

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2020

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-31826

**CENTENE CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

42-1406317

(I.R.S. Employer  
Identification Number)

7700 Forsyth Boulevard  
St. Louis, Missouri

(Address of principal executive offices)

63105

(Zip Code)

Registrant's telephone number, including area code: (314) 725-4477

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock \$0.001 Par Value	CNC	New York Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files)  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 16, 2020, the registrant had 579,797,682 shares of common stock outstanding.

**CENTENE CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
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## CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

All statements, other than statements of current or historical fact, contained in this filing are forward-looking statements. Without limiting the foregoing, forward-looking statements often use words such as “believe,” “anticipate,” “plan,” “expect,” “estimate,” “intend,” “seek,” “target,” “goal,” “may,” “will,” “would,” “could,” “should,” “can,” “continue” and other similar words or expressions (and the negative thereof). Centene Corporation (Centene, the Company, our or we) intends such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we are including this statement for purposes of complying with these safe-harbor provisions. In particular, these statements include, without limitation, statements about our future operating or financial performance, market opportunity, growth strategy, competition, expected activities in completed and future acquisitions, including statements about the impact of our recently completed acquisition (the WellCare Acquisition) of WellCare Health Plans, Inc. (WellCare), other recent and future acquisitions, investments and the adequacy of our available cash resources. These statements may be found in the various sections of this filing, such as Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” Part II, Item 1. “Legal Proceedings,” and Part II, Item 1A “Risk Factors.”

These forward-looking statements reflect our current views with respect to future events and are based on numerous assumptions and assessments made by us in light of our experience and perception of historical trends, current conditions, business strategies, operating environments, future developments and other factors we believe appropriate. By their nature, forward-looking statements involve known and unknown risks and uncertainties and are subject to change because they relate to events and depend on circumstances that will occur in the future, including economic, regulatory, competitive and other factors that may cause our or our 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. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions.

All forward-looking statements included in this filing are based on information available to us on the date of this filing. Except as may be otherwise required by law, we undertake no obligation to update or revise the forward-looking statements included in this filing, whether as a result of new information, future events or otherwise, after the date of this filing. You should not place undue reliance on any forward-looking statements, as actual results may differ materially from projections, estimates, or other forward-looking statements due to a variety of important factors, variables and events including but not limited to:

- the impact of COVID-19 on global markets, economic conditions, the healthcare industry and our results of operations, which is unknown, and the response by governments and other third parties;
- uncertainty as to our expected financial performance during the period of integration of the WellCare Acquisition;
- our ability to accurately predict and effectively manage health benefits and other operating expenses and reserves, including fluctuations in medical utilization rates due to the impact of COVID-19;
- the possibility that the expected synergies and value creation from the WellCare Acquisition will not be realized, or will not be realized within the expected time period;
- the risk that unexpected costs will be incurred in connection with the integration of the WellCare Acquisition or that the integration of WellCare will be more difficult or time consuming than expected;
- unexpected costs, charges or expenses resulting from the WellCare Acquisition;
- the inability to retain key personnel;
- disruption from the integration of the WellCare Acquisition, including potential adverse reactions or changes to business relationships with customers, employees, suppliers or regulators, making it more difficult to maintain business and operational relationships;
- the risk that we may not be able to effectively manage our expanded operations;
- competition;
- membership and revenue declines or unexpected trends;
- changes in healthcare practices, new technologies, and advances in medicine;
- increased healthcare costs;
- changes in economic, political or market conditions;
- changes in federal or state laws or regulations, including changes with respect to income tax reform or government healthcare programs as well as changes with respect to the Patient Protection and Affordable Care Act (ACA) and the Health Care and Education Affordability Reconciliation Act, collectively referred to as the ACA and any regulations enacted thereunder that may result from changing political conditions or judicial actions, including the ultimate outcome in “Texas v. United States of America” regarding the constitutionality of the ACA;
- rate cuts or other payment reductions or delays by governmental payors and other risks and uncertainties affecting our government businesses;

- our ability to adequately price products on the Health Insurance Marketplaces and other commercial and Medicare products;
- tax matters;
- disasters or major epidemics;
- the outcome of legal and regulatory proceedings;
- changes in expected contract start dates;
- provider, state, federal, foreign and other contract changes and timing of regulatory approval of contracts;
- the expiration, suspension, or termination of our contracts with federal or state governments (including but not limited to Medicaid, Medicare, TRICARE or other customers);
- the difficulty of predicting the timing or outcome of pending or future litigation or government investigations;
- challenges to our contract awards;
- cyber-attacks or other privacy or data security incidents;
- the possibility that the expected synergies and value creation from acquired businesses, including businesses we may acquire in the future, will not be realized, or will not be realized within the expected time period;
- the exertion of management's time and our resources, and other expenses incurred and business changes required in connection with complying with the undertakings in connection with any regulatory, governmental or third party consents or approvals for acquisitions;
- disruption caused by significant completed and pending acquisitions, including, among others, the WellCare Acquisition, making it more difficult to maintain business and operational relationships;
- the risk that unexpected costs will be incurred in connection with the completion and/or integration of acquisition transactions;
- changes in expected closing dates, estimated purchase price and accretion for acquisitions;
- the risk that acquired businesses will not be integrated successfully;
- restrictions and limitations in connection with our indebtedness;
- our ability to maintain or achieve improvement in the Centers for Medicare and Medicaid Services (CMS) Star ratings and maintain or achieve improvement in other quality scores in each case that can impact revenue and future growth;
- availability of debt and equity financing, on terms that are favorable to us;
- inflation; and
- foreign currency fluctuations.

This list of important factors is not intended to be exhaustive. We discuss certain of these matters more fully, as well as certain other factors that may affect our business operations, financial condition and results of operations, in our filings with the Securities and Exchange Commission (SEC), including our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Item 1A. "Risk Factors" of Part II of this filing contains a further discussion of these and other important factors that could cause actual results to differ from expectations. Due to these important factors and risks, we cannot give assurances with respect to our future performance, including without limitation our ability to maintain adequate premium levels or our ability to control our future medical and selling, general and administrative costs.

## Non-GAAP Financial Presentation

The Company is providing certain non-GAAP financial measures in this report, as the Company believes that these figures are helpful in allowing investors to more accurately assess the ongoing nature of the Company's operations and measure the Company's performance more consistently across periods. The Company uses the presented non-GAAP financial measures internally to allow management to focus on period-to-period changes in the Company's core business operations. Therefore, the Company believes that this information is meaningful in addition to the information contained in the GAAP presentation of financial information. The presentation of this additional non-GAAP financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP.

Specifically, the Company believes the presentation of non-GAAP financial information that excludes amortization of acquired intangible assets and acquisition related expenses, as well as other items, allows investors to develop a more meaningful understanding of the Company's performance over time. The tables below provide reconciliations of non-GAAP items (\$ in millions, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
GAAP net earnings	\$ 568	\$ 95	\$ 1,820	\$ 1,112
Amortization of acquired intangible assets	164	65	527	194
Acquisition related expenses	62	25	446	66
Other adjustments <sup>(1)</sup>	—	271	12	271
Income tax effects of adjustments <sup>(2)</sup>	(53)	(54)	(178)	(95)
Adjusted net earnings	\$ 741	\$ 402	\$ 2,627	\$ 1,548
GAAP diluted earnings per share (EPS)	\$ 0.97	\$ 0.23	\$ 3.16	\$ 2.65
Amortization of acquired intangible assets <sup>(3)</sup>	0.21	0.12	0.70	0.35
Acquisition related expenses <sup>(4)</sup>	0.08	0.04	0.65	0.12
Other adjustments <sup>(1)</sup>	—	0.57	0.05	0.57
Adjusted Diluted EPS	\$ 1.26	\$ 0.96	\$ 4.56	\$ 3.69

- (1) Other adjustments include the following items for the nine months ended September 30, 2020: (a) gain related to the divestiture of certain products of our Illinois health plan of \$104 million, or \$0.10 per diluted share, net of an income tax expense of \$0.08; (b) non-cash impairment of our third-party care management software business of \$72 million, or \$0.10 per diluted share, net of an income tax benefit of \$0.03; and (c) debt extinguishment costs of \$44 million, or \$0.05 per diluted share, net of an income tax benefit of \$0.02. Other adjustments for the three and nine months ended September 30, 2019 includes the non-cash goodwill and intangible asset impairment of \$271 million, or \$0.57 per diluted share. The impairment is net of an income tax benefit of \$0.08 for the three and nine months ended September 30, 2019.
- (2) The income tax effects of adjustments are based on the effective income tax rates applicable to each adjustment.
- (3) The amortization of acquired intangible assets per diluted share is net of an income tax benefit of \$0.07 and \$0.03 for the three months ended September 30, 2020 and 2019, respectively, and \$0.22 and \$0.11 for the nine months ended September 30, 2020 and 2019, respectively.
- (4) Acquisition related expenses per diluted share are net of an income tax benefit of \$0.02 and \$0.02 for the three months ended September 30, 2020 and 2019, respectively, and \$0.12 and \$0.04 for the nine months ended September 30, 2020 and 2019, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
GAAP selling, general and administrative expenses	\$ 2,507	\$ 1,617	\$ 7,146	\$ 4,800
Acquisition related expenses	61	23	426	61
Adjusted selling, general and administrative expenses	\$ 2,446	\$ 1,594	\$ 6,720	\$ 4,739

**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. Financial Statements.**

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**(In millions, except shares in thousands and per share data in dollars)**

	September 30, 2020 (Unaudited)	December 31, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 12,198	\$ 12,123
Premium and trade receivables	11,670	6,247
Short-term investments	1,497	863
Other current assets	1,910	1,090
Total current assets	27,275	20,323
Long-term investments	9,859	7,717
Restricted deposits	1,055	658
Property, software and equipment, net	2,669	2,121
Goodwill	17,964	6,863
Intangible assets, net	8,130	2,063
Other long-term assets	1,412	1,249
Total assets	\$ 68,364	\$ 40,994
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Medical claims liability	\$ 12,899	\$ 7,473
Accounts payable and accrued expenses	7,102	4,164
Return of premium payable	1,123	824
Unearned revenue	582	383
Current portion of long-term debt	89	88
Total current liabilities	21,795	12,932
Long-term debt	16,737	13,638
Other long-term liabilities	3,953	1,732
Total liabilities	42,485	28,302
Commitments and contingencies		
Redeemable noncontrolling interests	36	33
Stockholders' equity:		
Preferred stock, \$0.001 par value; authorized 10,000 shares; no shares issued or outstanding at September 30, 2020 and December 31, 2019	—	—
Common stock, \$0.001 par value; authorized 800,000 shares; 595,622 issued and 579,726 outstanding at September 30, 2020, and 421,508 issued and 415,048 outstanding at December 31, 2019	—	—
Additional paid-in capital	19,390	7,647
Accumulated other comprehensive earnings	293	134
Retained earnings	6,804	4,984
Treasury stock, at cost (15,896 and 6,460 shares, respectively)	(762)	(214)
Total Centene stockholders' equity	25,725	12,551
Nonredeemable Noncontrolling interest	118	108
Total stockholders' equity	25,843	12,659
Total liabilities, redeemable noncontrolling interests and stockholders' equity	\$ 68,364	\$ 40,994

The accompanying notes to the consolidated financial statements are an integral part of these statements.

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In millions, except shares in thousands and per share data in dollars)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Revenues:</b>				
Premium	\$ 26,537	\$ 17,472	\$ 74,496	\$ 50,229
Service	922	743	2,859	2,123
Premium and service revenues	27,459	18,215	77,355	52,352
Premium tax and health insurer fee	1,631	761	5,472	3,424
Total revenues	29,090	18,976	82,827	55,776
<b>Expenses:</b>				
Medical costs	22,932	15,406	63,659	43,642
Cost of services	861	619	2,519	1,778
Selling, general and administrative expenses	2,507	1,617	7,146	4,800
Amortization of acquired intangible assets	164	65	527	194
Premium tax expense	1,389	822	4,737	3,587
Health insurer fee expense	376	—	1,100	—
Impairment	—	271	72	271
Total operating expenses	28,229	18,800	79,760	54,272
Earnings from operations	861	176	3,067	1,504
<b>Other income (expense):</b>				
Investment and other income	95	98	375	317
Debt extinguishment costs	—	—	(44)	—
Interest expense	(184)	(99)	(551)	(299)
Earnings from operations, before income tax expense	772	175	2,847	1,522
Income tax expense	207	79	1,034	415
Net earnings	565	96	1,813	1,107
Loss (earnings) attributable to noncontrolling interests	3	(1)	7	5
Net earnings attributable to Centene Corporation	\$ 568	\$ 95	\$ 1,820	\$ 1,112
<b>Net earnings per common share attributable to Centene Corporation:</b>				
Basic earnings per common share	\$ 0.98	\$ 0.23	\$ 3.21	\$ 2.69
Diluted earnings per common share	\$ 0.97	\$ 0.23	\$ 3.16	\$ 2.65
<b>Weighted average number of common shares outstanding:</b>				
Basic	579,510	413,616	567,586	413,302
Diluted	587,971	419,956	575,732	419,700

The accompanying notes to the consolidated financial statements are an integral part of these statements.

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS**  
**(In millions)**  
**(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net earnings	\$ 565	\$ 96	\$ 1,813	\$ 1,107
Reclassification adjustment, net of tax	—	(1)	1	—
Change in unrealized gain on investments, net of tax	38	34	152	208
Defined benefit pension plan net gain, net of tax	—	—	2	—
Foreign currency translation adjustments	10	(7)	4	(7)
Other comprehensive earnings	48	26	159	201
Comprehensive earnings	613	122	1,972	1,308
Comprehensive loss (earnings) attributable to noncontrolling interests	3	(1)	7	5
Comprehensive earnings attributable to Centene Corporation	<u>\$ 616</u>	<u>\$ 121</u>	<u>\$ 1,979</u>	<u>\$ 1,313</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.



**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In millions, except shares in thousands and per share data in dollars)  
(Unaudited)  
**Three and Nine Months Ended September 30, 2020**

	Centene Stockholders' Equity								
	Common Stock			Accumulated Other Comprehensive Earnings (Loss)	Retained Earnings	Treasury Stock		Non-redeemable Non- controlling Interest	Total
	\$0.001 Par Value Shares	Amt	Additional Paid-in Capital			\$0.001 Par Value Shares	Amt		
Balance, December 31, 2019	421,508	\$ —	\$ 7,647	\$ 134	\$ 4,984	6,460	\$ (214)	\$ 108	\$ 12,659
Comprehensive Earnings:									
Net earnings (loss)	—	—	—	—	46	—	—	(3)	43
Other comprehensive loss, net of \$(40) tax	—	—	—	(139)	—	—	—	—	(139)
Common stock issued for acquisitions	171,225	—	11,526	—	—	—	—	—	11,526
Common stock issued for employee benefit plans	2,448	—	5	—	—	—	—	—	5
Common stock repurchases	(291)	—	(17)	—	—	9,308	(541)	—	(558)
Stock compensation expense	—	—	117	—	—	—	—	—	117
Contribution from noncontrolling interest	—	—	—	—	—	—	—	2	2
Other	—	—	1	—	—	—	—	—	1
Balance, March 31, 2020	594,890	\$ —	\$ 19,279	\$ (5)	\$ 5,030	15,768	\$ (755)	\$ 107	\$ 23,656
Comprehensive Earnings:									
Net earnings (loss)	—	—	—	—	1,206	—	—	(6)	1,200
Other comprehensive earnings, net of \$ 76 tax	—	—	—	250	—	—	—	—	250
Common stock issued for employee benefit plans	269	—	7	—	—	—	—	—	7
Common stock repurchases	1	—	—	—	—	47	(3)	—	(3)
Stock compensation expense	—	—	47	—	—	—	—	—	47
Contribution from noncontrolling interest	—	—	—	—	—	—	—	15	15
Balance, June 30, 2020	595,160	\$ —	\$ 19,333	\$ 245	\$ 6,236	15,815	\$ (758)	\$ 116	\$ 25,172
Comprehensive Earnings:									
Net earnings (loss)	—	—	—	—	568	—	—	(6)	562
Other comprehensive earnings, net of \$ 13 tax	—	—	—	48	—	—	—	—	48
Common stock issued for employee benefit plans	531	—	8	—	—	—	—	—	8
Common stock repurchases	(69)	—	(5)	—	—	81	(4)	—	(9)
Stock compensation expense	—	—	54	—	—	—	—	—	54
Contribution from noncontrolling interest	—	—	—	—	—	—	—	8	8
Balance, September 30, 2020	595,622	\$ —	\$ 19,390	\$ 293	\$ 6,804	15,896	\$ (762)	\$ 118	\$ 25,843

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In millions, except shares in thousands and per share data in dollars)  
(Unaudited)  
**Three and Nine Months Ended September 30, 2019**

	Centene Stockholders' Equity								
	Common Stock			Accumulated Other Comprehensive Earnings (Loss)	Retained Earnings	Treasury Stock		Non-redeemable Non- controlling Interest	Total
	\$0.001 Par Value Shares	Amt	Additional Paid-in Capital			\$0.001 Par Value Shares	Amt		
Balance, December 31, 2018	417,695	\$ —	\$ 7,449	\$ (56)	\$ 3,663	5,217	\$ (139)	\$ 96	\$ 11,013
Comprehensive Earnings:									
Net earnings (loss)	—	—	—	—	522	—	—	(2)	520
Other comprehensive earnings, net of \$ 30 tax	—	—	—	94	—	—	—	—	94
Common stock issued for employee benefit plans	1,363	—	4	—	—	—	—	—	4
Common stock repurchases	—	—	—	—	—	536	(35)	—	(35)
Stock compensation expense	—	—	38	—	—	—	—	—	38
Balance, March 31, 2019	419,058	\$ —	\$ 7,491	\$ 38	\$ 4,185	5,753	\$ (174)	\$ 94	\$ 11,634
Comprehensive Earnings:									
Net earnings	—	—	—	—	495	—	—	—	495
Other comprehensive earnings, net of \$ 25 tax	—	—	—	81	—	—	—	—	81
Common stock issued for employee benefit plans	261	—	6	—	—	—	—	—	6
Common stock repurchases	—	—	—	—	—	39	(2)	—	(2)
Stock compensation expense	—	—	34	—	—	—	—	—	34
Balance, June 30, 2019	419,319	\$ —	\$ 7,531	\$ 119	\$ 4,680	5,792	\$ (176)	\$ 94	\$ 12,248
Comprehensive Earnings:									
Net earnings	—	—	—	—	95	—	—	—	95
Other comprehensive earnings, net of \$ 11 tax	—	—	—	26	—	—	—	—	26
Common stock issued for employee benefit plans	348	—	6	—	—	—	—	—	6
Common stock repurchases	—	—	—	—	—	82	(4)	—	(4)
Stock compensation expense	—	—	34	—	—	—	—	—	34
Balance, September 30, 2019	419,667	\$ —	\$ 7,571	\$ 145	\$ 4,775	5,874	\$ (180)	\$ 94	\$ 12,405

The accompanying notes to the consolidated financial statements are an integral part of this statement.

**CENTENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions, unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 1,813	\$ 1,107
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	916	475
Stock compensation expense	218	106
Impairment	72	271
Loss on debt extinguishment	44	—
Deferred income taxes	(154)	(75)
Gain on divestiture	(104)	—
Changes in assets and liabilities		
Premium and trade receivables	(1,640)	(319)
Other assets	185	(14)
Medical claims liabilities	1,563	1,091
Unearned revenue	(212)	(10)
Accounts payable and accrued expenses	(861)	(552)
Other long-term liabilities	663	68
Other operating activities, net	19	(14)
Net cash provided by operating activities	<u>2,522</u>	<u>2,134</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(663)	(530)
Purchases of investments	(2,911)	(2,074)
Sales and maturities of investments	3,408	1,247
Acquisitions, net of cash acquired	(3,000)	(31)
Divestiture proceeds, net of divested cash	466	—
Net cash used in investing activities	<u>(2,700)</u>	<u>(1,388)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt	2,687	12,456
Payments of long-term debt	(1,654)	(12,293)
Common stock repurchases	(570)	(41)
Payments for debt extinguishment	(21)	—
Debt issuance costs	(94)	(6)
Other financing activities, net	35	12
Net cash provided by financing activities	<u>383</u>	<u>128</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	8	4
Net increase in cash, cash equivalents and restricted cash and cash equivalents	<u>213</u>	<u>878</u>
<b>Cash, cash equivalents, and restricted cash and cash equivalents, beginning of period</b>	<u>12,131</u>	<u>5,350</u>
<b>Cash, cash equivalents, and restricted cash and cash equivalents, end of period</b>	<u>\$ 12,344</u>	<u>\$ 6,228</u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 479	\$ 213
Income taxes paid	\$ 920	\$ 511
Equity issued in connection with acquisitions	\$ 11,526	\$ —

The following table provides a reconciliation of cash, cash equivalents, and restricted cash and cash equivalents reported within the Consolidated Balance Sheets to the totals above:

	<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 12,198	\$ 6,215
Restricted cash and cash equivalents, included in restricted deposits	146	13
Total cash, cash equivalents, and restricted cash and cash equivalents	<u>\$ 12,344</u>	<u>\$ 6,228</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

**CENTENE CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Organization and Operations**

***Basis of Presentation***

The accompanying interim financial statements have been prepared under the presumption that users of the interim financial information have either read or have access to the audited financial statements included in the Form 10-K for the fiscal year ended December 31, 2019. The unaudited interim financial statements herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, footnote disclosures that would substantially duplicate the disclosures contained in the December 31, 2019 audited financial statements have been omitted from these interim financial statements, where appropriate. In the opinion of management, these financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of the interim periods presented.

