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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by, and welcome to Humana's 2022 Investor Day Conference Call. (Operator Instructions)

Please be advised that today's conference may be recorded. I would now like to hand the conference over to your speaker host, Lisa Stoner, Vice President of Investor Relations. Please go ahead.

Lisa M. Stoner - Humana Inc. - VP of IR

Thank you for joining us for Humana's 2022 Investor Day. I'm Lisa Stoner, Vice President of Investor Relations. Before we begin, I want to direct you to the Investor Relations page of our website, humana.com, for a copy of the slides that are accompanying today's presentation. Importantly, we

encourage you to reference the detailed footnotes for the slides as well as the speaker bios, which can be found at the back of the presentation deck. Today's event is being recorded for replay purposes, and that replay will be available later today on our website.

Turning to today's agenda. We will begin the day with a welcome and introduction from Bruce Broussard, Humana's President and CEO, where he will lay the groundwork for the discussion you will hear throughout the day. Alan Wheatley, Retail Segment President; and George Renaudin, Medicare President, will then join us to discuss the strength of our Medicare Advantage franchise. Following Alan and George, you will hear from Renee Buckingham, President of our primary care organization, and Dr. Andy Agwunobi, Home Solutions President, as they provide a deep dive into our CenterWell primary care and home businesses, respectively. Susan Diamond, Chief Financial Officer, will then join to discuss our financial outlook and commitments before we welcome back Bruce for closing comments. There will be a question-and-answer session with industry analysts at the end of the event with all presenters. (Operator Instructions)

Before I turn the day over to Bruce, I need to advise participants of our cautionary statement. Certain of the matters discussed today are forward-looking and involve a number of risks and uncertainties. Actual results could differ materially, and we undertake no obligation to publicly address or update any forward-looking statements and future filings or communications regarding our business or results. Investors are advised to read the detailed risk factors discussed in our latest Form 10-K, our latest Form 10-Q and our other filings with the Securities and Exchange Commission as they relate to forward-looking statements.

With that, I'll turn the event over to Bruce Broussard, Humana's President and Chief Executive Officer.

Bruce Dale Broussard - Humana Inc. - President, CEO & Director

Thank you, Lisa, and good morning, everyone. Welcome to our event, and thank you for your continued support and interest in Humana. The objective of today's discussion is for you to take away our strong leadership position in the fastest-growing segment in health care, which will drive significant value in the mid and long term. There are 5 parts to our investment thesis to give you reasons to believe.

First is the strong industry fundamentals that exist in the Medicare Advantage space. Second is our competitive positioning within the industry and the differentiated capabilities that enable our leading platform complemented by the investments we've made in 2023, which will position us to grow at or above industry growth rates. Third is our value-based health services delivery ecosystem in primary care and home health, which will drive sustained EPS growth well beyond 2025. Fourth is the integration of our individual health services businesses in the local markets, which will create further value for our shareholders and for our customers. And fifth is our discipline in and focus on productivity and capital returns, which will drive further operating leverage.

This strong position gives us confidence we will achieve a midterm earnings target of \$37 in adjusted earnings per share for 2025. You'll also note, we are raising our 2022 EPS guidance today to \$25 from the most recent guide of \$24.75. Susan will provide additional details about our financial targets.

I'd like now to share more detail on each of the elements of our investment thesis and why they give us confidence in both the midterm and long term. Medicare Advantage with its strong demographic growth and superior value proposition has only gotten started. Currently, there are 64.3 million Medicare-eligible individuals in the United States. Thanks to strong demographic growth, this addressable market will continue to grow, and by 2030, 1 in 5 U.S. residents will reach retirement age. When customers age into Medicare eligibility, they have a choice to either enroll in a Medicare Advantage plan or the traditional Medicare program. We've seen Medicare eligible customers increasingly choose a Medicare Advantage product. The penetration of total Medicare eligibles at 48% in 2022, representing a \$348 billion market. This penetration rate is up 1,000 basis points from 2017 to 2021 and most external forecasts suggest mid- to high single-digit growth rates for the Medicare Advantage industry through 2025.

We believe customers choose a Medicare Advantage product in large part because of the exceptional clinical outcomes and enhanced value proposition. Medicare Advantage members have 43% fewer avoidable hospitalizations than traditional Medicare. And MA products are valued at \$184 monthly more than traditional Medicare product on a national average. It is also noteworthy that Medicare Advantage plans meaningfully

over-indexed in serving underserved populations with the majority of Hispanic-Americans and nearly half of African-Americans choose a Medicare Advantage product.

With the investments we've made for 2023, we believe strongly in our ability to continue to grow at or above industry growth for the long run. Humana's growth in Medicare Advantage has outpaced the industry historically with growth of 11.4% annually between 2017 to 2021. While the industry grew 9.1% per year over the same period. We have consistently grown faster than the industry, mainly to our differentiated Medicare Advantage capabilities. We responded quickly to our disappointing 2022 AEP results by making meaningful adjustments to our product offering, segmentation, distribution and marketing for 2023 AEP. We believe these investments will allow us to make significant progress in our return to sustainable growth at or above market.

Our competitive and innovative MA products and the evolution of our product distribution that will be more balanced between internal and external channels position us with sustainable growth for 2023 and beyond. You'll hear more about the strength and the positioning of our MA franchise from Alan and George momentarily.

Our scaled value-based health services in the major areas of influence for patient care, primary care, home health and pharmacy expand our total addressable market. Currently, we are the largest provider of senior-focused primary care, the largest provider of home health services and the fourth largest pharmacy benefit manager.

Today, we'll focus on providing more detail on our primary care and home businesses given the growth, momentum and emerging scale. The opportunity in value-based primary care for seniors is large with a total addressable market exceeding \$700 billion. This market opens diverse profit pools for us, allowing us to both integrate care for patients and value-based payer arrangements and to expand our addressable market to include direct contracting and patients with other health plans. Given the attractiveness of this market, we have accelerated our investment over the last 5 years, becoming the nation's largest senior-focused primary care provider, positioning us for strong future growth. You'll hear more from Renee later today in the progress we've made and our excitement for and confidence in the future.

Home health is our second growth platform in value-based care delivery, which we have significantly scaled when we bought the remaining 60% interest of Kindred at Home and have recently rebranded to CenterWell Home Health. This transaction anchors our presence as a market leader within the large, growing and highly fragmented home health industry. Home Care is currently a \$120 billion market in the U.S. Like primary care, we have access to diverse profit pools in this market, including payer-agnostic revenue. Our Home business placed 3 important roles in our health services portfolio: First, the core CenterWell Home Health business delivers meaningful contribution that supports our delivery of enterprise EPS goals; second, the complex patients within our Home Health business provides the opportunity for payment and care model innovation through progressing to value-based models; and third, we are confident care at home will be an increasingly relevant and important site of care going forward, and our assets position us with optionality and new growth vectors as that future unfolds. You'll hear more from Andy today about our strategy to grow the Home.

Our CenterWell portfolio comprising primary care home and pharmacy are all strong businesses poised to become increasingly important contributors to earnings growth. But there's also significant potential to improve health outcomes and enterprise margin when we integrate these assets in local markets. We refer to this as our flywheel effect. When we integrate effectively in local markets, we see better clinical outcomes. Notably, members utilizing our primary care and pharmacy offerings experienced a 26% reduction in avoidable hospitalizations. Complementing better clinical outcomes, local market integration improves Humana's enterprise economics for an individual member with 2 to 4x increase in profit pool potential when member utilizes our entire suite of health care services.

We will complement our operating and strategic execution with our discipline in and focus on productivity and capital returns. We are committed to driving 1% to 2% in annual EPS growth from productivity and operating leverage going forward. We also will remain disciplined stewards of capital. We have a strong track record of value creation with an industry-leading ROIC of 16%. We will continue to invest in our organic growth, be strategic in our evaluating inorganic opportunities and return excess capital to shareholders. Susan also will share more detail on this topic later.

As you hear more from our business leaders, I hope you'll share my confidence in our mid- and long-term growth targets. We are well positioned in the fastest-growing health market in the U.S. with strong fundamentals. We are scaling our health services with unique value-based orientation.

We can integrate at the local market level to both unlock enterprise value for Humana and to expand our addressable market through payer agnostic and direct contracting growth sectors. We have a strong focus on productivity and a track record of disciplined capital deployment that generates attractive returns and builds long-term value for shareholders.

With that, I'll turn it over to the team to provide more details, starting with Alan and George.

Alan E. Wheatley

Thanks, Bruce, and good morning, everyone. I'm Alan Wheatley, Retail Segment President. I'm excited to be here with you today to share more about the strengths of our Medicare Advantage business and the positive momentum we are seeing from the investments we've made. You'll also hear from my friend and colleague, George Renaudin, our newly appointed Medicare President. As you heard from Bruce, our leading Medicare Advantage franchise is one of the core reasons we are so confident in the future growth plans we have. Humana is operating from a position of strength. We are a leader in the Medicare Advantage market. We have differentiated capabilities that sets us apart from the competition and enables us to deliver superior performance and outcomes for our members. We are absolutely committed to achieving \$1 billion of financial capacity we have talked so much about. And I'm excited about how we've leveraged that capacity to improve our positioning across the MA products marketing and distribution assets that we have.

Also, the operating efficiency we have worked to achieve is a discipline we will continue to maintain. And let me be clear about one thing, resetting for growth is not a onetime event. Going forward, consistently growing at or above market is our company's #1 priority. We are relentlessly focused on driving health outcomes and lowering costs to create value for our customers, value for our provider partners and value for our shareholders.

I'd like to spend a few minutes giving you a broad industry overview. As I think about it, the Medicare Advantage program continues to deliver accountable, high-quality, consumer-centric health care. Penetration rate has nearly doubled since 2010, moving from 25% in 2010 to 48% currently. The Medicare population has and will continue to grow. Kaiser Family Foundation, for example, expects that there will be 70 million Medicare eligible Americans by 2030, 70 million. And penetration rates to be upwards of 60%.

As the broad insurance market continues to get more expensive, we see the value proposition of Medicare Advantage continuing to improve. Industry customer benefit values have risen more than 40%, 40% since 2018. The substantial increases in planned value are derived from savings generated from lowering overall health care costs. Medicare Advantage drives improved health outcomes. Members in MA are healthier than members that joined Original Medicare. Medicare Advantage health plans and the health care providers to deliver care to our members prioritize preventive care. Working together, we are changing the nature of the way health care is delivered in this country and driving significantly improved health outcomes for our customers. MA value-based providers are much more proactive than traditional fee-for-service practitioners.

Let me share a few statistics. When compared to original Medicare members in an MA plan have a 43% lower rate of avoidable hospitalization. Even more impressive, for customers with complex conditions, MA has an almost 50% lower rate of avoidable hospitalizations. And as I think about preventive care, members in Medicare Advantage have a 49% higher rate of receiving the pneumonia vaccine, a key differentiator in improving a member's health. Also, MA has a 10% higher rate of certain cancer screenings. And there are many, many more examples, but now I want to turn to discussing my company.

As I think about how the MA industry has progressed over the years, I'm proud of our leadership position. Humana works diligently to bring differentiated high-quality care to our growing membership base. We have been and still are the market mover in this industry from creating value-based care in the space to being a leader from the very beginning in the STARS program among our peers to driving segmentation. Just look at what we've done with veterans and veterans plans over the last several years and the incredible benefits that those individuals who served our country are now receiving. Everyone in the industry has followed our lead on the veteran plan, and now what we're doing with interoperability, which I'll talk more about in a few moments.

Shaping the market with the sole purpose of driving better health outcomes and higher quality care for our members has always been our focus, and it will continue to be our focus. That focus has led us to 19% market share, covering 4.5 million individual MA lives and approximately 500,000 group members. And while, as Bruce mentioned, we're not happy about the growth expectations we had in 2022 relative to actuals, we have

consistently achieved strong membership growth above the industry average. So as I look over the long haul, we have done our job, and we're going to continue to do our job, and we're very focused to getting back to a leadership position.

As I think about our differentiated capabilities, leveraging these differentiated capabilities is how we create value. Our industry-leading value-based care portfolio, our superior clinical quality solutions, our market moving interoperability programs and our differentiated customer-centric operations, all of them have helped us grow to 4.5 million lives and have recently helped us achieve strong financial performance during a challenging year of growth. We believe these capabilities are competitive advantages for Humana, and George and I will quickly cover each of these capabilities, demonstrate how they drive value for our enterprise. To kick off the review, I'll ask George to discuss our value-based care models.

George Renaudin - *CarePlus Health Plans, Inc. - SVP of Medicare Markets, Economics & Provider Experience*

Thanks, Alan, and good morning. Humana's highly diversified value-based care solutions and locally oriented provider relationship models set us apart from our competitors. With close to 70% of our individual members in value-based primary care arrangements, our members have providers that are focused on quality of care, leading to better health outcomes and customer satisfaction.

We deploy a wide range of value-based models and customized solutions to meet providers where they are in their value journey. Our partnership model includes options such as partial or full value, alliance and joint venture models where we invest together in growth as well as the growing importance and impressive scale of our own CenterWell clinics. Humana has a robust people, process and technology infrastructure to help providers succeed in value-based care arrangements. We believe these value-based models result in better health outcomes for our members. Based on the 2020 data, members in our value-based care arrangements receive more appropriate care and spend less time in the hospital. They experienced 12% fewer trips to the emergency room, and overall, our members spend 245,000 fewer days in the hospital. These models also deliver superior economic outcomes, reducing total medical costs by an estimated 13.4% or \$3.1 billion as compared to the same members had they been enrolled in original Medicare.

As a result of these lower medical costs, our value-based care models also deliver a 20% higher contribution margin to our company's financials. The higher quality and lower costs associated with value-based care creates a virtuous cycle, which allows us to invest more in benefits for our members, driving greater retention and growth at or above industry levels. This is reflected in our plan designs where members associated with value-based providers receive over \$500 more in planned benefits annually. These improved outcomes and benefits can be seen in a higher relational Net Promoter Score. In 2021, members panel to value-based providers had an 8-point higher NPS versus those not in value-based relationships. This is indicative of how value is reflected in our customers' relationship with Humana, and this value is also demonstrated in overall retention as we are 14% more likely to retain our members in value-based care arrangements.

