

## WellCare Health Plans (WCG)

**\$332.17** (As of 01/13/20)

Price Target (6-12 Months): **\$382.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 11/11/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

### Summary

WellCare Health's shares have outperformed its industry in a year's time. The company has witnessed its 2019 and 2020 estimates move north over the past 30 days. The company's revenues have been growing since 2006, driven by an increase in membership and growth strategies. Its organic growth is well complemented with a number of buyouts and partnerships. Its membership is also likely to grow going forward on the back of strategic initiatives. Its merger with Centene will transform it into a premier managed care enterprise with focus on government sponsored programs. However, its rising debt level and interest expenses hurt the bottom line. A continuous increase in total expenses also weighs on its margins of the company.

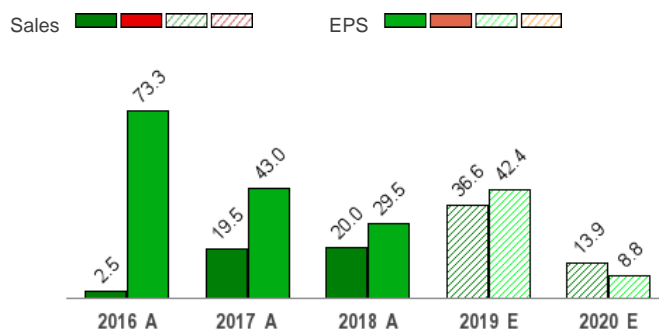
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$337.91 - \$228.56
20 Day Average Volume (sh)	319,692
Market Cap	\$16.7 B
YTD Price Change	0.7%
Beta	0.93
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Medical - HMOs</a>
Zacks Industry Rank	Top 16% (40 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	40.0%
Last Sales Surprise	4.7%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	02/04/2020
Earnings ESP	0.1%
P/E TTM	22.0
P/E F1	19.4
PEG F1	1.3
P/S TTM	0.6

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	7,931 E	8,005 E	8,100 E	8,126 E	31,775 E
2019	6,762 A	7,010 A	7,140 A	7,098 E	27,893 E
2018	4,646 A	4,639 A	5,058 A	6,071 A	20,414 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$3.88 E	\$4.58 E	\$5.36 E	\$3.47 E	\$17.10 E
2019	\$3.69 A	\$4.31 A	\$5.50 A	\$2.18 E	\$15.71 E
2018	\$2.47 A	\$3.69 A	\$3.33 A	\$1.63 A	\$11.03 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/13/2020. The reports text is as of 01/14/2020.

## Overview

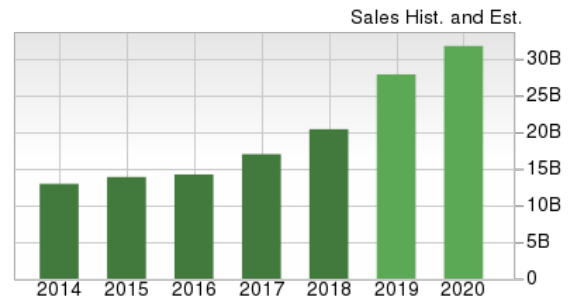
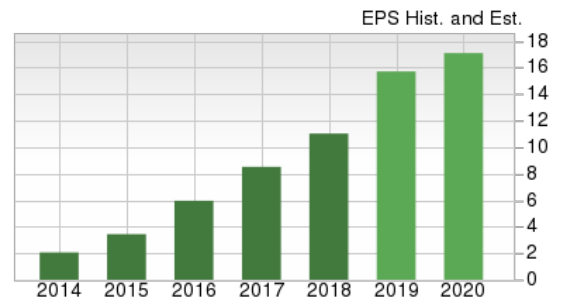
Headquartered in Tampa, Florida, WellCare Health Plans, Inc offers government-sponsored managed care services. In May 2002, the company was formed as a Delaware limited liability company and started operations in Florida, New York and Connecticut. After completing the acquisition of two health plans in July 2004 and immediately before the closing of initial public offering, it got merged with the limited liability company into a Delaware corporation and changed its name to WellCare Health Plans, Inc. The company reports through three segments: Medicaid Health Plans, Medicare Health Plans and Medicare PDPs.

### Medicaid Health Plans (64% of the total premium revenues in 2018):

The Medicaid Health Plans provide medical assistance to the low-income and disabled people and is state implemented and operated. These plans are funded and regulated by both the state and federal governments. Macroeconomic conditions in recent years have put pressure on state budgets as the Medicaid eligible population is on the rise, creating more need and competition for funding in other state priorities.

