

ST. LOUIS--(BUSINESS WIRE)--July 28, 2003--Centene Corporation (Nasdaq:CNTE) today announced its financial results for the quarter ended June 30, 2003.

Second Quarter Highlights

- Revenues of \$186.2 million, a 73% increase over the second quarter of 2002.
- Earnings from operations of \$10.3 million, a 34% increase over the second quarter of 2002 reflecting the integration of new business which provides a basis for sustainable margin expansion.
- Three-for-two split of Centene stock in the form of a 50% stock dividend.
- Earnings per diluted share of \$0.43, or \$0.65 on a pre-split basis.
- Organic membership growth of 30% over second quarter of 2002.
- Days in claims payable of 52, in the Company's target range of 50-55.
- Health benefits ratio of 83.3%, within the Company's target range of 82% to 83.5%; at forecasted levels for New Jersey and at 82.4% for the Medicaid component.
- Agreement by Centene's Texas subsidiary, Superior HealthPlan, to acquire the Medicaid-related contract rights of HMO Blue Texas in the San Antonio market.

Michael F. Neidorff, Centene's president and chief executive officer, said, "We are pleased to announce our sixteenth quarter of consecutive profitability and growth, and are proud to again deliver predictable and sustainable operating results which are fully in-line with our expectations. These results reflect our ongoing success in working within the states in which we operate to provide optimal care for our recipients while helping them to manage their healthcare cost objectives."

"Our margin protection programs, which combine policy changes and rate increases, continue to yield strong and consistent results. We recently received notification that our rates in Texas, which are subject to Centers for Medicare and Medicaid Services (CMS) approval, would reflect a 6.3% composite Medicaid rate increase effective September 1, 2003. Importantly, we received positive rate adjustments in each of our Texas service areas. We are currently in negotiations with the state of Texas regarding our SCHIP premium rates and expect the state to "buy-down" the rates with changes in benefits. Concurrently, Texas is planning to reduce the physician fee schedule by up to 5%, which in turn lowers our cost. New Jersey has approved a 6.2% increase, effective July 1, 2003; and we are awaiting CMS approval to expand our footprint throughout the entire state and be operating in all 21 counties. We are still in negotiations with New Jersey regarding our SSI rates. We remain confident that our approach to working with the states is positive and effective," concluded Neidorff.

The following table depicts membership in Centene's managed care organizations by state at June 30, 2003 and 2002:

| | 2003 | 2002 |
|------------|---------|---------|
| Wisconsin | 145,600 | 123,900 |
| Texas | 131,400 | 61,900 |
| Indiana | 109,000 | 92,800 |
| New Jersey | 52,700 | - |
| TOTAL | 438,700 | 278,600 |

The following table depicts membership in Centene's managed care organizations by member category at June 30, 2003 and 2002:

| | 2003 | 2002 |
|----------|-----------|---------|
| Medicaid | 361,700 | 250,800 |
| SCHIP | 68,800 | 25,200 |
| SSI | 8,200 (a) | 2,600 |
| TOTAL | 438,700 | 278,600 |

