

CENTENE CORP
Form 10-Q
April 26, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016
OR

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

For the transition period from _____ to _____

Commission file number: 001-31826

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

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

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

Registrant's telephone number, including area code:

(314) 725-4477

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

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

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

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not check if a smaller reporting company) Smaller reporting company

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

Yes No

As of April 15, 2016, the registrant had 170,473,015 shares of common stock outstanding.

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

	PAGE
Part I	
Financial Information	
Item 1. <u>Financial Statements</u>	<u>1</u>
<u>Consolidated Balance Sheets as of March 31, 2016 (unaudited) and December 31, 2015</u>	<u>1</u>
<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2016 and 2015 (unaudited)</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Earnings for the Three Months Ended March 31, 2016 and 2015 (unaudited)</u>	<u>3</u>
<u>Consolidated Statement of Stockholders' Equity for the Three Months Ended March 31, 2016 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015 (unaudited)</u>	<u>5</u>
<u>Notes to the Consolidated Financial Statements (unaudited)</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>35</u>
Item 4. <u>Controls and Procedures</u>	<u>35</u>
Part II	
Other Information	
Item 1. <u>Legal Proceedings</u>	<u>37</u>
Item 1A. <u>Risk Factors</u>	<u>38</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>50</u>
Item 6. <u>Exhibits</u>	<u>51</u>
<u>Signatures</u>	<u>52</u>

Table of Contents

CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

All statements, other than statements of current or historical fact, contained in this filing are forward-looking statements. We have attempted to identify these statements by terminology including “believe,” “anticipate,” “plan,” “expect,” “estimate,” “intend,” “seek,” “target,” “goal,” “may,” “will,” “would,” “could,” “should,” “can,” “continue” and other similar expressions in connection with, among other things, any discussion of future operating or financial performance. In particular, these statements include statements about our market opportunity, our growth strategy, competition, expected activities and future acquisitions, investments and the adequacy of our available cash resources. These statements may be found in the various sections of this filing, including those entitled “Management's Discussion and Analysis of Financial Condition and Results of Operations,” Part II, Item 1. “Legal Proceedings,” and Part II, Item 1A. “Risk Factors.” Readers are cautioned that matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, regulatory, competitive and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions.

All forward-looking statements included in this filing are based on information available to us on the date of this filing and we undertake no obligation to update or revise the forward-looking statements included in this filing, whether as a result of new information, future events or otherwise, after the date of this filing. Actual results may differ from projections or estimates due to a variety of important factors, including but not limited to:

- our ability to accurately predict and effectively manage health benefits and other operating expenses and reserves;
- competition;
- membership and revenue projections;
- timing of regulatory contract approval;
- changes in healthcare practices;
- changes in federal or state laws or regulations, including the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act and any regulations enacted thereunder;
- changes in expected contract start dates;
- changes in expected closing dates, estimated purchase price and accretion for acquisitions;
- inflation;
- foreign currency fluctuations;
- provider and state contract changes;
- new technologies;
- advances in medicine;
- reduction in provider payments by governmental payors;
- major epidemics;
- disasters and numerous other factors affecting the delivery and cost of healthcare;
- the expiration, cancellation or suspension of our managed care contracts by federal or state governments (including but not limited to Medicaid, Medicare, and TRICARE);
- the outcome of our pending legal proceedings;
- availability of debt and equity financing, on terms that are favorable to us;
- our ability to adequately price products on federally facilitated and state based Health Insurance Marketplaces;
- changes in economic, political and market conditions;
- the possibility that the expected synergies and value creation from acquired businesses, including, without limitation, the acquisition of Health Net, Inc., will not be realized, or will not be realized within the expected time period; and
- the risk that acquired businesses will not be integrated successfully.

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This list of important factors is not intended to be exhaustive. We discuss certain of these matters more fully, as well as certain risk factors that may affect our business operations, financial condition and results of operations, in our filings with the Securities and Exchange Commission, including our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

Item 1A. “Risk Factors” of Part II of this filing contains a further discussion of these and other important factors that could cause actual results to differ from expectations. We disclaim any current intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Due to these important factors and risks, we cannot give assurances with respect to our future premium levels or our ability to control our future medical costs.

Table of Contents

Other Information

The discussion in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Results of Operations" contains financial information for new and existing businesses. Existing businesses are primarily state markets, significant geographic expansion in an existing state or product that we have managed for four complete quarters. New businesses are primarily new state markets, significant geographic expansion in an existing state or product that conversely, we have not managed for four complete quarters.

Non-GAAP Financial Presentation

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

Specifically, the Company believes the presentation of non-GAAP financial information which excludes Health Net acquisition related expenses and intangible amortization allows investors to understand the Company's performance more consistently. The table below provides a reconciliation of non-GAAP items (\$ in millions, except share data):

	Three Months Ended March 31,	
	2016	2015
GAAP general and administrative expenses	\$722	\$396
Health Net acquisition related expenses	189	—
General and administrative expenses, excluding Health Net acquisition related expenses	\$533	\$396
GAAP diluted net earnings (loss) per share	\$(0.13)	\$0.52
Health Net acquisition related expenses	0.83	—
Amortization of acquired intangible assets	0.04	0.03
Adjusted Diluted EPS	\$0.74	\$0.55

