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WellCare Health Plans, Inc. (WCG)

Q4 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the WellCare Health Plans 4Q and Full-Y ear 2015 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note that this event is being recorded.

I would now like to turn the conference over to Angie McCabe. Please go ahead.

Angeline C. McCabe
Vice President-Investor Relations

Thank you, Dan, and thank you all for joining us this morning for a discussion of WellCare's fourth quarter and full-year 2015 results. Today, we will be making forward-looking statements, including, but not limited to, our 2016 financial guidance and outlook. Various risks and uncertainties, such as those described in our filings with the SEC, including our annual report on Form 10-K for the y ear ended December 31, 2014 and our quarterly report on Form 1 0-Qfor the quarter ended September 30, 2015, may materially impact those statements. While these risks and uncertainties may cause our future results to differ from today's statements, we are not undertaking any obligation to update or revise any forward-looking statements.

Certain financial information that we will discuss today includes adjustments to expenses related to previously disclosed government investigations and related litigation, transitory costs associated with our decision to change pharmacy benefit managers effective January 1, 2016, Sterling divestiture -related costs, and Iowa-related costs that we believe are not indicative of long-term business operations.

Our forward-looking non-GAAP measures also include amortization expense associated with prior acquisitions. We will identify results that have been adjusted.

In addition, please refer to our news release published this morning for supplemental schedules that reconcile results determined under GAAP to our adjusted results. The news release and the presentation are published on our website at www.wellcare.com.

Our discussion today will be led by Ken Burdick, WellCare's Chief Executive Officer; and Drew Asher, the company's Chief Financial Officer.

I will now turn the discussion over to Ken.

Kenneth A. Burdick
Chief Executive Officer & Director

Thank you, Angie. Good morning, everyone, and thank you joining us for our call this morning. We are pleased with our fourth quarter results and our strong performance in 2015. As we entered last year, we developed and implemented a roadmap for improving our operational and financial performance. And as I'll discuss throughout my remarks, we made substantial progress on a number of fronts. While 2015 was a big step forward, there are a number of areas where we still have opportunities for improvement, particularly in our Medicare business.

On this morning's call, I will highlight some key items that illustrate the progress we are making toward our goal of achieving a 2% plus adjusted net income margin on our existing business, while layering on growth

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opportunities. Then, Drew will review our fourth quarter 2015 financial results and provide some brief comments on our 2016 outlook.

As I discussed on last quarter's call, we continue to deliver in the three areas I outlined at our Investor Day last year:

Number one, a more disciplined approach to running the business;

Two, making progress toward achieving our multi-year margin target on our existing business; and

Number three, strengthening our foundation through investments in people, in processes, and in tools to support our long-term growth opportunities.

Our full-year 2015 financial results reflect operational improvements across all lines of business. Earlier this morning, we reported fourth quarter 2015 adjusted earnings per diluted share of $0.60. For the full-year 2015, adjusted earnings per diluted share were $3.44, well above the midpoint of our original 2015 guidance. In addition, our adjusted net income margin for the full-year 2015 was 1.1%, a 40-basis-point improvement from 2014 and a meaningful first step on the path to achieving our net income margin targets.

In 2015, we delivered on a significant turnaround in the profitability of our Florida MMA business. We've made great progress, but we still have more work to do with regard to rate adequacy to ensure the long-term soundness of the Florida MMA program. We also successfully renewed Medicaid contracts in Kentucky, Georgia, Missouri and New York. We continue to make progress in our Medicare Advantage business through our 2015 bid strategy and better execution on medical cost management and quality initiatives that were launched in 2015. We also significantly improved our Medicare PDP business through our bid strategy, enhanced manufacturer rebate management and improved operational execution.

Let's now turn to a brief discussion of each of our business segments. I'll start with our Medicaid Health Plans segment where year-over-year; membership increased 3.4% primarily from organic growth in Florida, Kentucky and Missouri. The adjusted MBR improved 70 basis points compared with 2014, reflecting our continued focus on margin expansion through disciplined execution.

With regard to our Georgia Medicaid business, as many of you know, last September, we received a notice of intent to award a contract from the Georgia Department of Community Health to continue serving Medicaid beneficiaries in that state. The status of that has not changed as we are still awaiting execution of the final contract. What may change is the expected start date of the new contract.

In January, Georgia Department of Community Health notified us that it has requested approval from CMS for two six-month extensions of the current contract and that it intends to extend our contract through at least Decembers 31, 2016. Therefore, services under the new contract could begin on January 1, 2017. It's important to note that any extension of the existing contract will not be official unless and until CMS approves it.

Late last week, we learned that we were not awarded the Nebraska Medicaid contract, missing out on the third place score by a margin of two points on a 2,250 point scale. We know that displacing incumbents is always a challenge and while we dislike losing, we are encouraged that our bid scored higher than one of the current incumbents. We are now in the process of reviewing the scoring and determining our next steps in this procurement.

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With regard to Iowa's Medicaid Managed Care program, we filed our appeal on the decisions to overturn our award and oral arguments were held on February 1. We expect a decision any day now. We were awarded this contract based on our capabilities, and we spend over a year on the ground in Iowa building relationships with communities, providers, hospitals, and others in an effort to provide beneficiaries with access to quality healthcare.

While our prospects for Iowa are at best uncertain, we look forward to other Medicaid opportunities where we can partner with states that are looking to improve the quality of healthcare for their most vulnerable citizens while at the same time realizing budget savings through partnering with managed care payers.

Moving now to our Medicare Health Plans business. Our goal in 2015 was to stabilize the business and position it for both margin expansion and long-term growth. Our 2015 Medicare results reflect our focus on improving the business, including our execution on medical expense initiatives that we implemented throughout last year. These efforts resulted in a 130-basis-point improvement in the Medicare MBR year-over-year.

For 2016, we're generally pleased with the outcome of our bid for the 2016 plan year. Through our disciplined bid process, we focused on our better positioned markets and exited counties that were unprofitable. As of January 1, we saw a reduction in membership of approximately 27,000 compared with the December 31, 2015 membership of 354,000. Similar to 2015, we expect to grow during the year due to our emphasis on dual eligibles who can enroll in Medicare Advantage throughout the year.