**Medicare Health Plans (31%):** The Medicare program provides health care coverage primarily to individuals aged between 65 years or more, as well as to individuals with certain disabilities, labeled between A and D. Part A provides hospitalization benefits financed largely through Social Security taxes and requires beneficiaries to pay out-of-pocket deductibles and coinsurance. Part B provides benefits for medically necessary services and supplies including outpatient care, physician services and home health care. Both parts A and B are referred to as Original Medicare.

**Medicare PDPs (5%):** Provide Medicare benefits through private health plans, mainly health maintenance organizations ("HMO"), which is an alternative to Original Medicare, known as Medicare Advantage. Part C benefits are provided through HMOs, preferred provider organizations and private fee-for-service plans. Medicare prescription drugs are covered under Part D. Stand-alone PDP plans can include varying degrees of out-of-pocket costs for premiums, deductibles and coinsurance.



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## Reasons To Buy:

- ▲ **Price Impact:** Shares of the company have outperformed its industry's in a year's time. It has witnessed its 2019 and 2020 estimates being revised upward by 1.8% and 0.6%, respectively over the past 60 days. The company's solid fundamentals such as rising revenues and growth strategies are expected to retain its drive going forward.
- ▲ **Growing Revenues:** The top line of Wellcare Health has been growing consistently since 2006. Over the last six years (2012-18), revenues witnessed a CAGR of 18.4% on the back of its organic and inorganic growth strategies. In the first nine months of 2019, the momentum continued with the metric surging 45.8% year over year on higher revenues as well as more products and services. This upside can be attributed to the company's Meridian buyout and organic growth. We expect the company's revenues to continue rising owing to its solid strategies.
- ▲ **Inorganic Growth:** WellCare Health has grown substantially through acquisitions and partnerships since 2013. Certain buyouts in the recent years have significantly contributed to WellCare Health's Medicaid business and helped diversifying its Medicaid portfolio. Additionally, the company's strategic acquisitions have enabled it to become the topmost Medicaid provider. Its buyout of Aetna's Part D membership and Meridian helped the company boost its membership. It recently declared its penetration into three new states for 2020. All these initiatives bode well for growth.
- ▲ **Merger with Centene:** The company has recently signed a merger agreement with Centene to form the premier managed care enterprise with focus on government sponsored programs. This transaction, approved by the boards of both companies, will make the combined entity a leader in the Medicaid, Medicare and Health Insurance Marketplace. The company will have a wider scale and diversification with higher Medicaid and Medicare members. The acquisition is expected to close in the first half of 2020. Regarding the same, the company recently announced that it will be selling its Missouri and Nebraska Medicaid plans to Anthem, Inc.
- ▲ **Growing Membership:** The company's Medicaid Membership has been increasing over the past several years on the back of expansion through strategic initiatives. Over the last three years, the company's Medicaid membership has strengthened at 17.1% average. As of Sep 30, 2019, Medicaid membership rose 4.6% year over year, favored by organic membership growth. Total membership of the company grew 15.3% year over year. Given the company's constant initiatives to expand its portfolio, its membership is likely to increase going forward.

WellCare Health is well poised for growth on the back of its increasing revenues driven by accretive acquisitions and financial strength. Its growing membership also impresses.

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## Risks

- **High Financial Leverage:** Wellcare Health has been incurring high debt level over the past several years. Moreover, interest expenses of the company have been rising since 2012, which is a concern. Its times interest earned stands at 7.9, much lower than the industry's average of 10.7. We are bothered with the high debt levels which creates financial risk.
  - **Rising Expenses:** The company has been witnessing rising operating expenses over the past few years. Expenses rose primarily due to higher medical and pharmacy costs, selling, general and administrative (SG&A) expenses as well as operating costs. In 2018 and during the first nine months of 2019, total expenses escalated around 19% and 47%, respectively, year over year. Rising expenses weighs on the the company's margins.
  - **Weak ROE:** Its return on equity — a profitability measure — stands at 17%, lower than its industry's average of 23.4%. This reflects its inefficiency in utilizing shareholder's funds.
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## Last Earnings Report

### WellCare Health Q3 Earnings & Revenues Beat Estimates

WellCare Health delivered third-quarter 2019 adjusted operating earnings of \$5.50 per share, beating the Zacks Consensus Estimate by 40% on the back of solid revenues. Also, the bottom line soared 65.2 % year over year.

Further, total revenues of the company came in at \$7 billion, surpassing the Zacks Consensus Estimate by 4.7%. Moreover, the top line surged 41.2% year over year. This was mainly driven by the company's 2018 purchase of Meridian and organic growth in all business lines. However, the same was offset to some extent due to the 2019 ACA Health Insurer Fee (HIF) moratorium.