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

	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,436	\$ 1,760
Premium and related receivables	2,529	1,279
Short term investments	269	176
Other current assets	1,317	390
Total current assets	7,551	3,605
Long term investments	3,973	1,927
Restricted deposits	143	115
Property, software and equipment, net	580	518
Goodwill	4,442	842
Intangible assets, net	1,646	155
Other long term assets	317	177
Total assets	\$ 18,652	\$ 7,339
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical claims liability	\$ 3,863	\$ 2,298
Accounts payable and accrued expenses	3,228	976
Return of premium payable	579	207
Unearned revenue	197	143
Current portion of long term debt	4	5
Total current liabilities	7,871	3,629
Long term debt	4,276	1,216
Other long term liabilities	1,052	170
Total liabilities	13,199	5,015
Commitments and contingencies		
Redeemable noncontrolling interests	144	156
Stockholders' equity:		
Preferred stock, \$0.001 par value; authorized 10,000,000 shares; no shares issued or outstanding at March 31, 2016 and December 31, 2015	—	—
Common stock, \$0.001 par value; authorized 400,000,000 shares; 175,952,159 issued and 170,449,444 outstanding at March 31, 2016, and 126,855,477 issued and 120,342,981 outstanding at December 31, 2015	—	—
Additional paid-in capital	4,084	956
Accumulated other comprehensive earnings (loss)	10	(10)
Retained earnings	1,341	1,358
Treasury stock, at cost (5,502,715 and 6,512,496 shares, respectively)	(138)	(147)
Total Centene stockholders' equity	5,297	2,157

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Noncontrolling interest	12	11
Total stockholders' equity	5,309	2,168
Total liabilities and stockholders' equity	\$ 18,652	\$ 7,339

The accompanying notes to the consolidated financial statements are an integral part of these statements.

1

Table of ContentsCENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except share data)

(Unaudited)

	Three Months Ended		
	March 31,		
	2016	2015	
Revenues:			
Premium	\$5,986	\$ 4,299	
Service	425	462	
Premium and service revenues	6,411	4,761	
Premium tax and health insurer fee	542	370	
Total revenues	6,953	5,131	
Expenses:			
Medical costs	5,311	3,861	
Cost of services	367	402	
General and administrative expenses	722	396	
Amortization of acquired intangible assets	9	7	
Premium tax expense	450	281	
Health insurer fee expense	74	55	
Total operating expenses	6,933	5,002	
Earnings from operations	20	129	
Other income (expense):			
Investment and other income	15	9	
Interest expense	(33) (10)
Earnings from continuing operations, before income tax expense	2	128	
Income tax expense	17	63	
Earnings (loss) from continuing operations, net of income tax expense	(15) 65	
Discontinued operations, net of income tax	(1) (1)
Net earnings (loss)	(16) 64	
(Earnings) loss attributable to noncontrolling interests	(1) (1)
Net earnings (loss) attributable to Centene Corporation	\$(17) \$ 63	
Amounts attributable to Centene Corporation common shareholders:			
Earnings (loss) from continuing operations, net of income tax expense	\$(16) \$ 64	
Discontinued operations, net of income tax	(1) (1)
Net earnings (loss)	\$(17) \$ 63	
Net earnings (loss) per common share attributable to Centene Corporation:			
Basic:			
Continuing operations	\$(0.13) \$ 0.54	
Discontinued operations	(0.01) (0.01)
Basic earnings (loss) per common share	\$(0.14) \$ 0.53	
Diluted:			
Continuing operations	\$(0.13) \$ 0.52	
Discontinued operations	(0.01) (0.01)
Diluted earnings (loss) per common share	\$(0.14) \$ 0.51	

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Weighted average number of common shares outstanding:

Basic	125,543,076,783,755
Diluted	125,543,076,572,366

The accompanying notes to the consolidated financial statements are an integral part of these statements.

2

Table of ContentsCENTENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In millions)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net earnings (loss)	\$(16)	\$64
Reclassification adjustment, net of tax	1	—
Change in unrealized gain on investments, net of tax	18	5
Foreign currency translation adjustments	1	(5)
Other comprehensive earnings	20	—
Comprehensive earnings	4	64
Comprehensive (earnings) loss attributable to noncontrolling interests	(1)	(1)
Comprehensive earnings attributable to Centene Corporation	\$3	\$63

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Table of Contents

CENTENE CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 (In millions, except share data)
 (Unaudited)

Three Months Ended March 31, 2016

	Centene Stockholders' Equity				Treasury Stock				Total
	Common Stock		Accumulated				Non		
	\$.001 Par	Additional	Other	Retained	\$.001 Par	Amt	controlling		
	Value	Paid-in	Comprehensive	Earnings	Value		Interest		
	Shares	Capital	Earnings	(Loss)	Shares				
Balance, December 31, 2015	126,855,477	\$ 956	\$ (10)	\$ 1,358	6,512,496	\$(147)	\$ 11	\$ 2,168	
Comprehensive Earnings:									
Net earnings (loss)	—	—	—	(17)	—	—	1	(16)	
Other comprehensive earnings, net of \$13 tax	—	—	20	—	—	—	—	20	
Common stock issued for acquisitions	48,218,310	3,074	—	—	(1,375,596)	31	—	3,105	
Common stock issued for employee benefit plans	878,372	2	—	—	—	—	—	2	
Common stock repurchases	—	—	—	—	365,815				