As we look ahead, we expect to both improve our margin and grow our Medicare membership. And while we've made progress, we still have work to do to improve the performance of our Medicare business. Our multi-year plan in Medicare is focused on achieving three primary goals: number one, to improve quality and health outcomes for our members; number two, to achieve a reasonable net margin; and three, to grow profitably.

With regard to the work we are doing to improve quality, and Star ratings specifically, under our new Medicare leadership, we are implementing a detailed plan comprised of specific initiatives to improve member experience, increase provider engagement, and enhance our use of data, all of which should ultimately lead to improved Star ratings.

In 2015, we made additional investments in our quality initiatives. We also created a more rigorous governance structure with cross-functional teams and owners assigned to every Star measure. Now, while there is much that we can control clinically and operationally to improve our quality results, we also remain fully engaged in our advocacy efforts with regards to Star ratings. Over the past year, we have seen tangible evidence that this activity is gaining traction.

CMS has acknowledged a link between socioeconomic status and Star ratings, and we believe they are working towards solutions to address this issue. In addition, the U.S. House of Representatives passed legislation acknowledging this disparity and is urging CMS to craft a solution.

We look forward to seeing what proposed solutions may be included in the CMS 45-day Advance Notice and Call Letter that will be issued later this month. We will continue to utilize third party data to inform our advocacy with our legislative and regulatory partners regarding the importance of a quality measurement system that fairly accounts for the diversity of MA beneficiaries.

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Turning now to our Medicare PDP segment. We are very pleased with its performance in 2015. The significant improvement in PDP is an affirmation of both our 2015 bid strategy and the benefit from enhanced pharmacy rebate management through our new PBM relationship with CVS Health. We expect continued strong financial performance in our PDP business in 2016. Beyond the financial improvements already mentioned, I am encouraged by the improved operational execution in 2015.

For example, as a result of end-to-end business process improvements, enhancements to our customer relationship management capabilities and the implementation of our new contact center platform in 2015, we saw a 38% reduction in MA and PDP complaints in January 2016 compared with January 2015. This decrease is significant especially in light of the PBM transition to CVS on January 1 of this year.

In fact, the successful transition of our PBM may be the best example to date of WellCare's improved execution. This very complex conversion was a year in the planning. As many of us who have been around managed care know, these PBM migrations haven't always gone smoothly in the industry, but the WellCare and CVS teams effectively collaborated to execute this successful transition.

We look forward to our partnership with CVS. It will bring meaningful value to our members and our government partners. It will improve the cost structure for all three of our lines of business, and it will contribute to the improvements in our quality scores. I want to thank all of our associates and our partners at CVS for implementing what was a very smooth transition.

I'd now like to make a few brief comments regarding the investments we've made in people, processes and tools to strengthen our foundation and achieve our longer-term goals of margin expansion and growth. Over the past year-and-a-half, we have focused on building our management strength. Our team is comprised of both WellCare veterans and leaders hired from outside the company who have a deep knowledge of the industry.

During this time, we've added more than 400 clinicians to support our clinical and quality initiatives. We've also invested in information technology and strengthened our processes to improve customer service and productivity. We expect these investments to enhance our members' experience to produce improved operational and financial performance and to support our longer-term growth objectives.

We've made significant progress in 2015 in positioning the business, both operationally and financially, to build a strong foundation to support our long-term growth target of doubling our revenue between 2017 and 2021. As Drew will discuss in his remarks, we significantly improved our balance sheet in 2015. Andin January of this year, we announced a new $850 million credit facility that will help support our growth agenda. We are also building a dedicated integration team to drive improved execution on both organic growth and M&A opportunities

There are multiple channels that will fuel our growth. One, we will look for merger and acquisition opportunities that complement our existing business. Two, we will compete for new Medicaid opportunities in both greenfield and existing managed Medicaid states. Three, we will capitalize on the expansion to new categories of managed Medicaid members, especially those with medically complex conditions. And fourth, we will grow through expansion of Medicaid eligibility in our existing markets through the Affordable Care Act legislation.

In closing, we believe WellCare is well positioned to succeed in each of our businesses. Over the past year and a half, we have focused on strengthening our foundation to expand the net income margins on our existing business and to build a platform for long-term profitable growth.

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Our performance in 2015 demonstrates the first significant step towards achieving our multi -year plan. In fact, as we look to 2016, the midpoint of our adjusted earnings per diluted share guidance of $4.35 to $4.60 represents a more than 25% year-over-year increase compared with 2015. We know that we have plenty more work to do, but we are energized by the progress we made in 2015. I'd like to take this opportunity to recognize and thank all of our associates for their dedication and commitment to serving our members and to advancing our business during 2015.

I'll now turn the call over to Drew for a discussion of our financial results and 2016 outlook. Drew?

Andrew Lynn Asher

Chief Financial Officer & Senior Vice President

Thanks, Ken. This morning, I'm going to cover three topics. One, our strong finish to 2015 and achievement of adjusted EPS of $3.44; two, 2016 guidance and drivers of our forecasted adjusted earnings growth of about $1 per share; and three, steps we have taken to position ourselves for growth in 2017 and beyond.

Let me first start with the reported results for the fourth quarter. Our adjusted EPS was $0.60 resulting in full - year earnings toward the top of our most recent guidance range. We ended 2015 at adjusted earnings of $3.44 per diluted share which was up from $2.06 per diluted share in 2014. Our 2015 result adjusted EPS growth of 67 % albeit off of a depressed base line was consistent with our plan to meaningfully improve the company's adjusted net income margin while making operational and product improvements that will enable us to continue our drive toward a 2% plus adjusted net income margin on our existing business. We are right on track for the multi-year plan we laid out at our Investor Day, a year ago February.

The fourth quarter was another quarter of the predictable and stable results we have demonstrated over the last six quarters, achieving the 2015 commitments we laid out for investors. Not only have we stabilized, but we've meaningfully improved the platform upon which we expect to grow in 2017 and beyond.

For the full year 2015, our Medicaid MBR was 89.8%, a 70 basis point improvement from 2014 and a little better than we had guided to last November. This should give us momentum as we enter 2016. We've also seen no meaningful signs of influenza through January. In our Medicare Health Plans, our full year 2015 MBR improved 130 basis points year-over-year. In the fourth quarter, we were able to step up our investments of in-home assessments, as well as our new Continuity of Care program which increases direct member engagement with their physicians.