Certain 2019 amounts in the consolidated financial statements and notes to the consolidated financial statements have been reclassified to conform to the 2020 presentation. These reclassifications have no effect on net earnings or stockholders' equity as previously reported.

On January 23, 2020, the Company acquired all of the issued and outstanding shares of WellCare Health Plans, Inc. (WellCare) (the WellCare Acquisition). The acquisition was accounted for as a business combination. See Note 2. *Acquisitions* for further details.

***Recently Adopted Accounting Guidance***

In June 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) which changes how entities measure credit losses for most financial assets and certain other investments that are not measured at fair value through net income. The ASU is intended to improve financial reporting by requiring timely recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The amended guidance requires the measurement of all expected credit losses for financial assets (or groups of financial assets) and available for sale debt securities held at the reporting date over the remaining life based on historical experience, current conditions, and reasonable and supportable forecasts. The guidance is effective for annual and interim periods beginning after December 15, 2019. The Company adopted the new guidance in the first quarter of 2020. The majority of the Company's receivables and other financial instruments are with government entities and, therefore, the adoption did not have a material impact on its receivables and other financial instruments. The Company evaluated its investment portfolio under the new available-for-sale debt securities impairment model guidance. The vast majority of the Company's investment portfolio are low risk, investment grade securities. The impact of the Company's evaluation of the investment portfolio resulted in an immaterial decrease to retained earnings at January 1, 2020. The Company evaluates available-for-sale debt securities on a regular basis and records an allowance for credit losses, if necessary. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The new guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In August 2018, the FASB issued an ASU which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this update. The amendments in this ASU require an entity that is the customer in a hosting arrangement to follow the guidance on internal-use software to determine which implementation costs to capitalize and which costs to expense. The standard also requires an entity that is the customer to expense the capitalized implementation costs of a hosting arrangement over the term of the hosting arrangement. The new guidance requires an entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. The guidance is effective for annual and interim periods beginning after December 15, 2019. The Company adopted the new guidance in the first quarter of 2020. The new guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

***Recent Accounting Guidance Not Yet Adopted***

In December 2019, the FASB issued an ASU which simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC Topic 740. The ASU also clarifies and amends certain areas of ASC Topic 740 to improve consistent application of and simplify the generally accepted accounting principles within Topic 740. The guidance is effective for annual and interim periods beginning after December 15, 2020. The Company is continuing to evaluate the potential impact of the ASU on the Company's consolidated financial position, results of operations and cash flows but expects the impact to be immaterial.

**2. Acquisitions**

***WellCare Acquisition***

On January 23, 2020, the Company acquired all of the issued and outstanding shares of WellCare. The transaction was valued at \$19,555 million, including the assumption of debt. The WellCare Acquisition brings a high-quality Medicare platform and further extends the Company's robust Medicaid offerings. The WellCare Acquisition also enables the Company to provide access to more comprehensive and differentiated solutions across more markets with a continued focus on affordable, high-quality, culturally-sensitive healthcare services. With the WellCare Acquisition, the Company further broadened its product offerings by adding a Medicare prescription drug plan to its existing business lines.

Total consideration paid for the acquisition was \$17,605 million, consisting of Centene common shares valued at \$11,431 million (based on Centene's stock price of \$66.76), \$6,079 million in cash, and \$95 million related to the fair value of replacement equity awards associated with pre-combination service. Each WellCare share was converted into 3.38 of validly issued, fully paid, non-assessable shares of Centene common stock and \$120.00 in cash. In total, 171 million shares of Centene common stock were issued to the WellCare stockholders. The cash portion of the acquisition was funded through the issuance of long-term debt as further discussed in Note 7. *Debt*. The Company also recognized \$62 million and \$446 million of acquisition related costs, primarily related to WellCare, that were in the Consolidated Statements of Operations for the three and nine months ended September 30, 2020, respectively.

The acquisition of WellCare was accounted for as a business combination using the acquisition method of accounting that requires assets acquired and liabilities assumed to be recognized at fair value as of the acquisition date. The significant areas of the assessment of fair value that remain preliminary include identifiable intangible assets and goodwill, medical claims liability, and income taxes and, accordingly, the Company has recorded provisional amounts which are subject to adjustment. Measurement period adjustments will be recorded in the period in which they are determined, as if they had been completed at the acquisition date.

The Company's preliminary allocation of the fair value of assets acquired and liabilities assumed as of the acquisition date of January 23, 2020 is as follows (\$ in millions):

<b>Assets acquired and liabilities assumed</b>	
Cash and cash equivalents	\$ 2,947
Premium and related receivables	4,254
Short-term investments	355
Other current assets	1,154
Long-term investments	2,725
Restricted deposits	320
Property, software and equipment	259
Intangible assets <sup>(a)</sup>	6,552
Other long-term assets	306
Total assets acquired	18,872
Medical claims liability	4,137
Accounts payable and accrued expenses	3,487
Return of premium payable	506
Unearned revenue	402
Long-term debt <sup>(b)</sup>	2,055
Deferred tax liabilities <sup>(c)</sup>	1,376
Other long-term liabilities	475
Total liabilities assumed	12,438
Total identifiable net assets	6,434
Goodwill <sup>(d)</sup>	11,171
Total assets acquired and liabilities assumed	\$ 17,605

The Company has made the following preliminary fair value adjustments based on information reviewed through September 30, 2020. Significant fair value adjustments are noted as follows:

- (a) The identifiable intangible assets acquired are to be measured at fair value as of the completion of the acquisition. The fair value of intangible assets will be determined primarily using variations of the income approach, which is based on the present value of the future after tax cash flows attributable to each identified intangible asset. The identifiable intangible assets include purchased contract rights, provider contracts, trade names and developed technologies. Other valuation methods, including the market approach and cost approach, will be considered in estimating the fair value. The Company has estimated the preliminary fair value of intangible assets to be \$6,552 million, adjusted from \$7,000 million as of June 30, 2020, with a weighted average life of 14 years. The Company adjusted its estimate of the identifiable intangible assets during the third quarter, resulting in an amortization reduction of \$34 million.

The preliminary fair values and weighted average useful lives for identifiable intangible assets acquired are as follows:

	<u>Fair Value</u>	<u>Weighted Average Useful Life (in years)</u>
Purchased contract rights	\$ 5,650	14
Provider contracts	227	15
Trade names	570	16
Developed technologies	105	3
Total intangible assets acquired	\$ 6,552	14

- (b) Debt is required to be measured at fair value under the acquisition method of accounting. The fair value of WellCare's aggregate principle of \$,950 million Senior Notes assumed in the acquisition was \$2,055 million. The \$105 million increase will be amortized as a reduction to interest expense over the remaining life of the debt.
- (c) The preliminary deferred tax liabilities are presented net of \$401 million of deferred tax assets.

- (d) Goodwill is estimated at \$11,171 million and primarily relates to synergies expected from the acquisition and the assembled workforce of WellCare. The assignment of goodwill to the Company's respective segments has not been completed at this time, but the majority of goodwill is expected to be allocated to the Managed Care segment. The majority of the goodwill is not deductible for income tax purposes.

### **Divestitures**

Immediately prior to the closing of the WellCare Acquisition, Anthem, Inc. acquired WellCare's Missouri Medicaid health plan, a WellCare Missouri Medicare Advantage health plan, and WellCare's Nebraska Medicaid health plan. CVS Health Corporation acquired portions of Centene's Illinois Medicaid and Medicare Advantage health plans as part of previously announced divestiture agreements. The Company recorded \$104 million in pre-tax gains for the nine months ended September 30, 2020, as a result of the Illinois divestiture, which is included in investment and other income on the Consolidated Statements of Operations.

### **Unaudited Pro Forma Financial Information**

The following table presents supplemental pro forma information for the three and nine months ended September 30, 2019 (\$ in millions, except per share data):

	<b>Three Months Ended September 30, 2019</b>	<b>Nine Months Ended September 30, 2019</b>
Total revenues	\$ 26,074	\$ 76,568
Net earnings attributable to common stockholders	\$ 232	\$ 1,370
Diluted earnings per share	\$ 0.39	\$ 2.31

The unaudited pro forma total revenues for the nine months ended September 30, 2020 was \$4,617 million. It is impracticable for the Company to determine the pro forma earnings information for the nine months ended September 30, 2020 due to the nature of obtaining that information as the Company immediately began integrating WellCare into its ongoing operations.

The unaudited pro forma financial information reflects the historical results of Centene and WellCare adjusted as if the acquisition had occurred on January 1, 2019, primarily for the following:

- Interest expense associated with debt incurred to finance the transaction.
- Elimination of historical WellCare intangible asset amortization expense and addition of amortization expense based on the preliminary estimated values of identifiable intangible assets of approximately \$6,552 million.
- Issuance of 171 million shares of Centene common stock in connection with the per share common stock consideration.
- Elimination of acquisition related costs.
- Adjustments to income tax expense related to pro forma adjustments and increased income tax expense related to IRS Regulation 162(m)(6).

The pro forma results do not reflect any anticipated synergies, efficiencies, or other cost savings of the acquisition. Accordingly, the unaudited pro forma financial information is not indicative of the results if the acquisition had been completed on January 1, 2019 and is not a projection of future results. The unaudited pro forma financial information does not reflect the previously discussed divestitures as the impact would be impracticable to quantify.

### 3. Short-term and Long-term Investments, Restricted Deposits

Short-term and long-term investments and restricted deposits by investment type consist of the following (\$ in millions):

	September 30, 2020				December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 1,035	\$ 4	\$ —	\$ 1,039	\$ 211	\$ 1	\$ —	\$ 212
Corporate securities	4,722	236	(20)	4,938	3,629	108	(4)	3,733
Restricted certificates of deposit	104	—	—	104	482	—	—	482
Restricted cash equivalents	146	—	—	146	8	—	—	8
Short-term time deposits	33	—	—	33	—	—	—	—
Municipal securities	2,426	121	(3)	2,544	2,320	69	(1)	2,388
Asset-backed securities	890	13	(5)	898	741	5	(2)	744
Residential mortgage-backed securities	824	29	—	853	464	8	(1)	471
Commercial mortgage-backed securities	567	28	(6)	589	380	9	(1)	388
Equity securities <sup>(1)</sup>	317	—	—	317	—	—	—	—
Private equity investments	796	—	—	796	664	—	—	664
Life insurance contracts	154	—	—	154	148	—	—	148
Total	\$ 12,014	\$ 431	\$ (34)	\$ 12,411	\$ 9,047	\$ 200	\$ (9)	\$ 9,238

(1) Investments in equity securities primarily consists of exchange traded funds in fixed income securities.

The Company's investments are debt securities classified as available-for-sale with the exception of equity securities, certain private equity investments and life insurance contracts. The Company's investment policies are designed to provide liquidity, preserve capital and maximize total return on invested assets with the focus on high credit quality securities. The Company limits the size of investment in any single issuer other than U.S. treasury securities and obligations of U.S. government corporations and agencies. As of September 30, 2020, 97% of the Company's investments in rated securities carry an investment grade rating by nationally recognized statistical rating organizations. At September 30, 2020, the Company held certificates of deposit, equity securities, private equity investments and life insurance contracts, which did not carry a credit rating. Accrued interest income on available for sale debt securities was \$71 million at September 30, 2020, and is included in other current assets on the Consolidated Balance Sheets.

The Company's residential mortgage-backed securities are primarily issued by the Federal National Mortgage Association, Government National Mortgage Association or Federal Home Loan Mortgage Corporation, which carry implicit or explicit guarantees of the U.S. government. The Company's commercial mortgage-backed securities are primarily senior tranches with a weighted average rating of AA and a weighted average duration of 4 years at September 30, 2020.



The fair value of available-for-sale debt securities with gross unrealized losses by investment type and length of time that individual securities have been in a continuous unrealized loss position were as follows (\$ in millions):

	September 30, 2020				December 31, 2019			
	Less Than 12 Months		12 Months or More		Less Than 12 Months		12 Months or More	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Corporate securities	\$ (18)	\$ 554	\$ (2)	\$ 26	\$ (2)	\$ 192	\$ (2)	\$ 48
Municipal securities	(3)	138	—	1	(1)	185	—	11
Asset-backed securities	(3)	198	(2)	107	(1)	153	(1)	151
Residential mortgage-backed securities	—	26	—	4	—	44	(1)	81
Commercial mortgage-backed securities	(5)	112	(1)	12	(1)	118	—	21
<b>Total</b>	<b>\$ (29)</b>	<b>\$ 1,028</b>	<b>\$ (5)</b>	<b>\$ 150</b>	<b>\$ (5)</b>	<b>\$ 692</b>	<b>\$ (4)</b>	<b>\$ 312</b>

As of September 30, 2020, the gross unrealized losses were generated from 1,020 positions out of a total of 5,715 positions. The change in fair value of fixed income securities is primarily a result of movement in interest rates subsequent to the purchase of the security.

For each security in an unrealized loss position, the Company assesses whether it intends to sell the security or if it is more likely than not the Company will be required to sell the security before recovery of the amortized cost basis for reasons such as liquidity, contractual or regulatory purposes. If the security meets this criterion, the decline in fair value is recorded in earnings. The Company does not intend to sell these securities prior to maturity and it is not likely that the Company will be required to sell these securities prior to maturity; therefore, the Company did not record an impairment for these securities.

In addition, the Company continuously monitors investments for credit losses. Certain investments have experienced a decline in fair value due to changes in credit quality, market interest rates and/or general economic conditions. The Company recognizes an allowance when evidence demonstrates that it is credit related. Evidence of a credit related loss may include rating agency actions, adverse conditions specifically related to the security, or failure of the issuer of the security to make scheduled payments.

The contractual maturities of short-term and long-term debt securities and restricted deposits are as follows (\$ in millions):

	September 30, 2020				December 31, 2019			
	Investments		Restricted Deposits		Investments		Restricted Deposits	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	\$ 1,332	\$ 1,340	\$ 760	\$ 761	\$ 750	\$ 752	\$ 550	\$ 550
One year through five years	3,826	3,989	275	277	3,034	3,106	106	108
Five years through ten years	2,179	2,338	16	17	2,162	2,257	—	—
Greater than ten years	78	82	—	—	48	50	—	—
Asset-backed securities	2,281	2,340	—	—	1,585	1,603	—	—
<b>Total</b>	<b>\$ 9,696</b>	<b>\$ 10,089</b>	<b>\$ 1,051</b>	<b>\$ 1,055</b>	<b>\$ 7,579</b>	<b>\$ 7,768</b>	<b>\$ 656</b>	<b>\$ 658</b>

Actual maturities may differ from contractual maturities due to call or prepayment options. Equity securities, private equity investments and life insurance contracts are excluded from the table above because they do not have a contractual maturity. The Company has an option to redeem at amortized cost substantially all of the securities included in the greater than ten years category listed above.

#### 4. Fair Value Measurements

Assets and liabilities recorded at fair value in the Consolidated Balance Sheets are categorized based upon observable or unobservable inputs used to estimate fair value. Level inputs are as follows:

<b>Level Input:</b>	<b>Input Definition:</b>
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following table summarizes fair value measurements by level at September 30, 2020, for assets and liabilities measured at fair value on a recurring basis (\$ in millions):

	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
<u>Assets</u>				
Cash and cash equivalents	\$ 12,198	\$ —	\$ —	\$ 12,198
Investments:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 277	\$ 5	\$ —	\$ 282
Corporate securities	—	4,917	—	4,917
Municipal securities	—	2,517	—	2,517
Short-term time deposits	—	33	—	33
Asset-backed securities	—	898	—	898
Residential mortgage-backed securities	—	853	—	853
Commercial mortgage-backed securities	—	589	—	589
Equity securities	315	2	—	317
Total investments	\$ 592	\$ 9,814	\$ —	\$ 10,406
Restricted deposits:				
Cash and cash equivalents	\$ 146	\$ —	\$ —	\$ 146
Certificates of deposit	—	104	—	104
Corporate securities	—	21	—	21
Municipal securities	—	27	—	27
U.S. Treasury securities and obligations of U.S. government corporations and agencies	757	—	—	757
Total restricted deposits	\$ 903	\$ 152	\$ —	\$ 1,055
Total assets at fair value	\$ 13,693	\$ 9,966	\$ —	\$ 23,659

The following table summarizes fair value measurements by level at December 31, 2019, for assets and liabilities measured at fair value on a recurring basis (\$ in millions):

	Level I	Level II	Level III	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 12,123	\$ —	\$ —	\$ 12,123
Investments:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 73	\$ —	\$ —	\$ 73
Corporate securities	—	3,713	—	3,713
Municipal securities	—	2,379	—	2,379
Asset-backed securities	—	744	—	744
Residential mortgage-backed securities	—	471	—	471
Commercial mortgage-backed securities	—	388	—	388
Total investments	\$ 73	\$ 7,695	\$ —	\$ 7,768
Restricted deposits:				
Cash and cash equivalents	\$ 8	\$ —	\$ —	\$ 8
Certificates of deposit	—	482	—	482
Corporate securities	—	20	—	20
Municipal securities	—	9	—	9
U.S. Treasury securities and obligations of U.S. government corporations and agencies	139	—	—	139
Total restricted deposits	\$ 147	\$ 511	\$ —	\$ 658
Other long-term assets:				
Interest rate swap agreements	\$ —	\$ 10	\$ —	\$ 10
Total assets at fair value	\$ 12,343	\$ 8,216	\$ —	\$ 20,559
<b>Liabilities</b>				
Other long-term liabilities:				
Interest rate swap agreements	\$ —	\$ 11	\$ —	\$ 11
Total liabilities at fair value	\$ —	\$ 11	\$ —	\$ 11

The Company utilizes matrix-pricing services to estimate fair value for securities which are not actively traded on the measurement date. The Company designates these securities as Level II fair value measurements. In addition, the aggregate carrying amount of the Company's private equity investments and life insurance contracts, which approximates fair value, was \$950 million and \$812 million as of September 30, 2020 and December 31, 2019, respectively.

## 5. Medical Claims Liability

The following table summarizes the change in medical claims liability (\$ in millions):

	Nine Months Ended September 30,	
	2020	2019
Balance, January 1	\$ 7,473	\$ 6,831
Less: Reinsurance recoverable	20	27
Balance, January 1, net	7,453	6,804
Acquisitions and divestitures	3,872	57
Incurred related to:		
Current year	64,105	44,283
Prior years	(446)	(641)
Total incurred	63,659	43,642
Paid related to:		
Current year	56,074	36,972
Prior years	6,032	5,577
Total paid	62,106	42,549
Balance at September 30, net	12,878	7,954
Plus: Reinsurance recoverable	21	21
Balance, September 30	\$ 12,899	\$ 7,975

Reinsurance recoverables related to medical claims are included in premium and trade receivables. Changes in estimates of incurred claims for prior years are primarily attributable to reserving under moderately adverse conditions. Additionally, as a result of minimum health benefits ratio (HBR) and other return of premium programs, the Company recorded \$97 million and \$64 million as a reduction to premium revenue in the nine months ended September 30, 2020 and 2019, respectively.

Incurred but not reported (IBNR) plus expected development on reported claims as of September 30, 2020 was \$8,307 million. Total IBNR plus expected development on reported claims represents estimates for claims incurred but not reported, development on reported claims, and estimates for the costs necessary to process unpaid claims at the end of each period. The Company estimates its liability using actuarial methods that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. These actuarial methods consider factors such as historical data for payment patterns, cost trends, product mix, seasonality, utilization of healthcare services and other relevant factors.

## 6. Affordable Care Act

The Affordable Care Act established risk spreading premium stabilization programs as well as a minimum annual medical loss ratio (MLR) and cost sharing reductions.

The Company's net receivables (payables) for each of the programs are as follows (\$ in millions):

	September 30, 2020	December 31, 2019
Risk adjustment receivable	\$ 400	\$ 245
Risk adjustment payable	(1,038)	(1,239)
Risk corridor receivable	457	4
Minimum medical loss ratio	(195)	(367)
Cost sharing reduction receivable	122	73
Cost sharing reduction payable	(1)	(1)

In April 2020, the U.S. Supreme Court ruled that the federal government was required to pay health insurers for payments due under the risk corridor program, originally established under the Affordable Care Act (ACA). In the third quarter of 2020, the Company recorded a pre-tax net benefit related to the ACA risk corridor receivable settlement of \$398 million (net of minimum

medical loss ratio payback and related expenses). The Company received substantially all of the risk corridor receivable in October 2020.

In July 2020, the Centers for Medicare and Medicaid Services (CMS) announced the final risk adjustment transfers for the 2019 benefit year. As a result of the announcement, the Company reduced its risk adjustment net payables by \$94 million from December 31, 2019. After consideration of minimum MLR, estimated Risk Adjustment Data Validation (RADV) audit results, and other related impacts, the net pre-tax benefit recognized was \$63 million recorded in the second quarter of 2020.

