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CNC.N - Q3 2020 Centene Corp Earnings Call

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OVERVIEW:

Co. reported 3Q20 revenues of $29.1b and adjusted diluted EPS of $1.26. Expects 2020 revenue to be $109.8-111.4b and adjusted diluted EPS to be $4.90-5.06.

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PRESENTATION

Operator

Good morning. Welcome to Centene Corporation Third Quarter 2020 Financial Results Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Jennifer Gilligan. Please go ahead.

Jennifer Gilligan - *Centene Corporation - SVP of IR*

Thank you, Kate, and good morning, everyone. Thank you for joining us on our third quarter 2020 earnings results conference call. Michael Neidorff, Chairman, President and Chief Executive Officer; and Jeff Schwaneke, Executive Vice President and Chief Financial Officer of Centene, will host this morning's call, which also can be accessed through our website at centene.com.

Any remarks that Centene may make about future expectations, plans and prospects constitute forward-looking statements for the purpose of the safe harbor provision under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by those forward-looking statements as a result of various important factors, including those discussed in Centene's most recent Form 10-Q filed today, October 27, and Form 10-K dated February 18, 2020, and other public SEC filings, including the risks and uncertainties described with respect to the potential impacts of COVID-19 on our business and results of operations.

Centene anticipates that subsequent events and developments may cause its estimates to change. While the company may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so.

The call will also refer to certain non-GAAP measures. A reconciliation of these measures with the most directly comparable GAAP measures can be found in our third quarter 2020 press release, which is available on the company's website at centene.com under the Investors section.

Additionally, please mark your calendars for upcoming -- for our upcoming virtual Investor Day, which will take place on December 18, 2020.

Finally, in connection with this morning's earnings release, we have shared some illustrative exhibits. These slides are available on our website under the Investors section.

With that, I would like to turn the call over to our Chairman, President and CEO, Michael Neidorff. Michael?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

Thank you, Jennifer. Good morning, and thank you for joining Centene's third quarter earnings call. We all hope you and your families are safe and well. On today's call, I will review our strong third quarter performance and discuss the operating environment as we see it today. I will also provide perspective on how Centene is positioned for continued growth and success, including some thoughts on 2021 and an update on the WellCare integration.

I'm pleased with our third quarter results, which demonstrate the strength of our underlying business and diversified platform as well as our team's solid execution. We reported third quarter revenues of $2.29 -- sorry, $29.1 billion, an increase of 53% from the third quarter of 2019. Adjusted diluted earnings per share was $1.26 or $0.97 when accounting for the onetime items referenced in our press release. This is consistent with previous guidance.

I remind you that on our second quarter earnings call, we shared that in this COVID environment, we expected 68% of our income to be received in the first half of the year. We also advised that the third quarter would amount to roughly 20% of the year's earnings, which happens to be $0.97. We delivered strong organic membership growth, driven by new programs being introduced across many of our states as well as some COVID-related membership growth. Membership was approximately 25.2 million at the quarter end. This represents a sequential growth of 2% and a year-over-year growth of 65%, largely driven by the addition of WellCare. Membership accrual remains in line with the guidance provided in July. And we continue to expect 2020 membership to peak in November with 1.4 million new members.

Our earnings benefited from a number of onetime items, which will be reinvested back into the business. As you all know, Centene is now a $110 billion enterprise, health care enterprise. At our size and scale, we expect there will be impacts to our earnings on a quarter-to-quarter basis. We are utilizing the risk quarter settlement to reinvest in growth initiatives.

In addition, we have allocated a portion of the settlement towards making a significant onetime contribution to the Centene Charitable Foundation, the earnings of which will be used towards public programs and medical research that support the communities we serve.

In this environment, we continue to take a leading role in accelerating our approach to community care with programs that address social determinants of health, such as improved access to virtual care and support for individuals experiencing food insecurity.

Turning now to the operating environment and how we view the rest of the year. If you exclude the $0.12 increase to reflect the favorable tax settlement in the third quarter, our earnings guidance for 2020 remains consistent with what we provided at our June Investor Day. Our business is strong, and we remain confident in our ability to lead in today's operating landscape.

State partnerships continue to present opportunities for constructive relationships. The discussions that have taken place with our states counterparts this year underscore the strength of our partnerships as well as the value we provide to our state partners. The typical rate setting process has continued throughout the year, including a 5.3% rate increase in Texas effective September 1, and approximately 1.5% increase in Florida, effective October 1. We continue to hold discussions with our state partners related to rate setting and risk adjustment mechanism.

We also have certain states that outside of the normal process have put additional risk-sharing mechanism in place related to COVID-19. These are specific to the pandemic, and we expect them to be short term in nature. Overall, we continue to navigate the evolving landscape together with our state partners as we work to provide our members with access to critical care.

Other key factors include membership growth and medical utilization continue to track in line with our expectations. While there is continued uncertainty, including the intensity and duration of the pandemic and the outcome of next week's election, we believe we have the scale and size to deliver results as the environment continues to evolve. We manage the business based on the facts as we see them today, and we are well positioned to continue to grow and execute against our strategy.

We also continue to provide you with transparent updates and give you our best estimates as to how we see things at a particular point in time. With that in mind, Jeff will provide you with some factors to consider when thinking about our 2021 earnings power.

As is our practice, we provide details at our December Investor Day. However, in these unusual times, we want to ensure that where the factors are known, you are considering them for your models. I'll highlight here that we continue to see attractive opportunities for growth, both organically driven and by an uptick in RFP pipeline and through delivering on the WellCare deal accretion. In addition, we see potential opportunities for investment consistent with our disciplined M&A process.

The WellCare integration remains on track and is progressing well. Our finance and HR systems are integrated seamlessly, and the New York plan integration was completed timely in line with the state's expectations. Routine integration activities will continue throughout 2021. At our upcoming virtual Investor Day, we look forward to sharing more detail regarding our outlook as well as our strategy to transform Centene into a health care technology enterprise.