Our fourth quarter MBR reflects these deliberate investments in our members. Fundamentally, our Medicare Advantage business was on track with our expectations in the quarter and improvements took hold during 2015 that should continue to bear fruit in 2016 results. For the full year 2015, our PDP MBR was an outstanding 78.7%, matching WellCare's best PDP MBR since the program's inception in 2006. As we discussed throughout 2015, this was through a combination of a thoughtful 2015 bid process, emphasizing margin over membership, a new pharmacy rebate arrangement with CVS and improved execution by the WellCare pharmacy team.

Rounding out 2015, our parent cash on-hand is the highest by far it has been in years. We collected a significant receivable from CMS in the fourth quarter, improving our cash flows. Favorable prior year development was $24 million in the quarter and our days and claims payable is up a day and a half from the prior quarter and prior year.

While we are certainly pleased with the accomplishments in 2015, I can assure you everybody at WellCare has been focused on 2016 and beyond for quite some time. We issued 2016 guidance on January 12 and have reaffirmed that guidance as of today. Our adjusted EPS forecast for 2016 is $4.35 to $4.60 which is up about $1 per share from 2015 at the midpoint.

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Let me provide some insight into the 2016 components. We expect continued improvement in our Medicaid MBR with a range of 89% to 90%, compared with the 2015 actual MBR of 89.8%. This is driven by an improved pharmacy cost structure effective January 1, 2016, and momentum in our operational performance in the back half of 2015 partially offset by a continued challenging rate environment relative to positive but stable medical trends. We will continue to work closely with our state partners on rate adequacy in 2016.

Turning now to our Medicare business. As we laid out a year ago, we took a more disciplined approach with our Medicare Advantage bid process both in terms of internal processes and rationalizing our service areas. Our bid for 2016, submitted in June of 2015, reflected a service area reduction affecting approximately 20,000 members. This was the largest contributor to our approximate 27,000-member decrease as of January 2016. While we certainly don't like having to shrink, this was necessary given the baseline performance of our business which heavily tilts towards duals and low-income members, coupled with a pressured rate environment.

We expect to make meaningful progress in our Medicare Advantage business in 2016 by improving the full-year MBR 133 basis points at the midpoint. And similar to 2015, when we grew 17,000 members into a year post the annual enrollment period, we expect to grow over the next 11 months in 2016 post the annual enrollment period. We have challenged the team to grow in Medicare Advantage from this point forward while we continue to drive toward an acceptable net income margin.

If the rate picture for 2017 is reasonable in Medicare, we would expect a lion's share of our service area reductions to be behind us. With respect to the 2017 rates from CMS, we look forward to seeing the advance notice expected to be released at the end of next week.

However, until we see the details of all of the components of the advance notice, including how any potential change to the risk model would be implemented including, for instance, definitions and classifications of dual categories, what counts as full and partial duals, related fee for service normalization factors, the old model versus the new model, coding intensity adjustments, et cetera, we want to know how the rates will affect our members and products in 2017 until we see those details. Given all the moving parts and unknowns of the 2017 advance notice, we cannot speculate on the impact to our Medicare Advantage products for 2017.

For our PDP business, in 2016, we are targeting approximately flat membership and a slight increase in revenue compared with last year and an MBR in the low 80%s. As most of you know, as the PDP business reaches that level of performance, the vast majority of incremental earnings are paid back to CMS pursuant to the risk corridors. We look forward to another successful year in our PDP business.

We expect our adjusted SG&A ratio to be approximately flat compared to 2015, which is in the context of very slight revenue growth. And as we outlined on January 12 and consistent with others in the industry, beginning in 2016, our adjusted depreciation and amortization and adjusted earnings will exclude acquisition-related amortization. For reference, this was $10.6 million and $0.15 per share in 2015.

Interestingly, the increase in depreciation year-over-year from past capital investments is about the same amount. Therefore, our adjusted D&A in 2016 is projected at $73.5 million at the midpoint, essentially flat to the $72.6 million we reported in 2015 which included acquisition-related amortization.

Our interest expense is expected to increase approximately $6 million year-over-year, driven by a full year of interest on the senior notes issued in June of 2015. And while on the surface, it appears that our tax rate is decreasing, this is merely the mathematical calculation of a flat ACA fee in 2016 coupled with the projected higher core earnings of the company. If you do the math, you can see that our underlying fundamental tax rate excluding the impact of the non-deductible ACA fee is still in its 38s as a tax rate percentage.

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Our 2016 adjusted EPS guidance represents a meaningful year-over-year increase with an expected adjusted net income margin between 1.4% and 1.5%. So we still have work to do beyond 2016 to drive our existing business to a reasonable adjusted net income margin target of 2% plus. As we continue to improve our business performance in 2016, we will be focused on actions to achieve this goal. Simultaneously, we are focused on proactively developing growth opportunities in 2016 that will produce revenue growth in 2017 and 2018.

We have taken some specific actions in the past few months to prepare the company for a return to growth. The most visible of these actions is our new five-year $850 million credit facility that we announced on January 12, 2016. Beyond the significant upsizing, the underlying terms are more attractive than our prior credit facility, including both rates and covenants. As part of this credit transaction, we repaid our $300 million term loan in early January with a $100 million of cash on hand plus a $200 million draw on our new credit facility. This provides $650 million of available revolver capacity today. As you surely noticed, we have been working on improving our cash and credit position over the past six quarters and currently have over $600 million in cash deployable at the parent plus the $650 million of available credit facility for a total of $1.25 billion of dry powder.

From an operational standpoint, we are in the process of putting over 30 of our functional experts through formal M&A training this month and we have built a dedicated integration team for both organic growth and acquisitions. We expect there to be significant growth opportunities in both Medicaid and Medicare over the next five years and have energized the team at WellCare to seek out and seize those opportunities in our quest to double our revenue.

Our financial goal is clear, to deliver a multi-year margin expansion on our existing business as we selectively layer on growth opportunities organically and through acquisition. We look forward to delivering on this goal.