The adjusted selling, general & administrative (SG&A) expense ratio was 7.6% in the reported quarter, down from 8.5% in the year-ago period. This improvement was supported by the company's operating leverage as a result of its growth.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	4.73%
EPS Surprise	39.95%
Quarterly EPS	5.50
Annual EPS (TTM)	15.13

### Q3 Segmental Results

#### Medicaid Health Plans

As of Sep 30, 2019, membership grew 4.6% to 4.1 million. This upside was driven by net organic growth including more members in the company's Florida health plan.

Adjusted Medicaid Health Plans premium revenues were \$4.8 billion, up 55.2% year over year owing to the Meridian buyout and solid net organic growth including higher membership in Florida health plan.

Adjusted Medicaid Health Plans' Medical Benefit Ratio (MBR) was 89% compared with 87.8% in the year-ago period, attributable to net organic growth including the health plan in Florida and the Illinois health plan performance. However, the same was offset to some extent by rate increase in a few markets and continued operational execution.

#### Medicare Health Plans

As of Sep 30, 2019, Medicare Health Plans membership was up 3.5% year over year, driven by steady organic growth.

Medicare Health Plans revenues of \$1.8 billion increased 16.4% year over year. This was primarily aided by the company's Meridian acquisition as well as organic growth.

MBR was 83.3% compared with 84.8% in the prior-year quarter. This year-over-year contraction is mainly owing to the 2019 bid positioning and consistent operational excellence.

#### Medicare PDP

Medicare PDP membership was approximately 1.7 million as of Sep 30, 2019, up 60.7% year over year, attributable to organic growth via the newly-enhanced product offering this year.

Revenues of \$241.2 million were up 32.3% year over year, fueled by the company's organic membership improvement through product offering in 2019.

MBR was 75.7% compared with 63.1% in the year-earlier quarter.

### Financial Update

As of Sep 30, 2019, unregulated cash and investments were \$433.9 million, down 6.2% year over year.

Net cash flow provided by operating activities was \$401.1 million compared with the prior-year net cash used of \$578.6 million on the back of the advanced receipt of the July 2018 CMS Medicare premiums, payment of the ACA Health Insurer Fee in September 2018 as well as the timing of particular Medicaid premium receivables.

Days in claims payable (DCP) were 51.4 days as of Sep 30, 2019 compared with 54.2 days in the same period last year.

## Recent News

### WellCare Ties Up to Help Medicaid Members With Hypertension — Jan 8, 2020

WellCare Health and the National Institutes of Health coordinate to collaborate with Wellth Inc., a behavioral economics company, on helping at-risk Medicaid members in New York embrace a healthy lifestyle and maintain care plans, which in turn, would aid them to manage their hypertension.

### WellCare Health, Fitbit Collaborate to Aid Diabetes Patients — Dec 17, 2019

WellCare Health's company WellCare of Georgia recently entered into a partnership with Fitbit, Inc. to provide Fitbit devices for WellCare Medicaid members in Georgia who are willing to control their diabetes level by taking annual diabetic eye exams. WellCare's Fitbit Diabetes Program is the first Medicaid endeavor to include Fitbit.

### WellCare Health and Centene Receive Approvals for Pending Merger — Dec 5, 2019

WellCare and Centene has announced that the Illinois Department of Insurance, the New Jersey Department of Banking and Insurance and the New Jersey Division of Medical Assistance and Health Services provided approval for the Centene-WellCare merger.

### WellCare Health to Continue Providing Kentucky's Medicaid Managed Care Program — Dec 4, 2019

WellCare has announced that the Kentucky Cabinet for Health and Family Services selected WellCare of Kentucky to continue catering to the Commonwealth's Medicaid managed care program in all eight program-oriented regions. The new five-year deal is expected to commence on Jul 1, 2020.

### WellCare Enhances Medicare Benefits for 2020 Annual Enrollment Period — Nov 11, 2019

WellCare is offering new plan options to its current, high-quality, low-cost Medicare Advantage and Medicare Prescription Drug Plan offerings during the Annual Enrollment Period running through Dec 7, 2019.

## Valuation

WellCare shares are up 33% over the trailing 12-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 19% and 6.3%, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 19.36X trailing 12-month price to earnings ratio, which compares to 16.48X for the Zacks sub-industry, 21.5X for the Zacks sector and 18.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.27X and as low as 15.32X, with a 5-year median of 20.37X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$382 price target reflects 22.24X price to earnings ratio.

