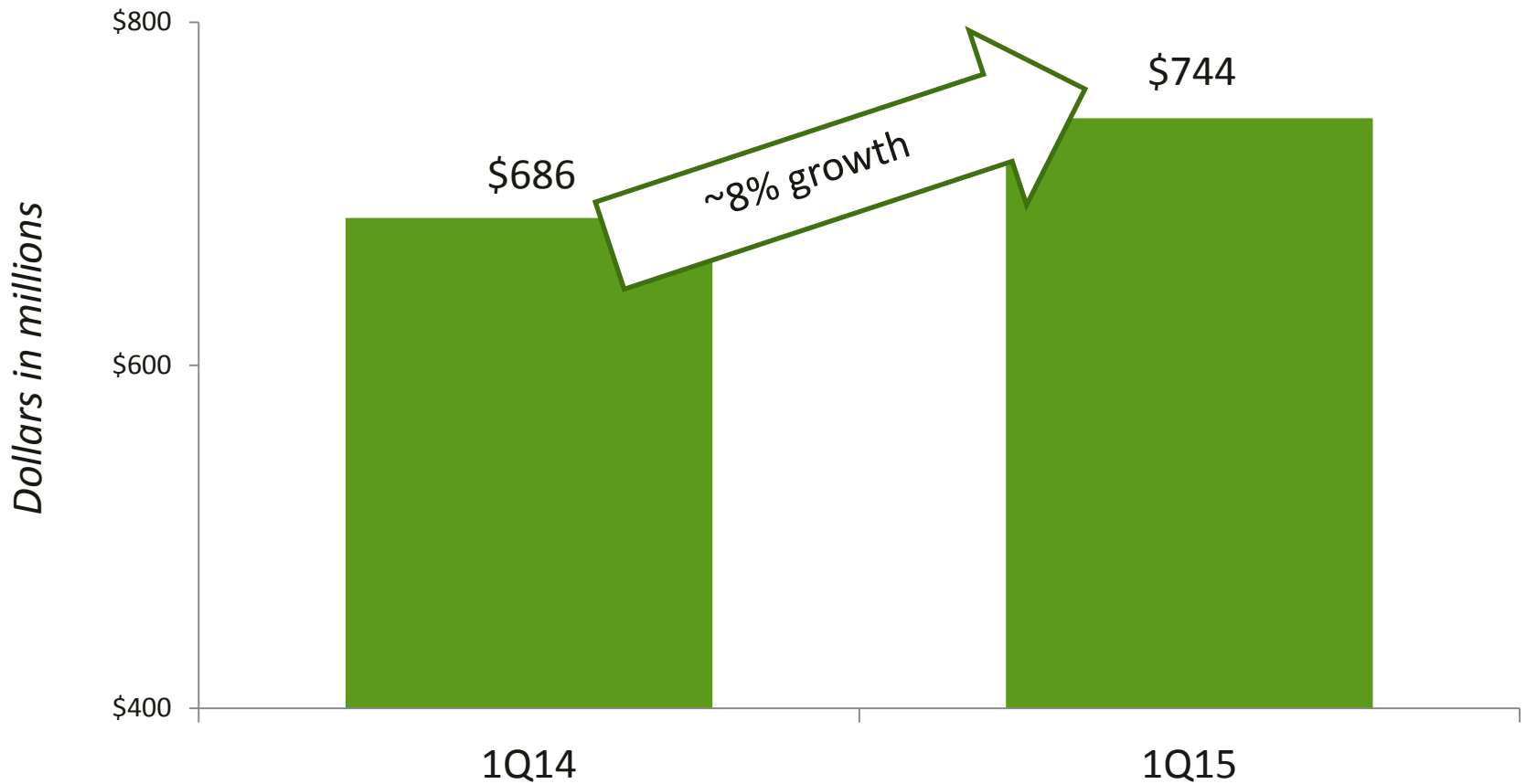
# Financial Update

**Brian A. Kane**

*Senior Vice President and Chief Financial Officer*

# Pretax income demonstrates successful implementation of our Integrated Care Delivery model

*Pretax Income*



## Successes and challenges in healthcare exchanges but strategy reaffirmed

- Continuing to focus on key growth markets and the importance of local scale
- Successes
  - ✓ ACA-compliant membership up 38 percent YTD
  - ✓ Continuing to project at least break-even results for 2015
- Challenges
  - ✓ Higher reliance on 3Rs than previously expected but driving factors are isolated and addressable

## Carefully watching utilization trends

- Medicare admissions decreasing year over year but slightly higher than expected; cost per admission lower than expected
- Continue to forecast commercial group medical cost trends of 5.5% to 6.5%
- As expected, lower favorable prior-period claims development (PPD) year over year
  - ✓ Unusually high PPD for 1Q14
  - ✓ Implementation of Front-End Review process
  - ✓ More 4Q14 claims associated with flu



## Balance sheet and cash flow metrics

- Slight decline in days in claims payable driven by timing associated with Medicare Advantage Part D
- Cash flow from operations pressured in 1Q15 due to working capital changes; full year estimate adjusted for higher expected receivables for 3Rs and anticipated sale of Concentra

## Maintaining capital deployment discipline

- Concentra sale expected to result in gain of \$1.35 to \$1.45 per share
- \$500 million accelerated share repurchase completed
- Entered into 10b5-1 plan to execute remaining repurchases toward goal of \$1B by June 2015
- On-going review to ensure business portfolio optimization

# Questions & Answers

## **Bruce Broussard**

*President and Chief Executive Officer*

## **Jim Murray**

*Executive Vice President and Chief Operating Officer*

## **Brian Kane**

*Senior Vice President and Chief Financial Officer*

## **Christopher Todoroff**

*Senior Vice President and General Counsel*

# Follow-up Questions

## Regina Nethery

*Vice President of Investor Relations*

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**Humana®**