The customer satisfaction and financial benefits are also demonstrated through the value generated for our value-based providers themselves. To illustrate this, value-based primary care physicians earn, on average, 2.6x more of the health care dollar than their non value-based colleagues.

We continue to make significant investments in our technology to share actionable information with our value-based providers. As you can see, we've substantially increased the number of members in value-based relationships. A core component of that strategy is a move towards greater support for our provider partners in taking on risk in the PPO products. We've seen substantial growth in value-based care with a rapidly growing and popular PPO products in recent years. Since 2017, we have seen a 34% increase in the number of PPO risk providers. Our continued focus and support of value-based care within the PPO product is critical as we've seen substantial growth in value-based care within that market in recent years.

Alan, let me turn it back to you.

Alan E. Wheatley

Thanks, George. I'm proud to speak to you about our long-standing leadership position and quality performance. Our history of success in the Stars program demonstrates our commitment to improving health and member satisfaction. Four consecutive years now, Humana has had the highest

percentage of members in 4-plus Star contracts across all of our national competitors. 98% of Humana members are in 4-star or greater rated plans for Bonus Year 2023. Other large national plants collectively average 86%. This differential translates to more than \$500 million of additional revenue.

To achieve this success, we must excel across a variety of important Star measures. One example of where we have demonstrated clinical leadership is in medication adherence. Our success here is driven through our commitment to working with providers and our strong member-centric outreach to ensure needed prescription drugs are accessible and taken as directed. Our performance here is complemented by Humana's fully integrated mail order pharmacy. This fully integrated mail order pharmacy allows our members to manage their prescriptions in an easy and cost-effective manner.

We also prioritized preventive care. Through our efforts over the last 5 years, an additional 900,000 of Humana members have received preventive screenings. These screenings have been crucial to early diagnosis and early treatment. This ultimately results in better chronic condition management for our members and improved long-term health outcomes. We have demonstrated continuous leadership responding to Star program changes and maximizing the quality bonus for our customers, and we expect continued strong performance for bonus year 2024. I mentioned earlier Humana's history as a market maker. Interoperability is the latest example. Let me clarify what I mean when I say interoperability.

I'm referring to seamless and integrated access to electronic health data that gives providers the information they need at the point of care to make the best clinical decisions for their patients and provide the fastest access to care for that individual. Our capabilities in this space create quicker, better decisions, improving health and lowering costs. We believe our unique ability to supply this data more real time in the provider workflow sets us apart from our competitors. I just spoke to our success in the Star's program.

One example of how we're so successful in how we use interoperability, this year, we're delivering over 2 million care gaps directly into providers' workflow for the doctor to address with the patient while in the exam room. As we continue to improve our interoperability capabilities, we will expand these solutions to over 5 million members by 2025. This expansion will create meaningful value for our enterprise.

The success and capability leadership we've discussed is enabled and sustained by consistent operational excellence and industry-leading consumer experience. We have long been recognized as leading the industry in member satisfaction. This recognition is nice, but what it demonstrates is our commitment to best-in-class consumer experience and leveraging consumer experience as a key differentiator for our company. To influence our customers and get them engaged in our products and services broadly, we must first gain their trust. We do that through a holistic view of the member enabled through our integrated technology and by going the extra mile to meet their health care needs at each point in their health care journey.

Let me give you an example of how our enterprise works together to solve health problems for our members. Just this past week, one of our sales agents called on behalf of a member. This member has wounds on her legs that require constant attention and constant changing of bandages. Wound issues often caused by diabetic sores are a significant contributor to hospitalizations and can lead to amputations, if not treated.

The U.S. spends close to \$25 billion, \$25 billion, on wound-related hospitalizations annually. This member had exhausted all of our transportation benefits and couldn't afford the travel expenses and other supplies she needed to manage her condition. Candidly, she had already begun to skip treatments. Upon learning of the situation, our enterprise sprang into action. Our customer service team evaluated the member's profile and explained that the agent and the customer that Humana's home health benefit provided for a wound care specialist that would come to the members home, supply the bandages and the wound care specialists would change the bandages for the member. And this benefit was covered at 100%. The member didn't have to worry about travel to their doctor nor have any concerns over additional expenses. Also, our customer service team connected the member with a Humana Personal Care Manager that would insist -- that would assist with the setup of home health services, ensure smooth authorization processes, check up regularly on the customer during the episode of treatment and provide the customer a contact to call with any issues. Having that contact gives the customer peace of mind, being connected to Humana in a variety of ways such that the member can get the care that they need. We believe it prevents unnecessary emergency room utilizations and unnecessary hospitalizations.

As you can see, our sales and service teams are not just there to answer questions, they are often the member entry point to activate our holistic approach to care and the leverage point for the enterprise to activate our flywheel. And it isn't just about the benefits or the capabilities, it's about

the culture we set and the tone that we set as an organization. It's about a relentless focus on our customer and caring for all aspects of their needs. That's what we do, and that's what makes Humana different.

Overall, our core capabilities create the competitive advantages we leverage to be a leader in this industry. These capabilities and the results they drive create a virtuous cycle. Higher quality leads to improved health, which leads to lower cost, which leads to improved benefit opportunities, which leads to growth, which leads to financial success. That's what I mean when I talk about the virtuous cycle. Now I'm going to turn it back to George to highlight some key changes we have made that reinforce our confidence in significant progress for 2023 and a return to at or above industry growth by 2024. George?

George Renaudin - CarePlus Health Plans, Inc. - SVP of Medicare Markets, Economics & Provider Experience

Thanks, Alan. We have significantly enriched our Medicare plans for 2023. To ensure our changes align with consumer wants and needs, we conducted extensive consumer and broker research. This research resulted in investments focused on what consumers want, like dental coverage, which is consistently a #1 priority in supplemental benefits for our members. On dental, for example, our core non-SNP customers had an average increase in their dental coverage of close to \$300. This type of enhancement will ensure members can get the comprehensive care they need.

In addition to increased dental benefits, we are also proactively ensuring our network will create the broadest access to dentists in the Medicare Advantage industry. From a prescription drug standpoint, we broadly invested in lowering Tier 1 and Tier 2 prescription drug copays. For example, close to 50% of our members are expected to have a \$0 Tier 2 copay, which compares to only 14% in 2022. We see prescription drug cost as an important area of focus, both to encourage medication adherence as well as assist with the financial pressures that seniors faced as drug costs continue to rise.

Core to our strategic and long-term growth outlook is continued investments in differentiated consumer-centric products and solutions. We understand the need to segment our populations and focus on specific designs that meet the needs of certain underserved and priority populations like dual eligible or veteran members. We know the financial hardships that many dual eligible members face. So we have prioritized benefits that address members' social determinants of health while enriching our members' options. In 2023, 100% of our D-SNP plans will include flexible spending benefits where members can direct funds to pay for critical goods and services to support their specific life needs such as transportation or health supplies or even rent and utilities. Innovative solutions like these are a strong example of our industry-leading capabilities, helping to drive better outcomes. In 2023, these dual members will see close to a 50% improvement in their planned value.

Another example of our segmentation strategy is our veterans branded honor plans where we lead the industry with a 36% market share. In 2023, we are expanding our veteran offerings by partnering with USAA to offer co-branded plans in 7 states. These plans will include more benefits our veterans want such as Part B giveback enhancements and better dental coverage. And in certain markets, we're offering in-home support services so veterans can maintain their good health while keeping their independence.

All these enhancements result in a substantial increase in benefit value for our customers. I mentioned the 50% planned value increase year-over-year for our dual members. Our non-dual members will receive, on average, a 20% increase in their plan value. We're excited that we can continue to invest in our customers in this way to ensure that they have the benefits they need. As I already mentioned, deep customer and broker research is driving our investment decisions and will continue to do so going forward. We have been and will continue to be a leader in product innovation in this industry. In addition to the significant value that we're adding to our customers' plans, we're confident that our innovative strategy will help us to differentiate in an increasingly competitive Medicare Advantage market.

One way that we continue to innovate is by finding connection points between our clinical programs and our benefit designs to improve the health of our members. For example, we know that the financial strength can be a barrier to medication adherence. That's why we have benefits tied to clinical programs for certain conditions, enabling members to get necessary maintenance medications at no cost. In 2023, in addition to expanding an existing program from members with chronic obstructive pulmonary disease, we're also launching a new program for members with certain cardiovascular health conditions. We recognize the need to reduce barriers to life-sustaining drugs in these populations, and we'll continue pursuing opportunities to further increase access in care. We are focused on designing products to fit the unique needs of the growing market to help unlock significant incremental growth in the future.

Now let me walk you through what I'm excited about on the marketing and distribution front. Optimizing our acquisition strategy is a critical element to delivering at or above industry growth. We are prioritizing investments in identifying new ways to increase awareness of Humana significantly improve plan offerings. It is essential to ensure our planned value messages are seen and heard in what has become a very competitive marketplace. Our in-depth consumer research helps us understand how seniors evaluate and shop for health plans. Using the insights learned, we've made incremental investments in digital marketing such as growing use of social platforms in deepening our use of artificial intelligence to target prospects with a greater likelihood to buy a Humana plan.

We've also refreshed our marketing campaigns with new creative, positioning and benefits messaging to stand out among the competition. We are coupling our investments and optimized marketing strategy with investments in our distribution channels. We are looking to find the optimal balance in our sales channels to improve growth and retention of our highest lifetime value members. And I'm excited about the distribution capabilities we are building to enable us to do just this. We know our internal channels deliver better retention and higher lifetime value than other channels. So we are leveraging improved analytics and artificial intelligence for 100% of our inbound calls to inform our tactics and drive improved experiences for both our agents and our customers. We believe this, in combination with our fresh marketing, will result in an internal sales boost of greater than 20% year-over-year.

As we look to their future, our investments are expected to help create superior enrollment processes. These processes will empower members to choose high-quality, value-based PCPs, which results in higher retention, fewer complaints to CMS and allows for better integration with our CenterWell assets. As it relates to external call centers, we continue to collaborate with our important partners and have implemented a variety of incentive programs to produce higher quality sales. We are confident through this alignment that we'll maintain our #1 position and carrier favorability according to blind surveys amongst external agents. And to sustainably improve member retention, we are pursuing multiple new member communication and marketing solutions. We've built seamless omnichannel experiences to help members understand and utilize their planned benefits while engaging with us via their preferred channel.

For 2023 AEP, we're launching targeted communication campaigns to reassure our members about their benefits pre-AEP and highlight the meaningful enhancements and upgrades we've made to their Humana plan. We believe these actions, along with a multitude of others, will enable us to achieve our desired presence in the market, improve our member engagement and meet our 2023 growth goals.

In summary, we believe that our Medicare Advantage business is well positioned for significant increase in 2023 and a return to at or above industry growth by 2024. Central to our ability to drive sustainable growth is the virtuous cycle of high-quality experiences and health outcome of driving lower total cost of care. This then drives the ability to invest in our benefits and drive innovation in our offerings. These compelling offerings further drive membership growth and engagement, thus creating a virtuous cycle for our MA business. This cycle when complemented by our differentiated capabilities has a very long track record of delivering above market growth. We see our \$1 billion value creation initiative as jump starting this return to growth with targeted investments across product, marketing and distribution to set us up for success in 2023 and in the longer term.

The Medicare industry is attractive with growing numbers of seniors requiring customized solutions to ensure that they get higher quality and lower cost of care. Our capabilities and strategy are designed to address this unmet need, and you will see us continue to bring to bear the strength of our franchise and increasingly, our integrated value-based health care services to a larger and larger numbers of seniors.

I'll now hand it over to Renee and Andy, who will talk more about our Health Services strategies. Thank you.

Renee Jacqueline Buckingham - Humana Inc. - *President of Care Delivery Organization*

Thank you, George. Hello, my name is Renee Buckingham, President of Humana's Primary Care segment. I'm delighted to have this opportunity with you today to tell you about our business, the largest pure-play senior-focused primary care group in the country, operating 222 senior-focused primary care centers across 10 states, primarily under the CenterWell Senior Primary Care and Conviva Care Center brands.

Humana's primary care segment has evolved rapidly over the past several years. The core of our primary care business was formed through a series of acquisitions between 2005 and 2012. In 2018, we identified our primary care business as a key strategic growth pillar for the enterprise. This was a critical inflection point during which we pursued a dual transformation approach, splitting our primary care segment into mature and de novo

oriented businesses. The mature side of our business, which became Conviva, focused on integrating various acquired primary care entities and building a robust, consistent clinical culture across a footprint of more mature value-based care markets. The de novo side of our business, now branded CenterWell Primary Care, focused on developing a payer-agnostic or repeatable national expansion model to enter into less mature value-based care markets.

In 2021, with significant progress made by each business and the opportunity to cross-pollinate key learnings, we brought together the entities into one integrated operating business. This allows us to pivot our focus towards rapid scale and further growth priming us for accelerated market expansion and patient growth. One of the first -- as one of the first movers in the industry, our combined business is now positioned as a category leader in this highly promising health care sector. The model's focused on personalized patient experience and health outcomes will continue to reshape how care is provided to seniors in the U.S.

The fee-for-service system oriented to specialized episodic care is not well structured to meet the needs of an aging population with an increasing chronic disease prevalence where more than half of our seniors have 2 or more chronic conditions and more than 30% of older Americans have social determinant barriers to health. This has contributed to critical challenges in senior care, including rising costs and complexity, poor outcomes and poor access to care. Value-based primary care is uniquely positioned to solve these problems, combining the trust and influence of the primary care physician, patient relationship and a revenue model that rewards investment in proactive longitudinal care. Within the \$700 billion total addressable market for senior value-based care, our target markets include large eligible Medicare populations, a favorable work for supply, a solid mix of Medicare Advantage payers and other predictive elements that we have honed over many years in this business. We have ample room to expand our reach in this sizable market and expect our market footprint to cover approximately 20% of Medicare eligibles by 2025, up from an estimated 10% today, representing an addressable market of \$150 billion.