## 7. Debt

Debt consists of the following (\$ in millions):

	September 30, 2020	December 31, 2019
\$1,000 million 4.75% Senior Notes, due May 15, 2022	\$ 1,005	\$ 1,004
\$1,000 million 6.125% Senior Notes, due February 15, 2024	—	1,000
\$2,200 million 4.75% Senior Notes, due January 15, 2025	2,233	2,228
\$1,200 million 5.25% Senior Notes due April 1, 2025	1,245	—
\$1,800 million 5.375% Senior Notes, due June 1, 2026	1,800	1,800
\$750 million 5.375% Senior Notes due August 15, 2026	796	—
\$2,500 million 4.25% Senior Notes due December 15, 2027	2,481	2,479
\$3,500 million 4.625% Senior Notes due December 15, 2029	3,500	3,500
\$2,000 million 3.375% Senior Notes due February 15, 2030	2,000	—
Fair value of interest rate swap agreements	—	(1)
Total senior notes	15,060	12,010
Term loan credit facility	1,450	1,450
Revolving credit agreement	93	93
Mortgage notes payable	51	54
Construction loan payable	177	140
Finance leases and other	137	122
Debt issuance costs	(142)	(143)
Total debt	16,826	13,726
Less current portion	(89)	(88)
Long-term debt	\$ 16,737	\$ 13,638

### Senior Notes

In connection with the WellCare Acquisition, in January 2020, the Company completed an exchange offer for up to \$1,200 million of 5.25% Senior Notes due April 1, 2025 and \$750 million of 5.375% Senior Notes due August 15, 2026 (collectively, the WellCare Notes) issued by WellCare and issued \$1,146 million aggregate principal amount of 5.25% Senior Notes due April 1, 2025 and \$747 million aggregate principal amount of 5.375% Senior Notes due August 15, 2026. Additionally, the Company's wholly owned subsidiary, WellCare Health Plans, Inc., assumed the remaining unexchanged WellCare Notes. The WellCare Notes were recorded at the acquisition date fair value of \$2,055 million.

In February 2020, the Company issued \$2,000 million 3.375% Senior Notes due February 15, 2030 (the \$2,000 million 2030 Notes). The Company used the net proceeds from the \$2,000 million 2030 Notes to redeem all of its outstanding \$1,000 million 6.125% Senior Notes, due February 15, 2024 (the 2024 Notes). The Company recognized a pre-tax loss on extinguishment of approximately \$44 million, including the call premium, the write-off of unamortized debt issuance costs and the loss on the termination of the \$1,000 million interest rate swap associated with the 2024 Notes. The Company also intended to use remaining proceeds to redeem its \$1,000 million 4.75% Senior Notes due May 15, 2022 (the 2022 Notes). However, as a result of the spread of COVID-19 and the resulting disruption and volatility in the global capital markets, the Company deferred the redemption of the 2022 Notes. The 2022 Notes were redeemed in the fourth quarter in connection with an additional offering of senior notes as further described below, and the Company decided to increase liquidity with the remaining proceeds of the \$2,000 million 2030 Notes.

In May 2020, the Company completed an exchange offer, whereby it exchanged substantially all of the outstanding \$2,000 million 3.375% Senior Notes due February 15, 2030, \$1,000 million 4.75% Senior Notes due January 15, 2025, \$2,500 million 4.25% Senior Notes due December 15, 2027, and \$3,500 million 4.625% Senior Notes due December 15, 2029 for identical securities that have been registered under the Securities Act of 1933.

In October 2020, the Company issued \$2,200 million 3.0% Senior Notes due October 2030 (the \$2,200 million 2030 Notes). The Company used the net proceeds from the offering, together with cash on hand, to redeem all of the 2022 Notes and the \$1,200 million 5.25% Senior Notes due 2025, including all premiums, accrued interest and expenses related to the redemptions. The Company recognized a pre-tax loss on extinguishment of \$17 million on the redemption of the 2022 Notes and the \$1,200 million 5.25% Senior Notes due 2025 in the fourth quarter of 2020, including the call premium and write-off of unamortized debt issuance costs.

#### ***Interest Rate Swaps***

In February 2020, the Company terminated the interest rate swap agreements associated with the 2022 Notes and \$2,200 million 4.75% Senior Notes, due January 15, 2025, (the 2025 Notes). The interest rate swaps associated with the 2024 Notes were also terminated in connection with the redemption of those notes as discussed above. In total, the Company terminated three interest rate swap contracts with a notional amount of \$2,100 million. The swaps effectively converted \$2,100 million of fixed rate notes to floating rates. As a result of the interest rate swap terminations, the Company received \$9 million in cash. The corresponding net gain on the 2022 Notes and 2025 Notes is being amortized as a reduction to interest expense over the remaining term of the respective notes.

#### **8. Leases**

The Company records right of use (ROU) assets and lease liabilities for non-cancelable operating leases primarily for real estate and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Expense related to leases is recorded on a straight-line basis over the lease term, including rent holidays. During the three and nine months ended September 30, 2020, the Company recognized operating lease expense of \$68 million and \$202 million, respectively.

The following table sets forth the ROU assets and lease liabilities as of September 30, 2020 (\$ in millions):

	<u>September 30, 2020</u>	
<u>Assets</u>		
ROU assets (recorded within other long-term assets)	\$	1,088
<u>Liabilities</u>		
Short-term (recorded within accounts payable and accrued expenses)	\$	198
Long-term (recorded within other long-term liabilities)		1,039
Total lease liabilities	\$	<u>1,237</u>

During the three and nine months ended September 30, 2020, the Company reduced its lease liabilities by \$7 million and \$198 million, respectively, for cash paid. In addition, during the three and nine months ended September 30, 2020, new operating leases commenced resulting in the recognition of ROU assets and lease liabilities of \$55 million and \$114 million, respectively. As of September 30, 2020, the Company had additional operating leases that have not yet commenced of \$52 million, which included one significant lease executed during 2019. This operating lease will commence in 2020 with a lease term of 10 years. In connection with the WellCare acquisition, the Company acquired approximately \$300 million of ROU assets and \$300 million of lease liabilities.

As of September 30, 2020, the weighted average remaining lease term of the Company's operating leases was 8.5 years. The lease liabilities as of September 30, 2020 reflect a weighted average discount rate of 3.7%. Lease payments over the next five years and thereafter are as follows (\$ in millions):

	<b>September 30, 2020</b>
2020	\$ 49
2021	250
2022	210
2023	176
2024	150
2025	115
Thereafter	514
<b>Total lease payments</b>	<b>1,464</b>
Less: imputed interest	(227)
<b>Total lease liabilities</b>	<b>\$ 1,237</b>

## 9. Stockholders' Equity

In January 2020, the Company issued 171 million shares of Centene common stock with a fair value of \$1,431 million and paid \$6,079 million in cash in exchange for all the outstanding shares of WellCare common stock. In addition, the Company recorded \$95 million related to the fair value of replacement equity awards associated with pre-combination service.

During the first quarter of 2020, the Company used proceeds from divestitures to repurchase 8,672 thousand shares of Centene common stock for \$500 million through the Company's stock repurchase program. As of September 30, 2020, the Company has a remaining amount of 5,488 thousand shares available under the program. The remaining common stock repurchases during the nine months ended September 30, 2020 relate to the purchase of shares to satisfy tax withholding requirements in connection with employee equity awards.

## 10. Earnings Per Share

The following table sets forth the calculation of basic and diluted net earnings per common share (\$ in millions, except per share data in dollars and shares in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Earnings attributable to Centene Corporation	\$ 568	\$ 95	\$ 1,820	\$ 1,112
Shares used in computing per share amounts:				
Weighted average number of common shares outstanding	579,510	413,616	567,586	413,302
Common stock equivalents (as determined by applying the treasury stock method)	8,461	6,340	8,146	6,398
Weighted average number of common shares and potential dilutive common shares outstanding	<u>587,971</u>	<u>419,956</u>	<u>575,732</u>	<u>419,700</u>
Net earnings per common share attributable to Centene Corporation:				
Basic earnings per common share	\$ 0.98	\$ 0.23	\$ 3.21	\$ 2.69
Diluted earnings per common share	\$ 0.97	\$ 0.23	\$ 3.16	\$ 2.65

The calculation of diluted earnings per common share for the three and nine months ended September 30, 2020 excludes the impact of 64 thousand and 75 thousand shares, respectively, related to anti-dilutive stock options, restricted stock and restricted stock units.

The calculation of diluted earnings per common share for the three and nine months ended September 30, 2019 excludes the impact of 1,532 thousand and 1,424 thousand shares, respectively, related to anti-dilutive stock options, restricted stock and restricted stock units.

## 11. Segment Information

Centene operates in two segments: Managed Care and Specialty Services. The Managed Care segment consists of Centene's health plans, including all of the functions needed to operate them. Subsequent to the closing of the WellCare Acquisition, the Managed Care segment also includes WellCare's legacy Medicaid Health Plans, Medicare Health Plans and Medicare Prescription Drug Plan (PDP) segments. The Specialty Services segment consists of Centene's specialty companies offering auxiliary healthcare services and products. Factors used in determining the reportable business segments include the nature of operating activities, the existence of separate senior management teams, and the type of information presented to the Company's chief operating decision-maker to evaluate all results of operations.

Segment information for the three months ended September 30, 2020, follows (\$ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Total revenues from external customers	\$ 28,014	\$ 1,076	\$ —	\$ 29,090
Total revenues from internal customers	104	2,987	(3,091)	—
Total revenues	\$ 28,118	\$ 4,063	\$ (3,091)	\$ 29,090
Earnings from operations	\$ 888	\$ (27)	\$ —	\$ 861

Segment information for the three months ended September 30, 2019, follows (\$ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Total revenues from external customers	\$ 18,087	\$ 889	\$ —	\$ 18,976
Total revenues from internal customers	44	2,675	(2,719)	—
Total revenues	\$ 18,131	\$ 3,564	\$ (2,719)	\$ 18,976
Earnings from operations	\$ 385	\$ (209)	\$ —	\$ 176

Segment information for the nine months ended September 30, 2020, follows (\$ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Total revenues from external customers	\$ 79,573	\$ 3,254	\$ —	\$ 82,827
Total revenues from internal customers	321	8,804	(9,125)	—
Total revenues	\$ 79,894	\$ 12,058	\$ (9,125)	\$ 82,827
Earnings from operations	\$ 3,014	\$ 53	\$ —	\$ 3,067

Segment information for the nine months ended September 30, 2019, follows (\$ in millions):

	Managed Care	Specialty Services	Eliminations	Consolidated Total
Total revenues from external customers	\$ 53,283	\$ 2,493	\$ —	\$ 55,776
Total revenues from internal customers	116	7,681	(7,797)	—
Total revenues	\$ 53,399	\$ 10,174	\$ (7,797)	\$ 55,776
Earnings from operations	\$ 1,587	\$ (83)	\$ —	\$ 1,504



## 12. Contingencies

### *Overview*

The Company is routinely subjected to legal and regulatory proceedings in the normal course of business. These matters can include, without limitation:

- periodic compliance and other reviews and investigations by various federal and state regulatory agencies with respect to requirements applicable to the Company's business, including, without limitation, those related to payment of out-of-network claims, submissions to CMS for risk adjustment payments or the False Claims Act, submissions to state agencies related to payments or state false claims acts, pre-authorization penalties, timely review of grievances and appeals, timely and accurate payment of claims, and the Health Insurance Portability and Accountability Act of 1996 and other federal and state fraud, waste and abuse laws;
- litigation arising out of general business activities, such as tax matters, disputes related to healthcare benefits coverage or reimbursement, putative securities class actions and medical malpractice, privacy, real estate, intellectual property and employment-related claims;
- disputes regarding reinsurance arrangements, claims arising out of the acquisition or divestiture of various assets, class actions and claims relating to the performance of contractual and non-contractual obligations to providers, members, employer groups and others, including, but not limited to, the alleged failure to properly pay claims and challenges to the manner in which the Company processes claims and claims alleging that the Company has engaged in unfair business practices.

Among other things, these matters may result in awards of damages, fines or penalties, which could be substantial, and/or could require changes to the Company's business. The Company intends to vigorously defend itself against legal and regulatory proceedings to which it is currently a party; however, these proceedings are subject to many uncertainties. In some of the cases pending against the Company, substantial non-economic or punitive damages are being sought.

The Company records reserves and accrues costs for certain legal proceedings and regulatory matters to the extent that it determines an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. While such reserves and accrued costs reflect the Company's best estimate of the probable loss for such matters, the recorded amounts may differ materially from the actual amount of any such losses. In some cases, no estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made because of the inherently unpredictable nature of legal and regulatory proceedings, which may be exacerbated by various factors, including but not limited to, they may involve indeterminate claims for monetary damages or may involve fines, penalties or punitive damages; present novel legal theories or legal uncertainties; involve disputed facts; represent a shift in regulatory policy; involve a large number of parties, claimants or regulatory bodies; are in the early stages of the proceedings; involve a number of separate proceedings and/or a wide range of potential outcomes; or result in a change of business practices.

As of the date of this report, amounts accrued for legal proceedings and regulatory matters were not material. However, it is possible that in a particular quarter or annual period the Company's financial condition, results of operations, cash flow and/or liquidity could be materially adversely affected by an ultimate unfavorable resolution of, or development in, legal and/or regulatory proceedings, including as described below. Except for the proceedings discussed below, the Company believes that the ultimate outcome of any of the regulatory and legal proceedings that are currently pending against it should not have a material adverse effect on financial condition, results of operations, cash flow or liquidity.

### *California*

On October 20, 2015, the Company's California subsidiary, Health Net of California, Inc. (Health Net California), was named as a defendant in a California taxpayer action filed in Los Angeles County Superior Court, captioned as Michael D. Myers v. State Board of Equalization, Dave Jones, Insurance Commissioner of the State of California, Betty T. Yee, Controller of the State of California, et al., Los Angeles Superior Court Case No. BS158655. This action is brought under a California statute that permits an individual taxpayer to sue a governmental agency when the taxpayer believes the agency has failed to enforce governing law. Plaintiff contends that Health Net California, a California licensed Health Care Service Plan (HCSP), is an "insurer" for purposes of taxation despite acknowledging it is not an "insurer" under regulatory law. Under California law, "insurers" must pay a gross premiums tax (GPT), calculated as 2.35% on gross premiums. As a licensed HCSP, Health Net California has paid the California Corporate Franchise Tax (CFT), the tax generally paid by California businesses. Plaintiff

contends that Health Net California must pay the GPT rather than the CFT. Plaintiff seeks a writ of mandate directing the California taxing agencies to collect the GPT, and seeks an order requiring Health Net California to pay GPT, interest and penalties for a period dating to eight years prior to the October 2015 filing of the complaint. This lawsuit is being coordinated with similar lawsuits filed against other entities (collectively, "Related Actions"). In March 2018, the Court overruled the Company's demurrer seeking to dismiss the complaint and denied the Company's motion to strike allegations seeking retroactive relief. In August 2018, the trial court stayed all the Related Actions pending determination of a writ of mandate by the California Court of Appeals in two of the Related Actions. In March 2019, the California Court of Appeals denied the writ of mandate. The defendants in those Related Actions sought review by the California Supreme Court, which declined to review the matter. Upon the return of the matter to the Los Angeles County Superior Court, motions for summary judgment were scheduled. Health Net California's motion for summary judgment was heard by the Court on March 4, 2020. On March 29, 2020, the Court granted Health Net California's motion for summary judgment. On September 30, 2020, the plaintiff appealed the Court's decision. The Company intends to continue its vigorous defense against these claims; however, this matter is subject to many uncertainties, and an adverse outcome in this matter could potentially have a materially adverse impact on the Company's financial position, results of operations and cash flows.

#### ***Veterans Administration Matter***

In October 2017, a Civil Investigative Demand (CID) was issued to Health Net Federal Services, LLC (HNFS) by the United States Department of Justice. The CID seeks documents and interrogatory responses concerning whether HNFS submitted, or caused to be submitted, excessive, duplicative or otherwise improper claims to the U.S. Department of Veterans Affairs (VA) under a contract to provide healthcare coordination services for veterans. The contract began in late 2014 and ended September 30, 2018. In 2016, modifications to the contract were made to allow for possible duplicate billings with a reconciliation period at the end of the contract term. The Company is complying with the CID and believes it has met its contractual obligations. At this point, it is not possible to determine what level of liability, if any, the Company may face as a result of this matter.

#### ***Ambetter Class Action***

On January 11, 2018, a putative class action lawsuit was filed by Cynthia Harvey and Steven A. Milman against the Company and certain subsidiaries in the U.S. District Court for the Eastern District of Washington. The complaint alleges that the Company failed to meet federal and state requirements for provider networks and directories with regard to its Ambetter policies, denied coverage and/or refused to pay for covered benefits, and failed to address grievances adequately, causing some members to incur unexpected costs. In March 2018, the Company filed separate motions to dismiss each defendant. In July 2018, the plaintiff, Cynthia Harvey, voluntarily filed a First Amended Complaint that removed Steven A. Milman as a plaintiff, dropped Centene Corporation and Superior Health Plan as defendants, abandoned certain claims, narrowed the putative class to Washington State only, and added Centene Management Company as a defendant. In August 2018, the Company moved to dismiss the First Amended Complaint. In response, the plaintiff voluntarily filed a Second Amended Complaint. In September 2018, the Company filed a motion to dismiss the Second Amended Complaint. On November 21, 2018, the Court granted in part and denied in part the Company's motion to dismiss. The plaintiff filed a Third Amended Complaint, on November 28, 2018, against Centene Management Company and Coordinated Care Corporation (Defendants), both subsidiaries of the Company. Defendants filed an answer on December 12, 2018. The plaintiff filed a motion for class certification on January 8, 2020. The Company opposed and the Court denied the class certification. The plaintiff appealed the class certification denial to the 9th Circuit, but the 9th Circuit dismissed the plaintiff's appeal on procedural grounds. The case proceeded as an individual lawsuit between a single member and Coordinated Care Corporation until September 15, 2020, when the case was dismissed with prejudice.

## **ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this filing. The discussion contains forward-looking statements that involve known and unknown risks and uncertainties, including those set forth under Part II, Item 1A. “Risk Factors” of this Form 10-Q.*

### **EXECUTIVE OVERVIEW**

#### **General**

We are a leading multi-national healthcare enterprise that is committed to helping people live healthier lives. We take a local approach - with local brands and local teams - to provide fully integrated, high-quality, and cost-effective services to government-sponsored and commercial healthcare programs, focusing on under-insured and uninsured individuals.

Results of operations depend on our ability to manage expenses associated with health benefits (including estimated costs incurred) and selling, general and administrative (SG&A) costs. We measure operating performance based upon two key ratios. The health benefits ratio (HBR) represents medical costs as a percentage of premium revenues, excluding premium tax and health insurer fee revenues that are separately billed, and reflects the direct relationship between the premiums received and the medical services provided. The SG&A expense ratio represents SG&A costs as a percentage of premium and service revenues, excluding premium tax and health insurer fee revenues that are separately billed.

Our insurance subsidiaries are subject to the Affordable Care Act (ACA) annual health insurer fee (HIF), absent a HIF moratorium or repeal. We recognize revenue for reimbursement of the HIF, including the “gross-up” to reflect the non-deductibility of the HIF. Collectively, this revenue is recorded as premium tax and health insurer fee revenue in the Consolidated Statements of Operations. For certain products, premium taxes, state assessments and the HIF are not pass-through payments and are recorded as premium revenue and premium tax expense or health insurer fee expense in the Consolidated Statements of Operations. A moratorium suspended the HIF for the 2019 calendar year. Due to the size of the health insurer fee, one of the primary drivers of the year-over-year variances discussed throughout this section is related to the reinstatement of the HIF in 2020.

#### **WellCare Acquisition**

On January 23, 2020, we acquired all of the issued and outstanding shares of WellCare Health Plans, Inc. (WellCare) (the WellCare Acquisition). The transaction was valued at approximately \$19.6 billion, including the assumption of \$1.95 billion of outstanding debt. The WellCare Acquisition brings a high-quality Medicare platform and further extends our robust Medicaid offerings. The combination enables us to provide access to more comprehensive and differentiated solutions across more markets with a continued focus on affordable, high-quality, culturally-sensitive healthcare services. Due to the size of the acquisition, one of the primary drivers of the year-over-year variances discussed throughout this section is related to the acquisition of WellCare.

#### **COVID-19 Trends and Uncertainties**

The COVID-19 outbreak has created unique and unprecedented challenges. To support our members, providers, employees and the communities we serve, we have taken several actions and made numerous investments related to the COVID-19 crisis. We have extended coverage of COVID-19 testing and screening services for Medicaid, Medicare and Marketplace members and are waiving all associated member cost share amounts for COVID-19 testing and screening. We are delivering new critical support to Safety Net providers, including Federally Qualified Healthcare Centers (FQHCs), behavioral health providers, and long-term service and support organizations. We continue to address social determinants of health for vulnerable populations during the COVID-19 crisis with a commitment to research and investment in non-medical barriers to achieving quality health outcomes. We developed initiatives designed to support the disability community affected by the pandemic. We created a provider support program to assist our network providers who are seeking benefits from the Small Business Administration (SBA) through the CARES Act. We established a Medical Reserve Leave policy to support clinical staff who want to join a medical reserve force and serve their communities during the COVID-19 pandemic. We are providing additional employee benefits including waiving cost-sharing for COVID-19 related treatment, emergency paid sick leave, and one-time payments to employees in a small number of critical office functions.

