

- Centene Corporation Reports 2012 First Quarter Earnings of \$0.45 Per Diluted Share and Increases Guidance for 2012 - -
Apr 24, 2012

ST. LOUIS, April 24, 2012 /PRNewswire/ -- Centene Corporation (NYSE: CNC) today announced its financial results for the quarter ended March 31, 2012.

First Quarter Highlights

- Quarter-end managed care at-risk membership of 2,149,500, an increase of 39% year over year.
- Premium and Service Revenues of \$1.7 billion, representing 41% year over year growth.
- Health Benefits Ratio of 88.2%, compared to 84.9% in the prior year and 85.9% in the fourth quarter of 2011.
- General and Administrative expense ratio of 9.8%, compared to 12.0% in the prior year.
- Diluted earnings per share of \$0.45, compared to \$0.46 from the prior year.
- Employees increased from 4,500 at March 31, 2011 to 5,700 at March 31, 2012, reflecting our continued business expansion.

Other Events

- In January 2012, we were selected to contract with the Washington Health Care Authority to serve Medicaid beneficiaries in the state. Operations are expected to commence in the third quarter of 2012.
- In February 2012, we announced that we were selected to contract with the Office of Administration for Missouri to serve Medicaid beneficiaries in all three regions of the state. Operations are expected to commence in the third quarter of 2012.
- In February 2012, we announced that Superior HealthPlan received an Excellent Accreditation rating by the National Committee for Quality Assurance (NCQA). Superior HealthPlan is the only Medicaid plan in Texas to earn an Excellent Accreditation, the highest rating by NCQA.
- In March 2012, we began operating under contracts in Texas that expanded its operations through new service areas including the 10 county Hidalgo Service Area and the Medicaid Rural Service Areas of West Texas, Central Texas and North-East Texas, as well as the addition of STAR+PLUS in the Lubbock Service Area. The expansion also added the management of outpatient pharmacy benefits in all service areas and products, as well as inpatient facility services for the STAR+PLUS program. At March 31, 2012, we served over 300,000 additional Texas members compared to December 31, 2011.
- In March 2012, Standard & Poor's raised its outlook to positive from stable and affirmed its counterparty credit and senior unsecured debt rating of BB.
- In April 2012, we were notified by the Ohio Department of Job and Family Services that Buckeye Community Health Plan, our Ohio subsidiary, was not awarded a contract to continue serving Medicaid members in Ohio, effective January 2013. We have filed a formal protest contesting the awards.

Michael F. Neidorff, Centene's Chairman and Chief Executive Officer, stated, "While underlying trend remains predictable, results were mixed due to seasonality of medical costs particularly in March, continued high medical costs in Kentucky, and general and administrative costs at higher levels associated with an additional 370,000 members in Texas. We continue to expect solid full year 2012 results as evidenced by our increased financial guidance. This guidance includes our newest states of Missouri and Washington, as well as the additional Texas lives."

The following table depicts membership in Centene's managed care organizations, by state:

	March 31,	
	2012	2011
Arizona	23,100	22,600
Florida	199,500	188,800
Georgia	306,000	303,300
Illinois	17,400	—
Indiana	206,300	209,400
Kentucky	145,700	—
Louisiana	51,300	—
Massachusetts	36,000	34,100
Mississippi	29,500	—
Ohio	161,000	160,900
South Carolina	86,700	84,900
Texas	811,000	456,700
Wisconsin	76,000	81,800
Total at-risk membership	2,149,500	1,542,500

Non-risk membership	—	10,400
Total	<u>2,149,500</u>	<u>1,552,900</u>

The following table sets forth our membership by line of business:

	March 31,	
	2012	2011
Medicaid	1,634,800	1,169,700
CHIP & Foster Care	218,800	208,900
ABD & Medicare	247,400	123,800
Hybrid Programs	41,500	35,200
Long-term Care	7,000	4,900
Total at-risk membership	<u>2,149,500</u>	<u>1,542,500</u>
Non-risk membership	—	10,400
Total	<u>2,149,500</u>	<u>1,552,900</u>