Through strategic discipline and investment, we have accelerated our ability to build a highly scalable business model with favorable economics. We predominantly contract with Medicare Advantage plans, where we are paid a global capitated percentage of premium for each patient. We also accept original Medicare patients through our ACO and DCE program participation. Our margin is derived from managing avoidable downstream medical expenses and utilization through proactive primary care. As a meaningfully payer-agnostic business, we have value-based arrangements in place with over 50 payer contracts, including relationships with all major national Medicare Advantage payers.

In addition, we have developed national agreements with several of these payers, enabling seamless expansion into new markets. Currently, half of our membership in our Welsh, Carson, Anderson & Stowe de novo joint venture markets is with non-Humana payers, and we are committed to growing our relationships with non-Humana payers as we continue to expand our footprint.

Our primary care business serves over 240,000 Medicare patients in value-based arrangements across 3 product segments: wholly owned centers, de novo centers and independent physician association affiliates. Each of these 3 product segments are supported by a purpose-built integrated platform enablement layer designed for national scalability across a diverse portfolio of heterogeneous geographies delivering consistent health outcomes across our footprint. The largest block of our patients is served in our wholly owned centers. This product segment is defined by fully owned and operated centers that sit outside of the Welsh-Carson joint venture and include centers that have been acquired over time as well as new centers launched before 2020.

When the company was split in 2018, the legacy Conviva block was underperforming financially with few centers performing at target economics and a significant number performing below center contribution breakeven. With significant focus in the areas of physician engagement, clinician empowerment and clinical accountability, we have improved center economics, delivering an \$80 million turnaround in 3 years. As a result, by 2021, the average contribution margin per center significantly increased on both a same-store and all-in basis. And the number of centers above our mature center contribution margin target of \$3 million more than doubled.

You will hear us increasingly refer to the metric of center contribution margin and target mature margin of greater than \$3 million. This level of profitability is consistent with our previous guidance of \$2 million to \$4 million of fully alluded EBITDA and is more consistent with how our public peers discuss their profitability. We anticipate continual improvement in portfolio performance as we move more of our centers towards target margin, partially diluted by acquired centers, which typically perform below margin target at the time of acquisition. With our current footprint of

182 wholly owned centers, we believe there is approximately \$350 million of additional embedded margin as we progress the portfolio's average contribution margin per center toward target margin over the coming years.

As I mentioned, key to Conviva's financial turnaround was embracing a clinical leadership model and cultivating a robust physician culture. To support this, we have implemented a dyad leadership model where physicians lead other physicians and physician leaders work side by side with operating leaders at every level of the organization. We empower clinicians to drive decisions that impact patient care, and our physician leaders create accountability with other clinician workforce, ensuring our clinicians are providing the highest quality of care to our patients. This focus on clinician, leadership and culture, along with our care model that is built to allow each clinician to work at the top of their license, has resulted in a highly engaged staff with an 88% engagement level and equally high satisfaction for our patients as reflected in a Net Promoter Score in line with leading consumer-facing brands. The strength of this approach also drives improvement in health outcomes and quality of care with the emergency room visits and hospital admits significantly lower than fee-for-service benchmarks and leading performance on quality measures.

However, despite our focus on clinical culture and empowerment, our business is not immune to the workforce and recruitment pressures facing the health care industry. We have strong conviction that our continued focus on clinical culture and a care model that is patient-centric and focused on whole person health will continue to position us as an employer of choice. We've paired our focus on physician culture, empowerment and accountability with significant investment in population health analytics. Our care model is enabled by our proprietary technology stack that aggregates hundreds of discrete data sets to create a payer-agnostic 360-degree view of a patient. This integrated approach puts the patient and physician at the center of the care model and enables the primary care physician to coordinate all aspects of a patient's care, leveraging insights driven by data and analytics to deliver better care, better health outcomes and better financial results. Our data hub business and clinical analytics platform is the most frequently accessed reporting package within the entire Humana enterprise.

Additionally, we support our physicians through a series of centrally designed ancillary care programs, including nurse care management to address gaps in our patient's care, transitions of care, programs supporting our patients post hospitalization, clinical pharmacy management and behavioral health programs. These programs rely on custom-built workflow technology and are rigorously tested for clinical impact and ROI and are continuously being improved upon to drive better health outcomes and productivity. In addition to this margin improvement within our wholly owned centers, we are focused on organic and inorganic growth. There is considerable growth opportunity in this segment by deepening investment in organic growth capabilities, continuing to diversify our payer mix and executing programmatic small and midsized acquisitions.

In early 2022, we began to leverage elements of the CenterWell sales model in our more mature Conviva markets and are now rolling out multichannel sales capabilities across the legacy Conviva markets and expect to be nearly fully deployed by the end of the year. This includes adding a field sales force, dedicated broker engagement resources and fully leveraging our centralized sales call center. We expect these investments to return the mature wholly owned segment, which has been flat in recent years, to mid-single-digit same-store organic patient growth. Paired with the margin expansion, we believe this additional growth will be key to driving average center contribution margin towards our target average of \$3 million per center, unlocking the estimated \$350 million of additional embedded margin.

Inorganic growth is an important piece of our business strategy in the more mature value-based markets. In 2021, we accelerated our pace of M&A, completing 12 acquisitions, adding 40 net new center locations after consolidations and another 9 transactions that added 14 net new centers in the first half of 2022. We have been intentional about making inorganic growth and repeatable seamless integration, a core part of our growth strategy and a key capability of the business, which has enabled the organization to scale efficiently via M&A. Looking forward, we expect to add 15 to 25 new centers via small and midsized acquisitions annually for the next several years.

We pursue M&A opportunities through a 3-pronged approach: external opportunities, existing IPA affiliates and enterprise contractual protections. Our existing IPA affiliate footprint provides an attractive source of future M&A. Although affiliate acquisitions are not a significant driver of net membership growth, these practices often offer opportunities to move patients -- to move to new payers to risk and come with significant margin expansion opportunity and good financial value. The deep provider network relationships created by the Humana enterprise and some of the contractual protections in place also provide an important source of future M&A, which makes us confident in our ability to consistently source new opportunities at accretive multiples.

We expect 2022 to 2025 M&A to comprise of 25% to 30% of our attributed Medicare patient base and approximately 20% to 25% of our total contribution margin in 2025. We are also looking to original Medicare value-based programs as a potential source of future growth. Today, we serve over 11,000 attributed original Medicare patients in risk-based relationships through various ACO and DCE programs with most of this patient block served in our wholly owned segment. While we are excited by the potential of these models, we've taken a cautious approach towards growing with these programs compared to some of our category peers as we evaluate the mechanics and economics of each program. In 2023, we plan to participate in the new ACO reach program and the enhanced track of the Medicare shared savings program to continue to assess program economics, navigate policy uncertainty and preserve optionality as these new CMS programs continue to evolve.

Should we make the decision to more fully embrace and grow with these programs in 2024 and beyond, ACOs would represent a significant tailwind to our projected organic growth. Our de novo portfolio is another important source of growth for the organization. This segment currently serves 15,000 patients in 40 centers. Outside of traditional value-based care markets like Florida and South Texas, fewer providers practice in the value-based model, making growth through acquisition harder and leaving a more compelling unmet need for high-quality, value-based care in these communities.

Given this dynamic, our preferred avenue for expansion in these markets is de novo, constructing brand-new centers and building a team and patient base from scratch. There are advantages and disadvantages to de novo belts. The advantages include locating centers and ideal locations to optimize growth, building physical plant that is custom designed to support the elements of our model and recruiting and training a team that is handpicked to thrive in our model.

The disadvantages of this approach is the capital and time required to generate returns. The upfront cost to build, open and run a new center about \$6 million to \$8 million are often not recovered for several years. We spend approximately \$2 million to \$3 million upfront on the construction of our de novo centers. Over the first 3 to 4 years to break even, we expect \$4 million to \$6 million of center contribution margin losses. This dynamic is driven by the combination of working to grow the centers to minimally efficient scale and the mechanics of the Medicare Advantage revenue model.

Medicare Advantage revenue lags meaningfully from the medical expenses incurred to provide proactive chronic care management, driving the J-curve dynamic. Consistent with our wholly owned segment, we expect the de novo centers to exceed \$3 million of center contribution margin within 6 to 7 years post launch with potential upside from there. While there is a range of center sizes that we deploy across our business, we have chosen to primarily build de novos with a smaller-sized center footprint. This provides greater flexibility in choosing optimal locations and enables us to more quickly and consistently fill centers.

This J-curve dynamic led the organization to pursue alternative funding options to help finance an accelerated expansion of de novo centers. In 2020, we announced a strategic partnership with Welsh, Carson, Anderson & Stowe to fund approximately 50 new primary care centers over 3 years through a joint venture arrangement, where Welsh Carson would own the majority stake of the new centers with CenterWell primary care as a minority equity holder and exclusive operator of the new centers. We later extended the first agreement to cover additional centers, and we recently announced a second joint venture to finance up to an additional 100 centers over the next 3 years. We've now opened 40 joint venture centers with an additional 25 to open between now and quarter 2023. These arrangements give Humana the opportunity to take full ownership of the new centers as they climb the J-curve through a series of calls and puts starting 5 years after the opening of a new cohort and when the centers are expected to be contribution margin positive.

We think of the de novo center life cycle in 3 phases. Centers work across the phases with varying levels of emphasis and focus. In Phase 1, the first 2 years are primarily focused on growth and getting a center to minimally efficient scale while also initiating patient care. During this first phase, we are typically compensated under a PCP capitation that transitions to global capitation, typically in the second phase. Phase 2 is focused on transitioning to global risk and deepening focus on patient engagement and comprehensive care planning for identified chronic diseases. The third phase includes ongoing clinical patient management, operating efficiency and realizing margin expansion.

All of these elements remain important throughout the life cycle. The distinction is more one of priority and focus. Most of our de novo centers are currently in that first phase where growth is critical to success. Plotting our membership growth per de novo center against months open, you can see that we are driving consistent growth performance in line with our expected trajectory, despite contending with a pandemic and other related

supply chain challenges that have delayed some center openings. Over the past several years, we have matured our sales and marketing capabilities and incorporated key learnings to deliver on growth. First, we have incorporated Humana's deep history and expertise in direct-to-consumer sales and marketing, advancing our learnings and market selection, broker relation development, managing sales operations and customer service mindset. Our omni-channel approach relies on multichannel direct marketing, community engagement, broker and payer engagement at the local, regional and national levels and is supported by centralized sales enablement.

We learned that we must evolve rapidly in this dynamic marketplace to deliver on growth results. For example, one of the biggest differences between operating in a less mature de novo market versus the more mature value-based markets is the predominance of Medicare Advantage PPO products. Traditional value-based models rely heavily on gated HMO models for attribution and engagement of patients. Payer systems and processes to properly attribute PPO patients to value-based providers are still maturing. We are working closely with Humana and our other payer partners to innovate and streamline the processes to get timely attribution for customers we serve with -- along with other data to help us better manage the care of these patients.

The evolving broker environment has also had a meaningful impact on the business. Like our health plan partners, we see more of our patients coming through national call centers-based brokerages, and we have had more trouble engaging and retaining these new patients. We have put in place dedicated resources to manage our national broker relationships and work with these partners to help engage these patients. As an example, we're excited to be one of the first in our category to implement direct scheduling capability that allows local and national brokers to schedule first appointments inside our practice management system for their customers at the time of Health Plan Zale.

As a payer-agnostic business, we recognize that robust patient growth requires us to have value-based relationships with payers that cover the majority of the market's Medicare Advantage patients. Today, we have value-based contracts with payers, covering an average of approximately 60% of the Medicare population in our de novo markets. This is one of the market selection factors we consider when choosing a market, and we have our payer contracting team working to secure payer agreements well in advance of selecting a market. As we refine and evolve our patient acquisition model, we have been disciplined about measuring and managing patient acquisition costs. We continue to study if customer lifetime value justifies further investment in patient acquisition costs as we optimize our ongoing overall sales and marketing spend across our de novo segment.

As you can imagine, we track actual progress of each cohort against our expected J-curve and are continuously monitoring for negative and positive deviations as an opportunity to learn and improve our standard operating model. We are tracking closely to our pro forma projections for cash flow and contribution margin.

Let me walk you through what we are showing here. Starting with the teal diamonds, we are mapping our 17 de novos that were launched prior to the Welsh Carson joint venture. We use all of the available data each year to inform our diamonds. For example, our year 2 data point shows all the clinics that had a full year of data after 2 AEPs. So that includes all the clinics opened between 2016 and 2019. Our plum dots represent the performance of the clinics launched in the Welsh Carson Joint venture, starting with the first cohort launched in 2020. Our performance to date tracks the growth model across multiple cohorts, giving us confidence in our ability to achieve at least our target margins at maturity, and we expect this block of business to be our fastest-growing segment as additional centers continue to open.

As previously mentioned, we recently announced a follow-on agreement with Welsh Carson, which enables us to launch up to 100 de novo centers over the next 3 years. While our de novo segment will not contribute positively to our earnings over the next several years, we expect this segment to comprise approximately 35% of our centers and approximately 20% of our membership by 2025, representing potential for significant embedded EBITDA to be realized over the next 10 years.

Looking forward, we will also begin to invest more into omnichannel clinical capabilities to increasingly engage with our patients in a setting of their choice. We rely on virtual and in-home encounters as part of our model today, but we see a compelling opportunity to design more deliberate omnichannel experiences and create new products that appeal to emerging segments of seniors that will drive incremental growth and continue to make our business model more scalable and less capital intensive. In addition to the benefits afforded to patients, our primary care business also provides key synergistic benefits to the broader enterprise. Humana Medicare Advantage members engaged in our staff model centers have a higher customer satisfaction with their health plan and contribute significantly higher underwriting margin and better Stars performance than

the average member. Additionally, our patients have a 600 basis point higher utilization of CenterWell Pharmacy Services. Our primary care team works closely with the other CenterWell businesses and our Humana health plan partner to test and learn innovative ways that we can grow together, enhance the patient experience and deliver better health outcomes. We're excited for the opportunities that lie ahead through this ongoing work.

