



ANALYST QUICK NOTES

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Humana (NYSE: HUM: BUY)

Target Price: \$260

David Toung

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- We upgraded Humana to BUY on June 9. Following the termination of the merger with Aetna, Humana is back on track with its growth strategy in Medicare Advantage.
- Because of the aging U.S. population, we think that Medicare is an attractive market for insurance. Humana has a strong brand that should allow it to capitalize on these changing demographics.
- Seniors typically have one or more chronic conditions. Managing these conditions through Humana's Medicare Advantage plans can improve seniors' quality of life and reduce healthcare costs. These cost savings should also boost Humana's profit margin.
- Humana can grow organically and through acquisitions. It has \$4 billion in cash available for investment or M&A. This includes a \$1 billion merger termination fee from Aetna.
- Two factors have impeded Humana's organic growth – the distraction of merger preparations and negotiations with the DOJ over possible divestitures, and the reduction in the company's Stars ratings for its MA plans.
- Humana can now focus on profitable growth in Medicare Advantage. This means focusing on local markets where it can generate strong margins.
- The company's Stars ratings are likely to improve – enabling Humana to expand its marketing programs to attract and enroll new members.
- There are news reports that Anthem or Cigna could acquire Humana. However, we think a major M&A deal is unlikely.
- HUM is up 12% since the merger termination; we see more upside to the stock.

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