Operator, we will now open up the call for questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Chris Rigg of Susquehanna. Please go ahead.

Chris Rigg
Susquehanna Financial Group LLLP

Q

Hi, good morning. Just on the Medicare business in the MLR guidance for this y ear, in Medicare Advantage. Is that enough to get the business to profitability or do you still need more improvement in 2017 to get it to where you're making money on sort of just a standalone product basis?

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yeah. I mean, our ultimate target is low to mid-80s MBR, which would get us towards that 2% after-tax net income margin target. So, clearly, a 130 basis points movement last year. For 2016, our guidance suggests 133 basis points at the midpoint. I mean, that's sort of good, steady progress towards that ultimate goal. But there is still plenty of runway to get to our target margins.

Chris Rigg
Susquehanna Financial Group LLLP

Q

Okay. And then just with regard to Iowa, I want to make sure I understand exactly what's going on there. Is this – this is just WellCare in Iowa that's sort of debating issue at this point legally. They haven't gone out and back to other plans and said we're looking to make a change and add another plan again.

Kenneth A. Burdick
Chief Executive Officer & Director

A

Chris, that's correct. At this point, they are – are they going to proceed with the three award winners or we will get a favorable ruling from the district court judge and the original four award winners would proceed with the program at a date still to be determined.

Chris Rigg
Susquehanna Financial Group LLLP

Q

Okay. And just one quick follow-up on this. So from the district court, whatever happens, that's essentially it [indiscernible] (32:55)

Kenneth A. Burdick
Chief Executive Officer & Director

A

Well, yeah. I mean, I think we are getting close to the end. We obviously have additional appeal rights. But we're going to look at the decision carefully before we determine our next step.

Chris Rigg
Susquehanna Financial Group LLLP

Q

Understood. Thanks a lot.

Operator: And our next question comes from Joshua Raskin of Barclay s. Please go ahead.

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Joshua Raskin
Barclays Capital, Inc.

Q

Hi. Thanks. First question is just on Medicare Advantage and I appreciate, Drew, all of the commentary around the repositioning. It looked like a lot of the MA losses were in Florida. And so, I'm just trying to understand how does that juxtapose with your comments around market and exits, and that sort of thing. I'm just trying to figure out, are you saying, okay, in certain markets, we're just not competitive in Florida or our competitors are just doing something to make their products more attractive and is that a Star's issue? I'm just trying to understand what pragmatically is going on at the market level.

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

No, you're right. About half of the service area reductions, so about 10,000 of those members were in counties where we didn't have a significant presence in Florida, where we believe we are very strong where we have the core of our membership in Florida. But we did take a look across our entire portfolio inclusive of our larger health plans to make decisions on counties where we just didn't feel like we – we're well in a position to make the run as we're looking at our block as a whole and trying to get it stabilized so that we can grow from this point forward while we're improving the margin.

Joshua Raskin
Barclays Capital, Inc.

Q

Okay. And as I remember, CMS changed the rules a while back. You can get back into those counties in subsequent year, right?

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yes.

Joshua Raskin
Barclays Capital, Inc.

Q

Okay. And then, just on Nebraska, I know that was a really close one. Was there a specific area where the three winners performed noticeably better and may be more importantly, where – on the RFP response list, where do you think you guys can make some shorter term or even more intermediate-term improvements to be more competitive on the next one, whether that's, I don't know, North Carolina or whatever?

Kenneth A. Burdick
Chief Executive Officer & Director

A

Yeah. Josh, we are reviewing the scoring now. We've seen a breakout and it's actually quite detailed and helpful as it goes through more than a handful of separate discrete categories. We didn't see any one that jumped out of this. There are some where we were stronger than some of the three that were awarded the business and others where we fell short. But it's a pretty mixed bag, and y et we will continue to look for opportunities to both strengthen our underlying capabilities and strengthen the way we communicate those in a future bid.

Joshua Raskin
Barclays Capital, Inc.

Q

So, Ken, does that mean you think it was some – there might have been some of it in the answers in y our RFP as opposed to your capabilities, or do you think this is just, hey , we got to continue to invest in our ability to compete in Medicaid?

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Kenneth A. Burdick
Chief Executive Officer & Director

A

No, Josh, you're reading me right. I think it's both. And I think that there is an art to the way you communicate your capabilities in this RFP. We've gotten better, but there's still room for improvement.

Joshua Raskin
Barclays Capital, Inc.

Q

Okay. Perfect. Thanks.

Operator: And our next question comes from Ana Gupte of Leerink Partners. Please go ahead.

Ana A. Gupte
Leerink Partners LLC

Q

Yeah. Thanks. So the first question I just want to follow up on Josh's question on the recent RFP win. It feels like the larger names seem to be doing better just from an outsider's perspective. And I'm just wondering is it because you don't have behavioral health and other adjacencies inside and that's where your inorganic strategy should head, or is it more about end market, tuck-in acquisitions and/or the strength of the balance sheet which are much stronger for United or something and they can absorb huge PDRs with barely a hiccup?

Kenneth A. Burdick
Chief Executive Officer & Director

A

Well, Ana, this is Ken. There's a few components to your question. I think that in the Medicaid states, they're really looking for the best partners, and there have been some recent examples of "smaller", not the national players that you've identified but in CareSource in Georgia and AmeriHealth in Iowa, I would identify two that prevailed. And as it relates to behavioral health, we actually feel this is a strength of ours. We in-sourced behavioral health several years ago and we like the fact that we have an integrated approach to behavioral health as this is a significant issue for many of the members that we serve.

Ana A. Gupte
Leerink Partners LLC

Q

So the acquisitions that would be more of a new market entry than about trying to strengthen where you are [indiscernible] (37:56)?

Kenneth A. Burdick
Chief Executive Officer & Director

A

No. We're looking at both. So we like the idea of going deep in our local markets when we think of scale. Local scale is very important to us. So this would not be limited to just new geographic markets. We'll also be looking to strengthen our existing footprint in current markets.

Ana A. Gupte
Leerink Partners LLC

Q

And then finally, on the Medicare Advantage on the rate side, Drew talked about the devil being in the details but clearly all the actuaries and the expectation is that something in the advance notice that you talked about Star as well. So, will the Star changes for low income plans be on top of the risk adjustment model? If one happens, will you still expect something for maybe 2017 and/or 2018 on Star?

