Clayton-based Centene's stock is up more than 60% in three months

By Judith VandeWater Of the St. Louis Post-Dispatch

Centene Corp., a Medicaid HMO based in Clayton, has what market-weary Nasdaq investors crave – real earnings and a history.

A small-cap growth company is a niche business, Centene made its initial public offering of 3.5 million shares Dec. 12 at $14 a share. It closed Tuesday at $23, up more than 60 percent from the initial price.

“In this market, that is way above average,” said Chris Sergeant, an analyst at Stifel, Nicolaus & Co. “Simply getting an IPO done since the dot-com bubble exploded is a virtual miracle in any case, but especially in the case of a small-cap.”

Sergeant has a 12-month target price of $29 for Centene.

SG Cowen Securities Corp., one of the lead underwriters on the offering, pointed out in a report on March 1 that Medicaid “players” are relatively insulated against tough economic conditions. When the unemployment rate increases, the Medicaid-eligible population grows.

Cowen said Centene's limited geographic diversity – it operates in Wisconsin, Texas and Indiana – makes it slightly riskier than more broadly based managed-care companies. It suggests that Centene expand its market concentration through acquisitions.

Centene netted $41 million in its stock offering. It used about $4 million of the proceeds to retire existing debt. The company ended the year with no debt and $45 million in available cash.

Centene has a history of growing through acquisition, and it expects to stay a buyer. “We have a full pipeline – stand by,” said Michael F. Neidorff, Centene's president and chief executive.

Neidorff said Centene is interested only in acquisitions that will add to earnings in the first year, and that are in urban areas in one of the 37 states where Medicaid enrollees must participate in a managed-care plan.

Centene is one of just two pure-play Medicaid managed-care company stocks. The other, Amerigroup Corp., had its initial stock offering in November.

Medicaid is an insurance program for low-income people that is funded jointly by states and the federal government. People with severe disabilities and the elderly poor also may qualify. The State Children's Health Insurance Program, which makes Medicaid insurance available on a sliding-scale premium to low-income families, broadened the potential market.

According to the Kaiser Commission on Medicaid and the Uninsured, in 1998 – the most recent year for which data are available – Medicaid financed health care for more than 40 million people at a cost of about $176.3 billion. The federal government's Centers for Medicare and Medicaid Services projects that amount will grow to $444 billion by 2010.

Kaiser estimates that about 56 percent of Medicaid enrollees are covered by managed-care plans. For-profit insurers cover about 76 percent of Medicaid managed-care enrollees, Kaiser said.

Neidorff said the 10 largest publicly traded companies have less than 10 percent of the eligible Medicaid population as enrollees.

Centene had about 235,000 enrollees at the end of the year: about 114,000 in Wisconsin, 55,000 in Texas and 66,000 in Indiana.

All Centene's managed-care members are eligible under Medicaid, Medicaid disability and the State Children's Health Insurance Program – a market the company hopes to mine. Centene doesn't insure the low-income and frail elderly who qualify for Medicare and Medicaid.

Currently, its focus is at the other end of the age spectrum: More than 77 percent of members are age 17 or younger.

There are a few conditions that affect the cost of medical care for this population, including asthma, diabetes, high-risk obstetrics and use of expensive emergency-room care, Neidorff said.

By managing the treatment of chronic diseases and teaching people to visit doctors in their offices, Centene can control medical expenses, he said.

States price Medicaid managed-care contracts and may attempt to reduce premium rates if regulators think a managed-care company isn't spending enough of the premium dollar on medical services or is making too great a profit as a percentage of revenues.

Neidorff said premium oversight by regulators is an incentive for companies to provide high-quality care in appropriate clinical settings. “The only way we are going to be successful, long term, is to do the right things now for the recipient – to achieve better (health) outcomes,” he said.
