2018 Guidance Supporting Schedules

April 27, 2018 | Presented by: Joseph Zubretsky

Guidance Expectations

- We expect MP plans in TX and NM to perform above expectations
- We expect full year Medicaid performance for OH, IL, MI and FL (maybe) to be above expectations
- We expect full year Medicaid performance for WA and NM to be below expectations, although we expect them to improve in Q2 – Q4 over Q1.

2018 Original Guidance to Revised Guidance

	Revised	Preliminary
Premium revenue	~ $17.4B	~ $17.5B
Service revenue	~ $525M	~ $525M
Premium tax revenue	~ $425M	[illegible]
Health insurer fees reimbursed	~ $280M	~ $295M
Investment income and other revenue	~ $110M	~ $85M
Total revenue	**~ $18.7B**	[illegible]
Medical care costs	**~$15.4B**	**~$15.6B**
Medical care ratio (2)	*88% - 89%*	*~ 89%*
Cost of service revenue	~ $480M	~ $480M
General and administrative expenses	**~ $1.4B**	**~ $1.4B**
G&A ratio (3)	*~ 7.4%*	*~ 7.3%*
Premium tax expenses	~$425M	~$410M
Health insurer fees	~ $300M	~ $310M
Depreciation and amortization	~ $115M	~ $115M
Restructuring and separation costs	~ $25M	
Interest expense and other income, net	~ $135M	~ $125M
Income before income taxes	$450M - $495M	$355M - [illegible]
Net income	**$272M - $306M**	**$202M - $236M**
EBITDA (4)	**$724M - $768M**	**$632M - $676M**
Effective tax rate	*38% - 40%*	*41% - 43%*
Net profit margin (3)	*1.5% - 1.6%*	*1.1% - 1.3%*
Diluted weighted average shares	~ 68.0M	~ 67.3M
Net income per share	$4.00 - $4.50	$3.00 - [illegible]
Adjusted net income per share (4)	$4.24 - $4.74	$3.23 - $3.73
End-of-year Marketplace membership	356,000	303,000
End-of-year Non-Marketplace membership	3,674,000	3,738,000

Estimate revised to reflect actual premiums from 2017 annual statement filings

Washington $20M ASO fee for Rx administration recorded as other revenue

Q1 expenses (software write off and other charges) that were not included in original guidance

Due to Q1 expenses $10M for exchange of 2044 Notes for equity

1.4M incrs due to Q1 exchange of 2044 Notes for equity. Offset by lower share price than original guidance 1Q18

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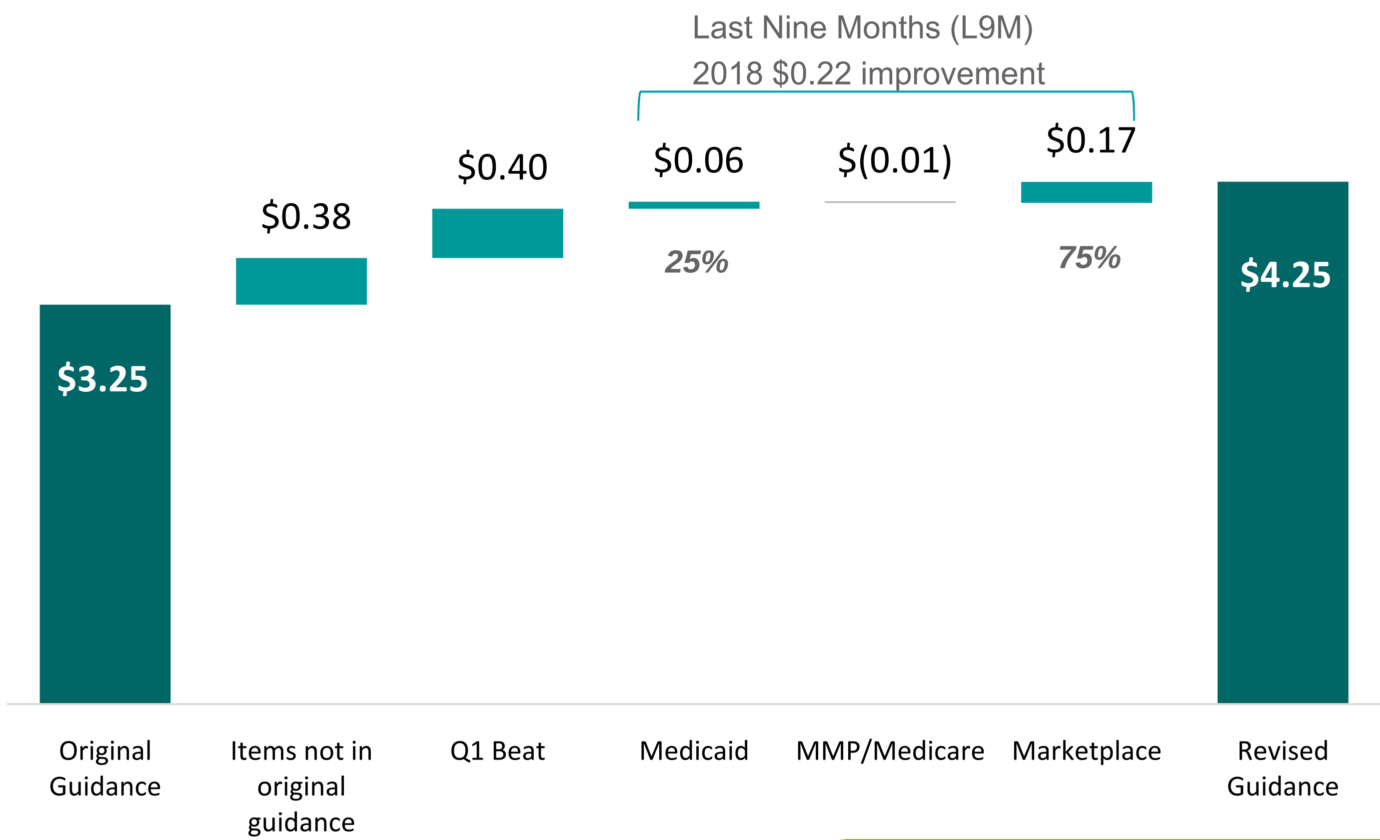
EPS Bridge – Original Guidance to Revised Guidance