(a) 4,300 at-risk; 3,900 ASO

Statement of Earnings Highlights

- For the second quarter of 2003, revenues increased 73% to \$186.2 million from \$107.6 million in the second quarter of 2002.
- The health benefits ratio, which reflects medical costs as a percent of premium revenues, was 83.3% for the second quarter of 2003, with the Medicaid component steady at 82.4% and compared to 82.0% for the same period in 2002. Both ratios were within the Company's targeted range of 82.0% to 83.5%. The Company experienced a slight increase in this ratio due to the addition of SSI risk members in New Jersey in December 2002. As previously reported, the health benefits ratio for SSI is affected by a low membership base; the Company expects this ratio to be more volatile until the Company has achieved a critical mass in this population base.
- General and administrative expenses as a percent of revenues on the Company's Medicaid business has consistently decreased, and was 10.3% for the second quarter of 2003 as compared to 10.9% in the second quarter of 2002 and 10.5% in the first quarter of 2003. Including the effects of the Company's specialty business, which the Company entered into during the first quarter of 2003 and which has a higher level of general and administrative expenses, the combined general and administrative expense ratio was 11.2%.
- Earnings from operations increased to \$10.3 million in the second quarter of 2003 from \$7.7 million in the comparable period of 2002. Net earnings improved to \$7.7 million, or \$0.43 per diluted share, compared to \$5.2 million, or \$0.30 per diluted share, for the second quarter of 2002.
- For the six months ended June 30, 2003, revenues increased 78.8% to \$363.7 million from \$203.4 million for the same period in the prior year. The health benefits ratio was 83.3%, with the Medicaid component steady at 82.4%, and compares to 82.2% for the same period in 2002. General and administrative expenses as a percent of revenues for the Medicaid segment decreased to 10.4% from 11.0%, and was slightly higher on a combined basis, reflecting the addition of the Company's specialty segment. Earnings from operations increased 46.5% to \$20.5 million from \$14.0 million in 2002. Net earnings improved to \$14.9 million, or \$0.83 per diluted share.

Balance Sheet Highlights

At June 30, 2003, the Company had cash and investments of \$169.4 million, a portion of which is restricted due to state regulatory requirements. Medical claims liabilities totaled \$87.1 million, representing 52 days in claims payable. The Company continues to experience improved claims turnaround time contributing to its overall claims efficiencies, thereby reducing claims inventory levels in sequential quarters. A full reconciliation of the Company's change in days in claims payable from the immediately preceding quarter is highlighted below:

| | | |
|----------------------------|-------|-------|
| Physician Bonus | (2.2) | |
| Pharmacy Accrual Changes | | 1.2 |
| Faster Payment Turn-Around | (3.6) | |
| Lower Ending Inventory | (1.5) | |
| | ----- | |
| Total | (6.1) | ===== |

Outlook

Karey L. Witty, Centene's chief financial officer, commented, "Our 2003 revenue guidance is expected to be in the range of \$765 million to \$768 million and reflects the addition of the 21,000 HMO Blue Texas members, effective August 1, 2003. We anticipate net earnings of \$1.77 to \$1.80 per diluted share, based on 17.8 million shares outstanding."

Conference Call

As previously announced, the Company will host a conference call tomorrow, July 29, 2003, at 8:30 a.m. (Eastern Time) to review the financial results for the second quarter ended June 30, 2003, and to discuss its business outlook. Michael F. Neidorff and Karey L. Witty will host the conference call. Investors are invited to participate in the conference call by dialing 800-273-1254 in the U.S. and Canada, 706-679-8592 from abroad, or via a live Internet broadcast on the Company's website at www.centene.com, under the Investor Relations section. A replay will be available for on demand listening shortly after the completion of the call until 11:59 PM Eastern on August 12, 2003 at the aforementioned URL, or by dialing 800-642-1687 in the U.S. and Canada, or 706-645-9291 from abroad, and entering access code 1488323.

About Centene Corporation

Centene Corporation provides managed care programs and related services to individuals receiving benefits under Medicaid, including Supplemental Security Income (SSI), and the State Children's Health Insurance Program (SCHIP). The Company operates health plans in Wisconsin, Texas, Indiana and New Jersey. In addition, the Company contracts with other healthcare organizations to provide specialty services including behavioral health, nurse triage and pharmacy compliance.