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Kenneth A. Burdick
Chief Executive Officer & Director

A

Yeah. I'll let Drew talk about some of the actuarial assumptions, but to your question, yes, we think these are two separate issues and while we are optimistic that we'll see something with respect to risk adjustments, that will not in any way impede our continued efficacy as it relates to Star scoring.

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yeah. And in addition to that, Ana, we, like you are chomping at the bit to see what comes out a little over a week from now. But to sort of set the stage, I mean obviously, we first need to see that the proposed risk model actually gets adopted. And there are so many components to that; it's difficult, as I laid out in my remarks, to opine on the impact. And we, like others, have limited and incomplete information. I will say, though, that we did receive a file, we probably being all payers, but we certainly did in late January providing data by each of our plans relating to the old and new model. But the data was on a 2014 basis, and all of us need to see how CMS is going to march forward factors from the old model to the new model, if it's adopted, such as fee-for-service normalization.

In this particular model, it looks like our split between full and partial duals, according to the definitions in that proposed model, it's closer to 60/40 than 80/20. And beyond that, there are a number of other elements, as you know, and everyone listening, that we need to see like coding intensity factors and so on to get the complete picture. So, the good news is we'll have a more complete picture in a couple of weeks. But, of course, as we all know that that won't be final until early April, which is plenty of time to reflect in the 2017 Medicare bids.

Ana A. Gupte
Leerink Partners LLC

Q

Got it. Thanks so much.

Operator: And our next question comes from Matthew Borsch of Goldman Sachs. Please go ahead.

Matthew Borsch
Goldman Sachs & Co.

Q

Hi. Yeah. Thank you. Can you address maybe the bridge that you see to get to MA profitability? I mean how much of it, if any, would you ascribe to scale? How much of it is operating efficiency you think you can achieve internally, how much you think it's rates, including Star, and how much maybe better medical cost efficiency?

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

That's a good question because it's a multi-year journey as we laid out at Investor Day. But just focusing on 2016 for a second, because I think that's indicative of what we can execute beyond 2016. First of all, bidding to a net income target and so the internal processes around the bids, that's a lever for 2016 and that should continue through 2017 and beyond. But we've talked about service area reductions, which we believe are largely behind us subject to the rate picture.

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But there's a lot of – Matt, there's a lot of things that are blocking and tackling in managed care, like utilization management initiatives that we put in place towards the end of 2015, that got traction, that we'll see continuing on from this point forward. The investments as you saw in our Q4 MBR in Medicare Advantage and in -home assessments, and continuity of care programs which is a new program, sort of the level of sophistication stepping up and investing in the future. Those provide sort of multi-year benefit advancement of the care mile and fuel care management.

And so, there's a whole slate of opportunities, even spanning the sales and retention process that our new leadership in Medicare is venturing to get that benefit over a multi-year period. So, it's no single – as never as in business, no single silver bullet. But we do have a slate of discrete opportunities that should drive MBR performance, not just in 2016, but into 2017 and 2018. And that's before the opportunity on the Star side and the revenue opportunity associated with improvement in Stars.

Kenneth A. Burdick
Chief Executive Officer & Director

A

Yeah, Matthew. This is Ken. I'll just add to what Drew has shared. For about the past year and a half, Drew and I have consistently been saying there's plenty of room for improvement just with improved operational execution. But in order to pierce those target margins, we would need some help as it relates to Star scoring methodology.

Matthew Borsch
Goldman Sachs & Co.

Q

Great. And if I could, just on another front. What do you see happening in the Medicare drug plan business as you come into 2016? There's been a lot of shaking up of membership. Does that – where do you see it going from here? If you can comment on that at all.

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Well, for 2016, we expect stability. We picked up four additional auto-assign regions, but largely expect stability in our membership and want to see the benefits. We saw the rebate benefit in 2015 from our CVS contract. But the underlying cost structure, see how that plays out in 2016 as we think about our bidding for 2017 and beyond. But clearly, we needed to improve our cost structure, we did that. And I think that positions us well as we're looking.
We will look in 2017 and beyond to balance what I believe our outstanding margins with some growth opportunity in PDP.

Matthew Borsch
Goldman Sachs & Co.

Q

All right. Thank you.

Operator: And our next question comes from Dave Windley of Jefferies. Please go ahead.

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David Howard Windley
Jefferies LLC

Q

Hi, good morning. Drew, in your prepared remarks about Medicare particularly, you mentioned some investments in in-home assessments among other things. I wanted to clarify if those are investments that [ph] wouldn't (44:56) classify into medical cost, or would those be SG&A overhead related?

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Dave, they're classified into medical costs because effectively in the form of physician payments as well as quality engagement with members and physicians or nurses.

David Howard Windley
Jefferies LLC

Q

Okay. And so the spirit of the question there is, I think, at the end of the day, your MA/MBR was a little higher than your guidance largely. I mean, it seemed like it was higher than consensus each quarter through the year. And then the last quarter maybe was the core that dragged it up a little bit higher than your guidance. Was it those investments that really was the difference there?

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yes. We're 20 – to your point, you're right, we're 20 basis points above the top end of our full-year range. But we made conscious investments as we saw the strength of the surrounding business shaping up towards the end of the year and made those investments in our members for the future.

David Howard Windley
Jefferies LLC

Q

Okay. And then on the admin ratio or SG&A, clearly, seasonally some higher spending in the fourth quarter that would drive the fourth quarter up. You also mentioned kind of deliberate training of staff around M&A, some hiring and some different things. I guess I'm interested in trying to parse out how much of that higher SG&A ratio in the fourth quarter was just kind of typical seasonality, how much of that was maybe some of these investments that you've called out in, for example, the M&A training

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yeah, another good question. Most of it is seasonality, but you're right. Once again, as we look at our portfolio of business performance in the fourth quarter as we approach the end of the year, we do make conscious investment decisions to invest in things that should benefit the company in the future.

David Howard Windley
Jefferies LLC

Q

Can you – I'm sorry, are you able to kind of put a number on either side of that?

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

It was a little bit of it.

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David Howard Windley
Jefferies LLC

Q

Okay. Thanks.