In sum, we have built a market-leading, differentiated provider asset well positioned for rapid expansion in the near term and a meaningful contributor to the enterprise earnings in the future. Through accelerated de novo center expansion, programmatic small and midsize M&A and improved organic growth in our wholly owned centers, we anticipate expanding our number of centers by approximately 50 annually over the next several years and targeting a Medicare patient growth rate of 18% to 20%. We expect this rapid growth expected margin improvement in our wholly owned centers and the call of Cohort 1 in our Welsh Carson JV will generate an anticipated fully loaded EBITDA contribution of \$100 million to \$200 million by 2025. At that time, 2025, we will operate between 400 and 450 staff centers either wholly owned or in the JV. And assuming these centers will generate an average of \$3 million of contribution margin once they mature, we will have built a portfolio with a potential embedded EBITDA margin of \$900 million at maturity. Aided by the opportunity to begin calling back our Welsh Carson de novo cohorts annually, starting in 2025, we expect substantial annual EBITDA growth thereafter with the potential for the business to realize the embedded profitability while continuing to grow the footprint and generate in excess of \$1 billion of EBITDA by 2032. Our deep experience in this market, our ability to operate locally and our national scale give us confidence that we are well positioned to expand and scale profitably.

Now I'd like to turn it over to Dr. Agwunobi, President of our Home Solutions.

Andrew C. Agwunobi - Humana Inc. - *President of Home Solutions Business*

Thank you, Renee. In the Home Solutions business, our goal is simple. It is to provide members and patients with access to holistic value-based care in the home that enhances member experience, improves outcomes and reduces total cost of care. The 14 months since the last Investor Day have been an important period of acceleration for the Home Solutions strategy. In August of 2021, we acquired the remaining 60% of Kindred at Home, the nation's largest home health and hospice provider, to accelerate and take full ownership of driving towards transformation to a value-based Home Health model. We integrated the Home Health business with the rest of Humana and rebranded from Kindred at Home to CenterWell Home Health. Recently, we sold 60% of the hospice organization in order to deleverage while retaining a strategic investment of 40%.

During this time, we also acquired onehome, an innovative post-acute convenor that leverages utilization management, network management and integrated durable medical equipment and infusion to improve the efficiency and coordination of home health care delivery. We are confident that we have the critical pieces in place to deliver on our vision in the home.

We are leveraging the suite of capabilities we have assembled to create value for the enterprise in 3 main ways: the first driver is the continued growth of our core fee-for-service home health business; second is the delivery of value-based home health through direct cost optimization as well as new payment and clinical model transformation; and the last driver is expansion into new higher acuity services, leveraging our scaled in-home platform. Fundamentally, this strategy is built around our belief that the home is the best site of care for many conditions. Care in the home not only increases convenience and minimizes barriers for patients, it also deepens patient relationships, enables greater visibility into social determinants of health and reduces cost of care.

Now I will speak to our first value driver, the growth of our core Home Health business. Our acquisition of Kindred at Home, now CenterWell Home Health, gives us a scaled platform on which to innovate and grow. CenterWell Home Health is the nation's largest home health provider with 352 locations, over 9,000 clinicians and more than 350,000 Home Health patients served per year. It also has industry-leading capabilities, including driving positive member experience with a patient satisfaction survey Star rating of 4 in July 2022. We also have strong provider partnerships, which includes 21,000 partner facilities and 43,000 partner physicians.

This platform gives us the ability to transform the Home Health experience for our patients. We know that patients in need of home health services are more medically fragile, have multiple comorbidities and take more than 5 medications on average. They are also 5x more likely to be hospitalized compared to individuals not eligible for home health care. As such, the post-acute period is a pivotal time in our members' health journey during which we have an outsized ability to support them on a path back to stability and independence.

The overall home health industry has steadily grown at a 6% compound annual growth rate from 2015 to 2020, driven by a demographic growth of approximately 4% over the same time period and historical rate yield of approximately 2%. However, over the last 2 years, we believe industry growth has slowed, primarily due to nursing labor challenges. The industry is also highly fragmented with the top 20 home health players combined having less than 1/3 of the total market share. We believe this offers an opportunity for further growth through mergers and acquisitions.

With approximately 6% market share, CenterWell Home Health is the market leader in this fragmented industry and is well positioned to continue to be a leader in growth of its core business going forward. Our focus on sustained growth and operational efficiency has driven strong year-over-year performance and a positive long-term outlook. Over the past year, CenterWell Home Health has grown same-store total admissions by 5%, significantly outpacing top competitors who have seen flat to negative growth over the same time period. This continued growth is driven by several factors, including a firm focus on cultivating a highly efficient sales force. For example, we are dedicated to the retention of our most talented sales leaders. Around 20% of our representatives have been with us longer than 10 years. In addition, we have established key referral relationships at the state and regional level to generate consistent volume. Just this year, we finalized over 70 new contracts, covering around 2 million beneficiaries.

We have also grown CenterWell Home Health penetration rate of Humana home health episodes in markets where there is geographic overlap from 8% in 2017, when we entered into our initial transaction with Kindred at Home, to 19% in 2022. We are confident we can significantly increase this volume in the years to come.

In addition, we have accomplished important integration and rebranding goals. Earlier this month, we completed the third and final phase of rebranding Kindred at Home to CenterWell Home Health in all 38 states. This rebranding is part of the full integration of our Home Health business into Home Solutions. The CenterWell name reflects our commitment to putting the people we serve at the center of everything we do, and it reinforces our commitment to better quality care, improved health outcomes and a simpler, more personalized patient experience. Lastly, we will complement our organic growth with mergers and acquisitions, which will be a critical part of our CenterWell Home Health strategy.

M&A is an important pathway to driving profitable growth and supporting our strategic priorities, such as improving nurse capacity and scaling our value-based model. We will continue to actively monitor the market for accretive acquisition and joint venture opportunities, and we expect them to become increasingly available in the near to midterm. Example areas of particular opportunity for inorganic growth include markets with significant Humana member in-sourcing opportunities, local nurse capacity availability and favorable regulatory characteristics. We also believe that agencies facing industry challenges based on scale or other factors could be attractive deal opportunities.

We are optimistic on the outlook for CenterWell Home Health and the critical role it will play in our strategy. However, the home health industry is facing challenges. These challenges include slowing original Medicare growth with original Medicare share of total Medicare enrollment decreasing by 9% between 2019 and 2022. Additionally, CMS has proposed a 4.2% reduction in original Medicare reimbursement per home health episode in 2023. We view any reduction reflected in the final rate notice as a onetime reset aimed at addressing the perceived behavioral adjustment, and we expect a more stable rate environment in the mid- to long term. We are also facing ongoing nursing labor and inflationary cost pressures, exacerbated by the nationwide nursing shortage.

Despite these challenges, demand for home health continues to expand, driven by aging demographics. And as the largest player in the growing and fragmented home health industry, we believe that CenterWell Home Health is particularly well positioned for future performance. Additionally, while slowing original Medicare growth is a challenge for home health, it is an opportunity for the overall enterprise as more seniors are opting into Medicare Advantage. Finally and importantly, the challenges we're facing further validate our strategy to accelerate towards the higher margin potential and volume growth opportunity of a value-based home health model for Medicare Advantage members.

Across these challenges and opportunities, we have a positive outlook for our core business. We are focused on top line growth and managing the nursing labor environment in addition to continuing CenterWell Home Health's focus on expense management and maintaining well-optimized margins. In the midterm, we are targeting CenterWell Home Health top and bottom line growth of 4% to 6%, which we expect will be in line with the industry. This growth will be underpinned by nurse capacity improvements, the transition to the value-based model and mergers and acquisitions.

Over the long term, we expect to return to historical 6% or greater growth as labor challenges abate. We have made investments largely around improving clinical recruitment and retention that have lowered near-term earnings, but are expected to enhance capacity and growth in the longer

term. To achieve our strategy, it's important that we grow our nursing capacity amidst a national nursing shortage in health care, including in the home health industry. We are focused on increasing recruitment and retention through 3 main levers tailored to the needs of our nurses, and we are deploying both traditional and innovative approaches across each lever.

First, we are improving the value proposition for our nursing hires by strengthening engagement and recognition. We are also offering greater opportunities to do value-based work, which provides nurses the ability to more holistically address patient needs. Second, we are leveraging technology to improve the clinician experience and enhance efficiency, including easing the documentation burden and optimizing clinician scheduling and routing. And thirdly, we are focused on optimizing, recruiting and onboarding through streamlined processes, focused training programs and development of career pathways into the home health industry.

As an example of one of these training programs, in June, CenterWell Home Health and our Chief Nursing Officer, announced a collaborative partnership with Emory University's now Hodgson Woodruff School of Nursing, to create the CenterWell Home Health lab that will simulate care in the home. We believe this partnership will broaden the recruiting funnel and enable us to recruit home health nurses directly out of university over time.

Although much continued work is needed, we are beginning to see a positive impact from these changes. For example, CenterWell Home Health has demonstrated strong improvement in voluntary full-time nurse turnover with an approximately 5.5% reduction over the past year. We are continuously listening to understand and provide a positive practice environment for all our nurses that promotes a healthy balance between work demands and personal well-being.

Next, I will talk about our value-based home health strategy, which is our second value driver. Through the acquisition of onehome that I mentioned earlier, we are optimizing the direct cost of home health, DME and infusion through several key levers. First, onehome contracts with the health plan to take sub-capitated risk on home health, DME and infusion costs. Onehome optimizes this spend through utilization management, which ensures clinical appropriateness and network -- and also network management, which directs clinically appropriate care to the right provider based on quality and cost performance.

Additionally, onehome procures DME and pharmaceuticals for infusion, and owns and operates DME warehouses for distribution directly to patients and providers. This enables in-sourcing of value while improving coordination of care for our patients. Onehome provides this service either together with or independent of a home health admission. We are also implementing some of these capabilities on a standalone basis based on local market conditions. For example, we are deploying a home health utilization management only module in markets that are currently not yet ready to support the full model, which allows us to capture value earlier as well as build valuable provider relationships and market knowledge while we continue to build and scale the full model.

Similarly, in some markets, we may initially launch with standalone DME and/or infusion services. Currently, we are in 14 states total with either the full value-based home health model or the utilization management only model. Lastly, we believe there is an important opportunity to fully transform the home health clinical and payment models. By reorienting these models around downstream outcomes improvement, we believe we can reduce total cost of care for the health plan, while also increasing CenterWell Home Health delivery margin on Medicare Advantage volume.

We're still refining the clinical model needed to achieve these aims. However, building on learnings gained in recent years, we are confident that key elements will include robust risk stratification, enhanced use of virtual interventions and targeted condition-specific programs. We are already taking ground on these strategies. As previously shared, we have launched the expansion of the full value-based model in Southern Virginia, and we'll launch in North Carolina on October 1.

Our goal is to cover more than 40% of Humana Medicare Advantage lives under the value-based home health model by 2025. Today, on average, health plans in Humana markets with the greatest opportunity spend \$35 to \$40 per member per month on home health, DME and infusion combined. We believe the value-based home health model can reduce these costs for the enterprise by a net 10% to 15%, thereby generating between \$110 million and \$150 million of incremental annual enterprise value creation by 2025. This expected enterprise value creation is spread across home and health -- and the health plan and doesn't reflect what we believe to be significant value upside from clinical innovation that we expect longer term as we develop and scale new clinical programs and interventions.

Additionally, as we increase nursing capacity within CenterWell Home Health, there is incremental value that can be achieved through the value-based home health model as we drive greater volume to CenterWell Home Health. Over the longer term, we anticipate serving more than 50% of Humana Home Health volume through CenterWell Home Health in markets where we have both CenterWell Home Health and onehome presence. Lastly, our third and final value driver is expansion to other higher acuity in-home services over time. As the home continues to increase in importance and evolve as a site of care, the ability to drive home-centric innovation will be increasingly important.

We believe our scaled capabilities, including our own CenterWell Home Health assets and our strategic partnerships with Heal and Dispatch form a strong platform that gives us this optionality to expand to additional services over time. For example, we believe that a substantial share of acute care services that today are provided in higher cost settings like skilled nursing facilities can be shifted to the home. We believe the skilled nursing facility at home opportunity in particular will be significant with a potential \$700 million of Humana SNF spend that could feasibly be shifted to the home.

In addition, we can leverage CenterWell Home Health's existing labor expertise and licensing to deliver SNF at home as it is a clinical adjacency to home health. Although our current greatest areas of focus are growing our core home health business and transforming to value-based care, we are committed to service expansion in the midterm. We are excited about the long-term financial contribution Home Solutions is expected to provide as we continue to grow, transition to a value-based care delivery model and expand to new services. We also believe we can generate meaningful value for other parts of the CenterWell ecosystem as a critical part of the integrated care delivery and strategy.

As a site of care, home offers a particularly strong platform for building trusting member relationships and enables powerful insights into member needs. For example, if a member lacks a primary care provider, CenterWell Home Health can connect the member with a high-value local option, including CenterWell Primary Care. CenterWell Home Health can also act as a more seamless extension of CenterWell Primary Care into the home or if a member would benefit from home delivery of medications, CenterWell Home Health can help the member set up mail order delivery through our CenterWell Pharmacy.

Equally, we believe CenterWell Primary Care and our Humana Care Management Function can drive greater usage of CenterWell Home Health. We believe these efforts can lead to both improved member experience and better health outcomes, demonstrating the power of integrating our health service capabilities in the local market.

In conclusion, we are confident that our disciplined strategic and executional focus on our 3 value drivers of core home health growth, value-based care in the home and expansion into new services will create significant value for the enterprise.

With that, I will now turn it over to Susan to speak to Humana's financial outlook and commitments.

Susan Marie Diamond - Humana Inc. - CFO

Thank you, Andy, and good morning, everyone. I'm excited to be here today as we share our raised 2022 adjusted EPS outlook, a compelling value creation framework supporting our \$37 adjusted EPS target for 2025, and our expectation that we will be positioned for continued compelling earnings growth in 2026 and beyond, at or above the EPS growth trends reflected in our new mid-term target.