We have taken significant steps to support our employees to protect their health and safety, while also ensuring that our business can continue to operate and that services continue without disruption. We have implemented our business continuity plans and have taken actions to support our workforce. We have transitioned the vast majority of our employees to work from home, allowing Centene to continue to operate at close to full capacity, while continuing to maintain our internal control framework. As a result, we have experienced and expect continued incremental costs due to investments and actions we have already taken and continued efforts to protect our members, employees and communities we serve.

The impact on our business in both the short-term and long-term is uncertain. The outlook for 2020 still depends on future developments, including but not limited to: the length and severity of the outbreak, effectiveness of containment actions, and the timing around the development of treatments and vaccinations. The pandemic and these future developments have impacted and will continue to affect our membership and medical utilization. From March 31, 2020 through September 30, 2020, our Medicaid and Health Insurance Marketplace membership has increased by 1.3 million members, in line with our expectations. The pandemic also has the potential to impact the administration of state and federal healthcare programs, premium rates and risk sharing mechanisms. We continue to have active dialogue with our state partners, and the risk sharing mechanisms and rate adjustments received continue to be in line with our expectations.

Medical utilization continues to normalize as elective procedures and other non-emergent care resume, consistent with our expectations. We have experienced and continue to expect incremental COVID-19 costs as the outbreak continues to spread. In addition, the pandemic has widespread economic impact, driving interest rate decreases and lowering our investment income.

At this point in time, we still expect the impact of all these items to slightly benefit our 2020 results. We are confident we have the team, systems, expertise and financial strength to effectively navigate this challenging pandemic landscape.

### **Regulatory Trends and Uncertainties**

The United States government, presidential candidates, politicians, and healthcare experts continue to discuss and debate various elements of the United States healthcare payment model. From the constitutionality of the Affordable Care Act, to Medicare for All (single payer), to pharmacy pricing structures, all areas of healthcare are being challenged to assure adequate healthcare is delivered to all segments of the population. During this time of deliberation, we remain focused on the promise of delivering access to high quality, affordable healthcare to all of our members and believe we are well positioned to meet the needs of the changing healthcare landscape.

We have more than three decades of experience, spanning six presidents from both sides of the aisle, in delivering high-quality healthcare services on behalf of states and the federal government to under-insured and uninsured families, commercial organizations and military families. This expertise has allowed us to deliver cost effective services to our government sponsors and our members. While healthcare experts maintain focus on personalized healthcare technology, we continue to make strategic decisions to accelerate development of new software platforms and analytical capabilities. We continue to believe we have both the capacity and capability to successfully navigate industry changes to the benefit of our members, customers and shareholders.

For additional information regarding regulatory trends and uncertainties, see Part II, Item 1A, "Risk Factors."

### **Third Quarter 2020 Highlights**

Our financial performance for the third quarter of 2020 is summarized as follows:

- Managed care membership of 25.2 million, an increase of 9.9 million members, or 65% year-over-year.
- Total revenues of \$29.1 billion, representing 53% growth year-over-year.
- HBR of 86.4%, compared to 88.2% for the third quarter of 2019.
- SG&A expense ratio of 9.1%, compared to 8.9% for the third quarter of 2019.
- Adjusted SG&A expense ratio of 8.9%, compared to 8.8% for the third quarter of 2019.
- Operating cash flows of \$(952.0) million, reflecting the payment of the HIF.
- Diluted earnings per share (EPS) of \$0.97, compared to \$0.23 for the third quarter of 2019.
- Adjusted Diluted EPS of \$1.26, compared to \$0.96 for the third quarter of 2019.

A reconciliation from GAAP Diluted EPS to Adjusted Diluted EPS is highlighted below, and additional detail is provided above under the heading “Non-GAAP Financial Presentation”:

	<b>Three Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
GAAP Diluted EPS, attributable to Centene	\$ 0.97	\$ 0.23
Amortization of acquired intangible assets	0.21	0.12
Acquisition related expenses	0.08	0.04
Other adjustments <sup>(1)</sup>	—	0.57
Adjusted Diluted EPS	<u>\$ 1.26</u>	<u>\$ 0.96</u>

<sup>(1)</sup> Other adjustments include the 2019 non-cash goodwill and intangible asset impairment of \$271 million, or \$0.57 per diluted share, substantially all related to our U.S. Medical Management (USMM) physician home health business.

The third quarter results include the following items, which had a net benefit to GAAP and Adjusted EPS of \$0.29:

	<b>GAAP</b>	<b>Adjusted</b>
Diluted EPS	\$ 0.97	\$ 1.26
Less: risk corridor benefit, net	(0.52)	(0.52)
Plus: charitable contribution commitment	0.35	0.35
Less: tax settlement benefit	(0.12)	(0.12)
Total	<u>\$ 0.68</u>	<u>\$ 0.97</u>

- a pre-tax net benefit related to the Affordable Care Act (ACA) risk corridor receivable settlement of \$398 million (net of minimum medical loss ratio payback and related expenses), or \$0.52 per diluted share;
- a pre-tax expense of \$275 million, or \$0.35 per diluted share, related to a charitable contribution commitment to our foundation; and
- a favorable tax settlement of \$72 million, or \$0.12 per diluted share.

The following items contributed to our growth over the last year:

- *Arkansas.* In March 2019, our Arkansas subsidiary, Arkansas Total Care, assumed full-risk on a Medicaid special needs population comprised of people with high behavioral health needs and individuals with developmental/intellectual disabilities.
- *Correctional.* In July 2020, Centurion commenced a two-year contract with the Kansas Department of Administration to provide healthcare services in the Department of Corrections’ facilities. In April 2020, Centurion began providing medical services, behavioral healthcare, and substance abuse treatment within four prisons and six community corrections centers across the state of Delaware. In July 2019, Centurion began operating under a contract to provide comprehensive healthcare services to inmates housed in Arizona’s state prison system. In July 2019, Centurion began operating under a re-awarded contract to continue the provision of mental and dental health services to the Georgia Department of Correction’s state prison facilities.
- *Florida.* In December 2018, our Florida subsidiary, Sunshine Health, began providing physical and behavioral healthcare services through Florida’s Statewide Medicaid Managed Care Program under its new five year contract which was implemented for all 11 regions by February 2019.
- *Health Insurance Marketplace.* In January 2020, we expanded our offerings in the 2020 Health Insurance Marketplace in ten existing markets: Arizona, Florida, Georgia, Kansas, North Carolina, Ohio, South Carolina, Tennessee, Texas, and Washington.
- *HealthSmart.* In May 2019, we acquired HealthSmart, a third party administrator providing customizable and scalable health plan solutions for self-funded employers, universities and colleges, and Native American Tribal Enterprises. Services include plan administration, care management and wellness programs, network, casualty claim, and pharmacy benefit solutions.

- *Illinois.* In July 2020, Meridian Health Plan of Illinois, Inc. (Meridian), began serving Medicaid members in Cook County, Illinois, as a result of a member transfer agreement under which Meridian was assigned 100% of NextLevel Health Partners, Inc.'s approximately 54,000 members who access benefits from the Illinois Department of Healthcare and Family Services' HealthChoice Illinois Program. In February 2020, we began operating in Illinois under the first phase of an expanded contract for the Medicaid Managed Care Program. The expanded contract includes children who are in need through the Department of Children and Family Services/Youth Care by Illinois Department of Healthcare and Family Services and Foster Care.
- *Iowa.* In July 2019, our Iowa subsidiary, Iowa Total Care, Inc., began operating under a new statewide contract for the IA Health Link Program.
- *Louisiana.* In January 2020, our Louisiana subsidiary, Louisiana HealthCare Connections, began operating under a one-year emergency contract extension in response to protested contract awards. Louisiana's state procurement officer overturned the Louisiana Department of Health's plan to award Medicaid contracts to four health plans, excluding our Louisiana subsidiary. According to the chief procurement officer, the state health department failed to follow state law or its own evaluation and bid guidelines in its award.
- *Medicare.* In January 2020, we expanded our Medicare offerings. We entered Nevada and expanded our footprint in twelve existing markets: Arizona, Arkansas, California, Georgia, Kansas, Louisiana, Missouri, New Mexico, New York, Ohio, Pennsylvania, and Texas.
- *New Hampshire.* In September 2019, our New Hampshire subsidiary, NH Healthy Families, began operating under a new five-year contract to continue to provide service to Medicaid enrollees statewide.
- *Pennsylvania.* In January 2018, our Pennsylvania subsidiary, Pennsylvania Health & Wellness, began serving enrollees in the Community HealthChoices program in the Southeast region as part of the statewide contract that was fully implemented statewide by January 2020.
- *QualChoice.* In April 2019, we completed the acquisition of QCA Health Plan, Inc. and QualChoice Life and Health Insurance Company, Inc. The acquisition expands our footprint in Arkansas by adding additional members primarily through Commercial products.
- *Spain.* In December 2019, our Spanish subsidiary, Ribera Salud, acquired 93% of Hospital Povisa, S.A., a private hospital in the Vigo region of Spain. In June 2019, our Spanish subsidiary, Primero Salud, acquired additional ownership in Ribera Salud, increasing our ownership in the Spanish healthcare company from 50% to 90%.
- *Washington.* In January 2019, our Washington State subsidiary, Coordinated Care of Washington, began providing managed care services to Apple Health's Fully Integrated Managed Care beneficiaries in the Greater Columbia, King and Pierce Regions. This integration continued with the addition of the North Sound Region in July 2019.
- *WellCare.* On January 23, 2020, we completed the WellCare Acquisition. The WellCare Acquisition brings a high-quality Medicare platform and further extends our robust Medicaid offerings. The WellCare Acquisition is a key part of our growth as we become one of the nation's largest sponsors of government health coverage. The transaction is valued at approximately \$19.6 billion, including the assumption of \$1.95 billion of outstanding debt.

The growth items listed above were partially offset by the following items:

- In September 2020, our Oregon subsidiary, Trillium Community Health Plan, began operating under an expanded contract serving as a coordinated care organization for six counties in the state; however, an additional competitor was added to Lane County. As a result, our membership decreased.
- Effective July 2020, we no longer serve members under the state-wide correctional contract in Vermont.
- In January 2020, in connection with the WellCare Acquisition, we completed the divestiture of certain products in our Illinois health plan, including the Medicaid and Medicare Advantage lines of business.
- Effective December 2019, we no longer serve members under the state-wide correctional contract in New Mexico.

- Beginning in January 2019, Health Net of Arizona, Inc. began discontinuing and non-renewing all of its Employer Group plans for small and large business groups in Arizona. The effective date of coverage termination for existing groups is dependent on remaining renewals; however, coverage is no longer provided to any group policyholders and/or members as of December 31, 2019.

We expect the following items to contribute to our revenue or future growth potential:

- We expect to realize the benefit in 2020 of acquisitions, investments, and business commenced during 2019 and 2020, as discussed above.
- In October 2019, our North Carolina joint venture, Carolina Complete Health, was awarded an additional service area to provide Medicaid managed care services in Region 4. With the addition of this new Region, Carolina Complete Health will provide Medicaid managed care services in three contiguous regions: Region 3, 4 and 5. In February 2019, WellCare was awarded a statewide contract to administer the state's Medicaid Prepaid Health Plans. The new contracts are expected to commence in mid-2021.

The future growth items listed above are partially offset by the following items:

- Effective October 2020, we no longer serve members under the correctional contract in Mississippi.
- In October 2020, Centers for Medicare and Medicaid Services (CMS) published updated Medicare Star quality ratings for the 2021 rating year. Approximately 30% of our Medicare members are in a 4 star or above plan for the 2022 bonus year, compared to 46% for the 2021 bonus year and 86% for the 2020 bonus year. Our quality bonus and rebates may be negatively impacted in 2021 and 2022, if we are unable to utilize mitigation strategies.

#### MEMBERSHIP

From September 30, 2019 to September 30, 2020, we increased our managed care membership by 9.9 million, or 65%. The following table sets forth our membership by line of business:

	September 30, 2020	December 31, 2019	September 30, 2019
Medicaid:			
TANF, CHIP & Foster Care	11,498,700	7,528,700	7,623,400
ABD & LTSS	1,439,800	1,043,500	1,045,700
Behavioral Health	184,800	66,500	73,300
<b>Total Medicaid</b>	<b>13,123,300</b>	<b>8,638,700</b>	<b>8,742,400</b>
Medicare Prescription Drug Plan (PDP)	4,436,400	—	—
Commercial	2,719,500	2,331,100	2,388,500
Medicare <sup>(1)</sup>	1,014,300	404,500	404,500
International	599,900	599,800	462,400
Correctional	167,200	180,000	187,200
<b>Total at-risk membership</b>	<b>22,060,600</b>	<b>12,154,100</b>	<b>12,185,000</b>
TRICARE eligibles	2,877,900	2,860,700	2,860,700
Non-risk membership	227,200	227,000	227,800
<b>Total</b>	<b>25,165,700</b>	<b>15,241,800</b>	<b>15,273,500</b>

(1) Membership includes Medicare Advantage, Medicare Supplement, Special Needs Plans, and Medicare-Medicaid Plans (MMP).

The following table sets forth additional membership statistics, which are included in the table above:

	September 30, 2020	December 31, 2019	September 30, 2019
Dual-eligible <sup>(2)</sup>	974,800	639,200	629,600
Health Insurance Marketplace	2,210,800	1,805,200	1,860,200
Medicaid Expansion	2,070,500	1,346,700	1,359,300

(2) Membership includes dual-eligible ABD & LTSS and dual-eligible Medicare.

## RESULTS OF OPERATIONS

The following discussion and analysis is based on our Consolidated Statements of Operations, which reflect our results of operations for the three and nine months ended September 30, 2020 and 2019, prepared in accordance with generally accepted accounting principles in the United States.

Summarized comparative financial data for the three and nine months ended September 30, 2020 and 2019 is as follows (\$ in millions, except per share data in dollars):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Premium	\$ 26,537	\$ 17,472	52 %	\$ 74,496	\$ 50,229	48 %
Service	922	743	24 %	2,859	2,123	35 %
Premium and service revenues	27,459	18,215	51 %	77,355	52,352	48 %
Premium tax and health insurer fee	1,631	761	114 %	5,472	3,424	60 %
Total revenues	29,090	18,976	53 %	82,827	55,776	48 %
Medical costs	22,932	15,406	49 %	63,659	43,642	46 %
Cost of services	861	619	39 %	2,519	1,778	42 %
Selling, general and administrative expenses	2,507	1,617	55 %	7,146	4,800	49 %
Amortization of acquired intangible assets	164	65	152 %	527	194	172 %
Premium tax expense	1,389	822	69 %	4,737	3,587	32 %
Health insurer fee expense	376	—	n.m.	1,100	—	n.m.
Impairment	—	271	n.m.	72	271	(73) %
Earnings from operations	861	176	389 %	3,067	1,504	104 %
Investment and other income	95	98	(3) %	375	317	18 %
Debt extinguishment costs	—	—	n.m.	(44)	—	n.m.
Interest expense	(184)	(99)	86 %	(551)	(299)	84 %
Earnings from operations, before income tax expense	772	175	341 %	2,847	1,522	87 %
Income tax expense	207	79	162 %	1,034	415	149 %
Net earnings	565	96	489 %	1,813	1,107	64 %
<b>Loss (earnings) attributable to noncontrolling interests</b>	<b>3</b>	<b>(1)</b>	<b>400 %</b>	<b>7</b>	<b>5</b>	<b>40 %</b>
<b>Net earnings attributable to Centene Corporation</b>	<b>\$ 568</b>	<b>\$ 95</b>	<b>498 %</b>	<b>\$ 1,820</b>	<b>\$ 1,112</b>	<b>64 %</b>
Diluted earnings per common share attributable to Centene Corporation	\$ 0.97	\$ 0.23	322 %	\$ 3.16	\$ 2.65	19 %

*n.m.: not meaningful*



***Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019*****Total Revenues**

The following table sets forth supplemental revenue information for the three months ended September 30, (\$ in millions):

	<b>2020</b>	<b>2019</b>	<b>% Change</b>
Medicaid	\$ 19,031	\$ 12,859	48 %
Commercial	4,638	3,670	26 %
Medicare <sup>(1)</sup>	3,603	1,429	152 %
Medicare PDP	582	—	n.m.
Other	1,236	1,018	21 %
<b>Total Revenues</b>	<b>\$ 29,090</b>	<b>\$ 18,976</b>	<b>53 %</b>

(1) Medicare includes Medicare Advantage, Medicare Supplement, Special Needs Plans, and MMP.

*n.m.: not meaningful*

Total revenues increased 53% in the three months ended September 30, 2020 over the corresponding period in 2019, due to the acquisition of WellCare, growth in the Health Insurance Marketplace business, expansions, new programs and growth in many of our states, the reinstatement of the health insurer fee in 2020, and the ACA risk corridor receivable settlement, partially offset by the divestiture of our Illinois health plan.

**Operating Expenses*****Medical Costs***

Results of operations depend on our ability to manage expenses associated with health benefits and to accurately estimate costs incurred. The health benefits ratio, or HBR, represents medical costs as a percentage of premium revenues (excluding premium tax and health insurer fee revenues that are separately billed) and reflects the direct relationship between the premium received and the medical services provided.

The HBR for the three months ended September 30, 2020, was 86.4%, compared to 88.2% in the same period in 2019. The decrease was attributable to the ACA risk corridor receivable settlement and the effect of the COVID-19 pandemic, partially offset by retroactive state premium rate adjustments and risk sharing mechanisms. The effect of the COVID-19 pandemic includes lower traditional medical utilization, partially offset by higher testing and treatment costs associated with COVID-19.

***Cost of Services***

Cost of services increased by \$242 million in the three months ended September 30, 2020, compared to the corresponding period in 2019, primarily attributable to increased volume in our specialty pharmacy business, increased non-specialty pharmacy sales to our recently divested Illinois health plan, and growth from newly acquired businesses. The cost of service ratio for the three months ended September 30, 2020, was 93.4%, compared to 83.3% in the same period in 2019. The increase in the cost of service ratio was driven by the results of the shared savings programs in our physician home health business and non-specialty pharmacy sales to our recently divested Illinois health plan, which carries a higher cost of service ratio.

***Selling, General & Administrative Expenses***

Selling, general and administrative expenses, or SG&A, increased by \$890 million in the three months ended September 30, 2020, compared to the corresponding period in 2019. The SG&A increase was primarily due to the addition of the WellCare business, expansions, new programs and growth in many of our states, and the \$275 million charitable contribution commitment to our foundation.

The SG&A expense ratio was 9.1% for the third quarter of 2020, compared to 8.9% in the third quarter of 2019. The Adjusted SG&A expense ratio was 8.9% for the third quarter of 2020, compared to 8.8% in the third quarter of 2019. The year-over-year increases to the ratios were due to the \$275 million charitable contribution commitment to our foundation, partially offset by the addition of the WellCare business, which operates at a lower SG&A ratio, and the leveraging of expenses over higher revenues.

### **Health Insurer Fee Expense**

Health insurer fee expense was \$376 million for the three months ended September 30, 2020. As a result of the health insurer fee moratorium, which suspended the health insurance provider fee for the 2019 calendar year, we did not record health insurer fee expense for the corresponding period in 2019.

### **Impairment**

During the third quarter of 2019, we recorded \$271 million, or \$0.57 per diluted share, of non-cash goodwill and intangible asset impairment. Substantially all of the impairment is associated with our USMM physician home health business and was identified as part of our quarterly review procedures, which included an analysis of new information related to our shared savings programs, slower than expected penetration of the physician home health business model into our Medicaid population, and the related impact to revised forecasts.

### **Other Income (Expense)**

The following table summarizes the components of other income (expense) for the three months ended September 30, (\$ in millions):

	<u>2020</u>	<u>2019</u>
Investment and other income	\$ 95	\$ 98
Interest expense	(184)	(99)
Other income (expense), net	<u>\$ (89)</u>	<u>\$ (1)</u>

*Investment and other income.* Investment and other income decreased by \$3 million in the three months ended September 30, 2020 compared to the corresponding period in 2019. Investment income for the three months ended September 30, 2020 decreased as compared to September 30, 2019 primarily due to lower interest rates, partially offset by higher investment balances.

*Interest expense.* Interest expense increased by \$85 million in the three months ended September 30, 2020 compared to the corresponding period in 2019. The increase was driven by an increase in borrowings related to the issuance of an additional \$7.0 billion in senior notes in December 2019 to finance the cash consideration of the WellCare Acquisition as well as the \$1.9 billion of WellCare Notes assumed upon acquisition. The increase was also driven by incremental interest expense related to our decision to defer the redemption of our \$1.0 billion 2022 Senior Notes as well as incremental borrowings on our revolving credit facility, both as measures to preserve liquidity due to the economic environment created by COVID-19.

### **Income Tax Expense**

For the three months ended September 30, 2020, we recorded income tax expense of \$207 million on pre-tax earnings of \$772 million, or an effective tax rate of 26.8%. The effective tax rate for the third quarter of 2020 reflects a favorable tax settlement, offset by the reinstatement of the health insurer fee in 2020. For the three months ended September 30, 2019, we recorded income tax expense of \$79 million on pre-tax earnings of \$175 million, or an effective tax rate of 45.1%, driven by the non-deductibility of a portion of our non-cash goodwill and intangible impairment, offset by the impact of the health insurer fee moratorium.