In summary, we are pleased with our third quarter results, which demonstrate the strength of our underlying business and diversified platform. We intend to demonstrate solid growth in 2021 driven by WellCare deal and accretion and organic growth, and we continue to see significant opportunities for growth longer term as additional states look to manage care as a solution to their health care needs. While some uncertainty remains at our size and scale and with our capabilities, Centene is well positioned for continued success.

Before I hand over to -- mic to Jeff, I again want to thank and recognize the continued commitment and dedication of our employees. It is because of their relentless focus that we have been able to continue to serve our members during these times while also accelerating programs that support our communities. The value of the system and people we are investing in continue to prove themselves. They say what your math is going to say well.

With that, let me turn it over to Jeff.

(technical difficulty)

Jennifer Gilligan - *Centene Corporation - SVP of IR*

This is Jennifer Gilligan. We're going to ask folks on the line to just hold one moment while we make some sound checks with the webcast link. Back to you in 2.

This is Jen. We'll have Jeff go ahead and start his remarks. There was trouble with the webcast link. What we will do is following the call, we will post the transcript of Michael's comments in the event that there were folks on the webcast who missed any portion.

With that, I think, Jeff, you can take it away.

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Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Okay. Great. Thank you, Jen. Thank you, Michael, and good morning, everyone. This morning, I will start off with a review of the quarterly results, and I'll offer some details around our updated 2020 financial outlook. And finally, I'll walk through some factors to consider when thinking about our 2021 earnings trajectory.

Overall, we delivered strong third quarter results with revenues of $29.1 billion, an increase of 53% over the third quarter of 2019 and adjusted diluted earnings per share of $1.26 compared to $0.96 last year. Our adjusted diluted earnings per share included a net favorable impact of $0.29 from the 3 nonoperational items that are outlined in our press release. When excluding these items, specifically receipt of the risk corridor settlement, a charitable contribution commitment to our foundation and an unrelated tax benefit, adjusted diluted earnings per share totals would have been $0.97.

Total revenues grew by approximately $10.1 billion over the third quarter of 2019, primarily as a result of the acquisition of WellCare, membership growth in Medicaid and the Health Insurance Marketplace businesses and expansions in new programs in many of our states. Total membership increased to 25.2 million in the quarter, up 65% compared to Q3 last year. Since the pandemic began in March, we have added a total of 1.3 million Medicaid and Health Insurance Marketplace members, consistent with our expectations when we issued guidance in July, largely attributable to COVID-19.

Our HBR, or health benefits ratio, was 86.4% in the third quarter compared to 88.2% in last year's third quarter and 82.1% in the second quarter of 2020. The HBR for the quarter was impacted by the receipt of the risk corridor settlement. When adjusting the HBR ratio for this revenue of approximately $400 million, our HBR in the quarter was 87.8%. The HBR was also aided by lower traditional utilization, largely offset by the higher costs associated with testing and treatment of COVID as well as retroactive state premium adjustments and risk-sharing programs. Utilization in the third quarter trended toward normalized levels in most geographies. This rebound included a combination of traditional utilization and COVID-related medical costs.

Cash flow used in operations was approximately $950 million in the third quarter. The cash used in operating activities in the third quarter of 2020 was due to a $1.6 billion health insurer fee payment and a $1.2 billion risk adjustment payment associated with the Health Insurance Marketplace business, which both occurred in the third quarter of this year. With cash flow from operations of $2.5 billion through the first 9 months of 2020, we expect 2020 cash flow from operations of between 1 and 1.5x net earnings. We continue to maintain a strong liquidity position of $1.1 billion in unregulated cash on our balance sheet at quarter end.

Debt at quarter end was $16.8 billion, which includes $93 million of borrowings on our revolving credit facility. The borrowings on the revolver are denominated in euros to hedge our international investments. Our debt-to-capital ratio was 39.1%, excluding our nonrecourse debt, compared to 39.7% in the second quarter of 2020. Our debt-to-capital ratio was 37.4% when netting our unregulated cash with our debt at quarter end, which represents a 150 basis point decrease since March.

Our medical claims liability totaled $12.9 billion at quarter end and represents 52 days in claims payable compared to 51 days in the second quarter of 2020. DCP was impacted by the COVID pandemic, pass-through payments received at the end of the quarter, which were paid out in early October, membership growth and the timing of payments.

On WellCare, as Michael mentioned earlier, we continue to make significant progress with the integration. The integration continues to be on track, and we remain comfortable with our synergy capture efforts.

Turning now to our 2020 expectations. For the full year, we now expect revenue to be within a range of $109.8 billion and $111.4 billion. This is $400 million higher than our previous guidance midpoint, predominantly reflecting the risk corridor settlement recorded this quarter. I'll revise the adjusted diluted earnings per share guidance of $4.90 and $5.06, up from a range of $4.76 to $4.96, represents a $0.12 increase at the midpoint, driven by the tax benefit that we recognized during the third quarter. A reconciliation of our changes to guidance is provided in our press release issued this morning.

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Our 2020 financial guidance reflects the strong year-to-date performance from our major business lines as well as the impact of the nonoperating items previously mentioned that occurred during the third quarter. We previously outlined a number of COVID-related factors that influenced our full year guidance. These remain unchanged. We continue to expect peak membership growth of 1.4 million by November of this year.

In terms of utilization trends, we continue to expect trends to gradually increase during the fourth quarter, depending on regional infection spikes and local government responses. Through the end of September, we have paid approximately $2 billion associated with COVID claims. This compares to $550 million we discussed on our second quarter call. Our third quarter figure applies consistent methodology and includes all of the COVID-related claim codes consistent with CDC guidelines.

With respect to rates, as Michael has already touched on, we continued to have active dialogue with our state partners, and the risk-sharing mechanisms and rate adjustments received continue to be in line with our 2020 expectations.