Statement of Operations: Three Months Ended March 31, 2012

- For the first quarter of 2012, Premium and Service Revenues increased 41% to \$1.7 billion from \$1.2 billion in the first quarter of 2011. The increase was primarily driven by new operations in Mississippi, Illinois, Kentucky and Louisiana as well as the Texas and Arizona expansions, pharmacy carve-ins and overall membership growth.
- Consolidated HBR of 88.2% for the first quarter of 2012 represents an increase of 330 basis points from the comparable period in 2011 and an increase from 85.9% from the fourth quarter of 2011. The increase year over year is primarily due to (1) the addition of our Kentucky market which we continue to record at a high HBR, (2) higher medical costs in Texas specifically in March and a September 1, 2011 premium rate decrease in our existing Texas service areas (excluding the expansion), (3) higher seasonal medical costs in our South Carolina market and (4) increased medical costs in our individual health business. The increase sequentially is due to retroactive premium rate increases recorded in the fourth quarter of 2011 associated with Georgia and Florida, as well as increased medical costs in our existing Texas service areas.
- Consolidated G&A expense ratio for the first quarter of 2012 was 9.8%, compared to 12.0% in the prior year. The year over year decrease reflects the leveraging of our expenses over higher revenues in 2012 and a reduction in performance based compensation expense in 2012. The G&A ratio in 2011 reflects a 50 basis point increase as a result of the general and administrative costs recorded in our Mississippi market for the first quarter without recording the corresponding revenue.
- Earnings from operations were \$34.2 million in the first quarter 2012 compared to \$39.1 million in the first quarter 2011. Net earnings were \$24.0 million in the first quarter 2012, relatively flat compared to \$23.7 million in the first quarter of 2011.
- Earnings per diluted share were \$0.45 in the first quarter of 2012 compared to \$0.46 in the prior year.

Balance Sheet and Cash Flow

At March 31, 2012, the Company had cash, investments and restricted deposits of \$1,202.4 million, including \$35.5 million held by its unregulated entities. Medical claims liabilities totaled \$708.8 million, representing 44.7 days in claims payable. Total debt was \$350.4 million and debt to capitalization was 21.8% at March 31, 2012 excluding the \$77.2 million non-recourse mortgage note. Cash flows from operations for the quarter ended March 31, 2012 were \$(32.1) million, which reflects the delay of \$71.2 million in premium payments from one of our state customers.

A reconciliation of the Company's change in days in claims payable from the immediately preceding quarter-end is presented below:

Days in claims payable, December 31, 2011	45.3
Impact of new business	0.5
Timing of claim payments	<u>(1.1)</u>
Days in claims payable, March 31, 2012	<u>44.7</u>

Outlook

The table below depicts the Company's updated annual guidance for 2012 including our newest states of Missouri and Washington, as well as the additional Texas lives:

	Full Year 2012	
	Low	High
Premium and Service Revenues (in millions)	\$ 7,700	\$ 8,100

ASSETS			
Current assets:			
Cash and cash equivalents		\$ 432,998	\$ 573,698
Premium and related receivables		278,233	157,450
Short-term investments		126,221	130,499
Other current assets		82,925	78,363
Total current assets		920,377	940,010
Long-term investments		605,866	506,140
Restricted deposits		37,361	26,818
Property, software and equipment, net		352,710	349,622
Goodwill		281,981	281,981
Intangible assets, net		26,122	27,430
Other long-term assets		58,730	58,335
Total assets		<u>\$ 2,283,147</u>	<u>\$ 2,190,336</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Medical claims liability		\$ 708,754	\$ 607,985
Accounts payable and accrued expenses		158,356	216,504
Unearned revenue		17,977	9,890
Current portion of long-term debt		3,235	3,234
Total current liabilities		888,322	837,613
Long-term debt		347,162	348,344
Other long-term liabilities		68,544	67,960
Total liabilities		1,304,028	1,253,917
Commitments and contingencies			
Stockholders' equity:			
Common stock, \$.001 par value; authorized 100,000,000 shares; 54,214,037 issued and 51,458,501 outstanding at March 31, 2012, and 53,586,726 issued and 50,864,618 outstanding at December 31, 2011		54	54
Additional paid-in capital		443,111	421,981
Accumulated other comprehensive income:			
Unrealized gain on investments, net of tax		6,237	5,761
Retained earnings		588,939	564,961
Treasury stock, at cost (2,755,536 and 2,722,108 shares, respectively)		(58,632)	(57,123)
Total Centene stockholders' equity		979,709	935,634
Noncontrolling interest		(590)	785
Total stockholders' equity		979,119	936,419
Total liabilities and stockholders' equity		<u>\$ 2,283,147</u>	<u>\$ 2,190,336</u>

CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)
(Unaudited)

