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# WellCare Health Plans, Inc. (WCG)

Wells Fargo Securities Health Care Conference

# CORPORATE PARTICIPANTS

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Peter Heinz Costa
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# MANAGEMENT DISCUSSION SECTION

## Peter Heinz Costa
*Analyst, Wells Fargo Securities LLC*

Thank you all for coming. I'm Peter Costa, Wells Fargo's Managed Care Analyst and we're very pleased to have with us here today for the second day of the Healthcare Conference, WellCare. From WellCare, we have Drew Asher, the CFO, and Angie McCabe, the VP of Investor Relations.

So we're going to do this as just a sort of casual conversation and have some Q&A. And hopefully, if you guys have any questions, feel free to jump in and ask away as well.

## Angeline C. McCabe
*Vice President-Investor Relations, WellCare Health Plans, Inc.*

Pete, before we get started...

## Peter Heinz Costa
*Analyst, Wells Fargo Securities LLC*

Before we get started, Angie has to say a few things.

## Angeline C. McCabe
*Vice President-Investor Relations, WellCare Health Plans, Inc.*

...forward-looking statements. Yeah, so on behalf of WellCare, we may be making forward-looking statements and various risks and uncertainties such as those described in our SEC filings may materially impact those statements. We are not undertaking any obligation to update any forward-looking statements. Thank you.

# QUESTION AND ANSWER SECTION

**Peter Heinz Costa**
*Analyst, Wells Fargo Securities LLC*

Q

With that, we'll start with a big forward-looking statement, which is, you've talked about doubling revenues over the next five years to get to, I guess, that will be $28 billion or so by 2021. That's about a 19% growth rate annually. Can you break that down for us, specifically how much is – do you think is going be in Medicaid, how much do you think in Medicare Advantage and how much in Part D? And then, how much of that is organic growth from existing contracts, or perhaps from de novo startups in Medicare versus things that you might acquire, or new RFP bids?

**Andrew Lynn Asher**
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

Yeah, Pete. So, first of all thank you guys for being here and your interest in WellCare. And we are really excited about being squarely in what call the sweet spot of managed care, the growth part of managed care and government programs, and being solely focused on government programs, but diversified across Medicare and Medicaid and PDP, which is great.

So Pete, you hit on sort of half of our story, which is, seizing that growth opportunity prospectively in addition to continued, and we still have adequate runway to go in terms of margin expansion that we've demonstrated over the past two years. So on the growth side of the opportunity, we are excited, because we look at fixed channels of growth, four in Medicaid, two in Medicare Advantage. PDP should grow a little bit over time, but that's – as we all know, that's a fully penetrated business in terms of the macro landscape. But with our improved cost structure, we should be able to knock-off a little bit of growth in that sort of $900 million part of our business. But most of that will be in Medicaid and Medicare.

Tilting a little bit more towards as we – we scoped out a number of different halves to get to an answer, which happen to be doubling the size of the company in terms of revenue over the next five years. And so, there's multiple paths to get there. Most of them tilt heavier towards Medicaid than Medicare, as you might expect with the significant penetration opportunity with only about 41% of Medicaid dollar and spending by states in managed care, especially in the complex population, that gives us, and quite frankly, our peers as well, a lot of runway and opportunity in Medicaid.

So, if we sort of took an average of all of the scenarios that we have on how we can achieve the goal of doubling the revenue, almost all of them would have a slight majority to Medicaid, because of that organic growth opportunity. So that becomes one of our growth channels, new markets for WellCare. And so, Nebraska, would be a good example of that, which commences January 1, 2017 for us, and that's going well so far, our implementation.

And then existing states, but new populations, and we think once Georgia implements the new contract, which we renewed, effective 7/1/2017, and that settles out. We think it's only a matter of time before they see the value in having their ABD population in the managed care environment, and that's a $4 billion or $5 billion opportunity that should bear fruit in that, call it, few years.