A quick note on quarterly versus full year modeling. As a result of the WellCare acquisition closing the first quarter, the full year weighted average share count is substantially lower than the second through fourth quarters. This will impact modeling of fourth quarter EPS with respect to full year adjusted earnings per share guidance. In short, the quarterly results will not sum to the full year guidance range.

And last, a few comments on our 2021 earnings trajectory. As we have done historically, we will provide our 2021 full year guidance in our December Investor Day. However, in light of the significant uncertainty in this environment, we want to provide as much visibility as we can and give you a few items to consider as you begin to model 2021. In order to facilitate the discussion, we have included a slide on our website at centene.com. We are still in the early stages of our planning process. And going forward, we intend to return to our typical practice.

First, you may recall that on March 3, 2020, we provided initial guidance for 2020 with a midpoint of $4.66 from an adjusted diluted earnings per share basis. There have been a lot of moving parts this year, including higher membership and revenues, the significant reduction in medical utilization in April and May, the continuing incremental costs for COVID testing and treatment and the effective risk-sharing programs implemented by our states, just to name a few. If you exclude the $0.20 net benefit from the pandemic and the $0.12 tax benefit recorded this quarter, our guidance for 2020 adjusted diluted earnings per share reflects where we began in March, $4.66.

Second, as we look forward to 2021, we expect to continue our long history of top and bottom line growth from here. There are a lot of moving parts, and I will highlight a few that are included in the supplemental slide we are sharing today. As we commented earlier, the WellCare integration and the underlying operations remain on track, and we are confident in our ability to generate the mid- to upper single-digit accretion from the transaction, as we have previously indicated.

Third, we anticipate solid year-over-year organic growth generated through new programs and the expansions of the existing programs, such as Medicare and Marketplace, that will contribute to our earnings trajectory.

Fourth, we expect some of the Medicaid rate adjustments and risk-sharing mechanisms to carry over into next year. And finally, COVID and traditional utilization represents a number of unknowns dependent on the trajectory of the pandemic. We'll be better positioned to provide more clarity around these factors during our December Investor Day.

I'll conclude my remarks by reiterating our confidence in the strength of our business. We're pleased with the significant growth we've achieved this year. Our balance sheet remains strong, and we believe we have ample liquidity to meet our operational and strategic needs. We remain focused on executing against our strategic plans and are committed to delivering shareholder value, and we look forward to providing a comprehensive outlook for the next year when we virtually meet in December.

That concludes my remarks. And operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Kevin Fischbeck from Bank of America.

Kevin Mark Fischbeck - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Just wanted to follow up on the Medicaid rate commentary. I think -- I guess, first, could you quantify maybe what you've kind of built into your guidance so far for this year as far as the rate pressures? And then, Michael, I think in your comments, you mentioned that you thought that some of these risk corridors and things might be temporary in nature. So just wanted to understand kind of if we should be thinking about these as kind of onetime type issues. Or is this kind of the way that you would expect states to be billing rates prospectively?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

I think it's some of both. It depends on the state and the negotiations we've had. Some have built in contemporary risk corridors and that we've negotiated and agreed with. Others, as you've seen, have given us some rate increases and are comfortable with where we are, and it's really just a give-and-take process right now, Kevin. And Jeff can give you some more specific numbers. And so I'll turn it over to him, and he can give you a sense of what we've dealt with and how we've been able to deal with it because there's 2 factors. There are rates, but there's also the COVID expense that we've had and the reduced utilization and some other things.

Jeff, do you want to make that?

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. Kevin, this is Jeff. I think a couple of things. The traditional rate setting process, where we use encounters and develop the rates and move forward, that process has, I would say, continued as it always has. What's been in addition to that are these risk-sharing mechanisms and risk corridors that states have considered. So for our full year, we expect that number to be around $500 million is what we've got in our guidance. And I think so far this year, you've heard us say and make comments that it's really been in line with our expectations. So we've had that estimate in there for some time.

On the quarter, that number was roughly $265 million. So that definitely impacted the HBR from that perspective. And again, as we look forward to next year, we expect that to be lower than the $500 million as we head into next year because some of these programs do expire. I think the reason why they carryforward to next year is a lot of them are driven by the state fiscal years, which, as you are aware, are not January through December. So it's not a calendar year.

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

I might just indicate that where we've seen the utilization we do is we work with the states. And if it hasn't reduced, then the states recognize the rates have to be accurately sound. So it's a case of really a lot of give-and-take, and it's been very constructive. Obviously, with us maintaining the guidance, we're pleased with where it worked out.

Kevin Mark Fischbeck - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Okay. Great. And then just maybe a second question being around the guidance. You have -- I appreciate the color about kind of setting the stage for what the base EPS is. But I guess -- but you guys also had some guidance around the time you did the WellCare transaction. I don't know if there's any way to maybe give kind of the headwinds and tailwinds to maybe the guidance that you provided at the time of the WellCare transaction. I don't know if anything else you would highlight as positive or negative and how to think of that.

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

I think, as we said, that it's consistent with the guidance we gave at that time.

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. Kevin, are you specifically referring to the guidance that we provided kind of right after we closed the deal in March?

Kevin Mark Fischbeck - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Yes, exactly. So you guys talked about the accretion, and from that, I guess you're saying that hasn't changed at all? So I just wonder if there's anything else around the core business plus or minus that you'd highlight as headwinds or tailwinds to kind of how you would have thought about the business back in March.

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

I think I'll start off, and Jeff can add to it. I think it's proven to be very consistent. The integration has gone on schedule. It's been seamless. The -- some of it was delayed, as we highlighted in the past that Georgia and Florida, not because of anything we have because their issues, delayed the combination of plan until 2021, and that's all working out well. But we still will recognize the accretion from it.