L9M Strong MP results – lower utilization and higher than anticipated membership driving **NM and TX** results.

L9M Medicaid driven by OH results – delay in single PDL and lower than anticipated costs for HNCC members that we took risk effective 10/1. **FL and IL** PIP plans also gaining traction. **MI** expecting higher performance bonus L9M

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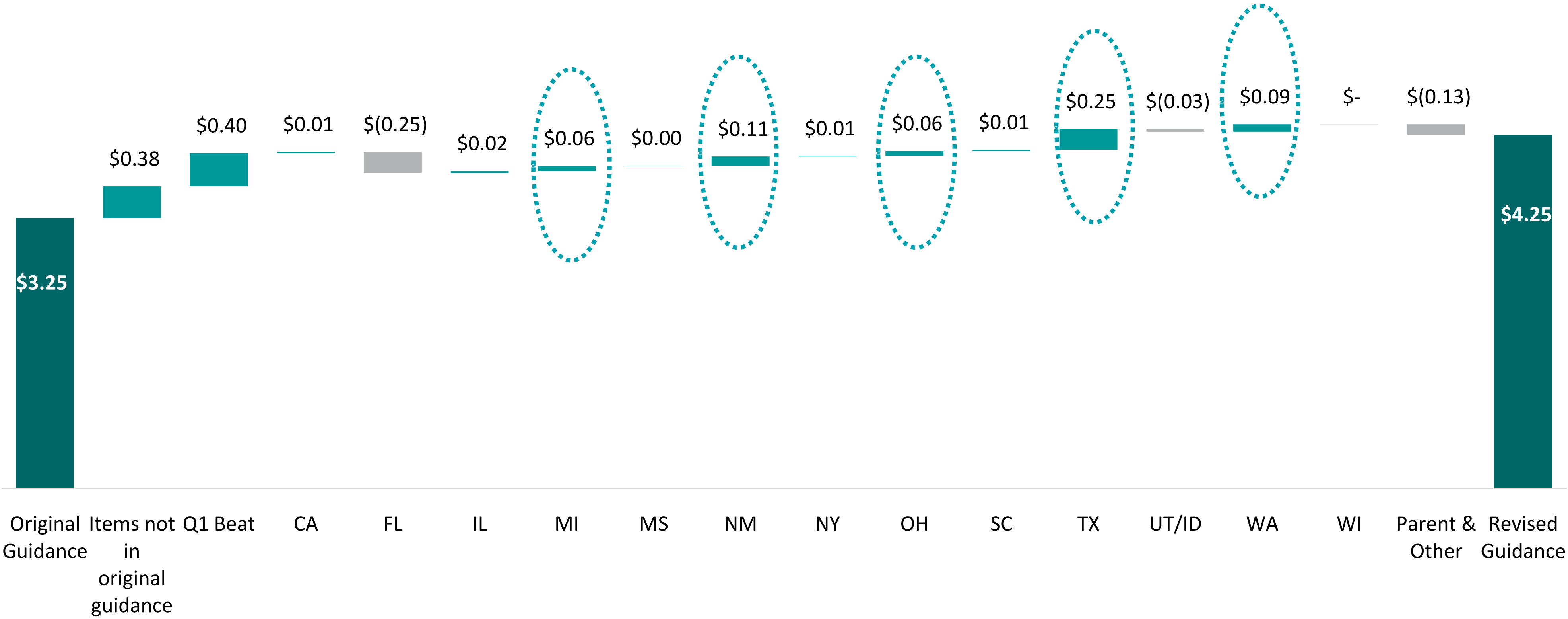
EPS Bridge – Original Guidance to Revised Guidance



Strong MP results – lower utilization and higher than anticipated membership driving **NM and TX** results.