So, number one, new markets; number two, existing markets in Medicaid, but additional populations; number three, ACA expansion. And so, we have four states, soon to be five, pretty big states too, Florida, Georgia, and then South Carolina and Missouri, where those states have not yet opted for ACA expansion. We think it's just a matter of time before in some form or fashion that may not be called ACA expansion from a political standpoint, but there is a sort of embedded opportunity there for one of the growth levers. And then M&A in Medicaid, and there are some targets out there, and we're constantly looking at opportunities, including today. We're looking at opportunities in both Medicaid and Medicare.

Jumping over to Medicare, which is only 31% penetrated in terms of members, the Medicare eligibles in managed care. So a significant opportunity, it's a baby boomers age for all of us that participate in Medicare Advantage, that creates a pretty attractive organic opportunity, but the industry is growing at mid-to-high single digits organically. And then M&A is an opportunity in Medicare Advantage. And once again, we're looking at assets all the time in businesses, and we will hopefully deploy all, and then some of our $20 a share that we have sitting in cash at the corporate parents, ready to deploy, but we're going to do it judiciously.

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**Peter Heinz Costa**
*Analyst, Wells Fargo Securities LLC*

Q

Thanks. Does missing the Pennsylvania MLTSS contract, or perhaps not being selected as the buyer of the – perhaps to be divested Aetna and Humana Medicare Advantage-wise. Does that make that goal harder for you, are those just two of the opportunities that might have happened to be in there with many others still yet to come?

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**Andrew Lynn Asher**
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

Yeah. I mean obviously, we would have liked to have been successful in Pennsylvania, we'll see on the Medicare potential opportunity you mentioned. But there is a very wide path to get to that goal. And so there is – we can put our finger on at least $40 billion to $50 billion of opportunities just in Medicaid growth opportunity organically, and that's just today, and that changes constantly. So, over a five year period, we think there are adequate paths to get to that goal of driving, like you said, mid-to-high teens compound annual growth which we expect that to sort of ramp-up over the five-year period.

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**Peter Heinz Costa**
*Analyst, Wells Fargo Securities LLC*

Q

And setting such a big growth goal for your company, which hasn't had that kind of growth in the past recently. Are you perhaps taking a more risky approach to the business? You could argue that I always been unfortunate in this, but your decision not to participate in the Affordable Care Act exchanges was clearly avoiding some risk, which seems to be very good from hindsight perspective. But, do you think you have to take on more risk to get to your goal?

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**Andrew Lynn Asher**
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

I'd frame it as, we took a conscious hiatus over the last couple of years. So, I think to some degree, we de-risk the WellCare of the past, which was growing at about 30% compound growth rate, now off of a smaller base. But we took a conscious – and it wasn't easy to really, say, okay, we're going to put blinders on and we got to deliver value to shareholders like fixing and improving. So the base of the company, $14 billion of revenue in a diversified portfolio, there is a lot of value in those assets that we had to focus on. And, so I'm thrilled that we've been able to not just demonstrate what you guys see externally, but internally knowing our readiness to execute on growth opportunities, is night and day compared to early 2014.

So I would say we sort of de-risk it, but we've set ourselves up, I think, to really have a sound ability prospectively to implement new contracts like Nebraska, and to execute on acquisitions, Advicare was a very small one, but we saw the value in having our investment in the integration solutions team, which we built from scratch over the last two years, as well as a more cohesive M&A and integration approach company-wide, which wasn't quite there a couple of years ago.

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**Peter Heinz Costa**
*Analyst, Wells Fargo Securities LLC*

Q

You talked about unlocking value in the business that you already had, one of those ways you did that was changing out the PBM, which clearly delivered a lot of value over this past year. And it seemed like to me that it was either more than expected or faster than expected. Would you categorize the savings that you got out of your PBM as more than expected, or would you categorize it as if you just got it to faster than expected? And then does that mean that there is nothing left for 2017 from improvement in the PBM, talk about that a little bit?