The table below shows summary valuation data for WCG

Valuation Multiples - WCG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.36	16.48	21.5	18.87
	5-Year High	26.27	20.68	21.5	19.32
	5-Year Low	15.32	12.6	15.88	15.15
	5-Year Median	20.37	16.33	18.95	17.42
P/S F12M	Current	0.52	0.81	2.83	3.5
	5-Year High	0.69	0.86	3.81	3.5
	5-Year Low	0.21	0.48	2.42	2.54
	5-Year Median	0.43	0.65	2.93	3
P/B TTM	Current	3.45	3.62	4.52	4.43
	5-Year High	5.37	4.09	5.01	4.43
	5-Year Low	1.79	2.35	3.42	2.85
	5-Year Median	3.07	3.09	4.28	3.58

As of 01/13/2020

## Industry Analysis Zacks Industry Rank: Top 16% (40 out of 254)



## Top Peers

The Joint Corp. (JYNT)	Outperform
Anthem, Inc. (ANTM)	Neutral
Centene Corporation (CNC)	Neutral
Humana Inc. (HUM)	Neutral
Molina Healthcare, Inc (MOH)	Neutral
Select Medical Holdings Corporation (SEM)	Neutral
UnitedHealth Group Incorporated (UNH)	Neutral
Magellan Health, Inc. (MGLN)	Underperform

Industry Comparison Industry: Medical - Hmos				Industry Peers		
	WCG Outperform	X Industry	S&P 500	MGLN Underperform	MOH Neutral	SEM Neutral
<b>VGM Score</b>	<b>B</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Market Cap	16.73 B	2.49 B	24.31 B	1.81 B	8.76 B	3.18 B
# of Analysts	8	6	13	3	8	2
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.00%	0.00%
<b>Value Score</b>	<b>C</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Cash/Price	0.22	0.26	0.04	0.39	0.49	0.04
EV/EBITDA	15.74	11.12	14.12	8.45	4.67	11.12
PEG Ratio	1.34	1.25	2.05	0.69	1.24	1.25
Price/Book (P/B)	3.45	3.50	3.34	1.33	4.79	3.54
Price/Cash Flow (P/CF)	23.68	14.03	13.66	9.21	9.93	9.16
P/E (F1)	19.43	17.38	18.82	15.76	11.81	17.51
Price/Sales (P/S)	0.62	0.61	2.64	0.25	0.51	0.59
Earnings Yield	5.14%	5.73%	5.29%	6.34%	8.47%	5.71%
Debt/Equity	0.42	0.60	0.72	0.51	0.80	4.61
Cash Flow (\$/share)	14.04	6.35	6.94	8.05	14.07	2.58
<b>Growth Score</b>	<b>B</b>	-	-	<b>A</b>	<b>C</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	53.28%	23.12%	10.56%	-1.22%	46.35%	3.97%
Proj. EPS Growth (F1/F0)	8.81%	9.30%	7.49%	35.80%	2.24%	21.08%
Curr. Cash Flow Growth	39.40%	16.31%	14.83%	-23.15%	319.37%	16.18%
Hist. Cash Flow Growth (3-5 yrs)	23.15%	14.42%	9.00%	-1.10%	38.83%	12.24%
Current Ratio	1.16	1.16	1.23	1.70	1.78	1.21
Debt/Capital	29.47%	37.53%	42.99%	33.78%	44.57%	84.99%
Net Margin	2.34%	3.34%	11.08%	0.10%	4.47%	2.62%
Return on Equity	17.00%	15.97%	17.16%	3.21%	49.14%	15.97%
Sales/Assets	2.07	1.77	0.55	2.35	2.45	0.78
Proj. Sales Growth (F1/F0)	13.92%	8.84%	4.23%	3.56%	6.46%	4.52%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>B</b>	<b>A</b>	<b>A</b>
Daily Price Chg	-1.15%	-1.41%	0.73%	-0.75%	-2.50%	1.76%
1 Week Price Chg	3.56%	0.97%	0.39%	-1.67%	8.16%	-0.39%
4 Week Price Chg	3.66%	0.85%	1.84%	-4.03%	4.14%	4.10%
12 Week Price Chg	22.39%	16.14%	6.48%	20.69%	15.08%	37.92%
52 Week Price Chg	32.69%	10.26%	23.15%	25.28%	5.29%	59.73%
20 Day Average Volume	319,692	267,786	1,578,594	121,553	473,593	675,774
(F1) EPS Est 1 week change	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.63%	0.01%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	3.21%	-1.15%	-0.48%	-6.37%	-1.61%	7.71%
(Q1) EPS Est Mthly Chg	7.05%	0.00%	0.00%	0.00%	0.18%	0.00%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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