We were pleased with the support and what their capabilities are in the Medicare program. So I mean it's -- at every level, it's not the expectations and we're comfortable calling it where it is.

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. Yes. Kevin, I agree with Michael. I think the transaction is exactly in line with what we expected. I think the variables are the other things, right? The variables are COVID, state rates, redeterminations, all those things. I think from a transaction perspective, it's exactly in line with what we anticipated.

Operator

Our next question is from Justin Lake from Wolfe Research.

Justin Lake - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

I just wanted to first follow up on the 2021 discussion here. Specifically -- so I appreciate you've given us the $4.66 starting point. The only thing we all have to kind of go back and tie to is the S-4. And the S-4, I think, had about 11% earnings growth on a stand-alone basis and plus the accretion. So with the starting point being different, is it reasonable just to assume that about the same level of EPS growth that was in the S-4 for next year, 11% plus the accretion, gets me to about $5.50? Would that be a reasonable ballpark to be starting at? Or Jeff, is there anything you want me to think about beyond that 11% number?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

I'm going to let Jeff respond to it. But keep in mind, we're trying to give you some sense, but guidance -- the full -- the real number, we'll give you the bridge and everything on December 18. So I mean there's a balance we're trying to strike here, not letting people get ahead of themselves or us, but we're not trying to find what the guidance is at this point.

So Jeff, do you want to...

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. Yes, Michael, I think you're right. I mean what we're just trying to do here is just give you some key factors to consider to think about as you bridge from 2020 into 2021.

I think the challenges with the S-4, I certainly appreciate that people could go back and try to use that number. The challenge is that was pre-COVID, and it was also pre-New York rate changes and built over 1.5 years ago. So I think from our perspective, we believe bridging from this year is a more appropriate place to start.

Justin Lake - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

Okay. And maybe...

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Okay. Go ahead.

Justin Lake - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

Go ahead, Jeff. No, please.

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

But the full number -- we'll have the full numbers for you in our December Investor Day.

Justin Lake - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

Is it fair to say that maybe the consensus number, around $5.70, $5.75, might be optimistic relative to the starting point, without giving a specific number?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

We're not -- I appreciate what you're trying to get to, but we're in the early stages of our AOP. And I'm not going to -- we have a cadence and when -- but we did say because of this year, we'd try to give you more. We're not trying to tell you what the range of the guidance is. That's -- as long as we've been public, we've done that in December, Justin. So let's recognize what we have given you as a starting point. But come December, you'll have the full bridge.

Operator

Our next question is from Ralph Giacobbe from Citi.

Ralph Giacobbe - *Citigroup Inc. Exchange Research - Research Analyst*

I just wanted to go back, Jeff, and make sure I got the numbers. Any way to split out sort of the third quarter impact of the higher COVID cost versus the premium rate adjustment and then the risk sharing that you cited? If you could break out those 3 buckets?

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. When you mean the premium -- the risk corridor we quantified is $400 million. The state premium and risk adjustment changes, the number I gave was $265 million. So that had an impact on the HBR. And I guess the way I would think about it is you have to take all these items into account, lower investment income, the state take-backs, lower overall. I would say utilization was slightly below historical perspective, really driven by the COVID pandemic. You have to take all those into account when you look at the quarter. So hopefully, that gets you what you need.

Ralph Giacobbe - *Citigroup Inc. Exchange Research - Research Analyst*

Okay. All right. Fair enough. And then just a quick follow-up. You noted sort of investments you're making in the fourth quarter around MA and HICS. Just if you can give us a sense of how you're thinking about sort of enrollment growth for maybe both those segments in 2021? I know the landscape file was just recently out for essentially both in exchange, I think, just yesterday?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

Well, we have an expanded geographic footprint that we've highlighted, and it's the earliest stages of the moment. And I think it's at a point I'm not going to speculate based on a few points we have to this point in time. But as we've said, we're comfortable with the capabilities of WellCare in this area. And I'm looking forward to the results.

Operator

Our next question is from A.J. Rice from Crédit Suisse.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

I have 2 areas -- 2 quick questions. But first of all, it relates to the 2021 outlook. I sort of end up at about the same place as I think Justin was saying. You started $4.66, you add about $0.38 sort of the midpoint of the WellCare accretion -- incremental accretion for next year, gets you into the [$5, $5.05] range, and then you had 10% to 11% for organic growth, $5.55.

So relative to your slide, then you've dealt with the WellCare accretion and the organic growth. I guess the open questions are -- which you're highlighting is state rates, risk sharing and potential return of redeterminations. On the redeterminations, is it still your thought that, that's about $1 billion revenue headwind on an annualized basis? And we can figure out how that might come in over the course of the year? And then is there any way to put your arms around your comment around state rates and risk sharing? I guess that's annualizing some of the stuff you've seen next year plus anticipating any incremental pressure. Any way to [process] that?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

Let me give you one more variable that influences everything you've just said, and that's any continuing stimulus they do that affects FMAP, that freezes redetermination. There's still some undefined things out there, and recognizing that those things we hope to have a better view on come the December Investor Day will actually be behind us, hopefully, and we'll understand what some of the policies are.

So everything you said, I can understand what you're saying, but there are other factors that affect redetermination, affect rates, affect a lot of things. So we try to give you enough that you don't get ahead of yourselves and us, but we also said we'll have a clearer view on December 18.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. On the -- my other question relates to what you're seeing in enrollment. So I think second quarter call, you guys had said you thought you'd get to about 1.4 million incremental lives versus where you were at Q1 and that you'd see that peak in November. I just want to confirm that you still think you'll see the peak in November and the ultimate peak is going to be the incremental 1.4 million. It sounds like you think you're on track. And then there's also a dip...

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

Yes, we are.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

And there's a dip in the exchange enrollment. Is that consistent with what you thought you would see at this point?

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. Yes, it is. We're still saying 1.4 million by November. And yes, the exchange attrition is consistent with our expectations.