## Segment Results

The following table summarizes our consolidated operating results by segment for the three months ended September 30, (\$ in millions):

	2020	2019	% Change
<b>Total Revenues</b>			
Managed Care	\$ 28,118	\$ 18,131	55 %
Specialty Services	4,063	3,564	14 %
Eliminations	(3,091)	(2,719)	(14) %
Consolidated Total	<u>\$ 29,090</u>	<u>\$ 18,976</u>	<u>53 %</u>
<b>Earnings from Operations</b>			
Managed Care	\$ 888	\$ 385	131 %
Specialty Services	(27)	(209)	87 %
Consolidated Total	<u>\$ 861</u>	<u>\$ 176</u>	<u>389 %</u>

### Managed Care

Total revenues increased 55% in the three months ended September 30, 2020, compared to the corresponding period in 2019, due to the acquisition of WellCare, growth in the Health Insurance Marketplace business, expansions, new programs and growth in many of our states, the reinstatement of the health insurer fee in 2020, and the ACA risk corridor receivable settlement, partially offset by the divestiture of our Illinois health plan. Earnings from operations increased \$503 million between years, primarily due to the acquisition of WellCare, the ACA risk corridor receivable settlement, the reinstatement of the HIF in 2020, and lower medical utilization due to the COVID-19 pandemic, partially offset by our charitable contribution commitment to our foundation and the Health Insurance Marketplace business, where margins continue to normalize.

### Specialty Services

Total revenues increased 14% in the three months ended September 30, 2020, compared to the corresponding period in 2019, resulting primarily from increased services associated with membership growth in the Managed Care segment, acquisitions and increased volume in our specialty pharmacy business. Earnings from operations increased \$182 million in the three months ended September 30, 2020, compared to the corresponding period in 2019. Earnings from operations in 2019 were negatively affected by the previously discussed non-cash goodwill and intangible impairment related to our USMM physician home health business. Earnings from operations in 2020 were negatively affected by the results of the shared savings programs in our physician home health business.

### Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

#### Total Revenues

The following table sets forth supplemental revenue information for the nine months ended September 30, (\$ in millions):

	2020	2019	% Change
Medicaid	\$ 54,201	\$ 37,586	44 %
Commercial	12,893	11,187	15 %
Medicare <sup>(1)</sup>	10,157	4,277	137 %
Medicare PDP	1,856	—	n.m.
Other	3,720	2,726	36 %
Total Revenues	<u>\$ 82,827</u>	<u>\$ 55,776</u>	<u>48 %</u>

(1) Medicare includes Medicare Advantage, Medicare Supplement, Special Needs Plans, and MMP.

*n.m.: not meaningful*

Total revenues increased 48% in the nine months ended September 30, 2020 over the corresponding period in 2019 primarily due to the acquisition of WellCare, growth in the Health Insurance Marketplace business, expansions, new programs and growth in many of our states and the reinstatement of the health insurer fee in 2020, partially offset by the divestiture of our Illinois health plan. During the nine months ended September 30, 2020, we received premium rate adjustments which yielded a net 1% composite increase across all of our markets.

## **Operating Expenses**

### ***Medical Costs***

The HBR for the nine months ended September 30, 2020 was 85.5%, compared to 86.9% in the same period in 2019. The decrease was attributable to the ACA risk corridor receivable settlement and lower medical utilization due to the COVID-19 pandemic, partially offset by the Health Insurance Marketplace business, where margins continue to normalize.

### ***Cost of Services***

Cost of services increased by \$741 million in the nine months ended September 30, 2020, compared to the corresponding period in 2019, primarily attributable to increased volume in our specialty pharmacy business, increased non-specialty pharmacy sales to our recently divested Illinois health plan, and growth from newly acquired businesses. The cost of service ratio for the nine months ended September 30, 2020, was 88.1%, compared to 83.7% in the same period in 2019. The increase in the cost of service ratio was driven by the results of the shared savings programs in our physician home health business and non-specialty pharmacy sales to our recently divested Illinois health plan, which carries a higher cost of service ratio.

### ***Selling, General & Administrative Expenses***

SG&A increased by \$2.3 billion in the nine months ended September 30, 2020, compared to the corresponding period in 2019. The SG&A increase was primarily due to the addition of the WellCare business, expansions, new programs and growth in many of our states, and \$426 million of acquisition related expense in the nine months ended September 30, 2020.

The SG&A expense ratio for the nine months ended September 30, 2020 was 9.2%, compared to 9.2% for the corresponding period in 2019. The 2020 SG&A expense ratio was negatively affected by higher acquisition related expenses due to the recent closing of the WellCare acquisition and the \$275 million charitable contribution commitment to our foundation, offset by the addition of the WellCare business, which operates at a lower SG&A ratio, and the leveraging of expenses over higher revenues.

The Adjusted SG&A expense ratio for the nine months ended September 30, 2020 was 8.7%, compared to 9.1% for the nine months ended September 30, 2019. The Adjusted SG&A expense ratio benefited from the addition of the WellCare business, which operates at a lower SG&A ratio, and the leveraging of expenses over higher revenues, partially offset by the \$275 million charitable contribution commitment to our foundation.

### ***Health Insurer Fee Expense***

Health insurer fee expense was \$1.1 billion for the nine months ended September 30, 2020. As a result of the health insurer fee moratorium, which suspended the health insurance provider fee for the 2019 calendar year, we did not record health insurer fee expense for the corresponding period in 2019.

## **Impairment**

During the first quarter of 2020, we recorded \$72 million of a non-cash impairment of our third-party care management software business. During the third quarter of 2019, we recorded \$271 million, or \$0.57 per diluted share, of non-cash goodwill and intangible asset impairment. Substantially all of the impairment is associated with our USMM physician home health business and was identified as part of our quarterly review procedures, which included an analysis of new information related to our shared savings programs, slower than expected penetration of the physician home health business model into our Medicaid population, and the related impact to revised forecasts.

## Other Income (Expense)

The following table summarizes the components of other income (expense) for the nine months ended September 30, (\$ in millions):

	2020	2019
Investment and other income	\$ 375	\$ 317
Debt extinguishment costs	(44)	—
Interest expense	(551)	(299)
Other income (expense), net	\$ (220)	\$ 18

*Investment and other income.* Investment and other income increased by \$58 million in the nine months ended September 30, 2020 compared to the corresponding period in 2019. The increase was due to a \$104 million gain related to the divestiture of certain products of our Illinois health plan as part of the previously announced divestiture agreements associated with the WellCare Acquisition as well as overall higher investment balances, partially offset by lower interest rates.

*Debt extinguishment costs.* In February 2020, we redeemed all of our outstanding \$1.0 billion 6.125% Senior Notes, due February 15, 2024 (the 2024 Notes) and recognized a pre-tax loss on extinguishment of approximately \$44 million. The loss includes the call premium, the write-off of unamortized debt issuance costs and the loss on the termination of the \$1.0 billion interest rate swap associated with the 2024 Notes.

*Interest expense.* Interest expense increased by \$252 million in the nine months ended September 30, 2020, compared to the corresponding period in 2019, driven by an increase in borrowings related to the issuance of an additional \$7.0 billion in senior notes in December 2019 to finance the cash consideration of the WellCare Acquisition as well as the \$1.9 billion of WellCare Notes assumed upon acquisition. The increase was also driven by incremental interest expense related to our decision to defer the redemption of our \$1.0 billion 2022 Senior Notes as well as incremental borrowings on our revolving credit facility, both as measures to preserve liquidity due to the economic environment created by COVID-19.

## Income Tax Expense

For the nine months ended September 30, 2020, we recorded income tax expense of \$1.0 billion on pre-tax earnings of \$2.8 billion, or an effective tax rate of 36.3%. The effective tax rate for the nine months ended September 30, 2020 reflects the tax impact associated with the Illinois divestiture and the reinstatement of the health insurer fee in 2020, partially offset by a favorable tax settlement. For the nine months ended September 30, 2019, we recorded income tax expense of \$415 million on pre-tax earnings of \$1.5 billion, or an effective tax rate of 27.3%, which reflects the health insurer fee moratorium.

## Segment Results

The following table summarizes our consolidated operating results by segment for the nine months ended September 30, (\$ in millions):

	2020	2019	% Change
<b>Total Revenues</b>			
Managed Care	\$ 79,894	\$ 53,399	50 %
Specialty Services	12,058	10,174	19 %
Eliminations	(9,125)	(7,797)	(17) %
Consolidated Total	\$ 82,827	\$ 55,776	48 %
<b>Earnings from Operations</b>			
Managed Care	\$ 3,014	\$ 1,587	90 %
Specialty Services	53	(83)	164 %
Consolidated Total	\$ 3,067	\$ 1,504	104 %

**Managed Care**

Total revenues increased 50% in the nine months ended September 30, 2020, compared to the corresponding period in 2019, primarily due to the acquisition of WellCare, growth in the Health Insurance Marketplace business, expansions, new programs and growth in many of our states and the reinstatement of the health insurer fee in 2020, partially offset by the divestiture of our Illinois health plan. Earnings from operations increased \$1.4 billion between years driven by the acquisition of WellCare, lower medical utilization due to the COVID-19 pandemic, and the reinstatement of the HIF in 2020, partially offset by higher acquisition related expenses and normalized margins in the Health Insurance Marketplace business.

**Specialty Services**

Total revenues increased 19% in the nine months ended September 30, 2020, compared to the corresponding period in 2019, resulting primarily from increased services associated with membership growth in the Managed Care segment, acquisitions and increased volume in our specialty pharmacy business. Earnings from operations increased \$136 million in the nine months ended September 30, 2020, compared to the corresponding period in 2019. Earnings from operations in 2019 were negatively affected by the previously discussed non-cash goodwill and intangible impairment related to our USMM physician home health business. Earnings from operations in 2020 was negatively affected by the previously discussed \$72 million impairment related to our third-party care management software business and the results of the shared savings programs in our physician home health business.

**LIQUIDITY AND CAPITAL RESOURCES**

Shown below is a condensed schedule of cash flows used in the discussion of liquidity and capital resources (\$ in millions).

	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Net cash provided by operating activities	\$ 2,522	\$ 2,134
Net cash used in investing activities	(2,700)	(1,388)
Net cash provided by financing activities	383	128
Effect of exchange rate changes on cash and cash equivalents	8	4
Net increase in cash, cash equivalents, and restricted cash and cash equivalents	<u>\$ 213</u>	<u>\$ 878</u>

**Cash Flows Provided by Operating Activities**

Normal operations are funded primarily through operating cash flows and borrowings under our revolving credit facility. Operating activities provided cash of \$2.5 billion in the nine months ended September 30, 2020 compared to providing cash of \$2.1 billion in the comparable period in 2019. Operating cash flow provided by operations in 2020 was due to net earnings, an increase in medical claims liabilities from growth and expansions, and an increase in other long-term liabilities related to minimum MLR payables and a delay in tax payments related to the COVID-19 extensions to payment deadlines. This was partially offset by an increase in premium and related receivables due to the timing of payments for pharmacy rebates and HIF reimbursement and a decrease in accounts payable and accrued expenses related to risk adjustment and minimum MLR payments.

Cash flows provided by operations in 2019 was primarily due to net earnings and an increase in medical claims liabilities, primarily resulting from growth in the Health Insurance Marketplace business and the commencement or expansion of the Arkansas, Iowa, Pennsylvania and New Mexico health plans.

Cash flows from operations in each year can be impacted by the timing of payments we receive from our states. As we have seen historically, states may prepay the following month premium payment, which we record as unearned revenue, or they may delay our premium payment, which we record as a receivable. We typically receive capitation payments monthly; however, the states in which we operate may decide to adjust their payment schedules, which could positively or negatively impact our reported cash flows from operating activities in any given period.

**Cash Flows Used in Investing Activities**

Investing activities used cash of \$2.7 billion in the nine months ended September 30, 2020, and \$1.4 billion in the comparable period in 2019. Cash flows used in investing activities in 2020 primarily consisted of our acquisition of WellCare, partially offset by divestiture proceeds.

In January 2020, we completed the acquisition of WellCare for \$19.6 billion, including the assumption of debt. Total consideration for the acquisition was \$17.6 billion, consisting of Centene common shares valued at \$11.4 billion, \$6.1 billion in cash, and \$95 million related to the fair value of replacement equity awards associated with pre-combination service.

Cash flows used in investing activities in 2019 primarily consisted of the net additions to the investment portfolio of our regulated subsidiaries (including transfers from cash and cash equivalents to long-term investments), capital expenditures and acquisitions.

We spent \$663 million and \$530 million in the nine months ended September 30, 2020 and 2019, respectively, on capital expenditures for system enhancements, market growth, and corporate headquarters expansions.

As of September 30, 2020, our investment portfolio consisted primarily of fixed-income securities with an average duration of 2.8 years. We had unregulated cash and investments of \$2.0 billion at September 30, 2020, compared to \$7.2 billion at December 31, 2019. Of the \$2.0 billion, \$1.1 billion represents cash and cash equivalents held by unregulated entities.

#### ***Cash Flows Provided by Financing Activities***

Our financing activities provided cash of \$383 million in the nine months ended September 30, 2020, compared to \$128 million in the comparable period in 2019. During 2020 and 2019, our net financing activities were due to increased borrowings, partially offset by common stock repurchases.

#### ***Liquidity Metrics***

In connection with the WellCare Acquisition, in January 2020, we completed an exchange offer for \$1.2 billion of 5.25% Senior Notes due 2025 and \$750 million of 5.375% Senior Notes due 2026 (collectively, the WellCare Notes) issued by WellCare and issued \$1.1 billion aggregate principal amount of 5.25% Senior Notes due 2025 and \$747 million aggregate principal amount of 5.375% Senior Notes due 2026. Additionally, our wholly owned subsidiary, WellCare Health Plans, Inc., assumed the remaining unexchanged WellCare Notes.

In February 2020, we issued \$2.0 billion 3.375% Senior Notes due 2030 (the \$2.0 billion 2030 Notes). We used the net proceeds from the \$2.0 billion 2030 Notes to redeem all of our outstanding 2024 Notes. We recognized a pre-tax loss on extinguishment of approximately \$44 million, including the call premium, the write-off of unamortized debt issuance costs and a loss on the termination of the \$1.0 billion interest rate swap associated with the 2024 Notes. We intended to use remaining proceeds to redeem our \$1.0 billion 4.75% Senior Notes due 2022 (the 2022 Notes). The 2022 Notes were redeemed in the fourth quarter in connection with an additional offering of senior notes as further described below, and we decided to increase liquidity with the remaining proceeds of the \$2.0 billion 2030 Notes.

In February 2020, we terminated the interest rate swap agreements associated with the 2022 Notes and the Senior Notes due January 15, 2025, (the 2025 Notes). The interest rate swaps associated with the 2024 Notes were also terminated in connection with the redemption of those notes as discussed above. In total, we terminated three interest rate swap contracts with a notional amount of \$2.1 billion.

In April 2020, we completed an exchange offer, whereby we offered to exchange all of the outstanding \$2.0 billion 3.375% Senior Notes due February 15, 2030, \$1.0 billion 4.75% Senior Notes due 2025, \$2.5 billion 4.25% Senior Notes, and \$3.5 billion 4.625% Senior Notes due 2029 for identical securities that have been registered under the Securities Act of 1933.

In October 2020, we issued \$2.2 billion 3.0% Senior Notes due October 2030 (the \$2.2 billion 2030 Notes). The Company used the net proceeds from offering, together with cash on hand, to redeem all of the 2022 Notes and the \$1.2 billion 5.25% Senior Notes due 2025, including all premiums, accrued interest and expenses related to the redemptions.

The credit agreement underlying our Revolving Credit Facility and Term Loan Facility contains customary covenants as well as financial covenants including a minimum fixed charge coverage ratio and a maximum debt-to-EBITDA ratio. Our maximum debt-to-EBITDA ratio under the credit agreement may not exceed 4.0 to 1.0. As of September 30, 2020, we had \$93 million of borrowings outstanding under our Revolving Credit Facility, \$1.45 billion of borrowings under our Term Loan Facility, and we were in compliance with all covenants. As of September 30, 2020, there were no limitations on the availability of our Revolving Credit Facility as a result of the debt-to-EBITDA ratio.

We have a \$200 million non-recourse construction loan to fund the expansion of our corporate headquarters. The loan bears interest based on the one month LIBOR plus 2.70% and matures in April 2021 with an optional one-year extension. The agreement contains financial and non-financial covenants aligning with our revolving credit agreement. We have guaranteed completion of the construction project associated with the loan. As of September 30, 2020, we had \$177 million in borrowings outstanding under the loan.

We had outstanding letters of credit of \$121 million as of September 30, 2020, which were not part of our revolving credit facility. The letters of credit bore weighted interest of 0.6% as of September 30, 2020. In addition, we had outstanding surety bonds of \$1.1 billion as of September 30, 2020.

The indentures governing our various maturities of senior notes contain restrictive covenants. As of September 30, 2020, we were in compliance with all covenants.

At September 30, 2020, we had working capital, defined as current assets less current liabilities, of \$5.5 billion, compared to \$7.4 billion at December 31, 2019. We manage our short-term and long-term investments with the goal of ensuring that a sufficient portion is held in investments that are highly liquid and can be sold to fund short-term requirements as needed.

At September 30, 2020, our debt to capital ratio, defined as total debt divided by the sum of total debt and total equity, was 39.4%, compared to 52.0% at December 31, 2019. Excluding \$228 million of non-recourse debt, our debt to capital ratio was 39.1% as of September 30, 2020, compared to 51.7% at December 31, 2019. We utilize the debt to capital ratio as a measure, among others, of our leverage and financial flexibility.

### ***2020 Expectations***

During the remainder of 2020, we expect to receive net dividends from our insurance subsidiaries of approximately \$423 million and spend approximately \$230 million in additional capital expenditures primarily associated with system enhancements and market and corporate headquarters expansions. These amounts are expected to be funded by unregulated cash flow generation in 2020 and borrowings on our Revolving Credit Facility and construction loan. However, from time to time we may elect to raise additional funds for these and other purposes, either through issuance of debt or equity, the sale of investment securities or otherwise, as appropriate. In addition, we may strategically pursue refinancing or redemption opportunities to extend maturities and/or improve terms of our indebtedness if we believe such opportunities are favorable to us.

Based on our operating plan, we expect that our available cash, cash equivalents and investments, cash from our operations and cash available under our Revolving Credit Facility will be sufficient to finance our general operations and capital expenditures for at least 12 months from the date of this filing. While we are currently in a strong liquidity position and believe we have adequate access to capital, we may elect to increase borrowings on our Revolving Credit Facility.

### ***Contractual Obligations***

Our contractual obligations, including medical claims liabilities, debt and interest, and lease obligations were significantly impacted due to the WellCare Acquisition, which closed in the first quarter of 2020. For additional information regarding the WellCare Acquisition and the impact to our estimated contractual obligations, refer to Note 2. *Acquisitions*, Note 5. *Medical Claims Liability*, Note 7. *Debt* and Note 8. *Leases*, included in Part I, Item 1. “Notes to the Consolidated Financial Statements” of this filing.



## REGULATORY CAPITAL AND DIVIDEND RESTRICTIONS

Our operations are conducted through our subsidiaries. As managed care organizations, most of our subsidiaries are subject to state regulations and other requirements that, among other things, require the maintenance of minimum levels of statutory capital, as defined by each state, and restrict the timing, payment and amount of dividends and other distributions that may be paid to us. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary without prior approval by state regulatory authorities is limited based on the entity's level of statutory net income and statutory capital and surplus.

Our regulated subsidiaries are required to maintain minimum capital requirements prescribed by various regulatory authorities in each of the states in which we operate. During the nine months ended September 30, 2020, we made net capital contributions of \$180 million to our regulated subsidiaries. For our subsidiaries that file with the National Association of Insurance Commissioners (NAIC), the aggregate RBC level as of December 31, 2019, which was the most recent date for which reporting was required, was in excess of 350% of the Authorized Control Level. We intend to continue to maintain an aggregate RBC level in excess of 350% of the Authorized Control Level during 2020 (excluding the interim impact of the health insurer fee).

Under the California Knox-Keene Health Care Service Plan Act of 1975, as amended ("Knox-Keene"), certain of our California subsidiaries must comply with tangible net equity (TNE) requirements. Under these Knox-Keene TNE requirements, actual net worth less unsecured receivables and intangible assets must be more than the greater of (i) a fixed minimum amount, (ii) a minimum amount based on premiums or (iii) a minimum amount based on healthcare expenditures, excluding capitated amounts. In addition, certain of our California subsidiaries have made certain undertakings to the California Department of Managed Health Care (DMHC) to restrict dividends and loans to affiliates, to the extent that the payment of such would reduce such entities' TNE below the required amount as specified in the undertaking.

Under the New York State Department of Health Codes, Rules and Regulations Title 10, Part 98, our New York subsidiary must comply with contingent reserve requirements. Under these requirements, net worth based upon admitted assets must equal or exceed a minimum amount based on annual net premium income.

The NAIC has adopted rules which set minimum risk based capital requirements for insurance companies, managed care organizations and other entities bearing risk for healthcare coverage. As of September 30, 2020, each of our health plans was in compliance with the risk-based capital requirements enacted in those states.