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**Andrew Lynn Asher**
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

I'd say it's a little bit of more and it certainly was faster. So, let me give you a few examples there. We were actually able, and this is sort of old news by now, but effective April 1, 2015, to execute on switching our manufacturer rebates over to CVS.

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**Peter Heinz Costa**
*Analyst, Wells Fargo Securities LLC*

Q

Sure.

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**Andrew Lynn Asher**
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

Because we control that ourselves, WellCare was – we're doing that internally that wasn't with our predecessor PBM. And so that was – and that sort of manifested itself in earlier recognition of that value in 2015. And so that continues to – we have the ability in our contract to sort of ride the coattails of what CVS can execute on, which their buying powers are a little bit better than WellCare's in terms of dealing with the manufacturers. So as they continue to improve, we get the benefit of that, but that was sort of a stair-step effective 4/1/2015. That was piece one.

Piece two, was the comprehensive replacement of our PBM and putting in a contract that has what I'll call the appropriate level of [ph] sheath (11:14) and provisions, and guarantees, and specificity, and definition, and all those things that are pretty important when a payer needs to hold their PBM accountable. And unfortunately, those things just didn't exist in our last contract, which created the opportunity for us. So there is not like another big stair-step to come, but we see continuing improvements as our PBM is executing on our behalf, and we're holding them accountable for what they need to deliver to us.

The best evidence of doing better than we expected is in our PDP business, which as you might imagine, is the best way to look at pharmacy performance, because that's only a pharmacy product, otherwise, pharmacies embedded in Medicaid and Medicare Advantage, and this is the second quarter in a row where we dropped the MBR a 100 basis points as we closed out Q2, we dropped the midpoint down to 80%, because we usually start with the bid process in the low-80%s, that's sort of a maximization sweet spot of trying to balance the MBR with growth. And last year, we produced a high-70%s MBR, because we weren't bidding to anticipate everything we were able to achieve in 2015.

So I like the positioning, not just of our PDP business, but that cost structure is critical for Medicaid, and it certainly is helpful for Medicare Advantage too. And to remind you, we only did a three-year deal, and so we will not be a prisoner to a market check, even though we do have market checks embedded for three years. And we will do a full RFP process, because that is the best way to really test and garner any market shifts that have occurred over a short time period. As in – as we mentioned in my past slides, I've seen 10-year and 12-year deals that weren't delivering what I think what we can deliver in our pharmacy cost structure.

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**Peter Heinz Costa**
*Analyst, Wells Fargo Securities LLC*

Q

If we look at your medical loss ratio for the first half of 2015, it's 88.3%. Your guidance is for this year's medical loss ratio of 89% to 89.5%. So that implies quite a substantial rise in your loss ratio in the back half of the year. We know there is a couple of items including the worse than expected decline in the rate in Tennessee, and Florida relaxing its HCV authorization criteria. But what else is contributing to that higher loss ratio, or are you just being overly conservative at this juncture because your performance has been really good so far the first half of this year?

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**Andrew Lynn Asher**
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

Well, there is an element – there is some things that we covered in the Q2 call, which are sequential headwinds, 3% rate reduction in Kentucky. You guys can do the math, and if you annualize that, at $75 million headwind as of 7/1, as applied to our $2.4 billion to $2.5 billion programs. So, that was a little bit more severe than we had forecast. Although, we had forecast a little bit of a headwind there. So, that's one element.

Another element is embedded in our second quarter, as you might recall, we were collecting from the State of Florida some retro revenue, some of which related to the prior year, so $0.12 of our Q2, the $8.5 million was really related to prior year collection. So as you think about progression in the next year, we'll have to sort of make that clear what was embedded in 2015. And there is more to come on that as well in terms of collecting retro revenue. So, there's some things in our reported results that will impact the back half of the year on a comparative basis.