Operator: And our next question comes from Tom Carroll of Stifel. Please go ahead.

Thomas Carroll
Stifel, Nicolaus & Co., Inc.

Q

Hey, there. Good morning. Ken, a clarification on your revenue comments, you mentioned a doubling of revenue between 2017 and 2021. I guess what's your starting point on that? Are you saying in 2017 you expect to take that revenue and double it into 2021? I think I'm misreading that.

Kenneth A. Burdick
Chief Executive Officer & Director

A

Yeah. Tom, what we're thinking and what we confidently can deliver on is starting at today's revenue level that as we look out at the five years from 2017 to 2021 and the different channels that we're pursuing that we're looking to grow double the size of our revenue base. So, you can think of it off of today's current revenue.

Thomas Carroll
Stifel, Nicolaus & Co., Inc.

Q

Okay. And then, Drew, I wonder if you could repeat the comment you made about 60/40 versus 80/20, I mean was that merely the definition of full and partial duals looking at the 2014 data set versus today?

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Well, it's actually looking at the particular proposed model in the data we received matching our membership and all the subcategories that go deeper beyond just the designation of full and partial into that particular model. And remember, half of our Medicare membership is non-dual, half is dual, and then it's mapping our subcategories into this particular model. The 80% of our half that are duals, 80% of our members are 100% cost share protected including a [ph] AEB (49:03) benefits and that's a typical definition of a full dual, but for this model in the data that we're looking at once again, which is all preliminary, and there was a number of other factors that will – that are important in how the rates come out over a week from now, but it looks closer to 60/40 rather than 80/20.

Thomas Carroll
Stifel, Nicolaus & Co., Inc.

Q

So the model that they're perhaps suggesting to you is a full dual definition of 60% of your population versus what you think is 80%.

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yes. 60% of the half that are duals are looking like full in their definitions, and 40% of the half of members that are duals are looking like partial according to the definition. Once again, that all needs to get finalized. But that's based upon the data file – collaborate about the data file we got in late January.

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Thomas Carroll
Stifel, Nicolaus & Co., Inc.

Q

Thanks. Got it. And then one last thing. In the past, you've said that y our Medicare Advantage efforts were going to include things like more home assessments and other forms of outreach which I think you identified as perhaps influencing y our SG&A number. I'm wondering if that – how much of that stuff really is medical expense allocate able in terms of being indirect medical expense kind of thing? And is that – did that influence y our MA/MLR in the fourth quarter at all?

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Y es. Yes to both. In in-home assessment, an incentive payment to a provider to prompt engagement with the member in the office, those are classified under the quality measures that end up in the MBR. And so, yes, you're exactly right, which is why we ended up 20 basis points above the top end of the previous Medicare Advantage guidance range which we were excited to have that capacity to invest in the future and we made that decision to do so late in the y ear.

Thomas Carroll
Stifel, Nicolaus & Co., Inc.

Q

So, are you saying about 20 bps of the MLR was related to that kind of activity?

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Well, that incremental previous to what we had planned when we gave guidance back in Nov ember.

Thomas Carroll
Stifel, Nicolaus & Co., Inc.

Q

Okay. Thanks.

Operator: And our next question comes from Peter Costa of Wells Fargo. Please go ahead.

Peter Heinz Costa
Wells Fargo Securities LLC

Q

I'd like to try Josh's questions on a slightly different way. If I look at y our medical loss ratio in the Medicare book of y our business and adjust it for not having Sterling for the whole year, it'd be probably 100 basis points higher than the 87 .2%. So y you're looking at 200 basis points to 300 basis points of improvement for this y ear. Can y ou quantify what's driving the 200 basis points to 300 basis points exactly in terms of what y ou know y ou gotin the bag, things like the members that you exited which can't be all that much, y our loss ratio there is like 130%.

So what portion is that versus what portion is provider contract renewals? And then what portion is stuff that you're hoping for that's may be more [ph] on the comp (52:25) like utilization management or home health risk assessments?

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Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yeah. So you're right. We only had Sterling half of 2015, but for the other half we didn't have it, right? So, the run rate already reflects the absence of Sterling in the back half of the y ear. So that is a slight headwind going into 2016, but it's pretty immaterial. The lion's share of what we expect in 2016 is the conscious – the bid process that I personally influenced and the team rallied around to high net income targets and make conscious decisions around what we expected to achieve. And so that's one important leg of the stool in terms of our 2016 Medicare Advantage MBR guidance. Second is, mearly the annualization of what we were able to implement, largely in the back half of 2015 in terms of the blocking and tackling that you've heard us refer to in areas like utilization management. And then you're right, every year, we have a slate of opportunities for medical expense initiatives. Effectively, what our government partners are paying us to do to contain trend and that's an element as well. But we try to be cautious on what we bet on prospectively, but there is an element of, we have to deliver and execute operationally to achieve the forecast that we lay out. But it's not completely dependent on future activities given the first two have already taken place.

Peter Heinz Costa
Wells Fargo Securities LLC

Q

So, in terms of the bid actions, what exactly drove the improvement? Clearly, some of the bid actions were leaving geographies. But some was perhaps raising premiums or getting better provider discounts. So what were the levers that you had to work to, to get to that sort of 200 basis points to 300 basis points of improvement that you're looking for?

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Well, it's 133 basis points at the midpoint that we're driving for in terms of [indiscernible] (54:40).

Peter Heinz Costa
Wells Fargo Securities LLC

Q

More if you adjust for Sterling [indiscernible] (54:44).

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yeah, [indiscernible] (54:45) for Sterling.

Peter Heinz Costa
Wells Fargo Securities LLC

Q

[indiscernible] (54:46) basis points from the fourth quarter.

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

It's 20 bps or 30 bps in the full year though, Peter. So, that is sort of a slight element but largely, the bid – go back to y our question, the bid process, it's both sort of our internal mechanics in terms of – you might consider this management 101, but having a sound process where the ultimate targets of the bid are tied to the enterprise's net income target and then we align incentives for the managers and our health plan leaders in terms of the commitments that are made around the bids. That's a much more sound proce ss thatcreates better targeting and predictability. We did also make some benefit modifications as you can see as you look at different areas.