As a result of the above requirements and other regulatory requirements, certain of our subsidiaries are subject to restrictions on their ability to make dividend payments, loans or other transfers of cash to their parent companies. Such restrictions, unless amended or waived or unless regulatory approval is granted, limit the use of any cash generated by these subsidiaries to pay our obligations. The maximum amount of dividends that can be paid by our insurance company subsidiaries without prior approval of the applicable state insurance departments is subject to restrictions relating to statutory surplus, statutory income and unassigned surplus.

**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.**

**INVESTMENTS AND DEBT**

As of September 30, 2020, we had short-term investments of \$1.5 billion and long-term investments of \$10.9 billion, including restricted deposits of \$1.1 billion. The short-term investments generally consist of highly liquid securities with maturities between three and 12 months. The long-term investments consist of municipal, corporate and U.S. Treasury securities, government sponsored obligations, life insurance contracts, asset-backed securities and equity securities and have maturities greater than one year. Restricted deposits consist of investments required by various state statutes to be deposited or pledged to state agencies. Due to the nature of the states' requirements, these investments are classified as long-term regardless of the contractual maturity date. Substantially all of our investments are subject to interest rate risk and will decrease in value if market rates increase. Assuming a hypothetical and immediate 1% increase in market interest rates at September 30, 2020, the fair value of our fixed income investments would decrease by approximately \$307 million. Declines in interest rates over time, including those that have occurred as markets experienced volatility related to the COVID-19 pandemic, will reduce our investment income.

For a discussion of the interest rate risk that our investments are subject to, see "Risk Factors –*Our investment portfolio may suffer losses which could materially and adversely affect our results of operations or liquidity.*"

**ITEM 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures** - We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act) that are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms; and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the filing of this Form 10-Q, management evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2020. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2020.

**Changes in Internal Control Over Financial Reporting** - No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

On January 23, 2020, we acquired WellCare. Management is currently in the process of evaluating the internal controls and procedures of WellCare and is in the process of integrating WellCare's internal controls over financial reporting with our existing internal controls over financial reporting. This integration may lead to changes in the internal controls over financial reporting for us or the acquired WellCare business in the current and future periods. Management expects the integration process to continue throughout the year and to be completed during 2020.

**PART II  
OTHER INFORMATION**

**ITEM 1. Legal Proceedings.**

A description of the legal proceedings to which the Company and its subsidiaries are a party is contained in Note 12. *Contingencies* to the consolidated financial statements included in Part I of this Quarterly Report on Form 10-Q, and is incorporated herein by reference.

**ITEM 1A. Risk Factors.**

**FACTORS THAT MAY AFFECT FUTURE RESULTS AND THE  
TRADING PRICE OF OUR COMMON STOCK**

You should carefully consider the risks described below before making an investment decision. The trading price of our common stock could decline due to any of these risks, in which case you could lose all or part of your investment. You should also refer to the other information in this filing, including our consolidated financial statements and related notes. The risks and uncertainties described below are those that we currently believe may materially affect our Company. Additional risks and uncertainties that we are unaware of or that we currently deem immaterial also may become important factors that affect our Company. Unless the context otherwise requires, the terms the “Company,” “we,” “us,” “our” or similar terms and “Centene” refer to us, after giving effect to the WellCare Acquisition.

***Our business could be adversely affected by the effects of widespread public health pandemics, such as the spread of COVID-19.***

Public health pandemics or widespread outbreaks of contagious diseases could adversely impact our business. In December 2019, a novel strain of coronavirus (COVID-19) emerged, which has now spread globally, including throughout the United States. The extent to which COVID-19 impacts our business will depend on future developments, which are highly uncertain and cannot be predicted with confidence. Factors that may determine the severity of the impact include the duration and scale of the outbreak, new information which may emerge concerning the severity of COVID-19, the costs of prevention and treatment of COVID-19 and the potential that we will not receive state and federal government reimbursement of additional expenses incurred by our members who contract or require testing for COVID-19 or who experience other health impacts as a result of the pandemic, employee mobility, productivity and utilization of leave and other benefits, financial and other impacts on the healthcare provider community, disruptions or delays in the supply chain for testing and treatment supplies, protective equipment and other products and services, and the actions to contain COVID-19 or address its impact (including federal, state and local laws, regulations and emergency orders, including directives to remain at home, physically distance or forced business closures), among others. Additionally, the continued spread of COVID-19 has led to disruption and volatility in the global capital markets and a decline in interest rates which adversely impacts access to capital and could reduce our investment income. Finally, the impact of the above items on our state and federal partners could result in program changes or delays or reduced capitation payments to us. We cannot at this time predict the ultimate impact of the COVID-19 pandemic, but it could adversely affect our business, including our financial position, results of operations and/or cash flows.

***Reductions in funding, changes to eligibility requirements for government sponsored healthcare programs in which we participate and any inability on our part to effectively adapt to changes to these programs could substantially affect our financial position, results of operations and cash flows.***

The majority of our revenues come from government subsidized healthcare programs including Medicaid, Medicare, TRICARE, CHIP, LTSS, ABD, Foster Care and Health Insurance Marketplace premiums. Under most programs, the base premium rate paid for each program differs, depending on a combination of factors such as defined upper payment limits, a member’s health status, age, gender, county or region and benefit mix. Since Medicaid was created in 1965, the federal government and the states have shared the costs for this program, with the federal share currently averaging approximately 60%. We are therefore exposed to risks associated with federal and state government contracting or participating in programs involving a government payor, including but not limited to the general ability of the federal and/or state governments to terminate or modify contracts with them, in whole or in part, without prior notice, for convenience or for default based on performance; potential regulatory or legislative action that may materially modify amounts owed; our dependence upon Congressional or legislative appropriation and allotment of funds and the impact that delays in government payments could have on our operating cash flow and liquidity; and other regulatory, legislative or judicial actions that may have an impact on the operations of government subsidized healthcare programs including ongoing litigation involving the ACA. For example,

future levels of funding and premium rates may be affected by continuing government efforts to contain healthcare costs and may further be affected by state and federal budgetary constraints. Governments periodically consider reducing or reallocating the amount of money they spend for Medicaid, Medicare, TRICARE, CHIP, LTSS, ABD and Foster Care. Furthermore, Medicare remains subject to the automatic spending reductions imposed by the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012 (“sequestration”), subject to a 2% cap, which was extended by the Bipartisan Budget Act of 2019 through 2029. The Coronavirus Aid, Relief, and Economic Security Act of 2020 temporarily suspended the Medicare sequestration for the period of May 1, 2020 through December 31, 2020, while also extending the mandatory sequestration policy by an additional one year, through 2030.

In addition, reductions in defense spending could have an adverse impact on certain government programs in which we currently participate by, among other things, terminating or materially changing such programs, or by decreasing or delaying payments made under such programs. Adverse economic conditions may put pressures on state budgets as tax and other state revenues decrease while the population that is eligible to participate in these programs remains steady or increases, creating more need for funding. We anticipate this will require government agencies to find funding alternatives, which may result in reductions in funding for programs, contraction of covered benefits, and limited or no premium rate increases or premium rate decreases. A reduction (or less than expected increase), a protracted delay, or a change in allocation methodology in government funding for these programs, as well as termination of one or more contracts for the convenience of the government, may materially and adversely affect our results of operations, financial position and cash flows. In addition, if another federal government shutdown were to occur for a prolonged period of time, federal government payment obligations, including its obligations under Medicaid, Medicare, TRICARE, CHIP, LTSS, ABD, Foster Care and the Health Insurance Marketplaces, may be delayed. Similarly, if state government shutdowns were to occur, state payment obligations may be delayed. If the federal or state governments fail to make payments under these programs on a timely basis, our business could suffer, and our financial position, results of operations or cash flows may be materially affected.

Payments from government payors may be delayed in the future, which, if extended for any significant period of time, could have a material adverse effect on our results of operations, financial position, cash flows or liquidity. In addition, delays in obtaining, or failure to obtain or maintain, governmental approvals, or moratoria imposed by regulatory authorities, could adversely affect our revenues or membership, increase costs or adversely affect our ability to bring new products to market as forecasted. Other changes to our government programs could affect our willingness or ability to participate in any of these programs or otherwise have a material adverse effect on our business, financial condition or results of operations.

Finally, changes in these programs could reduce the number of persons enrolled in or eligible for these programs or increase our administrative or healthcare costs under these programs. For example, maintaining current eligibility levels could cause states to reduce reimbursement or reduce benefits in order for states to afford to maintain eligibility levels. If any state in which we operate were to decrease premiums paid to us or pay us less than the amount necessary to keep pace with our cost trends, it could have a material adverse effect on our results of operations, financial position and cash flows.

***Our Medicare programs are subject to a variety of risks that could adversely impact our financial results.***

If we fail to design and maintain programs that are attractive to Medicare participants; if our Medicare operations are subject to negative outcomes from program audits, sanctions, penalties or other actions; if we do not submit adequate bids in our existing markets or any expansion markets; if our existing contracts are modified or terminated; or if we fail to maintain or improve our quality Star ratings, our current Medicare business and our ability to expand our Medicare operations could be materially and adversely affected, negatively impacting our financial performance. For example, in October 2020, the Centers for Medicare and Medicaid Services (CMS) published updated Medicare Star quality ratings for the 2021 rating year. Approximately 30% of our Medicare members are in a 4 star or above plan for the 2022 bonus year, compared to 46% for the 2021 bonus year and 86% for the 2020 bonus year. Our quality bonus and rebates may be negatively impacted in 2021 and 2022 and the attractiveness of our Medicare Advantage plans may be reduced.

There are also specific additional risks under Title XVIII, Part D of the Social Security Act associated with our provision of Medicare Part D prescription drug benefits as part of our Medicare Advantage plan offerings. These risks include potential uncollectibility of receivables, inadequacy of pricing assumptions, inability to receive and process information and increased pharmaceutical costs, as well as the underlying seasonality of this business, and extended settlement periods for claims submissions. Our failure to comply with Part D program requirements can result in financial and/or operational sanctions on our Part D products, as well as on our Medicare Advantage products that offer no prescription drug coverage.

Although we do not anticipate that a single-payer national health insurance system will be enacted by the current Congress, several legislative initiatives have been proposed by members of Congress that would establish some form of a single public or quasi-public agency that organizes healthcare financing, but under which healthcare delivery would remain private. Additionally, the outcome of the 2020 federal election and its potential impact on healthcare reform efforts is unknown. We are

unable to predict the nature and success of such initiatives or political changes, which could have an adverse effect on our business.

***Failure to accurately estimate and price our medical expenses or effectively manage our medical costs or related administrative costs could negatively affect our financial position, results of operations and cash flows.***

Our profitability depends to a significant degree on our ability to estimate and effectively manage expenses related to health benefits through, among other things, our ability to contract favorably with hospitals, physicians and other healthcare providers. For example, our Medicaid revenue is often based on bids submitted before the start of the initial contract year. If our actual medical expenses exceed our estimates, our Health Benefits Ratio (HBR), or our expenses related to medical services as a percentage of premium revenues, would increase and our profits would decline. Because of the narrow margins of our health plan business, relatively small changes in our HBR can create significant changes in our financial results. Changes in healthcare regulations and practices, the level of utilization of healthcare services, hospital and pharmaceutical costs, disasters, the potential effects of climate change, major epidemics, pandemics or newly emergent diseases (such as COVID-19), new medical technologies, new pharmaceutical compounds, increases in provider fraud and other external factors, including general economic conditions such as inflation and unemployment levels, are generally beyond our control and could reduce our ability to accurately predict and effectively control the costs of providing health benefits. Also, member behavior could continue to be influenced by the uncertainty surrounding the ACA, including the removal of the penalty associated with the ACA's individual mandate in 2019 and ongoing legal challenges to the ACA including the case originally captioned Texas v. United States, which is currently pending before the Supreme Court.

Our medical expenses include claims reported but not paid, estimates for claims incurred but not reported, and estimates for the costs necessary to process unpaid claims at the end of each period. Our development of the medical claims liability estimate is a continuous process which we monitor and refine on a monthly basis as claims receipts and payment information as well as inpatient acuity information becomes available. As more complete information becomes available, we adjust the amount of the estimate, and include the changes in estimates in medical expenses in the period in which the changes are identified. Given the uncertainties inherent in such estimates, there can be no assurance that our medical claims liability estimate will be adequate, and any adjustments to the estimate may unfavorably impact our results of operations and may be material.

Additionally, when we commence operations in a new state, region or product, we have limited information with which to estimate our medical claims liability. For a period of time after the inception of the new business, we base our estimates on government-provided historical actuarial data and limited actual incurred and received claims and inpatient acuity information. The addition of new categories of eligible individuals, as well as evolving Health Insurance Marketplace plans, may pose difficulty in estimating our medical claims liability.

From time to time in the past, our actual results have varied from our estimates, particularly in times of significant changes in the number of our members. If it is determined that our estimates are significantly different than actual results, our results of operations and financial position could be adversely affected. In addition, if there is a significant delay in our receipt of premiums, our business operations, cash flows, or earnings could be negatively impacted.

***Risk-adjustment payment systems make our revenue and results of operations more difficult to estimate and could result in retroactive adjustments that have a material adverse effect on our results of operations, financial condition and cash flows.***

Most of our government customers employ risk-adjustment models to determine the premium amount they pay for each member. This model pays more for members with predictably higher costs according to the health status of each beneficiary enrolled. Premium payments are generally established at fixed intervals according to the contract terms and then adjusted on a retroactive basis. We reassess the estimates of the risk adjustment settlements each reporting period and any resulting adjustments are made to premium revenue. In addition, revisions by our government customers to the risk-adjustment models have reduced, and may continue to reduce, our premium revenue.

As a result of the variability of certain factors that determine estimates for risk-adjusted premiums, including plan risk scores, the actual amount of retroactive payments could be materially more or less than our estimates. Consequently, our estimate of our plans' risk scores for any period, and any resulting change in our accrual of premium revenues related thereto, could have a material adverse effect on our results of operations, financial condition and cash flows. The data provided to our government customers to determine the risk score are subject to audit by them even after the annual settlements occur. These audits may result in the refund of premiums to the government customer previously received by us, which could be significant and would reduce our premium revenue in the year that repayment is required.

Government customers have performed and continue to perform audits of selected plans to validate the provider coding practices under the risk adjustment model used to calculate the premium paid for each member. In 2018, CMS proposed the removal of the fee for service adjuster from the risk adjustment data validation audit methodology. If adopted, this proposal, or any similar CMS rulemaking initiative, could increase our audit error scores. We anticipate that CMS will continue to conduct audits of our Medicare contracts and contract years on an on-going basis. An audit may result in the refund of premiums to CMS. It is likely that a payment adjustment could occur as a result of these audits; and any such adjustment could have a material adverse effect on our results of operations, financial condition and cash flows.

***The implementation of the ACA, as well as potential repeal of, changes to, or judicial challenges to the ACA, could materially and adversely affect our results of operations, financial position and cash flows.***

The enactment of the ACA in March 2010 transformed the U.S. healthcare delivery system through a series of complex initiatives; however, the implementation of the ACA continues to face judicial and legislative challenges as well as challenges from the current administration to repeal or change certain of its significant provisions. Changes to, or repeal of, portions or the entirety of the ACA, as well as judicial interpretations in response to constitutional and other legal challenges, as well as the uncertainty generated by such actual or potential challenges, could materially and adversely affect our business and financial position, results of operations or cash flows. Even if the ACA is not amended or repealed, the current administration could continue to propose changes impacting implementation of the ACA, which could materially and adversely affect our financial position or operations.

Among the most significant of the ACA's provisions was the establishment of the Health Insurance Marketplace for individuals and small employers to purchase health insurance coverage that included a minimum level of benefits and restrictions on coverage limitations and premium rates, as well as the expansion of Medicaid coverage to all individuals under age 65 with incomes up to 138% of the federal poverty level beginning January 1, 2014, subject to each state's election. The HHS additionally indicated that it would consider a limited number of premium assistance demonstration proposals from states that want to privatize Medicaid expansion. Arkansas was the first state to obtain federal approval to use Medicaid funding to purchase private insurance for low-income residents, and we began operations under the program beginning on January 1, 2014. Several states have obtained Section 1115 waivers to implement the ACA's Medicaid expansion in ways that extend beyond the flexibility provided by the federal law, with additional states pursuing Section 1115 waivers regarding eligibility criteria, benefits, and cost-sharing, and provider payments across their Medicaid programs. Litigation challenging Section 1115 waiver activity for both new and previously approved waivers is expected to continue both through administrative actions and the courts.

There have been significant efforts by the current administration to repeal, or limit implementation of, certain provisions of the ACA through changes in regulations. Such initiatives include repeal of the individual mandate effective in 2019, as well as easing the regulatory restrictions placed on short-term health plans and association health plans (AHPs), which plans often provide fewer benefits than the traditional ACA insurance benefits.

Additionally, the U.S. Department of Labor issued a final rule on June 19, 2018 which expanded flexibility regarding the regulation and formation of AHPs provided by small employer groups and associations. On June 13, 2019, the HHS, the U.S. Department of Labor and the U.S. Treasury issued a final rule allowing employers of all sizes that do not offer a group coverage plan to fund a new kind of health reimbursement arrangement (HRA), known as an individual coverage HRA (ICHRA). Beginning January 1, 2020, employees are able to use employer-funded ICHRAs to buy individual-market insurance, including insurance purchased on the public exchanges formed under the ACA.

In addition to efforts by the current administration to expand the flexibility of other insurance plan options that are not required to meet ACA requirements, there have also been efforts to address the ACA's non-deductible tax imposed on health insurers based on prior year net premiums written (the "health insurer fee" or "HIF"). The ACA-imposed HIF was \$8.0 billion in 2014, and \$11.3 billion in each of 2015 and 2016, with increasing annual amounts thereafter. The HIF payable in 2017 was suspended by the Consolidated Appropriations Act for fiscal year 2016; however, a \$14.3 billion payment occurred in 2018. Collection of the HIF for 2019 was also suspended, but resumed in 2020 with a \$15.5 billion payment. Congress passed a spending bill in December 2019, which would repeal the health insurance tax indefinitely, effective in 2021. There is continuing litigation pending against the federal government regarding the requirement to reimburse Medicaid managed care organizations for the health insurer fee. If we are not reimbursed by the states for the cost of the HIF (including the associated tax impact), or if we are unable to otherwise adjust our business model to address the current assessment, our results of operations, financial position and cash flows may be materially adversely affected.

The constitutionality of the ACA itself continues to face judicial challenge. In December 2018, a partial summary judgment ruling in *Texas v. United States of America* held that the ACA's individual mandate requirement was essential to the ACA, and

without it, the remainder of the ACA was invalid (i.e., that it was not “severable” from the ACA). That decision was appealed to the Fifth Circuit, which ruled in December 2019 that the individual mandate was unconstitutional after Congress set the individual mandate penalty to \$0 and remanded the case to the district court for additional analysis on the question of severability. In March 2020, the U.S. Supreme Court agreed to hear the case to review whether the individual mandate is constitutional and, if the individual mandate is unconstitutional, the severability issue. In June 2020, Noel Francisco, the Solicitor General of the United States, together with multiple U.S. Department of Justice colleagues, submitted a brief to the U.S. Supreme Court supporting the argument that the individual mandate is unconstitutional and that the remaining provisions of the ACA are not severable. The U.S. Supreme Court has scheduled oral arguments for November 2020 and the ACA remains in effect until judicial review of the decision is concluded. The ultimate content, timing or effect of any potential future legislation enacted under the current administration or the outcome of the lawsuit cannot be predicted and may be delayed as a result of court closures and reduced court dockets as a result of the COVID-19 pandemic.

These changes and other potential changes involving the functioning of the Health Insurance Marketplace as a result of new legislation, regulation or executive action could impact our business and results of operations.

***Any failure to adequately price products offered or reduction in products offered in the Health Insurance Marketplaces may have a negative impact on our results of operations, financial position and cash flow.***

Any failure to adequately price products offered or reduction in products offered in the Health Insurance Marketplaces may have a negative impact on our results of operations, financial position and cash flow. Among other things, due to the elimination of the individual mandate penalty in the Tax Cuts and Jobs Act (TCJA), we may be adversely selected by individuals who have higher acuity levels than those individuals who selected us in the past and healthy individuals may decide to opt out of the pool altogether. In addition, the risk adjustment provisions of the ACA established to apportion risk amongst insurers may not be effective in appropriately mitigating the financial risks related to the Marketplace product, are subject to a high degree of estimation and variability, and are affected by our members’ acuity relative to the membership acuity of other insurers. Further, changes in the competitive marketplace over time may exacerbate the uncertainty in these relatively new markets. For example, competitors seeking to gain a foothold in the changing market may introduce pricing that we may not be able to match, which may adversely affect our ability to compete effectively. Competitors may also choose to exit the market altogether or otherwise suffer financial difficulty, which could adversely impact the pool of potential insured, or require us to increase premium rates. Any significant variation from our expectations regarding acuity, enrollment levels, adverse selection, or other assumptions utilized in setting adequate premium rates could have a material adverse effect on our results of operations, financial position and cash flows.