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

As we say every year.

Operator

Our next question is from Matthew Borsch from BMO Capital Markets.

Matthew Richard Borsch - *BMO Capital Markets Equity Research - Research Analyst*

Maybe you could just comment on what your -- how you're thinking about the exchanges for next year? Do you think you're going to go in with margins normalized for the back half of this year? Obviously, the first half of this year was disrupted. And what, if anything, do you see in terms of the competitive environment?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

I'll start with the last part first. We like competitive environments. I think I've said that many times. It really helps grow the space. When you're the largest and the others are very small rather than you, it's incumbent on you to really do all the work to grow it. But you get competitive environments, it grows. And in that environment, the leader tends to grow very well. And I mean I've seen that all my business life in much more competitive areas, consumer packaged goods. So we're comfortable that we're well positioned competitively to growth. And what we're -- in the planning stages, and we see normalized margins.

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. I think it's -- obviously, it's hard to compare 2021 to '20. And we're still obviously in the early cycle of our annual planning process as far as what we expect utilization to be looking into next year because, obviously, we're still going to be with COVID and have that going into next year. So that's part of why we're just trying to give you directionally today where we think things are going to land, and then we'll have full details for you in December.

And again, as Michael mentioned earlier, we're still in the early stages of the enrollment. And so I think once we get better data on that, which we'll have for you in December, we'll have more comments.

Matthew Richard Borsch - *BMO Capital Markets Equity Research - Research Analyst*

If I could just ask one more on the enrollment outlook for this year when you talk about the peak enrollment in Medicaid for next month, November. What gives you the confidence that -- or why are you so sure that's a peak in November? Why does it keep on increasing?

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. I mean, certainly, the extension of the enhanced FMAP helps. So what's happened is it's really been driven by the suspension of the eligibility redeterminations of the bulk of it. And so we'll see.

I mean I think we're just comfortable holding the 1.4 million in November, I think we'll get there. That's our expectation. And could it go higher? It's certainly possible if they continue to extend the stimulus, but we'll have to see.

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

The numbers we gave you, we're tracking on the 1.4 million.

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

That's right.

Operator

Our next question is from Sarah James from Piper Sandler.

Sarah Elizabeth James - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

So I've been looking at the year-to-date fall-off in HICS. And if I go back a couple of years, it was about 5%. Last year, it was 3%. This year, it's almost flat. And last time you guys had lower HICS churn, it compressed margins. Is it having the same effect this year?

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. I think -- first of all, I think the -- keeping the numbers longer this year was due to intentional actions that we took in order to extend grace periods as a result of the pandemic. And so I think you really can't compare year-to-year from an attrition perspective. And then the other thing I would comment on is, again, with the COVID pandemic, it's hard really to judge profitability of that extension this year versus any other year. We're just in a unique environment.

Sarah Elizabeth James - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

Okay. And then thinking about the exchanges, overhead leverage and the operational structure there, you guys just announced going into 400 more counties, and existing states are getting pretty dense in the states that you operate in. How do you think about that impacting overhead leverage? Is that density moving the needle for you guys?

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. I mean I think we're -- I mean, number one, I think we're always focused on overhead leverage, and that business is scaled. And so we continue to try to find ways in order to get efficiencies in the exchange platform. I think there's still more work that we can do there to get the efficiencies of the scale of that business, and that's what we're focused on heading into 2021.

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

I think it's fair to say that every budget meeting I said it on, we're talking about scale, not just there but in every one of our businesses, when you look at our growth in the market with time we start to realize the benefits of it.

Operator

Our next question is from Josh Raskin from Nephron Research.

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

Taking a step back, it seems like Medicaid has obviously been a major growth factor for the company for a long time. It feels like the future may rest a little bit more on Medicare as a larger part of that growth going forward. I know you've commented on that in the past. So can you talk about your competitive positioning and what you can do to improve your star ratings and what you're seeing from other competitors in the market?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

Yes. We were within a couple of basis points in getting the star rates we want. We have a very aggressive program, Josh, that we expect will increase. As you know, it's measured over a longer period of time. So it takes a little time to get there. But the people responsible for improving clearly understand that there is no excuse for not achieving it going forward. So there is a continued emphasis and pressure on that.

I am -- I've talked in the past about the Medicare, that it is a growth driver for us longer term. I think WellCare had a good record of growth in Medicare. That's translating well for our business. We're moving to the #4 position in total on a combined basis. We're proportionately 1 million lives and (inaudible) to give you critical mass from which to grow. We're doing a lot of recontracting with providers, which we think will be beneficial.

So it's -- we're in the -- and the open enrollment just started basically. So it's a little early to comment on it. But I am cautiously optimistic that it will finally achieve some of the goals that I've been looking for and we've been looking for.

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

Okay. Perfect. And then...

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

I might add. I might also add profitable growth.

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

Got you. And cautiously optimistic was a comment around 2021 in terms of starting to realize some of that growth?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

Yes.

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

Got you. And then just second question, as you're thinking about headwinds/tailwinds for 2021, and I'll stay away from the conversation on consensus. But where do you think medical utilization trends in 2021? Do you think -- and maybe more specifically, are the states recommending rate actions that indicate that continued trend below sort of pre-pandemic levels or states assuming a more back-to-normal environment?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

Well, I think -- I don't know right now that they are assuming even with what the pandemic is doing, it's pretty hard to have that discussion. What we really have seen is that while some elective procedures have fallen off, obviously, pandemic costs have gone up. So it tends to -- one tends to balance out the other.

The one area that's in the interest of transparency that has fallen off for obvious reasons and has not been quick to bounce back is in the emergency room. Okay? So I mean there are some aspects that have dropped off and are staying low. They say they will rebuild over time when the pandemic is gone. But that single biggest issue in talking to the states right now is it's reaching new all times high, and this is going into the winter. And I could be as far out and talk about when it's going to fall off, but that's not the purpose of this call.