	<u>Three Months Ended March 31,</u>	
	<u>2012</u>	<u>2011</u>
Revenues:		
Premium	\$ 1,634,850	\$ 1,152,777
Service	28,618	26,384
Premium and service revenues	1,663,468	1,179,161
Premium tax	48,680	37,196
Total revenues	<u>1,712,148</u>	<u>1,216,357</u>
Expenses:		
Medical costs	1,442,676	978,567
Cost of services	23,337	20,176

General and administrative expenses	163,187	141,088
Premium tax expense	48,750	37,429
Total operating expenses	<u>1,677,950</u>	<u>1,177,260</u>
Earnings from operations	34,198	39,097
Other income (expense):		
Investment and other income	5,291	3,749
Interest expense	(4,799)	(5,695)
Earnings from operations, before income tax expense	34,690	37,151
Income tax expense	12,087	14,328
Net earnings	22,603	22,823
Noncontrolling interest	<u>(1,375)</u>	<u>(922)</u>
Net earnings attributable to Centene Corporation	<u>\$ 23,978</u>	<u>\$ 23,745</u>

Net earnings per common share attributable to Centene Corporation:

Basic earnings per common share	\$ 0.47	\$ 0.48
Diluted earnings per common share	\$ 0.45	\$ 0.46

Weighted average number of common shares outstanding:

Basic	51,125,674	49,750,430
Diluted	53,509,243	51,811,721

CENTENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net earnings	\$ 22,603	\$ 22,823
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	16,613	14,325
Stock compensation expense	6,375	4,394
Deferred income taxes	5,855	(700)
Changes in assets and liabilities		
Premium and related receivables	(120,784)	4,216
Other current assets	(10,723)	(1,636)
Other assets	524	151
Medical claims liabilities	100,769	13,430
Unearned revenue	8,576	10,106
Accounts payable and accrued expenses	(60,826)	26,268
Other operating activities	(1,078)	614
Net cash (used in) provided by operating activities	<u>(32,096)</u>	<u>93,991</u>
Cash flows from investing activities:		
Capital expenditures	(14,980)	(16,882)
Purchases of investments	(255,212)	(40,423)
Sales and maturities of investments	149,341	45,327
Net cash used in investing activities	<u>(120,851)</u>	<u>(11,978)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	9,079	6,518
Proceeds from borrowings	—	127,300
Payment of long-term debt	(795)	(152,577)
Excess tax benefits from stock compensation	5,472	1,132
Common stock repurchases	(1,509)	(402)
Debt issue costs	—	(6,105)
Net cash provided by (used in) financing activities	<u>12,247</u>	<u>(24,134)</u>
Net (decrease) increase in cash and cash equivalents	<u>(140,700)</u>	<u>57,879</u>
Cash and cash equivalents, beginning of period	<u>573,698</u>	<u>434,166</u>
Cash and cash equivalents, end of period	<u>\$ 432,998</u>	<u>\$ 492,045</u>

Supplemental disclosures of cash flow information:

Interest paid	\$ 1,589	\$ 1,714
Income taxes paid	\$ 20,514	\$ 9,567

Supplemental disclosure of non-cash investing and financing activities:

Capital expenditures	\$ 381	\$ 1,477
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**CENTENE CORPORATION
SUPPLEMENTAL FINANCIAL DATA**