Our mid-term adjusted EPS target reflects an enhanced annual growth rate of approximately 14% off of 2022. This growth rate is at the higher end of our targeted long-term range and follows the very strong 21% growth that we expect to deliver this year. As you heard from Bruce, confidence in our ability to deliver compelling earnings growth, both in the near and longer term, is grounded in favorable industry fundamentals, our strong competitive position and our opportunity to scale and further integrate our CenterWell health care services capabilities. Complementing these opportunities is our sharpened focus on delivering consistent operating expense leverage and continuing our track record of efficient capital deployment.

Let me start by discussing our updated 2022 outlook. We have raised our full year 2022 adjusted EPS target to approximately \$25 from our previous guidance of approximately \$24.75. The updated guidance reflects 21% growth over 2021, and is driven by continued lower-than-expected medical

cost trends in our Medicare and Medicaid businesses and lack of COVID headwinds seen today. Importantly, we no longer deem it necessary to hold a discrete COVID headwind in our full year guide.

As a result, we have now utilized the remaining \$0.50 explicit COVID headwind we discussed on our second quarter call by increasing the full year adjusted EPS guide by \$0.25 to \$25 today, and by effectively taking the remaining \$0.25 headwind into our guidance with the assumption that we will invest in additional marketing for the 2023 AEP if the dollars are not needed to cover items such as a higher-than-expected flu season, should it emerge.

Now I will walk you through our \$37 adjusted EPS outlook for 2025, which represents compelling growth at the upper end of our targeted long-term growth range. I will provide more insight into our primary lines of business, including key underlying assumptions and performance indicators, that form the basis of our confidence in achieving the 2025 EPS target.

At the highest level, we expect to grow enterprise earnings approximately 10% per year before factoring in an additional 1% to 2% of anticipated earnings growth driven by operating efficiencies. In addition, we expect capital deployment to contribute approximately 2% to annual EPS growth. In total, we expect this to yield approximately 14% average annual EPS growth through 2025.

Next, I will provide further detail on each of these contributors, starting with our expectations of 10% enterprise earnings growth annually. Recognizing each line of business provides varying levels of contribution, for purposes of today's discussion, I will categorize each in one of 3 categories: core, maturing and legacy, and provide details on our expectations for each of these categories, starting with Core.

Our core business category includes individual MA and the businesses that largely grow in line with it, including our Pharmacy and Specialty Benefits businesses. Collectively, we anticipate that these businesses will produce top line growth in the low double-digit range annually, with their earnings expected to grow at or above their revenue growth as margins expand and the businesses drive greater scale.

Earnings growth expectations for these core businesses are underpinned by an assumption that we see significant progress in 2023 individual MA membership growth with a return to at or above the industry growth rate by 2024, which we expect to be in the high single-digit range through 2025.

As you heard from the team today, the return to and consistent delivery of at or above market growth is a top priority for the organization. I echo the team's confidence in our ability to achieve this goal, supported by the robust investments we've made in product, marketing and distribution for 2023, that we expect to drive sustainable gains in our competitive positioning.

Our confidence in returning to at or above industry membership growth is further underscored by our unique capabilities to help us lower health care costs and improve health outcomes for our members, including highly diversified and patient-centered value-based care programs, best-in-class clinical quality and a persistent focus on consumer experience.

Our pharmacy businesses grew largely in line with our Medicare membership. Our traditional mail-order pharmacy business generates industry-leading penetration of Humana's individual MA members currently just above 38%, a 100 basis point increase over 2020. Certain geographies have penetration levels above 50%, while members supported by our CenterWell primary care physicians report levels as high as 60%.

We are making investments to transform the consumer experience and home delivery service model through improved e-commerce and more efficient logistic capabilities and additional distribution sites, which are expected to allow us to deliver prescriptions to the majority of our members within 1 to 2 days. Our focus on improving the consumer experience is intended to bolster our ability to continue to deliver industry-leading mail-order penetration levels, which leads to better medication adherence and health outcomes, benefiting our members and health plan.

Further, our PBM, which is the fourth largest in the country, works closely with our health plans to develop clinical programs and other strategies to improve health outcomes and reduce drug costs and waste.

Now turning to our Specialty Benefits business, which includes our dental and vision products. We serve 14 million members today, including 5 million Employer Group members, \$1 million in the individual space and 8 million MA members as most of our MA plans include Humana dental and/or vision coverage.

As Alan shared, dental benefits are highly valued by the consumer, and we have significantly enhanced the dental coverage included within our MA plans in recent years, providing more comprehensive care for our members and improved growth for our Specialty Benefits business.

We shared with you at our Investor Day last year that the Specialty Benefits business is also focused on driving additional group and individual growth by offering best-in-class products and pricing supported by expanded networks and innovative benefit designs.

Our progress against our stated goals is demonstrated through membership increases and network expansion as evidenced by winning 24 jumbo customers since our last Investor Day 14 months ago, totaling nearly 200,000 members, as well as adding over 9,000 dentists to our network, putting us on track to surpass our year-end goal of 108,000 dentists in network. As we continue our network expansion, we are on track for Humana to offer one of the largest MA dental networks heading into the 2023 AEP.

Through 2025, we expect the individual MA, Pharmacy and Specialty Benefits businesses to collectively deliver approximately 90% of enterprise earnings. And we anticipate that these businesses will produce top line growth in the low double-digit range annually, with their earnings expected to grow at or above their revenue growth rate.

Now moving to our businesses that are maturing and scaling, with our Primary Care, Home and Medicaid businesses covered in this category. I will refer to this group as our maturing businesses. Collectively, in the midterm, our maturing businesses are expected to produce higher annual top line growth in the mid-teens range, while earnings for this group of businesses is expected to grow in the mid-single-digit range through 2025 as the businesses continue to innovate, mature and scale.

Over the longer term, and as you heard throughout the day, we expect significantly greater contribution from these businesses, particularly through CenterWell primary care, as the de novo centers are fully acquired under the terms of our Welsh Carson joint venture beginning with the first cohort in 2025.

As you heard from Renee, we expect midterm earnings growth in primary care to be driven by improved operating performance in our wholly-owned clinics, as well as through contribution from clinics added through M&A. We plan to continue to expand our primary care platform to build on our leadership position in this space with the expectation that earnings from this business will become a more meaningful contributor to enterprise earnings as cohorts are acquired from the JV and the business continues to mature and scale beyond 2025.

We plan to add 30 to 50 clinics per year through 2025, with up to 15 to 25 of these clinics being added through acquisition and consolidated in our financials. The remaining approximately 30 per year will be added through our joint ventures with Welsh Carson and will, therefore, not be contributing to top line growth or have a material earnings impact in the mid-term.

The joint ventures include put and call features that allow us to fully acquire clinics beginning 5 years post-clinic build. As a result, we currently expect to fully acquire the first cohort of 20 clinics built in 2020 through the Welsh Carson joint venture in 2025. Post 2025, as each subsequent cohort is fully acquired, we expect to see a meaningful increase in the contribution from the Primary Care organization, with the potential to self-fund new de novo clinic expansion beginning in 2026 if we choose to do so.

As Renee shared, we expect approximately \$100 million to \$200 million of EBITDA contribution from Primary Care in 2025, growing to more than \$1 billion over the next 10 years. I will share more on the expected cash outlay related to the put and call arrangements in a moment.

Turning to the Home business. We are committed to continuing to grow our CenterWell home health fee-for-service business through organic growth and strategic M&A activity, while also expanding our value-based home care model. As you heard from Andy, we are confident that Home will be an integral part of our ability to deliver high-quality care and outcomes in a value-based model.

As we shared on our second quarter call, we began expansion of the value-based model in June with implementation in Virginia, increasing the number of MA members covered by this model to 331,000, a 22% increase. We will begin implementation in North Carolina in October, where we will expand coverage to an additional approximately 375,000 MA members by year-end. We expect to continue to expand the value-based model over the next several years with a goal of covering 40% of our MA members with our value-based model by 2025.

In the midterm, we will continue to invest in the business to support expansion and build scale. As Andy shared, we expect our CenterWell home health fee-for-service business to drive top and bottom line growth in line with the industry in the mid-term, which we expect to be in the 4% to 6% range, before accelerating back to 6% or greater in the long term when labor challenges abate.

In addition, we expect a onehome value-based home health model to contribute to both top and bottom line growth, driving annual value creation for the enterprise of \$110 million to \$150 million by 2025.

Our Medicaid team continues to expand our footprint organically with an excellent track record of winning procurements. Our success is supported by leveraging our enterprise capabilities including robust data analytics, value-based and chronic care management programs and community presence to provide innovative, localized, state-based solutions. We emphasize addressing barriers to health, including social determinants, to bring value back to our members, state partners and shareholders.

We've increased the number of states served from 3 in 2019 to 7, including the recently-awarded Ohio and Louisiana contracts. As previously shared, we are actively preparing for the Ohio contract implementation later this year as well as for the implementation in Louisiana, which is expected in early 2023.

Medicaid membership and revenue growth is expected to be positively impacted by the Ohio and Louisiana implementations in the near term, largely offset by the resumption of redeterminations which we currently expect to begin in early 2023 when we anticipate the public health emergency will end.

In the mid-term, we intend to continue to invest to grow our platform organically implement new contracts and actively work towards procuring additional awards in priority states. As we look towards 2025, we project awarded membership to reach 1.5 million lives.

We have seen significant RFP activity that we expect to remain elevated through 2024. Successfully retaining our Florida business is a priority, with the procurement release expected in the fourth quarter of 2022 or early 2023 and implementation anticipated in 2025.

In summary, through 2025, we expect the maturing businesses to collectively contribute approximately 10% of overall enterprise earnings and grow mid-single digits per year. These businesses are key to our long-term strategy to extend our leadership position in the industry where integrated health care services and a value-based care model is increasingly important. We are confident in the potential for these high-quality assets to meaningfully contribute to our long-term earnings growth as they continue to scale and mature.

Finally, there are businesses within our portfolio that have flat or declining earnings driven by industry or market dynamics, and in aggregate, have limited earnings contribution but provide meaningful strategic benefits for the enterprise. This includes our Employer Group medical, group Medicare Advantage, stand-alone PDP and military businesses, which I will refer to as our legacy businesses.

With respect to our Employer Group medical business, as we have recently communicated, in the near term, we are focused on optimizing the cost structure and margin in this business. As a result, we anticipate a continued reduction in membership.

While we are focused on optimization, we would note that the employer group business provides enterprise benefits, including sales into our Specialty Benefits business as well as conversions to individual MA. We will continue to work to maximize these cross-selling and conversion opportunities.

In the stand-alone PDP market, as you are aware, the overall market continues to decline as more beneficiaries, including dual eligibles, choose Medicare Advantage. In addition, as we have discussed previously, the PDP market is competitive with the low price leaders capturing disproportionate growth.

We continue to focus on creating enterprise value from our PDP plans by driving increased mail-order penetration, which is in the low 20s percent range today, and conversions to Medicare Advantage, where we expect to convert approximately 100,000 Humana PDP members to a Humana MA plan annually.

Group Medicare Advantage also falls into the legacy category, given variability in membership growth and earnings year-to-year as large accounts are won and lost. As we have shared before, we are committed to remaining disciplined in our pricing in a competitive group Medicare Advantage market.

Despite the variability in group MA membership growth, we remain committed to this business as it supports provider network improvements, significant fixed cost coverage and strong STARS ratings, which also benefit our individual MA contracts.

Finally, Humana Military represents one of the nation's largest defense contractors, and we are pleased to be celebrating over 25 consecutive years of supporting the Department of Defense since the inception of the TRICARE program. Our military business produces consistent margins, a solid ROIC, and supports our commitment to public-private partnerships that are aimed at advancing and improving health care.

In the near term, we expect membership to be steady in the existing contract. The T-5 contract is projected to begin in 2024, with a 9-year duration and would result in a 20% to 25% reduction in membership due to a change with the next-generation contract whereby the DHA has moved to a balanced 2-region model. We remain dedicated to continuing to serve military service members, retirees and their families.

In total, in the mid-term, we expect the legacy businesses to have a reduction in revenue and earnings of approximately 2% to 5% annually, while continuing to provide meaningful benefits through enterprise, as I just described. Again, when we bring the entire portfolio together, we expect enterprise revenue and earnings growth of approximately 10%. At an enterprise level, we are also committed to driving growth from further operating leverage, which we expect to contribute 1% to 2% to earnings annually.

As we have shared throughout the year, the organization has been focused on executing on our \$1 billion value creation initiative. We are confident in our ability to deliver on this plan, allowing for investments in our Medicare Advantage business, which we anticipate will support significantly improved membership growth in 2023 and a return to at or above industry growth by 2024.

We intend to maintain the increased focus and discipline that have driven our value-creation efforts and developed a framework that is designed to allow us to sustainably drive operating leverage while creating a culture that promotes continuous improvement through organizational efficiencies and productivity gains.

We believe there is opportunity beyond the \$1 billion of value we plan to realize in 2023, and are committed to improving operating leverage by approximately 20 basis points annually on a business mix adjusted basis, which we expect to drive the 1% to 2% earnings growth contribution annually.

Moving to our capital deployment priorities. Disciplined and balanced capital allocation is a key focus of this management team. Investing for organic growth is our top priority, followed by strategic M&A and the return of excess cash to shareholders through buybacks and dividends.

Our capital allocation framework allows for flexibility so we can be agile in directing capital in a manner that provides the highest risk-adjusted return and allows us to take advantage of opportunities to significantly accelerate our strategy and advance our competitive positioning.

Humana has grown earnings largely organically, and we are proud of our industry-leading ROIC of 16.3%. Driving organic growth continues to be the highest and best use of our capital. We will continue to be focused and strategic in considering M&A opportunities as we look to extend our CenterWell capabilities, with a particular focus on growing our Primary Care and Home businesses as discussed earlier today.

We are planning for the full acquisition of centers built in partnership with Welsh Carson through our put and call options beginning in 2025. The options are exercisable using an agreed-upon methodology that includes a combination of revenue multiple and return thresholds.