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And then you're right, we have service area reductions as well. And clearly, we're not going to be cutting out our best markets. And so, there's a bias towards the performance of those markets that we would have service area reductions. So, yeah, the bid process is multifaceted. It involves actuarial, it involves the leaders of all of our businesses. And we haven't really executed well on that heretofore, but we will for 2016.

Peter Heinz Costa
Wells Fargo Securities LLC
Q

Okay. Thanks.

Operator: And our next question comes from Kevin Fischbeck of Bank of America Merrill Lynch. Please go ahead.

Kevin Mark Fischbeck
Bank of America Merrill Lynch
Q

Great. Thanks. I just wanted to go to the commentary about the revenue growth that you're looking for through 2021. When you think about that growth, how much of that would you think would be organic growth versus potentially using the free cash flow to do transactions?

Kenneth A. Burdick
Chief Executive Officer & Director
A

Yeah. Kevin, a fair question. While we won't stick an absolute percentage on it, we expect that organic growth would be the majority. But let me be real clear, after about a couple of years of focusing internally on strengthening our operation, we are absolutely now in pursuit of attractive acquisition targets that are consistent with our strategy.

Kevin Mark Fischbeck
Bank of America Merrill Lynch
Q

Okay. That's fair. And I guess maybe the same thing just kind of understanding hard numbers are going to be a little bit hard to put on it. But if you think about the three businesses, Medicare and Medicaid and Part D, how do you think about the contribution to that organic growth portion of it? Where is the most opportunity in your view?

Kenneth A. Burdick
Chief Executive Officer & Director
A

Well, we think there is opportunity in all three. But the PDP business, because of the relatively small revenue, is not one that we see making a huge contribution to that doubling of the business between 2017 and 2021. But Medicaid and Medicare ought to both contribute substantially. But I had to say one or the other, maybe slight favor for Medicaid because of some of the opportunities that we have line of sight into. But it'll be those two that will be the big drivers, not so much the PDP business. While we expect to grow that, the revenue contribution of that is quite small.

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Kevin Mark Fischbeck
Bank of America Merrill Lynch

Q

Okay. And on the Medicare growth, is this kind of – you mentioned before that you expect some margin improvement regardless of what happened around CMS and Stars changes. But to get all the way there, Stars might have to change. Is it the same thing around the Medicare growth opportunity? Do you need reform there on Stars to get to the growth process you're looking for, can you deliver that without significant changes?

Kenneth A. Burdick
Chief Executive Officer & Director

A

No. We feel like with the progress that we made in 2015, the continued progress that we fully expect to make in 2016 that we aren't dependent upon the sort of the outside influence relative to Stars methodology in order to continue to grow that business. Obviously, we get more excited about growing the business when we're at our target profit margins, but we can still grow just based on the operational improvements that we have made and we continue to make through 2016.

Kevin Mark Fischbeck
Bank of America Merrill Lynch

Q

And then just last question about this. I think I may have misheard the answer to the prior question around this growth opportunity. But did you say that 2017 revenue and 2016 revenue should be about equal, so we should we think about doubling off of the current base, or did I mishear that?

Kenneth A. Burdick
Chief Executive Officer & Director

A

No. What I answered was that we sort of look at the current base, and when we talk about where we want to be in 2021, we're thinking of doubling from where we are today.

Kevin Mark Fischbeck
Bank of America Merrill Lynch

Q

Okay. So it's doubling from 2016 to 2021 is the way to think about it.

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Right. The 2016 is largely baked and as reflected in the guidance, so Kev in, just basically jumping off of our $14 billion of revenue.

Kevin Mark Fischbeck
Bank of America Merrill Lynch

Q

Okay . Perfect. All right. Thanks.

Operator: And our next question comes from Sarah James of Wedbush Securities. Please go ahead.

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Sarah James
Wedbush Securities, Inc.

Q

Thank you. I was going to stick on the topic of M&A and growth here. So the balance sheet is poised for deals, you're training a large group of executives in preparation of M&A. It sounds like you're pretty optimistic, if not confident, about the pipeline of deals ahead. Can y ou talk about what you're seeing as far as the business mix that might be in the pipeline or the size of the overall deal pipeline that's currently under evaluation?

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yeah. I mean, as you might suspect, we never reveal those details, but you're right. We're optimistic that, A, we're prepared and it took some work to get to the point of being prepared with respect to the balance sheet, but also having the appropriate leaders in the company ready with the resources to due diligence and more importantly for the integration. Can never predict the timing of M&A, but clearly, we are ready and we were – from this point forward, we're looking at assets both in Medicaid and Medicare.

Sarah James
Wedbush Securities, Inc.

Q

Got it. And how recent has this shift to really M&A focused, then there's been a number of deals over the las t six months in WellCare market. So, are we looking at this as really – did it start in 2016, the focus of M&A or have you guy s been evaluating some of these plans as they become available over the last six months?

Kenneth A. Burdick
Chief Executive Officer & Director

A

That's a fair question, Sarah. This is Ken. This is fairly recent. I would say it was towards the very end of 2015. So we've been at this for, call it, a quarter or so. We needed to be certain that we had the fundamentals in our core business in very good operating condition before we began to expand or look to expand through acquisition. And based on the improvements that we saw in that back half of 2015 , it gave me and the team the confidence that we needed to now get back into the pursuit of acquisition opportunities. So, think of it as the last 90 days 120 days.

Sarah James
Wedbush Securities, Inc.

Q

Great. Thank you.

Operator: And our next question comes from Andrew Schenker of Morgan Stanley. Please go ahead.

Andrew Schenker
Morgan Stanley & Co. LLC

Q

Great. Thanks. Good morning. Think about Medicaid here. I think in the prepared remarks, you said you saw a continued challenging, great environment relative to the positive stable medical trend here. Were there any changes worth calling out or any specific states that are being particularly challenging? And then more broadly related to that, how should we be thinking about Kentucky and Florida, updates that we saw throughout the y ear rolling through.

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And then just lastly, if you can contrast that challenging rate environment comment with the outperformance we saw in the Medicaid MLRs for the y ear and a presumed step -down in guidance. Thank you.

