

Centene makes \$6.3B bid for fellow insurer Health Net

2 July 2015, by Tom Murphy

Centene has jumped into the mix of managed-care companies scrambling to bulk up as the health care overhaul changes their business with a \$6.3-billion bid for fellow insurer Health Net.

The deal announced Thursday gives St. Louis-based Centene a chance to expand in two hot growth areas for health insurers, the state- and federally-funded Medicaid program for the poor and people with disabilities; and the federally-supported Medicare Advantage program, which has seen its overall enrollment triple over the past decade.

The health care overhaul is expanding Medicaid coverage to millions as it seeks to provide health insurance for more people. This comes as more states are turning to insurers to help them manage their Medicaid populations.

Centene said the Health Net deal will strengthen its presence in the nation's largest Medicaid market, California, and create a combined company with about 6 million Medicaid members, making it one of the largest in the country.

"Both Centene and Health Net recognize that scale and diversification are becoming increasingly important," Centene Chairman and CEO Michael Neidorff told analysts after the deal was announced.

The acquisition also will build Centene's Medicare business in several western states. As the baby boom generation ages, insurers are seeking to offer more Medicare prescription drug coverage and Medicare Advantage plans, which are privately run versions of the federally-funded program for people over age 65 and the disabled.

About 16.8 million people were enrolled in Medicare Advantage plans as of March, according to the nonprofit Kaiser Family Foundation, which studies health care issues. That figure grew by

more than 1 million from last year.

"I would say the growth prospect of Medicare is the prime reason someone would add that membership on to their books," said Vishnu Lekraj, an analyst who follows the industry for Morningstar.

Investors and analysts have been expecting huge acquisitions in a managed care sector that is looking to grow as it adapts to the health care overhaul. Some say the Supreme Court's recent decision to uphold a key element of the federal law might spark deals because it removes an element of uncertainty that had been hanging over the companies.

On June 20, Anthem went public with a more than \$47 billion cash-and-stock bid for Cigna, which Cigna rejected in a letter sent to Anthem the next day.

Both the Wall Street Journal and Bloomberg have reported, citing sources they have not identified, that Aetna is pursuing the Medicare Advantage provider Humana Inc., in a deal that would join the nation's third- and fifth-largest health insurers.

"The wave of consolidation sweeping the (managed care) industry is accelerating as players seek to establish their own market position," Leerink analyst Ana Gupte said in a note to investors announcing the Centene deal.

She added that she expects the nation's biggest insurer, UnitedHealth Group Inc., to jump in with a competing bid for Health Net or possibly both companies.

A UnitedHealth spokesman said his company doesn't comment on rumors or speculation.

Insurers see several potential advantages to combining. An acquisition would give them more customers over which to spread the costs of

providing coverage and processing claims, and it lets them diversify and expand into new markets faster than they can by signing up new customers.

Combining with a competitor also can help an insurer quickly strengthen its technology resources, which is an increasingly vital part of the business.

Centene Corp. plans to pay a combination of cash and stock valued at \$78.57, based on Wednesday's closing price, for each Health Net share. That's a premium of about 21 percent over Health Net's closing price of \$65.06. The deal totals about \$6.8 billion counting debt.

Centene shareholders would have about a 71 percent stake in the combined company, which Neidorff will lead as chairman, president and CEO.

Both companies' boards have approved the acquisition, which is expected to close early next year.

Shares of Health Net soared 11 percent, or \$7.17, to \$72.23 after the deal was announced Thursday, while Centene sank about 6 percent, or \$4.82, to \$76.08.

Like other health insurers, the shares of both companies have hit all-time high prices this year and advanced much further than the broader market. Centene's stock price was up about 56 percent as of Wednesday, while Health Net had advanced 22 percent.

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