If we call our 2020 cohort in 2025, the cash outlay is expected to be between \$450 million and \$550 million. Looking longer term, the total cash outlay from 2026 to 2030 is anticipated to be \$2.5 billion to \$3.5 billion, ramping throughout this time period as we accelerate the level of annual builds from 20 centers in 2020 to approximately 30 centers annually from 2023 to 2025. We anticipate funding these transactions with a mix of debt and cash on hand, and expect these transactions to be accretive to our underlying earnings growth.

We expect capital deployment, including ongoing share buybacks, to contribute approximately 2% to EPS growth annually. We expect to continue utilizing accelerated share repurchases and currently anticipate repurchasing shares valued at approximately \$1 billion each year. But as I previously mentioned, we will be agile in directing capital in a manner that provides the highest risk-adjusted return.

We also recognize that dividends are important to our shareholders, and planning to continue to grow our dividend. Since 2018, we have returned \$6.2 billion in the form of share repurchase and dividends, reflecting our commitment to delivering strong shareholder value and returns.

As of June 30, our debt-to-cap ratio was approximately 45%. Our plan is to utilize the majority of the approximately \$2.8 billion in proceeds from the divestiture of our 60% interest in the Kindred hospice and community care businesses, which closed last month, to pay down debt as we look to delever back to the low 40s by the end of the year. As we look longer term, we continue to target a 35% debt-to-capitalization ratio, although we remain willing to consider moderately higher levels to support strategic M&A.

Turning briefly to 2023. While it is too early to provide specific guidance, I would reiterate our commitment to grow 2023 adjusted EPS within our targeted long-term range of 11% to 15% off of our expected 2022 adjusted EPS of \$25, which will put us on a path to achieve our 2025 adjusted EPS target.

We look forward to providing incremental color regarding 2023 on our third quarter earnings call in early November, including initial expectations for 2023 individual MA membership growth. We will provide detailed 2023 guidance on our fourth quarter call in February, which will consider the results of the 2023 AEP and our full year 2022 results.

Bringing it all together, our expected performance against our key performance indicators gives us clear line of sight to achieve our \$37 adjusted EPS target in 2025. The approximately 10% enterprise revenue and profit growth expected and overall approximate 14% EPS growth is underpinned by a return to MA membership growth at or above the industry rate by 2024, a 20 basis point improvement in operating leverage on a mix adjusted basis, and a 2% contribution from capital deployment.

This enterprise framework is supported by additional line of business performance indicators including items such as mail-order penetration rate in our Pharmacy business and patient panel and earnings growth in our Primary Care organization. We will provide updates on these items so you can follow our progress, either quarterly through our earnings release reporting, on a periodic basis through our public commentary and/or future Investor Day updates, to ensure you receive the transparency needed to track our progress against our 2025 EPS target.

You will notice that we have not called out our individual MA pre-tax margin as a key performance indicator. As discussed, the main drivers of our mid-term EPS growth are expected to include individual MA membership growth, improved operating leverage and returns from capital deployment, and in the long term are also expected to include an increasing contribution from our CenterWell businesses.

We believe it is important to balance sustainable earnings growth through membership growth and margin improvement across the enterprise, and we will be prudent in utilizing these levers to maximize earnings growth and shareholder value.

Further, we are committed to delivering greater operating leverage in the future, inherently implying enterprise margin expansion and therefore, individual MA margin expansion, given the size of the business. In 2022, we remain on track to expand individual MA margins by at least 50 basis points as we had committed to earlier in the year.

We will continue to invest in our growing CenterWell assets and our ability to increase use of these capabilities by our health plan members, which have the potential to drive significant enterprise earnings and margin growth. In addition, our planned organizational simplification is designed to allow us to operate with more collaboration to unlock greater synergies between our businesses.

And as we evolve and accelerate our strategy for continued leadership in an industry that is shifting rapidly towards value-based care, we expect that our CenterWell health care services will be an increasingly important contributor to our long-term growth.

These changing dynamics of our business make the individual MA margin increasingly less relevant as a key determinant of our ability to drive strong earnings growth. We are confident that the enterprise earnings framework discussed today, combined with the detailed line of business performance indicators we have committed to sharing, will provide you with the transparency you will need to measure our progress and execution against our strategy.

We believe that the financial updates and targets that we are providing today collectively serve to demonstrate the urgency and enhanced focus that we are bringing to bear across each lever available to us as we deliver sustainable earnings growth and value for our shareholders.

This focus is evident in the strength of our 2022 results, the successful execution of our \$1 billion value creation initiative, and is also evident in our confidence in increasing momentum over the 2023 to 2025 period. Our confidence in our plan and ability to execute is high, and we believe we are poised to deliver accelerating value creation for shareholders near and long-term.

As we look to the long term, there is significant momentum within the organization in not only the MA space, but also the growing Primary Care, Home and Medicaid businesses. We are well positioned for continued strong growth and leadership in individual Medicare Advantage as well as the delivery of integrated value-based care.

The growth and maturation of our CenterWell assets are expected to bolster our ability to continue to drive compelling earnings growth, drive increased cash flow, creating additional capital deployment opportunities, and allow us to self-fund further Primary Care expansion if we choose to do so.

This time period will also allow for the maturation of the potential benefits from the advancement of the flywheel. As Bruce shared, when we integrate our assets effectively in local markets, we see accelerated volume growth, better experiences in clinical outcomes and improved Humana enterprise economics as a health plan member utilizing the full suite of CenterWell assets can drive 2x to 4x the direct margin dollars for the enterprise versus one that utilizes the health plan alone.

In addition, we believe the flywheel can drive additional value in areas such as improved retention and higher Star scores, which we have not attempted to estimate in the 2x to 4x metric previously shared. We believe there is the potential to unlock significant value over time as the flywheel matures, and importantly, this value is not currently contemplated in our mid-term target.

We are excited about the future and are confident in our ability to deliver on our new 2025 adjusted EPS target. Also, while driving compelling earnings growth over the next 3 years, we will continue to invest for the future. As a result, we are equally excited about what comes after 2025. Our business and operating momentum gathers even greater pace as we reach the end of the mid-term period, with the material scaling of our health care services as an increasingly important component of our integrated value-based care delivery model.

Importantly, we believe the momentum in our strategy and growing contribution of our CenterWell capabilities positions us for continued, compelling earnings growth in 2026 and beyond that is expected to be at or above the EPS growth trends reflected in our new mid-term target.

We look forward to providing you with more precise guidance for 2026 and beyond at the appropriate time in the future. With that, I will now turn the call back over to Bruce to provide closing commentary.

Bruce Dale Broussard - Humana Inc. - President, CEO & Director

Susan, thank you. We appreciate you spending this time with us today. I'll end today where we began, the basis for our strong leadership position in our industry that will enable significant value creation in the mid and long term.

Our 2025 \$37 EPS commitment is based on the investment thesis we've reviewed during today's presentation. Let me reinforce that investment thesis. First is the strong industry fundamentals of the Medicare Advantage space. Second, it is our competitive position within the industry and the differentiated capabilities that enable our leading platform complemented by the investments we've made in 2023, which will allow us to grow at or greater than market.

Third is our value-based health service delivery ecosystem in Primary Care and Home, which will drive sustained EPS growth well beyond 2025. Fourth is the integration of our individual health service businesses in the local markets, which creates further value for our shareholders and for our customers. And fifth is our discipline in and focus on productivity and capital returns, which will drive further operating leverage.

We hope you share our enthusiasm and confidence for the opportunity ahead, and we now will be happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question coming from the line of Stephen Baxter with Wells Fargo.

Stephen C. Baxter - Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst

I appreciate the color on how you're thinking about Medicare Advantage enrollment growth. I would love to get a sense of how you're thinking about rates over the next few years relative to the strong rates we've seen for the past couple? And then just on competition, clearly that's been an area of increased focus for the past couple of years. Any sense of your competitive dynamics in 2023 would be great.

Timothy Alan Wheatley - Humana Inc. - Segment President of Retail

Thank you for the question. This is Alan Wheatley, our Retail Segment President. Related to rates, obviously, we continue to work with CMS to give information to them to what we think about the rates look like, how we think about trends, what we see about the impact of COVID. We know there's been a positive rate environment over the last number of years. Obviously, inflation is going to have an impact on trends as well. We're busy understanding what that looks like and making sure we share that data.

In terms of competition, we -- and '23 growth, we feel good about where we are. We feel good about the investments that we've made for '23, and making sure that we're well positioned to be able to achieve the goals that we set out. So we're excited about taking material ground in '23 and looking forward to '24 and beyond.

Operator

Our next question coming from the line of Kevin Fischbeck with Bank of America.

Kevin Mark Fischbeck - BofA Securities, Research Division - MD in Equity Research

Okay. Great. Maybe just a follow-up on that, because the commentary about growing faster in 2023 and then being at or above in 2024 and beyond, I think you talked about increasing dual benefits by 50% this year, others by 20%. So it seems like pretty strong increases in benefit design without

getting to be above industry average next year, so just trying to understand if there's something else that's kind of mitigating that growth this year that leaves you kind of a little bit more cautious to be below?

And then what gives you more confidence that the following year, we'll see bigger flow through? Because I would expect you probably wouldn't see the same degree of benefit improvement in 2024, but you're expecting, I think, accelerating growth in 2024. Just a little more color on that.

Timothy Alan Wheatley - Humana Inc. - Segment President of Retail

This is Alan again, and I'd ask George to add more color. The previous question was about rate book. We know that there was a favorable rate book for 2023. We made some strong investments above the rate book, so we feel good about our position. George articulated a variety of ways we use the dollars and also leverage the \$1 billion of capacity.

What we've seen thus far gives us confidence that we are in a good position for 2023, but there's still a lot of information that we don't know. So we need to see how others may have used the rate book and others who have been more historically aggressive have positioned their products for '23 before we give anyone a number.

George Renaudin - CarePlus Health Plans, Inc. - SVP of Medicare Markets, Economics & Provider Experience

It's George Renaudin, new President of Medicare. I would just add to that, that we've been doing a number of broker meetings and attending sessions with a lot of our external channel partners. And the positive feedback we've been getting from all of them does give us a lot of confidence in the improvement we'll see in '23, and that our product positioning is very well made so that we feel pretty good about what we're going to do in '23.

Timothy Alan Wheatley - Humana Inc. - Segment President of Retail

But again, until we see the rest of the data -- we just need to be thoughtful about leveraging our analytics to take a look at the data because until the rate -- the information comes out, Plan Finder comes out on October 1, we will try to be a little more cautious and think through how it is we're going to position our benefits and where we're positioned in the market. Early returns are positive.

Bruce Dale Broussard - Humana Inc. - President, CEO & Director

Kevin, maybe just to add, and thanks for the question. We want to ensure we understand what the competitive dynamics are after we've made our adjustments. I mean, as you can see and here, we have a lot of confidence both in when we made the investments and also what we see today. We don't want to get ahead of ourselves on making the improvements.

We do feel that we've made substantial improvements in our MACVAT value over the last few -- compared to 2022, and we think that will get us to there. Based on that, we might have to make some other structural changes in 2023, for 2024, but we want to make sure that we see '23 before we really get to make the final conclusion there.

But I do want you to come away from the meeting today that we are committed to growth greater than the industry. We have the capabilities. As we've outlined, we have the leading positioning in the marketplace, we have a brand, so we know we can do it. It's just what do we need to do on the benefits there to be both competitive and also be able to have structural advantage.

Operator

Our next question coming from the line of Joshua Raskin with Nephron Research.

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

First, could you just provide an update on utilization trends that you've seen since your update on the 2Q call, and I'm specifically interested on thoughts around that 3Q MLR consensus, I think it's [86.8%].

And then my bigger question would be, would you consider a larger acquisition or an acceleration of your investments or even set of acquisitions to accelerate your ownership of value-based care centers?

Susan Marie Diamond - *Humana Inc. - CFO*

It's Susan. I want to take your questions, and Renee can add on as well. In terms of overall utilization, as we shared on our second quarter call, we have seen medical costs in our individual MA business running favorable to our expectations. We've been seeing lower-than-expected in-patient utilization, which was partially offset by some higher-than-expected in-patient unit costs, and then also slightly favorable non-in-patient costs.

I'm pleased to say that those trends have continued in the recent weeks, although with some moderation. The current year estimates have continued to restate positively, with in-patient unit costs and non-in-patient trends coming in lower than we initially estimated. In particular, ER rates, observation stays and SNF utilization continue to trend lower than what we would consider baseline trend levels.

In terms of the group MA space, we provided some commentary last quarter that we were seeing higher non-in-patient utilization. Again, here, we are seeing positive current year restatements and moderating trends. In particular, the second quarter surgical trends have moderated, suggesting some of the higher first quarter trend that we described, was potentially due to pent-up demand.

Flu was something we mentioned that we continue to watch since we've seen such low levels the last couple of years. Some initial data out of Australia suggested we might see higher flu levels this year back to pre-COVID levels. Most recent data suggests that it was simply an earlier onset of the flu season, but -- and that has since abated such that it still does suggest it may be a more mild flu season. That's something we'll continue to watch in the coming weeks and monitor other trends overall. And certainly, on our third quarter call, we'll provide additional commentary.

As it respects to MLR, we have reviewed the analyst models and consensus. And as you said, the third quarter is currently at about [86.8%], which we do believe is a good estimate for the third quarter.

In terms of your other question around considering larger acquisitions, as we said in the commentary, we want to continue to be flexible in terms of capital deployment and efficiently deploy the capital available. I think you'll continue to see us leverage creative partnerships and structures as we've done in the past to make sure that we can participate in transactions that can accelerate this strategy.

Having said that, with where we are in debt to cap and some of the priorities we have and commitments under the Welsh Carson joint venture and other initiatives, we do recognize that we don't have as much capacity as we might like to do some of those deals that could be dilutive. We're mindful of the EPS commitments we've made today, and so we'll need to balance all of that. But I think as we've done in the past, we'll continue to be creative and use creative structures in order to make sure that we continue to advance this strategy.