The information provided in the second paragraph following the bullet listing under "Second Quarter Highlights," the second bullet under "Statement of Earnings Highlights" and the paragraph under "Outlook" above contain forward-looking statements that relate to future events and future financial performance of Centene. These forward-looking statements represent the Company's estimates as of July 28, 2003. Subsequent events and developments may cause the Company's estimates to change. The Company disclaims any obligation to update this forward-looking financial information in the future. Readers are

cautioned that matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, regulatory, competitive and other factors that may cause Centene's or its industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Actual results may differ from projections or estimates due to a variety of important factors, including Centene's ability to accurately predict and effectively manage health benefits and other operating expenses, competition, changes in healthcare practices, changes in federal or state laws or regulations, inflation, provider contract changes, new technologies, reduction in provider payments by governmental payors, major epidemics, disasters and numerous other factors affecting the delivery and cost of healthcare. The expiration, cancellation or suspension of Centene's Medicaid managed care contracts by state governments would also negatively affect Centene.

(Tables Follow)

CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

| | JUNE 30, 2003 | DECEMBER 31, 2002 |
|---|------------------|----------------------|
| | ----- | |
| | (Unaudited) | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 43,422 | \$ 59,656 |
| Premium and related receivables, net of allowances of \$246 and \$219, respectively | 16,739 | 16,773 |
| Short-term investments, at fair value (amortized cost \$9,396 and \$9,687, respectively) | 9,405 | 9,571 |
| Deferred income taxes | 1,688 | 2,846 |
| Other current assets | 6,574 | 4,243 |
| | ----- | |
| Total current assets | 77,828 | 93,089 |
| LONG-TERM INVESTMENTS, at fair value (amortized cost \$94,813 and \$78,025, respectively) | 96,489 | 79,666 |
| RESTRICTED DEPOSITS, at fair value (amortized cost \$19,840 and \$15,561, respectively) | 20,068 | 15,762 |
| PROPERTY AND EQUIPMENT, net | 8,202 | 6,295 |
| INTANGIBLE ASSETS, net | 13,039 | 10,695 |
| DEFERRED INCOME TAXES | 726 | 472 |
| OTHER ASSETS | 4,062 | 4,348 |
| | ----- | |
| Total assets | \$ 220,414 | \$ 210,327 |
| | ===== | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Medical claims liabilities | \$ 87,101 | \$ 91,181 |
| Accounts payable and accrued expenses | 9,810 | 10,748 |
| Other current liabilities | 30 | -- |
| | ----- | |
| Total current liabilities | 96,941 | 101,929 |
| OTHER LIABILITIES | 5,641 | 5,334 |
| | ----- | |
| Total liabilities | 102,582 | 107,263 |
| MINORITY INTEREST | 7 | 881 |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, \$.001 par value; authorized 40,000,000 shares; 16,606,059 and 16,243,649 shares issued and outstanding, respectively | 17 | 16 |
| Additional paid-in capital | 73,026 | 72,372 |
| Accumulated other comprehensive income: | | |
| Net unrealized gain on investments, net of tax | 1,204 | 1,087 |
| Retained earnings | 43,578 | 28,708 |
| | ----- | |
| Total stockholders' equity | 117,825 | 102,183 |
| | ----- | |
| Total liabilities and stockholders' equity | \$ 220,414 | \$ 210,327 |
| | ===== | |

CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
(IN THOUSANDS, EXCEPT SHARE DATA)