Operator

Our next question is from Charles Rhyee from Cowen.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Michael, maybe I can ask a slightly different question here. As we think about potential for vaccine approvals, can you talk about sort of what the logistics means for Centene in terms of how you would think about ensuring that your members get access to it? Or is that really a function of the state making decisions in logistics with pharma manufacturers? Can you give us a sense on how this process kind of works?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

I think there's a couple of issues. One, I have some pharmaceutical background in my 400 miles biodata. And Phase I and II, you can do some computer modeling that helps you accelerate it. The Phase III is long-term side of things, and that takes a given amount of time. And I think what we're hearing is that the scientists are saying look forward in very late '20 but more likely the first half of 2021. Okay?

Now I have had some discussions at very senior political levels in Washington. And some of them that are talking to the scientists have made investments and said, "We won't give you the money to build 100 million doses even before it's proven." Okay? So when and if it does prove, we have that vaccine.

Now I believe that when that vaccine becomes available and I'm anticipating the late Q2, maybe Q3 of next year, where we really have something that people have confidence in. I'm throwing some parenthetically here. We were doing some PSAs to ensure that parents and others are still giving the normal vaccine, saying that has nothing because we're worried people will start to have doubts about those and that would not be good for the trial. So we're doing some other things there.

But I think what will happen is we'll have it and we're going to work very hard to ensure that people that need it most get it early. The people at higher risk, the people that are working in the health care environment, treating people, that type of thing. That's -- so there will be an orderly transition to it. And I think a lot of our population are individuals at risk because the nature of it and we are pushing hard to ensure they have the vaccine when they need it.

So it's a kind of a work in progress. I don't mean to be so long-winded, but I want to give you a sense that we've thought a lot about this and there is a clear plan working with the scientists, the responsible scientists, on how -- and the manufacturers and others, how to get it done. I mean we're a huge purchaser now of pharmaceuticals, and that gives us an opportunity to talk to. Does that help?

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

And just -- yes, it does. And if I could just follow up, should we think about that kind of pathway in terms of sort of the time lines that you just discussed as we think about '21? When we think about some of the factors, is it fair to assume that you're going to build in that kind of conservatism as we think about next year as well because it kind of suggests your thoughts also on COVID itself, right, the pace of COVID as we go into '21?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

Yes. I think -- I mean the -- well, I think there's 2 issues here. There's the pace of the vaccine and there's the pace of COVID. Now what -- I mean if I were doing it, I would be working very aggressively on the treatment, the therapeutics that treat the COVID while we're developing the vaccine.

Now I will give you a sense of our product, working with epidemiologists. Just I want to be transparent on this one as I can be. We've announced to our employees not to expect to come back before the end of spring break, which is April of next year, okay? And we're working very effectively at home, and I have all kinds of reports I get regularly on the productivity, and people do want to get back to work. I've also said it's possible it may not happen until June. So -- and we have spent, as you know, a lot of money putting the plexiglass in the offices, the temperature monitoring when people walk in. So we're ready to bring people back on a planned release basis that people -- others are starting to emulate. But the development of the -- how the pandemic unfolds, it's still very unusual.

And so I will -- and I don't want to sound political, but this will sound that way. Masks make the difference. And our epidemiologists have said if you look at Japan with 127 million people and Hong Kong with 7.5 million people, and we know that in the Asian markets, there's always been a mask mentality. It goes back to '70s and '80s, when I was there. If somebody had a cold, they put one on. During the time that we lost the first 100,000 lives, Japan lost 831 and Hong Kong 4, literally 4. Let's say they understated it by 200%. So they lost 12. The math makes a difference.

So if we get -- if we can get that mentality going here -- and all the clients are just saying if we -- if people work masks, we'd save 100,000 lives. So I think that has a lot to do with where we're going.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I certainly agree with you.

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

You hit a hot -- in case you can't tell, you just hit a hot button for it.

Operator

The next question is from Rivka Goldwasser from Morgan Stanley.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

Michael, in the past, you're very confident about the Supreme Court ACA ruling. How do you think about the potential outcomes now?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

Well, I think I'm still relatively confident. I think there's 2 things. I said if you look at it, there is -- there's one factor that they're considering right now, and that's if -- can -- does the one really eliminate everything. Now even the Supreme Court -- not (inaudible) the other one, Kavanaugh, in some cases, has agreed that severability is a factor. Severability used to be written in the Congress, congressional acts, but it's become such a practice now that it's more normal.

I suspect that -- at one point, I thought it would be 7 2 when Justice (inaudible) was still around and others. But I said it could go to 6 3. It still could be 5 4. Now I also want to remind you that depending on what happens on the election, that if they want to make the case moot, they just have to put one line in that says the penalty for not participating is $1, and it makes the whole case moot.

So I'm still very comfortable with it. I think -- I don't believe when push comes to shove, they really want to put all these people during the height of a pandemic on the street with no insurance.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

And then just a follow-up on the COVID cost. It sounded like $2 billion in direct COVID cost. That's meaningfully high than Q2. I think it implies about $1.5 billion in Q3. So can you talk about what drove that increase just in terms of acuity or versus hospitalization? Because we're hearing so much about the therapies and about shorter hospital stays and lower acuity than before, but it seems that you've seen a different impact on your books business. So maybe some color on that and how you think about these costs into Q4 given what we're seeing in terms of increase in cases?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

Maybe you want to start? We can have Jen come on and -- any thoughts that you can...

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. Yes, I think the first thing is just to talk about the number. Number one, that's paid dollars. And so you have to remember at the inception of the pandemic, obviously, we wouldn't have had a lot of paid dollars because there's usually a 30- to 45-day delay between when the inpatient stay happens and when we actually pay the dollars to the provider. And so I think that's why you've seen, I guess, in what you're stating is an acceleration of the dollars. It's really just, I think, a timing effect from that perspective.