Operator

(Operator Instructions) And our next question coming from the line of Nathan Rich with Goldman Sachs.

Nathan Allen Rich - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I wanted to ask on the CenterWell primary care clinics and that EBITDA progression to \$100 million to \$200 million by 2025. Can you Renee, I guess, maybe talk about -- you talked about the improvement that you saw in the wholly-owned centers over the last 3 years. As we think about kind of

bringing the portfolio kind of up to that average, kind of what needs to be done? And can you maybe talk about just level of confidence in being able to bring the average clinic along that J curve and get that \$3 million of EBITDA that you target?

Renee Jacqueline Buckingham - Humana Inc. - President of Care Delivery Organization

Thanks for the question. This is Renee Buckingham, Segment President for Primary Care. I think we have confidence that we will continue to advance our centers to that center contribution margin. As we shared in our prepared remarks, we've just completed an \$80 million turnaround of our more mature portfolio. Since 2018, we've more than doubled the number of centers at or above that \$3 million contribution margin target.

Additionally, as we look at our de novo centers, we see them performing in line with our J curve expectations, which continues to give us confidence in our ability to continue to progress those centers towards that contribution margin target.

Operator

Our next question coming from the line of Lisa Gill from JPMorgan.

Lisa Christine Gill - JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst

In the past, you've talked about better enterprise economics when the patient utilizes the full suite of your health care services. And we talked a lot today about CenterWell, as well as a patient in the Home. You've talked about a 2x to 4x better margin. Can you talk about where you are today as far as the percentage of patients that utilize the full suite? And then secondly, can you maybe talk about how we should think about your expectations from that perspective for your 2025 guidance?

Susan Marie Diamond - Humana Inc. - CFO

This is Susan. I'll share some thoughts, and then others can chime in. As we shared before, as you said, the 2x to 4x contribution is across the CenterWell capabilities, inclusive of Primary Care, the Home and Pharmacy. We see the greatest penetration in the Pharmacy business, given the maturity of that business and the length of time we've had that asset. And as we said in the call, it's about 38% penetration of individual MA today, although we see that as high as 60% when a patient is supported by a CenterWell primary care physician.

We've also previously shared commentary within our Home business with Kindred, in terms of how the penetration has increased since the time of our initial investment in '18, when I think at that time, our penetration was roughly 8% or so. And we've driven that to close to 20% over the last couple of years.

CenterWell, that one, given the sale of the asset, is going to see lower penetration just because of the geographic coverage it has today. Because we continue to expand that asset, we'd expect to prioritize getting additional Humana members supported by those high-quality physicians.

So I'd say today, when you look at the number of members that use all of those capabilities, it's a relatively small number, and that's simply a reflection of the percentage of members that frankly have access to all of those services today, which again will continue to improve.

I think we mentioned on our second quarter call that one of the things we've done to drive greater focus on this opportunity is to hire dedicated leadership to wake up every day and drive the use of these assets by improving the integration across the capabilities, improving the experiences such that we intend to accelerate the utilization of those additional services by our health plan members in the coming months.

We have not provided any specific targets relative to what we might think in 2025. I think we need to test and learn our way into the effectiveness of some of the new strategies we'll deploy. But that is certainly something, as you saw in the key performance indicators that we shared, that's

something we'll continue to mature over time and provide periodic updates either through our quarterly commentary or presentations like we've done today to keep you apprised of the progress we're making.

Bruce Dale Broussard - *Humana Inc. - President, CEO & Director*

And maybe just to reiterate what Susan is saying. As we look at 2023 and 2024, we look at that as really the building of the opportunity for us in certain markets and test and learn, as what Susan indicated. As we entered 2025 and 2026, we really see that as an opportunity for additional growth in the organization.

Operator

Our next question coming from the line of Stephen Valiquette with Barclays.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Great. So I guess I also have a question here on the variables that might impact the 2023 individual MA membership growth. I guess, separate from the puts and takes that you talked about so far, I guess I'm just curious whether you're still likely to see any lingering challenges from the external telephonic sales channel that you might be factoring into your preliminary view? Or is that all in the rearview mirror now, from your perspective?

Timothy Alan Wheatley - *Humana Inc. - Segment President of Retail*

This is Alan. I would say we factored in any continued pressure we may see from the external call center partners into our 2023 guidance. What I will tell you is we are seeing and expecting improvement across the board from those organizations. I know Bruce and Susan have talked about a variety of measures that we've taken to improve quality, to enhance quality, to also start to redistribute our portfolio into more internal distribution assets versus external.

Now that's a long journey, not necessarily a sprint. But we feel good about the relationships we have with the external partnerships. We feel good about what it is they're doing to position themselves to improve quality across a variety of measures and to improve retention, and we are expecting improvement from them, and given our product positioning, improvement across the board.

Susan Marie Diamond - *Humana Inc. - CFO*

And one thing I would add there is one thing we are anticipating is that collectively, the call center partners will pull back on the level of marketing spend. We view that as a positive. As we've said before, we think the level of spend produced some low-quality leads that led to some of the higher churn across the industry. So that is something we've contemplated. Again, we view it as positive and has been considered as we think about the improvements that we expect to see for '23.

Operator

Our next question coming from the line of A.J. Rice with Credit Suisse.

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

Maybe 2 things. The \$37 target, I appreciate you giving that for 2025. That really puts some perspective on it. When you think about what you've laid out today, certainly in the Primary Care and Home Health side, it sounds like there's anticipation of accelerating earnings growth there.

I wondered, when you think about that 14% compound annual growth that it will take to get to \$37, do you think that's sort of evenly spread over the next 3 years? Or do you think you'll see that accelerate into 2025 because of some of the things you've laid out today?

And then just the other thing specifically on Home Health. A lot of the public companies are talking about the challenge to come up with a value-based model that works, given historic reimbursements from MA plans being considerably less than fee-for-service. It sounds like you guys are moving forward with a value-based model that works for the CenterWell Home Health as well as for Humana and third-party MA plans. Can you just maybe talk a little bit about what are some of the key features to that value-based model that make it work from the CenterWell Home Health, and provide adequate profitability?

Susan Marie Diamond - Humana Inc. - CFO

I'll take your first question and then hand it over to Andy to address your second question. In terms of the trajectory that you might expect towards the \$37, we did reiterate that we've maintained our 11% to 15% range broadly, but that for the mid-term target, we've acknowledged that we expect to be at the high end of that range.

In terms of the trajectory, as you said, there are certain businesses that will have increasing contribution over that time, so not a pure linear sort of progression. The other thing I would comment on specifically, as we said in my commentary. For 2023 specifically, you can't expect us to continue with our practice of conservative planning such that our initial estimate for 2023 would be at the lower end of the long-term range.

We know that we've got some headwinds we'll need to offset in 2023, an example would be the hospice divestiture, but that we had planned for. And so despite that, we are committed to continuing to grow within our long-term range through this period.

And as you said, we will see strong momentum in the business, including significant improvement in MA growth in 2023, continued progress in scaling and maturing our CenterWell capabilities while also delivering increased operating leverage.

So to answer directly, I would say, 2023 would probably be at the lower end of that range as a starting point. But despite that, we have contemplated that in the \$37 target and have great confidence in our ability to deliver the needed returns in '24 and '25 to achieve the \$37.

And Andy, can you take the second?

Andrew C. Agwunobi - Humana Inc. - President of Home Solutions Business

And you mentioned about other public companies talking about the difficulty in the value-based model. Fortunately, one of the advantages of being a first mover, to sort of deploy an integrated comprehensive value-based model, is that we've been able to learn into this over time. And as we've said earlier, our -- the model is in 2 parts.

The first part is direct cost optimization of our Home Health spend, our Home Health costs. And we've already deployed that through our onehome model. And that is advancing, and we're increasing the penetration. And as we said, we expect that we'll be, by 2025, about 40% penetration in that with Humana members in those markets that we have overlap.

And in addition, we -- because we have the platform, so -- we feel good about our position because we also, in addition to the first mover advantage that we have, we also have the platform. So we have Kindred at Home, as been mentioned, very large, largest home health provider in the country, which gives us that core ability to build on top of in terms of the rest of the value-based model, which is about clinical innovation.

And so when you think about the margins, you mentioned about the sort of original Medicare fee-for-service margins versus value-based care. Today, yes, the -- under the current value-based cost optimization model, the profitability of Medicare Advantage in that model is less than the profitability of fee-for-service. However, what we -- the advantage of the value-based model is that we get our value at an enterprise level, not just at the provider level.

So in addition to driving more MA volume to our proprietary asset, CenterWell Home Health, we're able to generate cost savings through the utilization management, network management, DME and infusion model for our health plan partners as well. And so that the enterprise value is greater and starts to approximate where we are with our fee-for-service.

Now having said that, we are growing our fee-for-service business as well. And in the longer term, we believe that, that will be less than our MA growth. MA growth will be more relevant over time. And we think that particularly when we do the clinical innovation, we're going to see those margins increase more, and we're also going to generate -- we will then -- as we mature that model, we will then be offering it in a peer-agnostic fashion as well so that we will generate more value there, so...

Bruce Dale Broussard - *Humana Inc. - President, CEO & Director*

To add to that, one of the benefits of having both the Medicare Advantage profitability and the Home profitability is that you're able to achieve the value-based benefits of reduced episodes, and in addition, the clinical outcomes that show up as much and more, just depending on how we share it between the Home Health business and the Insurance business.

And so by having both of those, it really increases the enterprise profit. If you're a stand-alone Home Health organization, it does become a little more difficult because you're lowering the volume, and you do have some downstream benefits if you can negotiate it with the payer.

Our opportunity as it shows up in the combined organization as a result of lowering the volume, and in addition, focused on the clinical outcomes, and taking that lower volume and reinvesting the capacity and the ability to grow the business. And so I think the benefit for us is much different than a stand-alone Home Health company.

Operator

A question coming from the line of David Windley with Jefferies.

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

I have a multi-parter on the primary clinics. You have -- you mentioned that in your more recent build-outs, you focused on a smaller size. Those are staffed with fewer physicians, have fewer patients per physician. Do they -- do all the clinics, both the sizes of clinic, the models, have the \$3 million EBITDA contribution potential?

Then on your slide, when you talk about -- I think you mentioned \$1 billion of EBITDA contribution in the aggregate in the 2030s, but that potential would be embedded by 2025. The 400 to 450 clinics by the \$3 million would be a higher number than \$1 billion. So wondering if you have some conservatism, or rather, offsets baked into those expectations?

And then finally, you're continuing to maintain 2 brands, and you've invested a bunch in CenterWell as a rebranding strategy. I'm wondering what the reason or value is for maintaining the Conviva brand?

Renee Jacqueline Buckingham - *Humana Inc. - President of Care Delivery Organization*

Thanks, David, for your questions. Let me take the brand one first. We created the Conviva brand about 4 years ago. Obviously, there was an opportunity to bring 3 different organizations together, 3 different cultures, 3 different operating models. And we spent quite a bit of time with consumers and our providers in the development of the Conviva brand, and we think that there's value in the marketplace of that Conviva brand.

So we want to be really thoughtful about when or if we were to change the Conviva brand to the CenterWell brand. But we are committed, as we continue to expand our primary care business into new markets, that we will use the CenterWell primary care brand as the primary brand.

On the size of our centers, we expect that our size of our centers going forward will be able to include 3 to 4 care teams, and so that is included in our estimated average \$3 million center contribution margin. And so we believe that going forward, we will continue to maintain that size, and that's included in that.

Susan Marie Diamond - Humana Inc. - CFO

And then, David, I'll take the third question you had. I think your question related to the \$900 million embedded EBITDA that we referenced -- that Renee referenced versus the \$1 billion reference, I think the distinction there is the \$900 million was meant to reflect for the centers that will be opened by the end of 2025. What is the mature contribution potential of those centers, which is that \$900 million, once they reach ultimate maturity.

The \$1 billion that I referenced in my commentary in 2030, that was reflective of the actual contribution at that time period for all of the centers opened at that time, which are in various stages of maturity, so not a mature run rate compared or like the \$900 million was. So hopefully, that helps clarify what those references are.

Operator

Our next question coming from the line of Justin Lake with Wolfe Research.

Justin Lake - Wolfe Research, LLC - MD & Senior Healthcare Services Analyst

First, I just want to follow up quick on A.J.'s question around '23 numbers. Susan, you were referring to the low end of the 11% to 15% guidance. So you'll start out conservatively, let's say, in the 11% to 13% range, kind of regardless of where MA membership shakes out. Is that the right way to think about it?

Susan Marie Diamond - Humana Inc. - CFO

Yes. I mean, certainly, we will consider where -- what the early indicators look like for the membership for 2023, will certainly be one of the inputs. But yes, in general, you can expect that we will approach 2023 guidance much like we did '22 where we will start with a more conservative posture but still within our 11% to 15% range. Just expect that to be at the low end to start.

Justin Lake - Wolfe Research, LLC - MD & Senior Healthcare Services Analyst

Got it. And then my questions are just a couple of quick numbers ones. Susan, your -- you gave the maturing businesses, you talked about 15% plus revenue growth, but it looks like kind of mid-single-digit profit growth there. And what I find interesting is I think you said you added up \$200 million to \$300 million of profit from Home Health and the Physician Management business alone, which would seem to -- seem to me to imply that maybe Medicaid is shrinking. So I just want to think about the Medicaid piece of that in terms of redeterminations?

And then lastly, on Star ratings, you've gotten the preliminary numbers. I'm sure you don't want to share a specific number that you've gotten for those Star ratings that come out in October. But maybe you can just let us know whether we should expect that maybe to be a headwind for 2024, or you continue the excellent performance you've been having there?

Susan Marie Diamond - Humana Inc. - CFO

Sure, happy to. So on the maturing businesses, as you said, we've indicated we expect mid-single-digit growth. Some of that relative to what you just said that you may not have considered is within the Home numbers that Andy shared, those are enterprise contribution numbers. Where

exactly those -- that contribution shows up across the health plan and the Home segment, we haven't said specifically. So just keep in mind, that is an enterprise number versus just a Home specific number. And so some of that contribution will go to the health plan.