***We derive a portion of our cash flow and gross margin from our PDP operations, for which we submit annual bids for participation. The results of our bids could materially affect our results of operations, financial condition and cash flows.***

A significant portion of our PDP membership is obtained from the auto-assignment of beneficiaries in CMS-designated regions where our PDP premium bids are below benchmarks of other plans’ bids. In general, our premium bids are based on assumptions regarding PDP membership, utilization, drug costs, drug rebates and other factors for each region. Our 2021 PDP bids resulted in 33 of the 34 CMS regions in which we were below the benchmarks, and within the de minimis range in the remaining region, compared with our 2020 PDP bids in which we were below the benchmarks in 32 regions, and within the de minimis range in the remaining two regions. For those regions in which we are within the de minimis range, we will not be eligible to have new members auto-assigned to us, but we will not lose our existing auto-assigned membership.

If our future Part D premium bids are not below the CMS benchmarks, we risk losing PDP members who were previously assigned to us and we may not have additional PDP members auto-assigned to us, which could materially reduce our revenue and profits.

***Our encounter data may be inaccurate or incomplete, which could have a material adverse effect on our results of operations, financial condition, cash flows and ability to bid for, and continue to participate in, certain programs.***

Our contracts require the submission of complete and correct encounter data. The accurate and timely reporting of encounter data is increasingly important to the success of our programs because more states are using encounter data to determine compliance with performance standards and to set premium rates. We have expended and may continue to expend additional effort and incur significant additional costs to collect or correct inaccurate or incomplete encounter data and have been, and continue to be exposed to, operating sanctions and financial fines and penalties for noncompliance. In some instances, our government clients have established retroactive requirements for the encounter data we must submit. There also may be periods of time in which we are unable to meet existing requirements. In either case, it may be prohibitively expensive or impossible for us to collect or reconstruct this historical data.

We may experience challenges in obtaining complete and accurate encounter data, due to difficulties with providers and third-party vendors submitting claims in a timely fashion in the proper format, and with state agencies in coordinating such submissions. As states increase their reliance on encounter data, these difficulties could adversely affect the premium rates we receive and how membership is assigned to us and subject us to financial penalties, which could have a material adverse effect on our results of operations, financial condition, cash flows and our ability to bid for, and continue to participate in, certain programs.

***Our business activities are highly regulated and new laws or regulations or changes in existing laws or regulations or their enforcement or application could force us to change how we operate and could harm our business.***

Our business is extensively regulated by the states in which we operate and by the federal government. In addition, the managed care industry has received negative publicity that has led to increased legislation, regulation, review of industry practices and private litigation in the commercial sector. Such negative publicity may adversely affect our stock price and damage our reputation in various markets.

In each of the jurisdictions in which we operate, we are regulated by the relevant insurance, health and/or human services or government departments that oversee the activities of managed care organizations providing or arranging to provide services to Medicaid, Medicare, Health Insurance Marketplace enrollees or other beneficiaries. For example, our health plan subsidiaries, as well as our applicable specialty companies, must comply with minimum statutory capital and other financial solvency requirements, such as deposit and surplus requirements.

The frequent enactment of, changes to, or interpretations of laws and regulations could, among other things: force us to restructure our relationships with providers within our network; require us to implement additional or different programs and systems; restrict revenue and enrollment growth; increase our healthcare and administrative costs; impose additional capital and surplus requirements; and increase or change our liability to members in the event of malpractice by our contracted providers. In addition, changes in political party or administrations at the state or federal level in the United States or internationally may change the attitude towards healthcare programs and result in changes to the existing legislative or regulatory environment.

Additionally, the taxes and fees paid to federal, state and local governments may increase due to several factors, including: enactment of, changes to, or interpretations of tax laws and regulations, audits by governmental authorities, geographic expansions into higher taxing jurisdictions and the effect of expansions into international markets.

Our contracts with states may require us to maintain a minimum HBR or may require us to share profits in excess of certain levels. In certain circumstances, our plans may be required to return premiums back to the state in the event profits exceed established levels or HBR does not meet the minimum requirement. Factors that may impact the amount of premium returned to the state include transparent pharmacy pricing and rebate initiatives. Other states may require us to meet certain performance and quality metrics in order to maintain our contract or receive additional or full contractual revenue.

The governmental healthcare programs in which we participate are subject to the satisfaction of certain regulations and performance standards. There are numerous steps regulators require for continued implementation of the ACA, including the promulgation of a substantial number of potentially more onerous federal regulations. If we fail to effectively implement or appropriately adjust our operational and strategic initiatives with respect to the implementation of healthcare reform, or do not do so as effectively as our competitors, our results of operations may be materially adversely affected. For example, under the ACA, Congress authorized CMS and the states to implement managed care demonstration programs to serve dually eligible beneficiaries to improve the coordination of their care. Participation in these demonstration programs is subject to CMS approval and the satisfaction of conditions to participation, including meeting certain performance requirements. Our inability to improve or maintain adequate quality scores and Star ratings to meet government performance requirements or to match the performance of our competitors could result in limitations to our participation in or exclusion from these or other government programs. Specifically, several of our Medicaid contracts require us to maintain a Medicare health plan.

In April 2016, CMS issued final regulations that revised existing Medicaid managed care rules by establishing a minimum medical loss ratio (MLR) standard for Medicaid of 85% and strengthening provisions related to network adequacy and access to care, enrollment and disenrollment protections, beneficiary support information, continued service during beneficiary appeals, and delivery system and payment reform initiatives, among others. CMS subsequently issued a Notice of Proposed Rulemaking on November 8, 2018, advancing CMS' efforts to streamline the Medicaid and CHIP managed care regulatory framework and to pursue a broader strategy to relieve regulatory burdens, support state flexibility and local leadership, and promote transparency, flexibility, and innovation in the delivery of care. Public comments were submitted in January 2019; however, a final rule has yet to be issued and may be delayed as a result of the COVID-19 pandemic. Although we strive to comply with all



existing regulations and to meet performance standards applicable to our business, failure to meet these requirements could result in financial fines and penalties. Also, states or other governmental entities may not allow us to continue to participate in their government programs, or we may fail to win procurements to participate in such programs, either of which could materially and adversely affect our results of operations, financial position and cash flows.

In addition, as a result of the expansion of our businesses and operations conducted in foreign countries, we face political, economic, legal, compliance, regulatory, operational and other risks and exposures that are unique and vary by jurisdiction. These foreign regulatory requirements with respect to, among other items, environmental, tax, licensing, intellectual property, privacy, data protection, investment, capital, management control, labor relations, and fraud and corruption regulations are different than those faced by our domestic businesses. In addition, we are subject to U.S. laws that regulate the conduct and activities of U.S.-based businesses operating abroad, such as the Foreign Corrupt Practices Act (FCPA). Any failure to comply with laws and regulations governing our conduct outside the United States or to successfully navigate international regulatory regimes that apply to us could adversely affect our ability to market our products and services, which may have a material adverse effect on our business, financial condition and results of operations.

***Our businesses providing pharmacy benefit management and specialty pharmacy services face regulatory and other risks and uncertainties which could materially and adversely affect our results of operations, financial position and cash flows.***

We provide pharmacy benefit management (PBM) and specialty pharmacy services, including through our Envolve Pharmacy Solutions product. These businesses are subject to federal and state laws that, among other requirements, govern the relationships of the business with pharmaceutical manufacturers, physicians, pharmacies, customers and consumers. We also conduct business as a mail order pharmacy and specialty pharmacy, which subjects these businesses to extensive federal, state and local laws and regulations. In addition, federal and state legislatures and regulators regularly consider new regulations for the industry that could materially and adversely affect current industry practices, including the receipt or disclosure of rebates from pharmaceutical companies, the development and use of formularies, and the use of average wholesale prices.

Our PBM and specialty pharmacy businesses would be materially and adversely affected by an inability to contract on favorable terms with pharmaceutical manufacturers and other suppliers, including with respect to the structuring of rebates and pricing of new specialty and generic drugs. In addition, our PBM and specialty pharmacy businesses could face potential claims in connection with purported errors by our mail order or specialty pharmacies, including in connection with the risks inherent in the authorization, compounding, packaging and distribution of pharmaceuticals and other healthcare products. Disruptions at any of our mail order or specialty pharmacies due to an event that is beyond our control could affect our ability to process and dispense prescriptions in a timely manner and could materially and adversely affect our results of operations, financial position and cash flows.

***If any of our government contracts are terminated or are not renewed on favorable terms or at all, or if we receive an adverse finding or review resulting from an audit or investigation, our business may be adversely affected.***

A substantial portion of our business relates to the provision of managed care programs and selected services to individuals receiving benefits under governmental assistance or entitlement programs. We provide these and other healthcare services under contracts with government entities in the areas in which we operate. Our government contracts are generally intended to run for a fixed number of years and may be extended for an additional specified number of years if the contracting entity or its agent elects to do so. When our contracts with government entities expire, they may be opened for bidding by competing healthcare providers, and there is no guarantee that our contracts will be renewed or extended. Competitors may buy their way into the market by submitting bids with lower pricing. Even if our responsive bids are successful, the bids may be based upon assumptions or other factors which could result in the contracts being less profitable than we had anticipated. Further, our government contracts contain certain provisions regarding eligibility, enrollment and dis-enrollment processes for covered services, eligible providers, periodic financial and informational reporting, quality assurance, timeliness of claims payment and agreement to maintain a Medicare plan in the state and financial standards, among other things, and are subject to cancellation if we fail to perform in accordance with the standards set by regulatory agencies.

We are also subject to various reviews, audits and investigations to verify our compliance with the terms of our contracts with various governmental agencies, as well as compliance with applicable laws and regulations. Any adverse review, audit or investigation could result in, among other things: cancellation of our contracts; refunding of amounts we have been paid pursuant to our contracts; imposition of fines, penalties and other sanctions on us; loss of our right to participate in various programs; increased difficulty in selling our products and services; loss of one or more of our licenses; lowered quality Star ratings; or required changes to the way we do business. In addition, under government procurement regulations and practices, a negative determination resulting from a government audit of our business practices could result in a contractor being fined, debarred and/or suspended from being able to bid on, or be awarded, new government contracts for a period of time.

If any of our government contracts are terminated, not renewed, renewed on less favorable terms, or not renewed on a timely basis, or if we receive an adverse finding or review resulting from an audit or investigation, our business and reputation may be adversely impacted, our goodwill could be impaired and our financial position, results of operations or cash flows may be materially affected.

We contract with independent third-party vendors and service providers who provide services to us and our subsidiaries or to whom we delegate selected functions. Violations of, or noncompliance with, laws and regulations governing our business by such third parties, or governing our dealings with such parties, could, among other things, subject us to additional audits, reviews and investigations and other adverse effects.

***Ineffectiveness of state-operated systems and subcontractors could adversely affect our business.***

A number of our health plans rely on other state-operated systems or subcontractors to qualify, solicit, educate and assign eligible members into managed care plans. The effectiveness of these state operations and subcontractors can have a material effect on a health plan's enrollment in a particular month or over an extended period. When a state implements either new programs to determine eligibility or new processes to assign or enroll eligible members into health plans, or when it chooses new subcontractors, there is an increased potential for an unanticipated impact on the overall number of members assigned to managed care plans.

***Our investment portfolio may suffer losses which could materially and adversely affect our results of operations or liquidity.***

We maintain a significant investment portfolio of cash equivalents and short-term and long-term investments in a variety of securities, which are subject to general credit, liquidity, market and interest rate risks and will decline in value if interest rates increase or one of the issuers' credit ratings is reduced. Furthermore, COVID-19 has impacted, and may continue to impact, the global economy resulting in significant market volatility and fluctuating interest rates. As a result, we may experience a reduction in value or loss of our investments, which may have a negative adverse effect on our results of operations, liquidity and financial condition.

***Execution of our growth strategy may increase costs or liabilities, or create disruptions in our business.***

Our growth strategy includes, without limitation, the acquisition and expansion of health plans participating in government sponsored healthcare programs and specialty services businesses, contract rights and related assets of other health plans both in our existing service areas and in new markets and start-up operations in new markets or new products in existing markets. We continue to pursue opportunistic acquisitions to expand into new geographies and complementary business lines as well as to augment existing operations, and we may be in discussions with respect to one or multiple targets at any given time. Although we review the records of companies or businesses we plan to acquire, it is possible that we could assume unanticipated liabilities or adverse operating conditions, or an acquisition may not perform as well as expected or may not achieve timely profitability. We also face the risk that we will not be able to effectively integrate acquisitions into our existing operations effectively without substantial expense, delay or other operational or financial problems and we may need to divert more management resources to integration than we planned.

In connection with start-up operations and system migrations, we may incur significant expenses prior to commencement of operations and the receipt of revenue. For example, in order to obtain a certificate of authority in most jurisdictions, we must first establish a provider network, have systems in place and demonstrate our ability to administer a state contract and process claims. We may experience delays in operational start dates, including those related to stay-at-home directives and other impacts of COVID-19. As a result of these factors, start-up operations may decrease our profitability. The timing of the East Coast headquarters in Charlotte, and the expected benefits of its completion, may also be negatively impacted as a result of these factors. In addition, we are planning to further expand our business internationally and we will be subject to additional risks, including, but not limited to, political risk, an unfamiliar regulatory regime, currency exchange risk and exchange controls, cultural and language differences, foreign tax issues, and different labor laws and practices.

If we are unable to effectively execute our growth strategy, which may be impacted by COVID-19, our future growth will suffer and our results of operations could be harmed.

***If competing managed care programs are unwilling to purchase specialty services from us, we may not be able to successfully implement our strategy of diversifying our business lines.***

We are seeking to diversify our business lines into areas that complement our government sponsored health plan business in order to grow our revenue stream and diversify our business. In order to diversify our business, we must succeed in selling the services of our specialty subsidiaries not only to our managed care plans, but to programs operated by third parties. Some of these third-party programs may compete with us in some markets, and they therefore may be unwilling to purchase specialty services from us. In any event, the offering of these services will require marketing activities that differ significantly from the manner in which we seek to increase revenues from our government sponsored programs. Our ineffectiveness in marketing specialty services to third parties may impair our ability to execute our business strategy.

***Adverse credit market conditions may have a material adverse effect on our liquidity or our ability to obtain credit on acceptable terms.***

In the past, the securities and credit markets have experienced extreme volatility and disruption, which has increased due to the effects of COVID-19. The availability of credit, from virtually all types of lenders, has at times been restricted. In the event we need access to additional capital to pay our operating expenses, fund subsidiary surplus requirements, make payments on or refinance our indebtedness, pay capital expenditures, or fund acquisitions, our ability to obtain such capital may be limited and the cost of any such capital may be significant, particularly if we are unable to access our existing credit facility.

Our access to additional financing will depend on a variety of factors such as prevailing economic and credit market conditions, the general availability of credit, the overall availability of credit to our industry, our credit ratings and credit capacity, and perceptions of our financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. If one or any combination of these factors were to occur, our internal sources of liquidity may prove to be insufficient, and in such case, we may not be able to successfully obtain sufficient additional financing on favorable terms, within an acceptable time, or at all.

***If state regulators do not approve payments of dividends and distributions by our subsidiaries to us, we may not have sufficient funds to implement our business strategy.***

We principally operate through our health plan subsidiaries. As part of normal operations, we may make requests for dividends and distributions from our subsidiaries to fund our operations. In addition to state corporate law limitations, these subsidiaries are subject to more stringent state insurance and HMO laws and regulations that limit the amount of dividends and distributions that can be paid to us without prior approval of, or notification to, state regulators. If these regulators were to deny or delay our subsidiaries' requests to pay dividends, the funds available to us would be limited, which could harm our ability to implement our business strategy.

***We derive a significant portion of our premium revenues from operations in a limited number of states, and our financial position, results of operations or cash flows could be materially affected by a decrease in premium revenues or profitability in any one of those states.***

Operations in a limited number of states have accounted for a significant portion of our premium revenues to date. If we were unable to continue to operate in any of those states or if our current operations in any portion of one of those states were significantly curtailed, our revenues could decrease materially. Our reliance on operations in a limited number of states could cause our revenues and profitability to change suddenly and unexpectedly depending on legislative or other governmental or regulatory actions and decisions, economic conditions and similar factors in those states. For example, states we currently serve may open the bidding for their Medicaid program to other health insurers through a request for proposal process. Our inability to continue to operate in any of the states in which we operate could harm our business.

***Competition may limit our ability to increase penetration of the markets that we serve.***

We compete for members principally on the basis of size and quality of provider networks, benefits provided and quality of service. We compete with numerous types of competitors, including other health plans and traditional state Medicaid programs that reimburse providers as care is provided, as well as technology companies, new joint ventures, financial services firms, consulting firms and other non-traditional competitors. In addition, the administration of the ACA has the potential to shift the competitive landscape in our segment.

Some of the health plans with which we compete have greater financial and other resources and offer a broader scope of

products than we do. In addition, significant merger and acquisition activity has occurred in the managed care industry, as well as complementary industries, such as the hospital, physician, pharmaceutical, medical device and health information systems businesses. To the extent that competition intensifies in any market that we serve, as a result of industry consolidation or otherwise, our ability to retain or increase members and providers, or maintain or increase our revenue growth, pricing flexibility and control over medical cost trends may be adversely affected.

***If we are unable to maintain relationships with our provider networks, our profitability may be harmed.***

Our profitability depends, in large part, upon our ability to contract at competitive prices with hospitals, physicians and other healthcare providers. Our provider arrangements with our primary care physicians, specialists and hospitals generally may be canceled by either party without cause upon 90 to 120 days prior written notice. We cannot provide any assurance that we will be able to continue to renew our existing contracts or enter into new contracts on a timely basis or under favorable terms enabling us to service our members profitably. Healthcare providers with whom we contract may not properly manage the costs of, and access to services, be able to provide effective telehealth services, maintain financial solvency, including due to the impact of COVID-19, or avoid disputes with other providers. Any of these events could have a material adverse effect on the provision of services to our members and our operations.

In any particular market, physicians and other healthcare providers could refuse to contract, demand higher payments, or take other actions that could result in higher medical costs or difficulty in meeting regulatory or accreditation requirements, among other things. In some markets, certain healthcare providers, particularly hospitals, physician/hospital organizations or multi-specialty physician groups, may have significant market positions or near monopolies that could result in diminished bargaining power on our part. In addition, accountable care organizations, practice management companies, which aggregate physician practices for administrative efficiency and marketing leverage, and other organizational structures that physicians, hospitals and other healthcare providers choose may change the way in which these providers interact with us and may change the competitive landscape. Such organizations or groups of healthcare providers may compete directly with us, which could adversely affect our operations, and our results of operations, financial position and cash flows by impacting our relationships with these providers or affecting the way that we price our products and estimate our costs, which might require us to incur costs to change our operations. Provider networks may consolidate, resulting in a reduction in the competitive environment. In addition, if these providers refuse to contract with us, use their market position to negotiate contracts unfavorable to us or place us at a competitive disadvantage, our ability to market products or to be profitable in those areas could be materially and adversely affected.

From time to time, healthcare providers assert or threaten to assert claims seeking to terminate non-cancelable agreements due to alleged actions or inactions by us. If we are unable to retain our current provider contract terms or enter into new provider contracts timely or on favorable terms, our profitability may be harmed. In addition, from time to time, we may be subject to class action or other lawsuits by healthcare providers with respect to claim payment procedures or similar matters. For example, our wholly owned subsidiary, Health Net Life Insurance Company (HNL), is and may continue to be subject to such disputes with respect to HNL's payment levels in connection with the processing of out-of-network provider reimbursement claims for the provision of certain substance abuse related services. HNL expects to vigorously defend its claims payment practices. Nevertheless, in the event HNL receives an adverse finding in any related legal proceeding or from a regulator, or is otherwise required to reimburse providers for these claims at rates that are higher than expected or for claims HNL otherwise believes are unallowable, our financial condition and results of operations may be materially adversely affected. In addition, regardless of whether any such lawsuits brought against us are successful or have merit, they will still be time-consuming and costly and could distract our management's attention. As a result, under such circumstances we may incur significant expenses and may be unable to operate our business effectively.

***We may be unable to attract, retain or effectively manage the succession of key personnel.***

We are highly dependent on our ability to attract and retain qualified personnel to operate and expand our business. We may be adversely impacted if we are unable to adequately plan for the succession of our executives and senior management. While we have succession plans in place for members of our executive and senior management team, these plans do not guarantee that the services of our executive and senior management team will continue to be available to us. Our ability to replace any departed members of our executive and senior management team or other key employees may be difficult and may take an extended period of time because of the limited number of individuals in the Managed Care and Specialty Services industry with the breadth of skills and experience required to operate and successfully expand a business such as ours. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these personnel. If we are unable to attract, retain and effectively manage the succession plans for key personnel, executives and senior management, our business and financial position, results of operations or cash flows could be harmed.

***If we are unable to integrate and manage our information systems effectively, our operations could be disrupted.***

Our operations depend significantly on effective information systems. The information gathered and processed by our information systems assists us in, among other things, monitoring utilization and other cost factors, processing provider claims, and providing data to our regulators. Our healthcare providers also depend upon our information systems for membership verifications, claims status and other information. Our information systems and applications require continual maintenance, upgrading and enhancement to meet our operational needs and regulatory requirements. We regularly upgrade and expand our information systems' capabilities. If we experience difficulties with the transition to or from information systems or do not appropriately integrate, maintain, enhance or expand our information systems, we could suffer, among other things, operational disruptions, loss of existing members and difficulty in attracting new members, regulatory problems and increases in administrative expenses. In addition, our ability to integrate and manage our information systems may be impaired as the result of events outside our control, including acts of nature, such as earthquakes or fires, or acts of terrorists. In addition, we may from time to time obtain significant portions of our systems-related or other services or facilities from independent third parties, which may make our operations vulnerable if such third parties fail to perform adequately.