And then you're right, Pete, we always want to make sure we can deliver on our promises, nothing is guaranteed though in terms of forward forecast, as Angie laid out in the forward-looking statements, but we are thoughtful in terms of looking at trends and estimating what other rate increases we believe we will – we have earned from states, and we try to take a reasonable approach with our internal forecast on those prospective rate changes that we don't yet have visibility into.

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**Peter Heinz Costa**
*Analyst, Wells Fargo Securities LLC*

Q

Regarding the $18.7 million, you already collected from the reclassification of the SSI population in Florida. How much more that is yet to come, and do we know what the rate increase is going to be in Florida and where that stand? And can you talk about where we stand with Florida right now?

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**Andrew Lynn Asher**
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

Sure. So, the $18.7 million, of which $8.5 million related to prior year, so that's good to sort of have that in your notes, but the $18.7 million is what we recognized during Q2, we've actually been paid $26 million so far, and that's – that's a – there is probably a couple of million more we would expect to get, but we picked up another $7 million so far in Q3.

Once again, that is from prior year, so that will be another dime of earnings that you need to think about in terms of bridging into 2017. And so we applaud Florida for making good on their commitment to make us whole for that classification item. And then there's some potential for more, but it will take legislative funding, and so that's – we'll have to see how that proceeds over time. But that's really good from a cash standpoint in terms of collecting those receivables. More importantly though, as we look forward in Florida, we have gotten draft rates and we're working on those, and so.

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**Peter Heinz Costa**
*Analyst, Wells Fargo Securities LLC* Q

How do they look?

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**Andrew Lynn Asher**
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.* A

We're working on those – we're working on those. But Florida is a good partner, Florida is a good partner, and I will say that they have been receptive to things like the reality of when you change criteria on Hep C, there is an item in the rate development specific to that mismatch of revenue and expense. So, pleased with how Florida is approaching, and has approached the soundness of the program. And so we'll have to see how that plays out over the next couple of months.

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**Peter Heinz Costa**
*Analyst, Wells Fargo Securities LLC* Q

Okay. You're sort of at the tip of the Zika virus coming to the United States. We had Triple-S Management in here yesterday, and they talked about seeing diagnosed cases of Zika virus going from 500 a month to 800 a month, in August, 1,200 a month.

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**Andrew Lynn Asher**
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.* A

Wow.

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**Peter Heinz Costa**
*Analyst, Wells Fargo Securities LLC* Q

Florida is close to Puerto Rico. So, let's talk about how we're going on Zika virus? And having said that, have you seen any sign of changes in pre-natal scans, or pregnancies, or abortion rate for that matter, so how do you expect Zika virus to impact you going forward?

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**Andrew Lynn Asher**
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.* A

Well, we're tracking. I'll let – Angie has done some work on this.

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**Angeline C. McCabe**
*Vice President-Investor Relations, WellCare Health Plans, Inc.* A

Yeah. We haven't to-date have any reported cases of members with the Zika. We've seen nothing out of the norm in terms of costs. So you would likely see an increase in outpatient or lab costs. We haven't seen anything out of the norm there. We're working with the state and local health officials to monitor it. We're also educating our providers with regard to members they have a benefit and over-the-counter benefit, and they can use that to get mosquito repellent. But we're on top of it, and we're working with the local authorities. So again, nothing out of the norm.

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**Peter Heinz Costa**
*Analyst, Wells Fargo Securities LLC*

Q

Okay. You talked...

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**Andrew Lynn Asher**
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

I guess, we're not that close.

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**Peter Heinz Costa**
*Analyst, Wells Fargo Securities LLC*

Q

Maybe not that close, yet. You talked about the Florida Medicaid Expansion, or perhaps now being called ObamaCare, but we're about to see a change in administration here. So perhaps the door is going to open up finally, if you're doing some kind of an expansion. What would that mean in terms of dollars for you guys? Can you quantify that for us in any way, if you got your share of that expansion?