To your point, we will also see Medicaid revisions. They will not see the same profitability they saw this year. As we said before, we have greater membership because of the [TAG], and that membership tended to be lower acuity, and so was disproportionately profitable relative to what you would typically see in the Medicaid book. And we expect to continue to win and implement new procurements, which have start-up costs and other things associated with it. So to your point, we'll see Medicaid reduce in earnings contribution relative to where it is for 2022.

I think on the Star ratings question, I mean, I think we -- as Alan and George shared, we continue to feel good about the capabilities that we have to drive industry-leading Star scores, and we do expect that to continue. We're not able to share any specific details until the information is published by CMS in a couple of weeks, but certainly look forward to sharing an update at that time.

George Renaudin - *CarePlus Health Plans, Inc. - SVP of Medicare Markets, Economics & Provider Experience*

Just now, I would just add -- this is George, that we do feel very confident given our operating model and our long track record of success in this market leading the industry. Quite bullish on our continued success in being a leader in this space based upon what we do around value based, what we do around interoperability and how we engage with our members. So we feel very confident about our positioning in Stars going forward.

Operator

Our next question coming from the line of Scott Fidel with Stephens.

Scott J. Fidel - *Stephens Inc., Research Division - MD & Analyst*

Just interested if you can talk about how you see enterprise-wide pre-tax margins ramping over the 2022 to 2025 time frame? Would you see that as sort of a linear improvement as you get some maturing and EBITDA contributions from the clinical businesses?

And then just interested if you do have a specific 2025 enterprise-wide pre-tax margin target that is embedded in that \$37 EPS target that you provided for us today?

Susan Marie Diamond - *Humana Inc. - CFO*

In terms of the progression of the enterprise pre-tax margins, similar to the commentary I mentioned in terms of the EPS progression. For the same reasons, I think you'll see similar dynamics in terms of as we see enterprise earnings growth, and therefore, pre-tax margin movement towards that \$37. We'll start out conservatively in our '23 estimates and expect increasing contribution over '24 and '25 as we do see increased contribution from CenterWell and Home, as well as the benefit of the increasing MA membership growth that we expect starting in 2023.

We have not indicated, as you saw, enterprise margin, specifically in terms of a key performance measure. During this mid-term period, as we said in our commentary, the 3 sort of main drivers that we think you should be focused on and hold us accountable for, and what we will hold ourselves accountable for, are going to be a return to industry-leading MA growth, delivering improved operating margin of 20 basis points annually and then consistent 2% contribution to EPS from capital deployment.

And those really are the 3 main drivers within the model that determines our ability to achieve that \$37 target. And so those are the things you'll hear us consistently provide progress updates against to ensure that we're on track to deliver against that goal.

Operator

Our next question coming from the line of Gary Taylor from Cowen.

Gary Paul Taylor - *Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care*

I had a couple of quick questions. The first one is for Alan. Was just wondering if you can provide a little more detail on what competitive intelligence you do have today or what the brokers actually have? Are you actually allowed to share any of your benefit design changes, specifically with brokers? And do they have that from other plans or really does the whole industry, including the brokers, get that unveiled in October with Plan Finder?

And then my second question is just on regulatory. I appreciate the comment you just touched on the Stars. There's a pre-auth bill just proposed in the house, and of course, we always wonder what's going on with RADV and risk adjustment. So just wondering maybe just a couple of quick comments broadly on regulatory, if there's any particular discourse between CMS and the industry that has picked up or looks imminent in any way?

Timothy Alan Wheatley - *Humana Inc. - Segment President of Retail*

It's Alan. I'll take the first question. It's standard practice in the industry, after you submit your bids in mid to late summer, that plans will share preliminary high-level information with brokers and get information out in the industry. We do the same thing, so you're able to see some of the high-level information across different organizations, and that's a lot of what we call first-look pricing.

And we obviously will sit down with brokers, as George mentioned, and talked to them about what they're seeing in the market, how they feel like we're positioned relative to the market broadly and try to study publicly available information to the degree that we have it.

And then so that's why most often, the first book pricing is less than 50% of the detail. So -- and it typically covers expansion and some key benefit elements. So the rest of the detail is very important, and that's why we wait for October 1.

Bruce Dale Broussard - *Humana Inc. - President, CEO & Director*

In regards to the regulatory environment, I would say a few things specifically on your pre-authorization area. The pre-authorization bill has been passed around. It's really not around eliminating pre-authorizations, it's really oriented to making a much more -- focused on the treatments that do need pre-authorize because today, the industry probably has a more broader -- puts many more people through pre-authorization than what -- and so the acceptance rate is high.

What they're trying to do is to really have less impact on the individuals that don't need the pre-authorization, and I think that's just going to put an onerous on the industry to be much more thoughtful and analytical in the way they approach it. But I don't see it having an impact from a point of view of -- a financial point of view. I think operationally, it will be, and we are preparing to be operationally prepared for it if it does move through the Congress.

In regards to RADV and other areas, the environment is fairly, I would say, consistent to what it's been in the past. We do anticipate at some point in time that RADV will be coming out. We've had -- the industry, Humana, and I know our colleagues in other parts of the country have also been engaged with CMS in both educating about the merits of why Medicare Advantage was set up. And in addition, the impact it could have on benefits, specifically around probably the more lower income-based benefits such as social determinants of health and some of the non-medical benefits.

So I think there's an active awareness of it, but we do believe at some point in time that we will see more from CMS on that, but I think it's fairly quiet now, and I think it's quiet as a result of probably them being in the drafting stages of different policies, including maybe RADV.

Operator

Our next question coming from the line of Michael [Hall] with Morgan Stanley.

Unidentified Analyst

So D-SNP has been a success story over the past 5 years, ever since it was made into a permanent program, industry growing roughly 20% membership CAGR, Humana almost double that. Now heading into '23, it looks like you guys are increasing your planned benefit value by another 50%. But with that said, the integration requirement between Medicaid and MA, they've been pretty loose since it's not necessarily mandatory in most states for a D-SNP plan to operate a Medicaid plan. But more and more states are now implementing stricter requirements. I think there are 10 states now that require Medicaid contracts to operate a D-SNP.

So first question, do you see a future where most payers eventually make this requirement? And two, if it does increase over time, how do you view your Medicaid book and position, and how does that influence your long-term growth strategy?

Timothy Alan Wheatley - Humana Inc. - Segment President of Retail

Good question. And this is Alan, I'll take it. I think there are 16 states that actually have integration requirements on top of the 7 states that have dual demos. Demos are going away in the end of 2025, so that opens up, depending on what the state does, either more integration or more individual MA opportunities.

As we've talked for a variety of years, one of our entry points into Medicaid was understanding that integration was going to occur over time. We're continuing to see that develop. We watch very closely our key states in terms of our own D-SNP footprint and the opportunities we evaluate from an overall Medicaid standpoint. And we're very focused on making sure that we are participating in RFP processes in all those key states irrespective of integration.

But we certainly have a keen eye on integration, where it exists today, how important that stage is to us for individual MA and what it might look like in the future. So we're very aware of it, and we're trying to use it as an opportunity to continue to foster what we do, candidly. Because we believe the more states are integrated, the more opportunity we have to compete because of our Medicare and Medicaid capabilities combined.

Bruce Dale Broussard - Humana Inc. - President, CEO & Director

I'd like to reinforce that latter point. It's what we are finding is the Medicare brand we have and the success that we've had in D-SNPs actually helps us with the Medicaid platform that we have, and things like social determinants of health has distinguished us in a lot of the RFPs.

In addition, when we think about integration, there's really integration of the plan itself and then there's also informational integration. And what we've also experienced that there's a number of states that are integrating, but they're utilizing the informational integration as an opportunity as opposed to just the plan itself. And so we see it actually as a tailwind for us as an organization in winning more RFPs as a result of our Medicare platform. And then in addition, the continued advancement within the states that we have of being able to add additional dual business.

Operator

And our next question coming from the line of George Hill with Deutsche Bank.

George Robert Hill - Deutsche Bank AG, Research Division - MD & Equity Research Analyst

Susan, I want to circle back to something that Kevin kind of touched on earlier in the Q&A, which is with the planned value increases of about 50% for the duals and 20% for the non-duals, and we know what the rate increases going into '23 looks like. As it relates to individual MA margins, I know the company is deemphasizing it, but should we expect kind of a step down or a reset as we head into 2023? And I know that the government, HHS was also looking to reverse the Medicare physician fee schedule cut for 2023. Is that a meaningful impact as we think about kind of MLR and medical costs in '23?

Susan Marie Diamond - Humana Inc. - CFO

Yes, as you said, we do intend to deemphasize that individual MA margin going forward and prioritize those other key drivers and performance indicators that really do underpin our ability to achieve the \$37 target.

But to answer your question specifically on '23. As we've said in our earlier commentary around just the investments we plan to make for '23 to get back to industry-leading growth, we are funding those investments through administrative cost savings and other value creation that will come from our \$1 billion value creation initiative.

As we've said before, that \$1 billion of value creation will come across the enterprise, but then be disproportionately invested back into the individual MA product as well as marketing and distribution. And so you will see the resulting impact of that on the individual MA margins going into 2023.

Having said that, there are a variety of puts and takes each year. You've got revenue yield off of the rate book plus traditional risk adjustment as the book ages, medical cost trend and other things that will go into that, and we'll certainly evaluate as we finalize our 2023 estimates and guidance points in February. So we're not prepared to share anything at this time. And again, going forward, we would look at [your] specific individual MA margin progression.

But you say -- as you said in the commentary, given the overall improvement in earnings that we expect over the time period inherently, you can expect the enterprise, and therefore, given the size of the individual MA business, continued MA margin expansion over that time frame. Like '23, in particular, which we left because of those investments that we're making in order to return to industry-leading MA growth.

Operator

Our next question coming from the line of (inaudible) with [Griffin] Research.

Unidentified Analyst

I guess -- just wanted to ask about the legacy business segments that you kind of all bucketed together this morning. Expecting 2 to 5 points of revenue declines in, in line earnings. I guess, how do you think about it as sustainable over the longer term? And is this something we should continue to focus on, or is it something that we'll assess on an annual basis going forward?

Susan Marie Diamond - Humana Inc. - CFO

Rob, great question. And as I said in my commentary, while the businesses themselves are more challenged to contribute at the earnings contribution rate that we would expect broadly, there are a number of advantages and benefits that those businesses have.

PDP is one of the most significant where, on a health plan basis, it doesn't contribute necessarily to earnings growth, but it does contribute significantly to our pharmacy business, and also then contribute significantly in terms of the number of our PDP members who will then convert to MA. And we see a disproportionately higher rate of conversion from our own PDP members versus the share capture we would see just in the open market. So each of those businesses contributes in various ways.

Having said that, I would say, over the long term, we will continue to evaluate those businesses and what makes the most sense long term. The Part D program, in particular, we expect to continue to go through change as there continues to be a focus on reducing drug costs. How that ultimately impacts the program and what the potential for that industry looks like is something we'll continue to evaluate. But I would say long term, we will continue to evaluate the contributions of those businesses and what the right operating model is and priorities are going forward.

Operator

Next question coming from the line of Whit Mayo with SVB Leerink.

Benjamin Whitman Mayo - *SVB Securities LLC, Research Division - MD of Equity Research & Senior Research Analyst*

Just wanted to go back to CenterWell for a second. You mentioned earlier the ability to preserve optionality in the DCE program or reach ACO, and also touched on MSSP. Can you maybe share how you're thinking about your participation in those programs in 2023, and then what are you sort of contemplating in the 2025 target, or is this perhaps all incremental?

And maybe secondly, if you could just share any views you have on which one of the programs today you may find more appealing or successful for your staff model?

Renee Jacqueline Buckingham - *Humana Inc. - President of Care Delivery Organization*

Thanks for the question. So today, we have about 11,000 patients participating in the original Medicare programs. We have our own DCE, we'll be transitioning to ACO reach in 2023 and also participating in MSSP. I think we are taking more of a test-and-learn approach. These programs are very different than Medicare Advantage in terms of the way in which we are compensated for providing the comprehensive care that we provide.

It also targets a different population. People who are more interested in original Medicare and Medicare supplement, and so that is a new patient population. And so we're learning more about their clinical needs and whether or not our model is a really good fit.

I would say there's upside in our potential future 2025 results should we decide to more expansively participate in those programs and open it up to more original Medicare patients going forward.

Bruce Dale Broussard - *Humana Inc. - President, CEO & Director*

Just on that I do want to emphasize, we do have 2 options to participate in the program. One is through CenterWell from a provider perspective, and then the second is through our insurance and partnering with providers, and we do that too. So we do have, I think, close to 50,000 members or so in the DTC product in a way that allows us to also learn from an insurance point of view.

So we do see it as an optionality. We do similar to many of our strategic thought is that we do sort of walk before we run, and this is just an example of the test and learn and see how we can do it, and if we have both the capabilities then it's a financially accretive effort for us.

George Renaudin - *CarePlus Health Plans, Inc. - SVP of Medicare Markets, Economics & Provider Experience*

And I would just add, this is George, that one of the things that we're seeing with the DCE is it allows us to continue to drive our support of our value-based providers as they go through their value journey. So it is an important capability that we have in order to support them as they have membership that's both in MA as well as original Medicare, and those providers are looking for our support there. So we provide our people, process and technology to help them with that same capability.

Bruce Dale Broussard - Humana Inc. - President, CEO & Director

Well, we really appreciate everyone's -- we have one more question? No, sorry.

Operator

(Operator Instructions)

Bruce Dale Broussard - Humana Inc. - President, CEO & Director

Why don't we go ahead and conclude here? And if you obviously, have any follow-up questions, we're more than glad to take them on a one-on-one basis.

As I was saying, we really appreciate the support that our investors provide us over both the short term and long term.

I hope today has been both insightful, but also demonstrates our belief in the capabilities we have as an organization. In an addition, our ability to continue the growth, but do it in a way that our investors can hold us accountable. So we appreciate it, and thank you very much.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may now disconnect.

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