WA results – carve in of Rx $10M benefit as claims currently exceed premiums. Aggressive PIPs to ensure plan meet for the remaining 9 months

Strong OH results – delay in single PDL and lower than anticipated costs for HNCC members that we took risk effective 10/1

MI achieve planned performance bonus opportunity in the last 9 months

EPS Distribution

Original guidance assumes 55%/45% 1H vs. 2H split. Revised Guidance assumes 53%/47%.

Pretax Margin

	Q1	Q2	Q3	Q4
Original Guidance	2.5%	2.1%	2.0%	1.6%
Revised Guidance	3.3%	2.1%	2.8%	2.0%

Note: Q1 Revised Guidance denotes adjusted actual reported Q1 2018.

Comparing Marketplace reforecast and plan (that are unhedged) give insight into the marketplace improvement anticipated

Marketplace - Comparison of 2018 BU Plan to 2018 BU Reforecast

The BU reforecast is at 4.7% gross margin consistent with pricing levels including $40M additional margin for 2018 risk adjustment and $27M additional margin for 2017 risk adjustment

	2018 Pricing	2018 Plan	2018 BU Plan	2018 BU Reforecast
Membership (as of Dec 2018)	303,000	303,000	302,880	356,440
Premium Revenue	1,491	1,491	1,491	1,622
Total Revenue	**1,521**	**1,528**	**1,527**	**1,662**
Medical Care Cost	1,033	1,097	1,042	1,148
Medical Margin	***458***	***394***	***449***	***474***
General & Administrative Exp	225	275	270	300
Operating Income (Loss)	95	66	126	122
Income Before Taxes	**95**	**54**	**115**	**112**
EBITDA	95	74	133	131
Key Ratios:				
MCR	*69.3%*	*73.6%*	*70.6%*	*70.8%*
Direct MCR	*66.5%*	*65.9%*	*66.0%*	*66.9%*
G&A ratio	*14.8%*	*18.0%*	*18.0%*	*18.1%*
EBITDA margin	*6.2%*	*4.8%*	*7.7%*	*7.8%*
Pretax margin	*6.2%*	*3.5%*	*6.4%*	*6.6%*
Pretax margin (gross revenue)	*4.6%*	*2.5%*	*4.7%*	*4.7%*

Marketplace - Comparison of 2018 BU Plan to 2018 BU Reforecast

Stripping out the additional margin $63M and $11M margin release from the BU Reforecast (for a more apples to apples comparison to the BU Plan) would make **MarketPlace $49M better than the BU Plan for FY 2018**

in millions of dollars

Pretax	1Q18 A	2Q18	3Q18	4Q18	FY2018
BU Plan	60	36	17	1	115
BU Reforecast	49	48	27	(13)	112
2018 Incremental Risk Adjustment	10	10	10	10	40
2017 Incremental Risk Adjustment	23				23
2018 Margin Release	(11)				(11)
Adjusted Reforecast	71	58	37	(3)	164
BU Plan vs BU Reforecast	**(11)**	**12**	**10**	**(13)**	**(3)**
BU Plan vs Adjusted BU Reforecast	**11**	**22**	**20**	**(3)**	**49**

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Marketplace - 2018 BU Reforecast by quarter

Expected decline in MarketPlace pretax is typical given seasonality

In millions of dollars	Q1 2018 Actual excl CSRs	Q3 2018 BU Reforecast	Q3 2018 BU Reforecast	Q4 2018 BU Reforecast	FY 2018 BU Reforecast
Membership	436,800	412,570	385,540	356,440	356,440
Premium revenue	430	428	394	370	1,622
Total Revenue	**441**	**438**	**404**	**379**	**1,662**
Medical Care Cost	287	286	280	295	1,148
Medical Margin	***143***	***142***	***115***	***75***	***474***
General & Administrative Exp	77	79	72	72	300
Operating Income (Loss)	53	49	30	(10)	122
Income before Taxes	**49**	**48**	**27**	**(13)**	**112**
EBITDA	55	53	32	(8)	131
Key Ratios					
MCR	*66.8%*	*66.9%*	*70.9%*	*79.7%*	*70.8%*
Direct MCR	*62.8%*	*63.0%*	*67.1%*	*75.8%*	*66.9%*
G&A ratio	*17.5%*	*18.1%*	*17.7%*	*19.0%*	*18.1%*
EBITDA margin	*12.5%*	*12.1%*	*7.9%*	*-2.2%*	*7.9%*
Pretax margin	*11.2%*	*11.0%*	*6.7%*	*-3.4%*	*6.7%*
Pretax margin (gross revenue)	*7.5%*	*8.0%*	*4.9%*	*-2.5%*	*4.8%*