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yeah. I think the comment was more so a reminder that the business we're in and our peers are in, in the Medicaid space is typically a challenging rate environment where we have to show real value to our state partners in terms of at least partially containing trend. So, it's sort of a reminder that that goes into the calculus of formulating forward estimates and projections, but nothing notable to reveal in terms of the rate picture with our large states.

Andrew Schenker
Morgan Stanley & Co. LLC

Q

Okay . And Florida and Kentucky continue to perform as expected, given the midyear updates?

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yes, yes. I mean sort of well vetted the rate decrease in Kentucky effective 7 /1/2015, and obviously, there is an impact that that rolls into 2016. And then conversely, the first move in terms of getting the Florida MMA rates to sync up with the underlying med cost and risk effective 9/1 and we'll continue those discussions as we approach 9/1 /2016.

Andrew Schenker
Morgan Stanley & Co. LLC

Q

Okay. And just changing gears here a little bit, understanding we'll get the preliminary Medicare rates shortly here, but in any way we should be thinking about the lack of the ACA fee in the Medicare book for 2017, is that going to may be drop to the bottom line, or does that lead to one -time expense benefit? I mean, how should we think about that change? Thank you.

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yeah, that's a good question, and really can't answer that until we see the totality of the right picture because there's, as you know, more than half a dozen pretty critical factors that go into the overall rate build -up. And so we have to look at that carefully, especially if it's merely a one-year moratorium in that rate.

And about $80 million to $85 million of our 2016 ACA fee would be attributable to the Medicare Advantage and PDP businesses. The balance of that – to balance out to our midpoint of $228 million as Medicaid, which is effectively reimbursed by the state's [ph] gross-up(65 :51) for taxes.

Andrew Schenker
Morgan Stanley & Co. LLC

Q

Thank you.

Operator: And our next question comes from Michael Baker of Raymond James. Please go ahead.

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Michael J. Baker
Raymond James & Associates, Inc.

Q

Yeah. Thanks a lot. Ken, I was wondering if you could give us some color on the changes that you made to chief medical officer position. I believe you had one. You now have three. Can you give us a little bit of color on what drove that change and when you expect to see some traction on those changes?

Kenneth A. Burdick
Chief Executive Officer & Director

A

Sure, Michael. The change is really to bring more focus to our initiatives. So we've got three medical directors, one of whom is spending literally all of his time focusing in our quality program, and the initiatives that we have both at headquarters and then in all of our local markets. So we're syncing that up, and it's a much tighter execution than we had previously.

We have another medical director that's focused on utilization management, and we've seen a real lift. So to your question about when do you expect to see, I would say we're already seeing some improvement. And then our third is really going to be focused on the care management program that we implement and execute at both a national level and out in the local market. So, it was really about improving the focus of our activity and leveraging some of the existing strength that we had with our current medical directors.

Michael J. Baker
Raymond James & Associates, Inc.

Q

Thanks for the update.

Operator: And our next question comes from Gary Taylor of JPMorgan. Please go ahead.

Gary P. Taylor
JPMorgan Securities LLC

Q

Hi, good morning. Just had a couple questions [audio gap] (67:33) around this, so I apologize if I haven't followed it correctly. But I wondered if you could, Drew, just talk about either expected cadence of quarterly earnings in 2016 or cadence of G&A, which also would be helpful either or both of those.

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yeah. Yeah, we've covered this a while ago, but it's a good question to reflect on 2015 and then think about 2016. And obviously, we don't give quarterly guidance. But in a similar progression, at least macro, the first quarter and the fourth quarter should be sort of lower than the average, given PDP in the first quarter and the ramping we all know in terms of the MBR. And then a heavier SG&A load in the fourth quarter with the two quarters in the middle, Q2, Q3 as a whole, above average. And SG&A should ramp through the year. And then, as you saw in Q4, maybe not as severe, depending on sort of discretionary spending in 2016, but a step-up in Q4 from that average as well. But that should largely ramp as well.

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Gary P. Taylor
JPMorgan Securities LLC

Q

Okay. That makes sense. And I know that 2016 guidance you suggest excludes $1 million to $2 million of Sterling divestiture costs, Iowa G&A, transitory PBM costs, investigation costs. Is there any sense at all how material those numbers might be? I mean, there were over $20 million in the fourth quarter alone. So are there some really sizable expenses that are excluded from the 2016 guidance?

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Well, if you think about two of those items that were in the fourth quarter, they're sort of singular event -driven, both Iowa, which those costs should taper down quickly into Q1 sort of one way or the other, as well as the PBM conversion which is completed – successfully completed and there is some cleanup of that ongoing cost in Q1 of this y ear. But some it, it will be what it will be, so it's not quite estimable. But we should be through the lion's share of both the PBM cost as well as the called-out expenses for Iowa. And then Sterling should be pretty immaterial, just the ongoing transition to the buyer and any resulting sort of wind -down cost of expenses we're left with, but that should trickle away as well.

Gary P. Taylor
JPMorgan Securities LLC

Q

Okay . That makes sense. I just wanted to double-check. Last question, I just want to go back and make sure I understood some of y our comments about your MA margins. So on a – I guess I really had two questions. One, what did y our MA pre-tax margin look like in 2015, and what are you suggesting as the long-term goal there? Is it a 3% to 4% pre-tax number? I think you said 2% after-tax, but I don't know if that's consistent with the overall company. I don't know if that was specific to MA.

Andrew Lynn Asher
Chief Financial Officer & Senior Vice President

A

Yeah. We're focused on sort of net income percentages because that ultimately is what becomes EPS and makes it a shareholder value because the pre-tax and EBITDA percentages can be misleading, given the ACA fee and the lack of tax deductibility. So we've framed not just our targets, but also our compensation internally in terms of net income margins. But I would point you to the MBRs because that's the best indicator of progression as opposed to getting an [ph] SG&L locations (71:29). And the 87.2% in 2015, I mean effectively, that needs to get to low to mid - 80%s in order to achieve a 2% after-tax margin. And clearly, we're making progress on that if we deliver on 2016. And then, we'd expect that to continue into 2017 and beyond.

Gary P. Taylor
JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: And ladies and gentlemen, this concludes our question-and-answer session as well as the conference call. Thank you for attending today's presentation. You may now disconnect.

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