So -- but what Michael has stated and what we've talked about in our Investor Day and in the quarters that we've reported is that we have seen lower traditional utilization, higher COVID expense. And when you aggregate those 2, utilization from an expense perspective is just slightly below the historical average, and that's certainly what we've seen.

Operator

Our next question is from Stephen Tanal from SVB Leerink.

Stephen Vartan Tanal - *SVB Leerink LLC, Research Division - MD & Senior Research Analyst*

I guess I just wanted to clarify, on the 2021 initial outlook slide, you guys showed state rates or risk-carrying programs as a negative. But Jeff, I think you'd said in your prepared remarks that you expected less than the $500 million rate headwind impact that's embedded in '20. Just wanted to see if you could clarify sort of what's assumed in the outlook and how that's different from the comment you made on the $500 million item.

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. I think -- I mean, obviously, those are reductions of revenue. I think that's the point, right, is that there's still negatives on revenue as you head into next year. And you're correct, what I said was our expectations were $500 million this year. And our expectation sitting here today is that it would be something less than that in 2021.

But again, I think if you look at this year, we've obviously had a multitude of factors, including state rate changes, lower overall medical expense. We had utilization that was significantly lower in April and May. So there were a lot of other factors offsetting all these items to effectively get back to our initial guidance back -- that we gave out back in March.

Stephen Vartan Tanal - *SVB Leerink LLC, Research Division - MD & Senior Research Analyst*

Got it. Okay. That's helpful. Then utilization, so earlier in the year, you guys had produced a chart that implied 3Q would sort of run above normal. I think it's a data chart. It doesn't sound like that's occurred. But I'm wondering how you sort of frame what actually happened in Q3 and how you're thinking about Q4. Do you guys still expect sort of a deferred care bolus here that put you in excess of normal levels in Q4 and into '21?

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. Obviously, I think what I mentioned just a little bit ago on the COVID cost is that what we've seen is lower traditional utilization, higher COVID cost. The net of that is a little bit below, not much, a little bit below historical utilization. And in my prepared remarks, what I indicated is that we would expect utilization to increase in Q4 versus Q3 slightly. So that's what we continue to expect as utilization continues to trend back towards normal on a total basis, right?

The mix is different. The mix is lower traditional and higher COVID, but in total, again, trending back to historical levels in the fourth quarter.

Stephen Vartan Tanal - *SVB Leerink LLC, Research Division - MD & Senior Research Analyst*

Okay. And maybe if I could sneak one last follow-up and just the whole idea of peak enrollment growth in November. I guess I would just ask you how you see enrollment playing out from that peak by line of business and why. So Medicaid looks -- how do you see that trending?

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. I mean, obviously, there's an open enrollment for both Medicare and Marketplace. So that obviously changes things as you look at the January 1 amount. That's why we're early in that cycle, and we haven't given any commentary on that.

As far as the Medicaid is concerned, I think the extension of the FMAP enhancement helps. But ultimately, we're going to have to see how long that gets extended or what happens with that with a second stimulus potential as we head into next year. And that's why we said we'll have more information for you at our December investor Day.

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

I mean we're dealing with things that we've not seen. I mean the pandemic has reached a new high, far more than March. So I mean that's why we have to think of things on a very gross basis. And the more granular we try to get, the less accurate it's going to be in this kind of -- because it's not something that we have experience with. And another 100 years, the next group may have some more background. Ask me then.

Operator

Our next question is from Gary Taylor from JPMorgan.

Gary Paul Taylor - *JPMorgan Chase & Co, Research Division - Analyst*

I just wanted to do a couple of things. I wanted to revisit your expectation on fourth quarter MLR. I didn't take the opportunity yet to pull up the slide deck from the summer. But I think with the implied earnings guidance is -- your estimate now is that for fourth quarter MLR would be higher year-over-year?

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. Number one, I don't think we provided a fourth quarter MLR estimate. I guess from -- just from what we've given today, what I would look at is kind of where we thought we were going to be before, and then you have the $0.17, right? We talked about the $0.17 benefit that we had this quarter that we're going to reinvest in the fourth quarter. So that obviously would be a direct reduction to the previous fourth quarter number.

Gary Paul Taylor - *JPMorgan Chase & Co, Research Division - Analyst*

Yes. I was just thinking about that one line chart you had in your deck that showed your expectation on COVID cost and sort of recovering deferred care. I thought they maybe intersected in the fourth quarter, but I can revisit...

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

Well, I think, as I recall, we talked, Gary, about various peaks and how many peaks we would have during the course of the year. And I'll tell you this peak we're getting now is early -- a little bit earlier and more severe than what I originally thought.

Gary Paul Taylor - *JPMorgan Chase & Co, Research Division - Analyst*

My other question, just going back to the state rates and risk sharing, I guess help me with my thinking a little bit. When we look at the state rates, we've seen state budget performance improve dramatically from where it was in the spring. If we look at some of the state -- latest state numbers versus their budgets, almost back to par versus those deep holes in the spring, so that seems to be getting better. Of course, perhaps the economy could get worse next year, but it seems like that's getting better. You mentioned 2 of your largest states. Decent rate increases on a combined basis, so that seems to be relatively stable. And on the risk sharing, with deferred care starting to normalize and COVID cost in the near term moving higher, it would seem like the risk-sharing liability would be sort of diminishing.

So I guess the question maybe is more on the state rate side. Is there any plausible risk that some of these state rate updates get reassessed during their fiscal year? Or you're just leaving room for what might happen in July for the back half of '21?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

I think we're looking at it in totality, but we're also talking to states, Gary, about new products, so expanding. They don't have SSI, they don't have long-term care or the things that save them significant money. So I mean there's so many different factors that I'm counting on having a little more visibility come December 18. And we should just because of the laps of time, the more experienced and (inaudible).