	<u>Q1</u> <u>2012</u>	<u>Q4</u> <u>2011</u>	<u>Q3</u> <u>2011</u>	<u>Q2</u> <u>2011</u>	<u>Q1</u> <u>2011</u>
MEMBERSHIP					
Managed Care:					
Arizona	23,100	23,700	22,800	22,800	22,600
Florida	199,500	198,300	188,600	190,600	188,800
Georgia	306,000	298,200	298,000	303,100	303,300
Illinois	17,400	16,300	13,600	700	—
Indiana	206,300	206,900	205,300	206,700	209,400
Kentucky	145,700	180,700	—	—	—
Louisiana	51,300	—	—	—	—
Massachusetts	36,000	35,700	34,700	32,900	34,100
Mississippi	29,500	31,600	30,600	30,800	—
Ohio	161,000	159,900	162,200	159,900	160,900
South Carolina	86,700	82,900	86,500	82,800	84,900
Texas	811,000	503,800	494,500	470,400	456,700
Wisconsin	76,000	78,000	78,900	79,800	81,800
Total at-risk membership	<u>2,149,500</u>	<u>1,816,000</u>	<u>1,615,700</u>	<u>1,580,500</u>	<u>1,542,500</u>
Non-risk membership	<u>—</u>	<u>4,900</u>	<u>10,600</u>	<u>10,400</u>	<u>10,400</u>
TOTAL	<u>2,149,500</u>	<u>1,820,900</u>	<u>1,626,300</u>	<u>1,590,900</u>	<u>1,552,900</u>
Medicaid	1,634,800	1,336,800	1,189,900	1,172,400	1,169,700
CHIP & Foster Care	218,800	213,900	210,600	211,400	208,900
ABD & Medicare	247,400	218,000	171,700	156,300	123,800
Hybrid Programs	41,500	40,500	38,400	35,500	35,200
Long-term Care	7,000	6,800	5,100	4,900	4,900
Total at-risk membership	<u>2,149,500</u>	<u>1,816,000</u>	<u>1,615,700</u>	<u>1,580,500</u>	<u>1,542,500</u>
Non-risk membership	<u>—</u>	<u>4,900</u>	<u>10,600</u>	<u>10,400</u>	<u>10,400</u>
TOTAL	<u>2,149,500</u>	<u>1,820,900</u>	<u>1,626,300</u>	<u>1,590,900</u>	<u>1,552,900</u>
Specialty Services(a):					
Cenpatco Behavioral Health					
Arizona	162,100	168,900	175,500	173,200	172,700
Kansas	46,000	46,200	45,600	45,000	44,000
TOTAL	<u>208,100</u>	<u>215,100</u>	<u>221,100</u>	<u>218,200</u>	<u>216,700</u>
(a) Includes external membership only					
REVENUE PER MEMBER PER MONTH(b)	\$ 269.42	\$ 261.95	\$ 245.27	\$ 240.57	\$ 238.31
CLAIMS(b)					
Period-end inventory	735,000	495,500	482,900	415,700	527,100
Average inventory	457,400	367,590	312,400	332,300	347,900
Period-end inventory per member	0.34	0.27	0.30	0.26	0.34
(b) Revenue per member and claims information are presented for the Managed Care at-risk members					
NUMBER OF EMPLOYEES	5,700	5,300	5,000	4,800	4,500

	Q1	Q4	Q3	Q2	Q1
	2012	2011	2011	2011	2011
DAYS IN CLAIMS PAYABLE (c)	44.7	45.3	43.6	43.4	43.4
(c) Days in Claims Payable is a calculation of Medical Claims Liabilities at the end of the period divided by average claims expense per calendar day for such period.					

CASH AND INVESTMENTS (in millions)

Regulated	\$ 1,166.9	\$ 1,198.9	\$ 1,079.3	\$ 1,061.9	\$ 1,096.3
Unregulated	35.5	38.2	35.9	36.5	31.7
TOTAL	\$ 1,202.4	\$ 1,237.1	\$ 1,115.2	\$ 1,098.4	\$ 1,128.0

DEBT TO CAPITALIZATION	26.4%	27.3%	28.0%	28.1%	26.9%
DEBT TO CAPITALIZATION EXCLUDING NON-RECOURSE DEBT(d)	21.8%	22.6%	23.2%	23.0%	21.4%

Debt to Capitalization is calculated as follows: total debt divided by (total debt + total equity).

(d) The non-recourse debt represents our mortgage note payable (\$77.2 million at March 31, 2012).

Operating Ratios:

	Three Months Ended	
	March 31,	
	2012	2011
Health Benefits Ratios:		
Medicaid and CHIP	87.4%	84.0%
ABD and Medicare	89.0	87.4
Specialty Services	90.7	85.4
Total	88.2	84.9
Total General & Administrative Expense Ratio	9.8%	12.0%

MEDICAL CLAIMS LIABILITY (In thousands)

The changes in medical claims liability are summarized as follows:

Balance, March 31, 2011	\$ 471,659
Incurred related to:	
Current period	4,848,511
Prior period	(59,656)
Total incurred	<u>4,788,855</u>
Paid related to:	
Current period	4,147,785
Prior period	403,975
Total paid	<u>4,551,760</u>
Balance, March 31, 2012	\$ <u>708,754</u>

Centene's claims reserving process utilizes a consistent actuarial methodology to estimate Centene's ultimate liability. Any reduction in the "Incurred related to: Prior period" amount may be offset as Centene actuarially determines "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. Centene believes it has consistently applied its claims reserving methodology in each of the periods presented.

The amount of the "Incurred related to: Prior period" above represents favorable development and includes the effects of reserving under moderately adverse conditions, new markets where we use a conservative approach in setting reserves during the initial periods of operations, receipts from other third party payors related to coordination of benefits and lower medical utilization and cost trends for dates of service prior to March 31, 2011.

SOURCE Centene Corporation

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