Modern Healthcare

Centene Corp. scoops up Health Net for $6.8 billion

By Melanie Evans | July 2, 2015

(This story was updated at 1:50 p.m. ET.)

Medicaid managed-care provider **Centene Corp.** announced Thursday it would buy insurer **Health Net** in a $6.8 billion deal.

It's the latest move toward consolidation in the health insurance industry, where giant **Anthem has proposed a $54 billion deal for Cigna Corp (http://www.modernhealthcare.com/article/20150622/NEWS/150629986)**, and national insurers Aetna, Humana and UnitedHealth Group are reportedly considering deals among their ranks.

The possibility of fewer, larger health insurers has **raised fears (http://www.modernhealthcare.com/article/20150627/MAGAZINE/306279934)** that payers will gain leverage to reduce payments to hospitals and doctors and accelerate provider consolidation already underway.

Under the cash and stock deal, Centene will pay $28.25 and 0.622 shares of Centene stock per Health Net share of common stock for an implied price of $78.57 per share. That is 21% greater than Health Net's closing price on Wednesday. The deal would also add Health Net's $500 million in debt to Centene's balance sheet.

Health Net, a Woodland Hills, Calif.-based insurer that operates mostly in California and Arizona, has benefited from insurance expansion under the Affordable Care Act. The company **reported a surge (http://www.modernhealthcare.com/article/20150504/NEWS/150509965)** in first-quarter growth from rising enrollment in Medicaid.

The company operates Medicaid managed-care plans in Arizona, California, Oregon and Washington, states where Medicaid managed care is widely prevalent. Roughly 90% of Oregon's Medicaid enrollees were in managed care as of last September, data from the Kaiser Family Foundation show. In Arizona, California and Washington, the figures are 88%, 71% and 79%.

Centene, based in St. Louis, has enjoyed a rise in revenue and profits this year as states increase the use of **Medicaid managed care (http://www.modernhealthcare.com/article/20150428/NEWS/150429897)** and the company expands its reach. In the first quarter, Centene said about 90 cents of every premium dollar went toward medical claims for Medicaid members.

Medicaid managed care is "definitely an area of growth" for publicly traded companies and that is expected to continue with the Affordable Care Act as "an accelerant," said Barclay's Capital analyst Joshua Raskin.

Even as the Affordable Care Act has fueled recent dealmaking, it has also complicated it. Suitors of Humana are combing through newly released information about payouts under the law to stabilize insurance markets, the Wall Street Journal reports. **Humana and other insurers may not get (http://www.modernhealthcare.com/article/20150701/NEWS/150709989)** as much as they hoped from the market stabilization payouts.

Combined, Centene and Health Net would end 2015 with $37 billion in estimated pro forma premium and service revenue, according to a news release announcing the deal. A merger would also create one of the largest Medicaid managed-care companies, with 6 million Medicaid enrollees.

Michael Neidorff, Centene's president and CEO, said in a release that the deal would expand the company's scale and diversify its operations.

"This transaction ensures that we extend our competitive position as one of the largest plans covering government-sponsored programs in the country. Health Net's presence in California and other key Western states is complementary to our offerings, allowing us to bring additional innovative solutions to the healthcare market," he said.

The deal must win approval from shareholders and state and antitrust regulators. It is expected to close early next year.