So I think to try and speculate what's going to happen in the back half of '21 right now, it's really still in the dark versus having the benefit of the AOP we're working on in the various markets with 37 states, so it takes time to collect that on. It won't be the same in all of them. So give us until December 18, we'll have more visibility.

Gary Paul Taylor - *JPMorgan Chase & Co, Research Division - Analyst*

No, that's fair. I just -- in my mind, I thought maybe that line was maybe more of a plus/minus question mark and you guys have it as a minus. And I just wanted to try to understand that a little better but...

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

What I'm trying to understand, the COVID and the timing, but some of it's the politics and what approach they take too, Gary.

Operator

Our next question is from Scott Fidel from Stephens.

Scott J. Fidel - *Stephens Inc., Research Division - MD & Analyst*

First question just on the different pieces on enrollment and as it relates to the COVID impacts. So it seems like really the vast majority of the growth that you and others have talked about has just been from the suspension of the redetermination. And the one piece of the puzzle that really hasn't seemed to play out much has been just the impact from the rising unemployment yet.

So just interested if you guys can give us some thoughts on sort of so far during the crisis, how much enrollment you've seen in Medicaid that's just from rising unemployment. Obviously, that's been coming down though more recently, so how you're thinking about that piece of the puzzle sort of trending in 4Q and into 2021.

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

Well, I'll start. It's been bouncing low on because eventually, you had people on furlough, where they kept some benefits. And as things continue, there's more layoffs, and we've seen that, where they're not getting the benefits and then they're moving to Medicaid, if they have the wherewithal, they're going into Marketplace.

So it's just such a swinging variable. And it's so many factors, it's hard to be too granular. I'm not trying to be evasive, but I'm just trying to give you the things that we look at day in and day out, trying to sort it out.

Scott J. Fidel - *Stephens Inc., Research Division - MD & Analyst*

No, I get it definitely. That's why I was asking the question, too. And then just a second question as well and just sort of getting back to the rate discussion. So you've given us a few pieces of the puzzle. You talked about how in Texas and Florida, you do have rate increases. Then you talked about a number of the states that have the risk corridor in play.

Just interested, sort of the third piece, just in terms of states that have actually implemented cuts for FY '21. If you could just give us some visibility into that because we have seen a number of your states where the headlines read as cuts haven't been implemented. I just want understand whether those are actual cuts to the base rates. Or does that reflect more of these risk corridor dynamics that you've discussed?

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes. I think we've kind of aggregated all of those. I guess what I would say is, what I mentioned before is the traditional rate setting process where you gather encounter data and trend that forward, et cetera, et cetera. That is still -- that process continues to go on like normal. I would say the additional factor is some of these risk-sharing mechanisms, et cetera, et cetera, or the 1.5% rate reductions that some states have done. And so in general, we've accumulated all that and that's contained in the $500 million that I mentioned that we had in our guidance for this year.

Scott J. Fidel - *Stephens Inc., Research Division - MD & Analyst*

Okay. All right. Got it. So the rate cuts are inclusive within that $500 million headwind?

Jeffrey Alan Schwaneke - *Centene Corporation - Executive VP, CFO & Treasurer*

Yes.

Operator

Our next question is from Lance Wilkes from Bernstein.

Lance Arthur Wilkes - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I wanted to ask a question kind of focused on the provider contracting side of the situation. If you could just talk to a couple of items there. One would be near term, what's the contracting opportunity if there are rate pressures in risk corridors, given the financial status of providers? It seems like with a lot of the bailout money, they should be in a stronger position to maybe be seared back in 1Q, 2Q.

And then secondarily, if you could talk a little more long term on your value-based care initiatives as well as instances where you're perhaps getting into care delivery or dabbling at it to see how that's looking for a long-term aspect of a contracting strategy?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

I think on the value-based, some providers are -- like it if there's a capitation rate so that way their cash flow is strong. And when we had a couple who asked if we had a 3-month basis, we said no, that's not how it works. So I understand it. I think there was some trepidation trying to understand what it all means going forward. I think they look good now.

But I think as we work through it, we are having success in introducing value-based contracting. And we also know that as we introduce some and they become successful and their provider relations work with them to be successful, others will want it. So we're trying to do it in a very responsible way that we can support with the reports. So we have real-time reports, how we can support it with. So we see it growing, and we see providers starting to value it.

Relative to our getting involved in care delivery, it's limited to our model in Florida that has some capability. We're not into a great deal of that. If there's a market that has an absence of OB/GYNs, let's say, or something, we do have the capability to put a clinic in there to help the population get the appropriate access. So it's a case-by-case basis, but we are not out there grossly trying to buy a lot of providers.

Lance Arthur Wilkes - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

And just on the contracting with providers kind of in this COVID environment, are you finding that you're able to push back on provider rates if you're getting rate cuts at a state level? Or is the financial situation of the providers still tenuous at this point?

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

Well, what we've done is we've waived copays and things because they may not be able to collect it from their members. So we're doing things to support them. But all those things figure into what we -- the calculations we give to states. And as our results is demonstrating, we're able to continue down that program, support providers.

And we do want to support them and help them become more successful, and we have systems that do that. We have a system now that can -- it's in test that -- where preauthorization was 18 minutes, we can do it now in 3 seconds. So we have things like artificial intelligence, and digitalization gets a real focus. That's going to be moving things ahead for the providers, streamlining what they can do and how fast they can do it. So there's more than one way to help them.

Operator

This concludes the question-and-answer session. I would now like to turn the conference back over to Michael Neidorff for closing remarks.

Michael Frederic Neidorff - *Centene Corporation - Chairman, President & CEO*

We thank you. We encourage everybody to stay safe, wear your masks. And I think you can see that we have, as an enterprise, the wherewithal to continue to do well. And -- but I'd say we'll meet reasonable expectations. It's -- one has to recognize the environment we're still working in, and we want to do it the right way. So stay well. Take care.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