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Medicaid/MMP/Medicare Plan Discussion (L9M)

Improved Health Plan Performance

Strong results in Ohio

- State went back and retroactively removed two nursing facility measures for the MMP withhold performance calculation resulting in $13M related to prior year. This also improved 2018 projected achievement levels for the MMP withhold adding $8M to our forecast for 2018.

- The single PDL initiative will no longer go into effect 7/1/18 and is expected to be pushed to 2019 and therefore expected to improve performance in the second half on the year by $5M.

- We have been seeing lower trends due to the lower acuity of the of the HCNN members that were carved in 10/1. We had conservatively assumed the utilization/cost to be in line with the cap paid to HNCC however current experience is much lower which is consistent as HNCC is part of Cinny Children's the most expensive provider in our OH

Michigan

- Overall trend is relatively stable; identified PIPs offset increasing trend primarily in Pharmacy
- Higher than planned revenue related to risk achievement rates , offsetting revenue loss due to membership

Improved Health Plan Performance (in 1Q)

Illinois

- Profit improvement initiatives gaining tractions, improved UM effectiveness driving lower admissions, as well as re-contracting with key facilities (BJC/Wash University - down to 108% of Medicaid from 140%)

Florida: PIPs in place

- Profit improvement initiatives gaining tractions renegotiated Beacon, correct claims payment and tightened up UM functions realizing full potential of savings that were discounted in the plan

Decline in Health Plan Performance

Washington: Action plan and Rx carve in offsets unfavorable trend

- Attributed to an increasing in high dollar cases and outlier in our TANF and Expansion lines of business.

- Partially related to faster claims payment and submission as well as unfavorable out of period development

- Plan has initiated negotiation with key facilities regarding sharing risk for high dollar cases as well as implementing tighter early warning systems (reinstate interim billings) for member reach outlier status and high dollar case review process

- Pharmacy carve in makes up for the unfavorable unit cost trends. As the state is carving in Rx effective 7/1/18 this is expected to be a benefit due to current unfavorable Rx trend and administrative fees for the ASO agreement

Audit Committee Slides (Updated)

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Methodology

For revised guidance development we modeled performance as follows:

- Applied a guidance hedge of $58 million on our reforecast
- Built revised guidance from two perspectives
  - **Top Down** - Based upon preliminary guidance issued in February
  - **Bottoms Up** - Based upon our reforecast

Guidance from two perspectives

For the **top down** approach :

- Took the mid-point of original guidance as a starting point;
- Adjusted for items not included in original guidance (CSR reimbursement, restructuring charges and debt extinguishment costs). These items are a net addition to performance for the year of $35M pre-tax and $0.38 per share
- Added in Q1 earnings in excess those projected in our original guidance model
- Added earnings in excess of our original guidance model for Q2 – Q4 captured in our revised forecast
- Adjusted downward for potential STI to be earned if we achieve revised targets

For the **bottoms up** approach :

- Took our latest reforecast as a starting point;
- Placed a hedge on guidance of $58M
- Adjusted for items not included in guidance as above
- Adjusted downward for potential STI to be earned if we achieve revised targets

Detailed Analysis

Recommended Revised Guidance $4.00 - $4.50

Updated from audit committee version to reflect Q1-18 outperform guidance now $0.40 (formerly $0.50)

TOP DOWN

Pretax in millions of dollars

	Pre Tax		EPS
Mid-point original guidance	**378**	**$**	**3.25**
Items not in original guidance	35	$	0.38
Q1-18 outperform vs guidance	40	$	0.40
Upgrade for Q2 - Q4	49	$	0.50
Potential STI	(25)	$	(0.29)
Mid-point revised guidance	**477**	**$**	**4.25**

BOTTOMS UP

Pretax in millions of dollars

	Pre Tax		EPS
Reforecast	**525**	**$**	**4.84**
Guidance hedge	(58)	$	(0.67)
Items not in original guidance	35	$	0.38
Potential STI	(25)	$	(0.29)
Mid-point revised guidance	**477**	**$**	**4.25**