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**Andrew Lynn Asher**
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

It's tough not knowing exactly how that would be presented in a hypothetical scenario. It's really difficult to, I mean, it's one of our potential growth drivers. I'll tell you, it's not the biggest, we're not sort of betting on that. But we think it will occur when we look at a five year timeframe. So, given the ambiguity, I'm not prepared to frame that.

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**Peter Heinz Costa**
*Analyst, Wells Fargo Securities LLC*

Q

Okay. Congratulations on your win in Nebraska, stealing it from your old employer, Aetna. Can you talk a little bit about what that means? Now, this not really new to managed care business. This business has been managed care, it should frankly be better business. How do you expect it to come on in terms of an accretion from right away?

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**Andrew Lynn Asher**
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

Yeah. We've been really pleased with the construct of the program which is important in terms of, call it, the degree of sophistication of the state and the program. And then also, what's critical to Medicaid is matching revenue and cost. And so, you're right, about 80% of the revenue, call it, is continuing program revenue. The State of Nebraska is very smart, they pulled in behavioral and pharmacy into sort of a comprehensive package. They added some population, a little bit more of the complex population. So it's a much more comprehensive program. It doesn't yet include LTSS, but it's more comprehensive than the previous program. And so that will mean more coordinated care for the members.

And everything we've seen with respect to the rates during the RFP process, those adjustments sense elements, there is a risk corridor, for example, that cuts both ways for year one which is I think a very responsible way for a state to handle the construct of a program. So, so far so good in terms of even though we haven't collected our first dollar revenue, or incurred our first claim, the construct of the program looks very responsible and attractive in terms of being a participant in that program. We're thrilled to have won it, and it wasn't a financial bid, it was on qualifications and experience. And feel really good about our set of capabilities that we're able to displace embedded incumbents. There's two of them that were displaced.

## Peter Heinz Costa
*Analyst, Wells Fargo Securities LLC*

Q

Let's move on to another state, South Carolina. You first acquired United's business a few years back, and another, so you're buying Advicare, you bought Advicare to give you more membership in South Carolina. Million of talks about medical loss ratio floor starting in July in South Carolina. So, sort of more of a problem area for them perhaps coming forward. But you've been sort of growing and targeting South Carolina, while others are exiting. Can you tell us why you see it as a different market than others have seen it?

## Andrew Lynn Asher
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

Yeah. Well, I would be too worked up about a minimum MBR 86%, I think is the number, right?

## Peter Heinz Costa
*Analyst, Wells Fargo Securities LLC*

Q

Yes.

## Andrew Lynn Asher
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

And as you know the math of calculating minimum MBRs, that's pretty good performance. And so, actually the addition of the Advicare business to our block, is our block was running really well, and it sounds like our peers was running well as well. But there's actually sort of a synergy of MBR payment avoidance in terms of combining a block of business that was performing less well in Advicare, so that sort of one of the benefits of doing a small acquisition there.

But South Carolina is a great state for us. I mentioned it earlier, it's one of the states where they haven't expanded ACA. So, think of that – there is an embedded call option in being there in terms of some future growth, and we're real excited about having growing our business about 50% through that small acquisition. And it expanded our network, we're able to as we would expect, and you should expect, as part of the transaction with a provider owned health plan, getting a long-term contract with the provider that we previously didn't have in our network, since they had own their own health plan. So, that was a great small opportunity for us, but we're very positive on South Carolina.

## Peter Heinz Costa
*Analyst, Wells Fargo Securities LLC*

Q

One program I want to explore little bit more about is the 400 field care agents that you've hired. I know you rolled that out across your Medicaid markets, and I believe that that's coming for the Medicare markets as well. Can you tell us what this exactly does, and what it's costing you, and explain that a little more, because I think that's a really interesting program?