***From time to time, we may become involved in costly and time-consuming litigation and other regulatory proceedings, which require significant attention from our management.***

From time to time, we are a defendant in lawsuits and regulatory actions and are subject to investigations relating to our business, including, without limitation, medical malpractice claims, claims by members alleging failure to pay for or provide healthcare, claims related to non-payment or insufficient payments for out-of-network services, claims alleging bad faith, investigations regarding our submission of risk adjuster claims, putative securities class actions, protests and appeals related to Medicaid procurement awards, employment-related disputes, including wage and hour claims, submissions to state agencies related to payments or state false claims acts and claims related to the imposition of new taxes, including but not limited to claims that may have retroactive application. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have a material adverse impact on our business and financial position, results of operations and/or cash flows and may affect our reputation. In addition, regardless of the outcome of any litigation or regulatory proceedings, such proceedings are costly and time consuming and require significant attention from our management, and could therefore harm our business and financial position, results of operations or cash flows.

***An impairment charge with respect to our recorded goodwill and intangible assets could have a material impact on our results of operations.***

We periodically evaluate our goodwill and other intangible assets to determine whether all or a portion of their carrying values may be impaired, in which case a charge to earnings may be necessary. Changes in business strategy, government regulations or economic or market conditions have resulted and may result in impairments of our goodwill and other intangible assets at any time in the future. Our judgments regarding the existence of impairment indicators are based on, among other things, legal factors, market conditions, and operational performance. For example, the non-renewal of our health plan contracts with the state in which they operate may be an indicator of impairment. If an event or events occur that would cause us to revise our estimates and assumptions used in analyzing the value of our goodwill and other intangible assets, such revision could result in a non-cash impairment charge that could have a material impact on our results of operations in the period in which the impairment occurs.

***If we fail to comply with applicable privacy, security, and data laws, regulations and standards, including with respect to third-party service providers that utilize sensitive personal information on our behalf, our business, reputation, results of operations, financial position and cash flows could be materially and adversely affected.***

As part of our normal operations, we collect, process and retain confidential member information. We are subject to various federal, state and international laws and rules regarding the use and disclosure of confidential member information, including the Health Insurance Portability and Accountability Act of 1996 (HIPAA), the Health Information Technology for Economic and Clinical Health (HITECH) Act of 2009, the Gramm-Leach-Bliley Act, and the European Union's General Data Protection Regulation, which require us to protect the privacy of medical records and safeguard personal health information we maintain and use. Certain of our businesses are also subject to the Payment Card Industry Data Security Standard, which is a multifaceted security standard that is designed to protect credit card account data as mandated by payment card industry entities. Despite our best attempts to maintain adherence to information privacy and security best practices, as well as compliance with applicable laws, rules and contractual requirements, our facilities and systems, and those of our third-party service providers, may be vulnerable to privacy or security breaches, acts of vandalism or theft, malware or other forms of cyber-attack, misplaced or lost data including paper or electronic media, programming and/or human errors or other similar

events. In the past, we have had data breaches resulting in disclosure of confidential or protected health information that have not resulted in any material financial loss or penalty to date. However, future data breaches could require us to expend significant resources to remediate any damage, interrupt our operations and damage our reputation, subject us to state or federal agency review and could also result in enforcement actions, material fines and penalties, litigation or other actions which could have a material adverse effect on our business, reputation and results of operations, financial position and cash flows.

In addition, HIPAA broadened the scope of fraud, waste and abuse laws applicable to healthcare companies and established enforcement mechanisms to combat fraud, waste and abuse, including civil and, in some instances, criminal penalties for failure to comply with specific standards relating to the privacy, security and electronic transmission of protected health information. The HITECH Act expanded the scope of these provisions by mandating individual notification in instances of breaches of protected health information, providing enhanced penalties for HIPAA violations, and granting enforcement authority to states' Attorneys General in addition to the HHS Office for Civil Rights. It is possible that Congress may enact additional legislation in the future to increase the amount or application of penalties and to create a private right of action under HIPAA, which could entitle patients to seek monetary damages for violations of the privacy rules.

***If we fail to comply with the extensive federal and state fraud, waste and abuse laws, our business, reputation, results of operations, financial position and cash flows could be materially and adversely affected.***

We, along with other companies involved in public healthcare programs, are the subject of federal and state fraud, waste and abuse investigations. The regulations and contractual requirements applicable to participants in these public sector programs are complex and subject to change. Violations of fraud, waste and abuse laws applicable to us could result in civil monetary penalties, criminal fines and imprisonment, and/or exclusion from participation in Medicaid, Medicare, TRICARE, and other federal healthcare programs and federally funded state health programs. Fraud, waste and abuse prohibitions encompass a wide range of activities, including kickbacks for referral of members, incorrect and unsubstantiated billing or billing for unnecessary medical services, improper marketing and violations of patient privacy rights. These fraud, waste and abuse laws include the federal False Claims Act, which prohibits the known filing of a false claim or the known use of false statements to obtain payment from the federal government, and the federal anti-kickback statute, which prohibits the payment or receipt of remuneration to induce referrals or recommendations of healthcare items or services. Many states have fraud, waste and abuse laws, including false claim act and anti-kickback statutes that closely resemble the federal False Claims Act and the federal anti-kickback statute. In addition, the Deficit Reduction Act of 2005 encouraged states to enact state versions of the federal False Claims Act that establish liability to the state for false and fraudulent Medicaid claims and that provide for, among other things, claims to be filed by *qui tam* relators (private parties acting on the government's behalf). Federal and state governments have made investigating and prosecuting healthcare fraud, waste and abuse a priority. In the event we fail to comply with the extensive federal and state fraud, waste and abuse laws, our business, reputation, results of operations, financial position and cash flows could be materially and adversely affected.

***A failure in or breach of our operational or security systems or infrastructure, or those of third parties with which we do business, including as a result of cyber-attacks, could have an adverse effect on our business.***

Information security risks have significantly increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct our operations, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state agents. Our operations rely on the secure processing, transmission and storage of confidential, proprietary and other information in our computer systems and networks.

Security breaches may arise from external or internal threats. External breaches include hacking personal information for financial gain, attempting to cause harm or interruption to our operations, or intending to obtain competitive information. We experience attempted external hacking or malicious attacks on a regular basis. We maintain a rigorous system of prevention and detection controls through our security programs; however, our prevention and detection controls may not prevent or identify all such attacks on a timely basis, or at all. Internal breaches may result from inappropriate security access to confidential information by rogue employees, consultants or third party service providers. Any security breach involving the misappropriation, loss or other unauthorized disclosure or use of confidential member information, financial data, competitively sensitive information, or other proprietary data, whether by us or a third party, could have a material adverse effect on our business reputation, financial condition, cash flows, or results of operations.

***The market price of our common stock may decline as a result of significant acquisitions.***

The market price of our common stock is generally subject to volatility, and there can be no assurances regarding the level or stability of our share price at any time. The market price of our common stock may decline as a result of acquisitions if, among

other things, we are unable to achieve the expected growth in earnings, or if the operational cost savings estimates in connection with the integration of acquired businesses with ours are not realized, or if the transaction costs related to the acquisitions and integrations are greater than expected or if any financing related to the acquisitions is on unfavorable terms. The market price also may decline if we do not achieve the perceived benefits of the acquisitions as rapidly or to the extent anticipated by financial or industry analysts or if the effect of the acquisitions on our financial position, results of operations or cash flows is not consistent with the expectations of financial or industry analysts.

***We may be unable to successfully integrate our existing business with acquired businesses and realize the anticipated benefits of such acquisitions.***

The success of acquisitions we make will depend, in part, on our ability to successfully combine the existing business of Centene with such acquired businesses and realize the anticipated benefits, including synergies, cost savings, growth in earnings, innovation and operational efficiencies, from the combinations. If we are unable to achieve these objectives within the anticipated time frame, or at all, the anticipated benefits may not be realized fully or at all, or may take longer to realize than expected and the value of our common stock may be harmed.

The integration of acquired businesses with our existing business is a complex, costly and time-consuming process. The integration may result in material challenges, including, without limitation:

- the diversion of management's attention from ongoing business concerns and performance shortfalls as a result of the devotion of management's attention to the integration;
- managing a larger company;
- maintaining employee morale and retaining key management and other employees;
- the possibility of faulty assumptions underlying expectations regarding the integration process;
- retaining existing business and operational relationships and attracting new business and operational relationships;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations;
- coordinating geographically separate organizations;
- unanticipated issues in integrating information technology, communications and other systems;
- unanticipated changes in federal or state laws or regulations, including the ACA and any regulations enacted thereunder;
- unforeseen expenses or delays associated with the acquisition and/or integration; and
- decreases in premiums paid under government sponsored healthcare programs by any state in which we operate.

Many of these factors will be outside of our control and any one of them could result in delays, increased costs, decreases in the amount of expected revenues and diversion of management's time and energy, which could materially affect our financial position, results of operations and cash flows.

Our ability to successfully manage the expanded business following any given acquisition will depend, in part, upon management's ability to design and implement strategic initiatives that address the increased scale and scope of the combined business with its associated increased costs and complexity. There can be no assurances that we will be successful in managing our expanded operations as a result of acquisitions or that we will realize the expected growth in earnings, operating efficiencies, cost savings and other benefits.

***We have substantial indebtedness outstanding and may incur additional indebtedness in the future. Such indebtedness could reduce our agility and may adversely affect our financial condition.***

As of September 30, 2020, we had consolidated indebtedness of \$16.8 billion, and we may further increase our indebtedness in the future.

This may have the effect, among other things, of reducing our flexibility to respond to changing business and economic conditions and increasing borrowing costs.

Among other things, our revolving credit facility and term loan facility (collectively, the Company Credit Facility) and the indentures governing our notes require us to comply with various covenants that impose restrictions on our operations, including our ability to incur additional indebtedness, create liens, pay dividends, make certain investments or other restricted payments, sell or otherwise dispose of substantially all of our assets and engage in other activities. Our Company Credit Facility also requires us to comply with a maximum debt-to-EBITDA ratio and a minimum fixed charge coverage ratio. These restrictive covenants could limit our ability to pursue our business strategies. In addition, any failure by us to comply with these restrictive covenants could result in an event of default under the Company Credit Facility and, in some circumstances,

under the indentures governing our notes, which, in any case, could have a material adverse effect on our financial condition.

***Changes in the method pursuant to which the LIBOR rates are determined and potential phasing out of LIBOR after 2021 may affect the value of the financial obligations to be held or issued by us that are linked to LIBOR or our results of operations or financial condition.***

As of September 30, 2020, borrowings under our Company Credit Facility bear interest based upon various reference rates, including LIBOR. On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, announced replacement of U.S. dollar LIBOR with a new index calculated by short-term repurchase agreements, backed by U.S. Treasury securities called the Secured Overnight Financing Rate (“SOFR”). The first publication of SOFR was released in April 2018. Whether or not SOFR attains market traction as a LIBOR replacement tool remains in question and the future of LIBOR at this time is uncertain. As a result, it is not possible to predict the effect of any changes, establishment of alternative references rates or other reforms to LIBOR that may be enacted in the U.K. or elsewhere. The elimination of LIBOR or any other changes or reforms to the determination or supervision of LIBOR could have an adverse impact on the market for or value of any LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by or due to us or on our overall financial condition or results of operations.

***Future issuances and sales of additional shares of preferred or common stock could reduce the market price of our shares of common stock.***

We may, from time to time, issue additional securities to raise capital or in connection with acquisitions. We often acquire interests in other companies by using a combination of cash and our common stock or just our common stock. Further, shares of preferred stock may be issued from time to time in one or more series as our Board of Directors may from time to time determine each such series to be distinctively designated. The issuance of any such preferred stock could materially adversely affect the rights of holders of our common stock. Any of these events may dilute your ownership interest in our company and have an adverse impact on the price of our common stock.

***The WellCare Acquisition may not be accretive and may cause dilution to our earnings per share, which may negatively affect the market price of our common stock.***

Although we currently anticipate that the WellCare Acquisition will be accretive to earnings per share (on an adjusted earnings basis that is not pursuant to GAAP) during the second year after the consummation of the WellCare Acquisition, this expectation is based on assumptions about our and WellCare’s business and preliminary estimates, which may change materially. Certain other amounts to be paid in connection with the WellCare Acquisition may cause dilution to our earnings per share or decrease or delay the expected accretive effect of the WellCare Acquisition and cause a decrease in the market price of our common stock. In addition, we could encounter additional transaction-related costs or other factors such as the failure to realize all of the benefits anticipated in the WellCare Acquisition, including cost and revenue synergies. All of these factors could cause dilution to our earnings per share or decrease or delay the expected accretive effect of the WellCare Acquisition and cause a decrease in the market price of our common stock.

***We may be unable to successfully integrate our business with WellCare and realize the anticipated benefits of the WellCare Acquisition.***

The success of the WellCare Acquisition will depend, in part, on our ability to successfully combine the businesses of Centene and WellCare and realize the anticipated benefits, including synergies, cost savings, innovation and operational efficiencies, from the combination. If we are unable to achieve these objectives within the anticipated time frame, or at all, the anticipated benefits may not be realized fully or at all, or may take longer to realize than expected and the value of its common stock may be harmed.

The WellCare Acquisition involves the integration of WellCare’s business with our existing business, which is a complex, costly and time-consuming process. We have not previously completed an acquisition comparable in size or scope to the WellCare Acquisition. The integration of the two companies may result in material challenges, including, without limitation:

- the diversion of management’s attention from ongoing business concerns and performance shortfalls at one or both of the companies as a result of the devotion of management’s attention to the WellCare Acquisition;
- managing a larger company;



- maintaining employee morale and attracting and motivating and retaining management personnel and other key employees;
- the possibility of faulty assumptions underlying expectations regarding the integration process;
- retaining existing business and operational relationships and attracting new business and operational relationships;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations;
- coordinating geographically separate organizations;
- unanticipated issues in integrating information technology, communications and other systems;
- unanticipated changes in federal or state laws or regulations, including the ACA and any regulations enacted thereunder;
- unforeseen expenses or delays associated with the WellCare Acquisition; and
- achieving actual cost savings of the WellCare Acquisition at the anticipated levels.

Many of these factors will be outside of our control and any one of them could result in delays, increased costs, decreases in the amount of expected revenues and diversion of management's time and energy, which could materially affect our financial position, results of operations and cash flows.

***Our future results may be adversely impacted if we do not effectively manage our expanded operations following the completion of the WellCare Acquisition.***

Our ability to successfully manage this expanded business following the completion of the WellCare Acquisition will depend, in part, upon management's ability to design and implement strategic initiatives that address not only the integration of two independent stand-alone companies, but also the increased scale and scope of our business with its associated increased costs and complexity. There can be no assurances that we will be successful or that we will realize the expected operating efficiencies, cost savings and other benefits currently anticipated from the WellCare Acquisition.

***We are expected to incur substantial expenses related to integration of our business with WellCare.***

We expect to incur substantial expenses in connection with the integration of our business with WellCare. There are a large number of processes, policies, procedures, operations, technologies and systems that must be integrated, including purchasing, accounting and finance, sales, payroll, pricing, revenue management, marketing and benefits. In addition, our and WellCare's businesses will continue to maintain a presence in St. Louis, Missouri and Tampa, Florida, respectively. The substantial majority of these costs will be non-recurring expenses related to the WellCare Acquisition (including financing of the WellCare Acquisition), facilities and systems consolidation costs. We may incur additional costs to attract, motivate or retain management personnel and other key employees. We have incurred and will continue to incur acquisition fees and costs related to formulating integration plans for the combined business, and the execution of these plans may lead to additional unanticipated costs. Additionally, as a result of the WellCare Acquisition, rating agencies may take negative actions with regard to the company's credit ratings, which may increase the our financing costs, including in connection with the financing of the WellCare Acquisition.

***The financing arrangements that we entered into in connection with the WellCare Acquisition may, under certain circumstances, contain restrictions and limitations that could significantly impact our ability to operate our business.***

We incurred significant new indebtedness in connection with the WellCare Acquisition. Certain of the agreements governing the indebtedness that we incurred in connection with the WellCare Acquisition contains covenants that, among other things, may, under certain circumstances, place limitations on the dollar amounts paid or other actions relating to:

- payments in respect of, or redemptions or acquisitions of, debt or equity issued by the Company or its subsidiaries, including the payment of dividends on our common stock;
- incurring additional indebtedness;
- incurring guarantee obligations;
- paying dividends;
- creating liens on assets;
- entering into sale and leaseback transactions;
- making investments, loans or advances;
- entering into hedging transactions;
- engaging in mergers, consolidations or sales of all or substantially all of their respective assets; and
- engaging in certain transactions with affiliates.

In addition, we are required to maintain a minimum amount of excess availability as set forth in these agreements.

Our ability to maintain minimum excess availability in future periods will depend on our ongoing financial and operating performance, which in turn will be subject to economic conditions and to financial, market and competitive factors, many of which are beyond our control. The ability to comply with this covenant in future periods will also depend on our ability to successfully implement its overall business strategy and realize the anticipated benefits of the WellCare Acquisition, including synergies, cost savings, innovation and operational efficiencies.

Various risks, uncertainties and events beyond our control could affect our ability to comply with the covenants contained in our financing agreements. Failure to comply with any of the covenants in our existing or future financing agreements could result in a default under those agreements and under other agreements containing cross-default provisions. A default would permit lenders to accelerate the maturity of the debt under these agreements and to foreclose upon any collateral securing the debt. Under these circumstances, we might not have sufficient funds or other resources to satisfy all of its obligations. In addition, the limitations imposed by financing agreements on our ability to incur additional debt and to take other actions might significantly impair its ability to obtain other financing.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.****Issuer Purchases of Equity Securities  
Third quarter 2020  
(shares in thousands)**

<b>Period</b>	<b>Total Number of Shares Purchased <sup>(1)</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs<sup>(2)</sup></b>
July 1 - July 31, 2020	44	\$ 65.58	—	5,488
August 1 - August 31, 2020	7	63.89	—	5,488
September 1 - September 30, 2020	30	58.51	—	5,488
<b>Total</b>	<b>81</b>	<b>\$ 62.83</b>	<b>—</b>	<b>5,488</b>

<sup>(1)</sup> Shares acquired represent shares relinquished to the Company by certain employees for payment of taxes or option cost upon vesting of restricted stock units or option exercise.

<sup>(2)</sup> Our Board of Directors adopted a stock repurchase program which allows for repurchases of up to 14,160 thousand shares. A remaining amount of 5,488 thousand shares are available under the program. No duration has been placed on the repurchase program.

**ITEM 6. Exhibits.**

<b>EXHIBIT NUMBER</b>	<b>DESCRIPTION</b>
4.1	<a href="#">Base Indenture, dated as of October 7, 2020, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on October 7, 2020).</a>
4.2	<a href="#">First Supplemental Indenture, dated as of October 7, 2020, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on October 7, 2020).</a>
31.1	<a href="#">Certification of Chairman, President and Chief Executive Officer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.</a>
31.2	<a href="#">Certification of Executive Vice President and Chief Financial Officer pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934, as amended.</a>
32.1	<a href="#">Certification of Chairman, President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2	<a href="#">Certification of Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101	The following materials from the Centene Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in iXBRL (Inline Extensible Business Reporting Language): (i) our Consolidated Balance Sheets as of September 30, 2020 and December 31, 2019; (ii) our Consolidated Statements of Operations for the three and nine months ended September 30, 2020 and 2019; (iii) our Consolidated Statements of Comprehensive Earnings for the three and nine months ended September 30, 2020 and 2019; (iv) our Consolidated Statements of Stockholders' Equity for the periods ended September 30, 2020 and 2019; (v) our Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019; and (vi) the notes to our Consolidated Financial Statements.
104	Cover Page Interactive Data File, formatted in iXBRL and contained in Exhibit 101.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized as of October 27, 2020.

CENTENE CORPORATION

By: /s/ MICHAEL F. NEIDORFF  
Chairman, President and Chief Executive Officer  
*(principal executive officer)*

By: /s/ JEFFREY A. SCHWANEKE  
Executive Vice President and Chief Financial Officer  
*(principal financial officer)*

By: /s/ CHRISTOPHER R. ISAAK  
Senior Vice President, Corporate Controller and Chief Accounting Officer  
*(principal accounting officer)*

## CERTIFICATION

I, Michael F. Neidorff, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Centene Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 27, 2020

/s/ MICHAEL F. NEIDORFF

Chairman, President and Chief Executive Officer  
*(principal executive officer)*

## CERTIFICATION

I, Jeffrey A. Schwaneke, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Centene Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 27, 2020

/s/ JEFFREY A. SCHWANEKE

Executive Vice President and Chief Financial Officer  
*(principal financial officer)*

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Centene Corporation (the Company) for the period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned, Michael F. Neidorff, Chairman and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 27, 2020

/s/ MICHAEL F. NEIDORFF

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Chairman, President and Chief Executive Officer  
(principal executive officer)



**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Centene Corporation (the Company) for the period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned, Jeffrey A. Schwaneke, Executive Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 27, 2020

/s/ JEFFREY A. SCHWANEKE

Executive Vice President and Chief Financial Officer  
(principal financial officer)