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| | (Unaudited) | | (Unaudited) | |
| REVENUES: | | | | |
| Premiums | \$ 182,900 | \$ 107,503 | \$ 359,112 | \$ 203,152 |
| Services | 3,332 | 107 | 4,554 | 211 |
| Total revenues | 186,232 | 107,610 | 363,666 | 203,363 |
| EXPENSES: | | | | |
| Medical costs | 152,404 | 88,109 | 299,311 | 167,053 |
| Cost of services | 2,613 | 86 | 3,588 | 168 |
| General and administrative expenses | 20,879 | 11,697 | 40,284 | 22,162 |
| Total operating expenses | 175,896 | 99,892 | 343,183 | 189,383 |
| Earnings from operations | 10,336 | 7,718 | 20,483 | 13,980 |
| OTHER INCOME (EXPENSE): | | | | |
| Investment and other income, net | 1,257 | 976 | 2,231 | 1,891 |
| Interest expense | (4) | (11) | (31) | (11) |
| Earnings before income taxes | 11,589 | 8,683 | 22,683 | 15,860 |
| INCOME TAX EXPENSE | 4,462 | 3,449 | 8,695 | 6,327 |
| MINORITY INTEREST | 581 | -- | 881 | -- |
| Net earnings | \$ 7,708 | \$ 5,234 | \$ 14,869 | \$ 9,533 |
| EARNINGS PER COMMON SHARE, BASIC: | | | | |
| Net earnings per common share | \$ 0.47 | \$ 0.34 | \$ 0.91 | \$ 0.62 |
| EARNINGS PER COMMON SHARE, DILUTED: | | | | |
| Net earnings per common share | \$ 0.43 | \$ 0.30 | \$ 0.83 | \$ 0.56 |
| SHARES USED IN COMPUTING PER SHARE AMOUNTS: | | | | |
| Basic | 16,484,945 | 15,483,915 | 16,409,291 | 15,311,427 |
| Diluted | 17,803,016 | 17,319,569 | 17,829,558 | 17,152,775 |

CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

| SIX MONTHS ENDED JUNE 30, | |
|------------------------------|------|
| 2003 | 2002 |
| | |

(Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|---|-----------|----------|
| Net earnings | \$ 14,869 | \$ 9,533 |
| Adjustments to reconcile net earnings to net cash provided by operating activities -- | | |
| Depreciation and amortization | 2,761 | 975 |
| Stock compensation expense | 108 | 49 |
| Minority interest | (881) | -- |
| Gain on sale of investments | (777) | (307) |
| Loss on disposal of equipment | 44 | -- |
| Changes in assets and liabilities -- | | |
| Decrease (increase) in premium and related receivables | 1,205 | (492) |
| Increase in other current assets | (2,065) | (1,676) |
| Decrease (increase) in deferred income taxes | 836 | (555) |
| Decrease (increase) in other assets | 286 | (106) |
| (Decrease) increase in medical claims liabilities | (4,081) | 3,992 |
| Decrease in accounts payable and accrued expenses | (3,248) | (2,497) |
| Increase in other current liabilities | 30 | -- |
| Increase in other liabilities | 308 | -- |
| Net cash provided by operating activities | 9,395 | 8,916 |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | |
|---------------------------------------|-----------|----------|
| Purchase of property and equipment | (2,561) | (2,431) |
| Purchase of investments | (103,310) | (87,328) |
| Sales and maturities of investments | 83,196 | 29,093 |
| Contract acquisitions | (561) | -- |
| Investment in subsidiary | (1,734) | (3,193) |
| Proceeds from disposal of equipment | 11 | -- |
| Net cash used in investing activities | (24,959) | (63,859) |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|---|----------|----------|
| Net proceeds from issuance of common stock | -- | 10,304 |
| Extinguishment of acquired liabilities | (1,218) | -- |
| Proceeds from exercise of stock options | 548 | 108 |
| Net cash (used in) provided by financing activities | (670) | 10,412 |
| Net decrease in cash and cash equivalents | (16,234) | (44,531) |

CASH AND CASH EQUIVALENTS, beginning of period 59,656 88,867

CASH AND CASH EQUIVALENTS, end of period \$ 43,422 \$ 44,336

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

| | | |
|-------------------|----------|----------|
| Interest paid | \$ 42 | \$ -- |
| Income taxes paid | \$ 8,580 | \$ 9,282 |