Andrew Lynn Asher
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

Yes. Once again, we're a local – we have local based health plans, it's one of the things we're able to demonstrate in terms of value to the states, a lot of people call themselves local, but we truly have local based health plans with management, infrastructure. And as you mentioned, we hired 400 nurses over the last year-and-a-half to really up our gain in field care management, and this is where, through an algorithm, we identify members that we can in a call it a 60-day to 90-day period engage with them, get them back on track, get them back compliant with their pharmaceutical regiment, or the doctor's orders, and solve problems which helps from a quality standpoint, helps from a customer service standpoint, but also helps from a cost management standpoint.

So, we're really pleased with the return of that investment, because think about 400 nurses, take an average compensation, that's a pretty meaningful investment that in personnel costs, but we're pretty pleased with the early returns on that program. And it's beyond just the financial returns, because there is a quality and member engagement aspect, and so far so good on that program.

Peter Heinz Costa
*Analyst, Wells Fargo Securities LLC*

Q

There is probably a headwind this year, but will it be a headwind there or a tailwind next year?

Andrew Lynn Asher
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

Well, we started hiring in 2014. So, very late 2014, we did a lot of hiring in 2015. So, I think most of it is embedded in our run rate. It shows up because it's engaging with members in their home, it's a medical expense under the quality reclass. So, I think actually there'll be a tailwind net-net, as we look at the next year, year-and-a-half, as we get more momentum from that initiative, which spans quality, never satisfaction in costs.

Peter Heinz Costa
*Analyst, Wells Fargo Securities LLC*

Q

Anyway to quantify it [indiscernible] (26:35)?

Andrew Lynn Asher
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

Well, I think you've seen some of that manifest for instance in our MBR improvement, between that and other initiatives. Utilization management has been another blocking and tackling initiative that we've gone real low on compared to the past, which has manifested itself in our Medicare MBR. It's the most visible linkage you can see to that investment.

Peter Heinz Costa
*Analyst, Wells Fargo Securities LLC*

Q

Starting to run out of time here. So I'm going to head here – go ahead, [ph] Bill (27:02).

Q

[Question Inaudible] (27:04-27:17)?

### Andrew Lynn Asher
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

Yeah, I'll repeat the question for the benefit of website, but to shorten the question is to discuss our perspective on not going into the public health exchanges.

We actually built the capability beginning in 2014 and launched in 2015, two state-based health exchanges for two reasons. One was, to have the capability as optionality just in case that became important mechanism that was tied to Medicaid, because that was a theory, it's been a theory all along, the tie in between exchanges in Medicaid. And two, we thought the two specific states were going to have programs that would channel some of the Medicaid business through that mechanism didn't pan out that way.

And so we've got the capability, we're beginning 1/1/2017 where we will no longer be in the exchanges in those two states. But I'm pleased that we spent the capital and got some experience, even though luckily, we designed the program to have very few members, we had less than 2,000 members. And so, there was no meaningful financial risk to the company. But having that experience, I think will bode well, if and when, that becomes an attractive business opportunity for us and the industry.

Q

[Question Inaudible] (28:40-28:46)?

### Andrew Lynn Asher
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

A

So, why? Coming into the company, I've had some experience in launching exchanges and saw the good and the bad. And then just sort of, company's appetite is in government programs, not in, for instance, protecting a large individual commercial block, which is the reason why some companies have gone into the exchanges, or looking for a commercial growth opportunity. We're in government programs, if we re-embark into the exchanges, it will be because we feel that it's important from a government programs, or Medicaid perspective.

### Peter Heinz Costa
*Analyst, Wells Fargo Securities LLC*

Well, I want to thank you guys for coming up today, and thank you all for being here. Thank you.

### Andrew Lynn Asher
*Chief Financial Officer & Senior Vice President, WellCare Health Plans, Inc.*

Thank you.

### Angeline C. McCabe
*Vice President-Investor Relations, WellCare Health Plans, Inc.*

Thanks, Pete.