CENTENE CORPORATION

SUPPLEMENTAL FINANCIAL DATA

| | Q2 2003 | Q1 2003 | Q4 2002 | Q3 2002 |
|------------|------------|------------|------------|------------|
| MEMBERSHIP | | | | |
| Wisconsin | 145,600 | 139,100 | 133,000 | 126,800 |
| Texas | 131,400 | 122,700 | 118,000 | 67,800 |
| Indiana | 109,000 | 104,800 | 105,700 | 101,500 |
| New Jersey | 52,700 | 52,700 | 52,900 | - |
| Total | 438,700 | 419,300 | 409,600 | 296,100 |
| Medicaid | 361,700 | 344,700 | 336,100 | 264,100 |
| SCHIP | 68,800 | 66,600 | 65,900 | 29,400 |
| SSI | 8,200 | 8,000 | 7,600 | 2,600 |
| Total | 438,700 | 419,300 | 409,600 | 296,100 |

REVENUE PER MEMBER \$142.26 \$142.06 \$134.08 \$133.20

CLAIMS

| | | | | |
|---------------------------------|---------|---------|---------|---------|
| Period-end Inventory | 109,865 | 144,465 | 150,717 | 140,432 |
| Average Inventory | 85,412 | 131,382 | 73,800 | 51,700 |
| Period-end Inventory per Member | 0.25 | 0.34 | 0.37 | 0.47 |

DAYS IN CLAIMS PAYABLE(b) 52.0 58.1 71.8 62.7

(b) Days in Claims Payable is a calculation of Medical Claims Liabilities at the end of the period divided by average medical costs per calendar day for such period.

ANNUALIZED RETURN ON EQUITY(c)

27.1% 27.0% 27.7% 27.5%

(c) Annualized Return on Equity is calculated as follows: (net income for quarter x 4) divided by ((beginning of period equity + end of period equity) divided by 2).

HEALTH BENEFITS RATIO BY CATEGORY:

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|--------------------------|--------------------|-------|------------------|-------|
| | JUNE 30, | | JUNE 30, | |
| | 2003 | 2002 | 2003 | 2002 |
| Medicaid (excluding SSI) | 82.4% | 82.0% | 82.4% | 82.2% |
| SSI | 103.3 | -- | 103.7 | -- |
| Total | 83.3 | 82.0 | 83.3 | 82.2 |

GENERAL AND ADMINISTRATIVE EXPENSE RATIO BY BUSINESS SEGMENT:

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|-----------------------|--------------------|-------|------------------|-------|
| | JUNE 30, | | JUNE 30, | |
| | 2003 | 2002 | 2003 | 2002 |
| Medicaid Managed Care | 10.3% | 10.9% | 10.4% | 11.0% |
| Specialty Services | 32.2 | -- | 30.2 | -- |
| Total | 11.2 | 10.9 | 11.1 | 11.0 |

MEDICAL CLAIMS LIABILITIES
(in thousands)

Four rolling quarters of the changes in medical claims liabilities are summarized as follows:

| | |
|------------------------|-----------|
| Balance, June 30, 2002 | \$ 63,557 |
| Acquisitions | 16,230(d) |
| Incurred related to: | |
| Current period | 535,975 |
| Prior period | (24,249) |
| Total incurred | 511,726 |
| Paid related to: | |
| Current period | 467,744 |
| Prior period | 36,668 |
| Total paid | 504,412 |
| Balance, June 30, 2003 | \$ 87,101 |

(d) Includes reserves acquired in connection with the acquisition of 80% of the outstanding capital stock of University Health Plans, Inc.

Our claims reserving process utilizes a consistent actuarial methodology to estimate our ultimate liability. Any reduction in the "Incurred related to: Prior period" claims may be offset as we actuarially determine "Incurred related to: Current period." As such, only in the absence of a consistent reserving methodology would favorable development of prior period claims liability estimates reduce medical costs. We believe we have consistently applied our claims reserving methodology in each of the

periods presented.

CONTACT: Centene Corporation
Karey L. Witty, 314-725-4477
or
Lisa M. Wilson, 212-759-3929

SOURCE: Centene Corporation

<https://investors.centene.com/2003-07-28-Centene-Corporation-Reports-Sixteenth-Consecutive-Quarter-of-Increased-Profitability>