

All market and consensus data are as of report date (4/30/2026).

Trading		Capitalization			2023A	2024A	2025A	2026E	2027E	2028E
Share Price (04/30/26)	\$235	Mkt Cap	28,365	Revenue (external)	102,645	117,210	129,789	165,845	176,016	190,062
52 wk Low	\$164	Debt	12,274	Y/Y growth		14.2%	10.7%	27.8%	6.1%	8.0%
52 wk High	\$312	JV Put Option	1,380	Adj. EBIT	4,679	3,247	3,410	2,213	3,586	7,492
BV/sh	\$154	Cash & Equiv.	111	EBIT margin	4.6%	2.8%	2.6%	1.3%	2.0%	3.9%
Diluted S/O (M)	120.7	Deployable Statutory Surplus	2,437	Y/Y bps		-179 bps	-14 bps	-129 bps	+70 bps	+190 bps
				Adj. EPS	\$26.09	\$16.21	\$17.14	\$9.53	\$18.00	\$42.08
Float (M)	119.2	Adj. Ent. Val	39,471	Y/Y growth		(37.9%)	5.7%	(44.4%)	88.8%	133.8%
Avg Daily Vol (\$M)	\$387			EPS vs. street				5.4%	18.7%	73.5%
Shrt Int (% float)	4.6%	Adj. Net Debt	9,726	ROIC	12.7%	8.8%	9.0%	5.6%	9.0%	17.7%
Div Yield	1.5%	Adj. Net Debt/EBITDA ('25)	2.4x	P/E	19.0x	22.5x	12.5x	24.6x	13.1x	5.6x
Notes: ROIC calculation incorporates \$1.5Bn annual buybacks; 2023A–2025A P/E at year-end. Cash excludes investment securities.										

Investment Summary

HUM offers a compelling trough-earnings entry into the #2 Medicare Advantage insurer in the US. EPS estimates have fallen ~70% from peak \$33 to ~\$9 over three years (in-line with the stock price) as the company's Medical Loss Ratio (MLR) spiked from 87.3% in 2023 to ~92.6% in 2026E, driven by a post-COVID utilization surge, medical cost trend that outran government reimbursement, and a company-specific Stars downgrade that created a ~\$3.5Bn revenue headwind largely falling to the EBIT line. In my view, these pressures are peaking: 1) CY2027 Final Rate came in ~240bps above the Advance Notice; 2) CMS removed key measures behind HUM's Stars downgrade and management expects a recovery by 2028/2029; 3) hospital data shows utilization re-baselined; and 4) Q1 results provided constructive evidence of improving or stabilizing MLRs. As MLR normalizes from ~93% toward 88-90% on a ~25% larger member/premium base, I see a path to EPS of \$40-\$50+ over the next 2-5 years with the timing of the recovery depending on MLR performance on a larger book of business and star ratings performance.

Understanding Humana's Business Model and Competitive Advantages

Humana's core business is Medicare Advantage insurance.

Seniors who qualify for Medicare can elect to receive their benefits through a private plan (MA) instead of traditional fee-for-service Medicare (FFS). The federal government pays Humana a fixed amount per member per month (PMPM) to cover members' medical care (doctor visits, hospital stays, prescriptions, etc), which gets updated annually based on medical cost trends (albeit on an 18-month lag). Humana profits when it spends less on care than it collects in premiums (i.e. underwriting margin), so the business is fundamentally about creating a spread by pricing plans accurately, managing member health, and negotiating prices with hospitals and other providers. The company's historical average underwriting margin (1-MLR%) is approximately 12% and there is high operating leverage in the business due to price/cost spread volatility stemming from medical cost trends and reimbursement rates.

Business Mix (2023-2025 Avg)	% of Ext. Revenue	% of EBIT	EBIT Margin
Insurance (core op)	96%	36%	1.2%
CenterWell	3%	42%	7.8%
Investment Income	1%	29%	100.0%
Corp / Unallocated	—	-7%	—
Total	100%	100%	3.2%

CenterWell margin on total segment revenue incl. intersegment.

MA Unit Economics (Per-Member-Per-Month) - Illustrative	PMPM	% of Premium Rev.
Premium revenue	\$1,400	100.0%
-Benefits expense	-\$1,228	-87.7%
Underwriting Margin	\$172	12.3%
SG&A / Opex	-\$137	-9.8%
Operating Income	\$35	2.5%

Premium revenue = (2025 MA Premiums / avg individual MA members / 12). Underwriting margin = (1 – 2019-2025 average Insurance segment benefit ratio).

Humana also operates a provider business (CenterWell), including primary care, pharmacy, and home-health services. CenterWell adds vertical integration to the insurance business by capturing revenue that would otherwise go to outside providers and by coordinating the end-to-end patient experience. For example, when a Humana member fills a prescription at a CenterWell pharmacy or sees a CenterWell doctor, Humana earns on both the insurance side and the services side of the same dollar. CenterWell's senior-focused primary care clinics also lower costs Humana pays as an insurer through preventive care and chronic-condition management.

The third profit engine is investment income: the company collects premiums up front but pays claims gradually over the year, investing the float in conservative Investment Grade and Treasury bonds (4.7% weighted average yield).

Humana's key advantage is its pure-play focus on a single population (65+ seniors) and vertical integration, driving above industry Star ratings. Over 90% of Humana's members and 80% of premium revenue comes from federal government contracts to serve this population. This means all aspects of the business (underwriting, distribution, marketing, provider contracting, compliance, risk, patient management, capital allocation) are optimized for one customer. Humana's provider

% of Members in 4+-Star Plans	2019	2023	2024	2025
Humana	84%	96%	94%	25%
United Healthcare			79%	78%
CVS / Aetna			88%	89%
Industry	73%	72%	74%	62%
Humana vs Industry	11%	24%	20%	-37%
Sources: Company reports, CMS Star Ratings fact sheets, HealthScape Advisors. Industry = All MA + Prescription Drug Contracts (CMS).				

business (CenterWell) also helps drive better patient experience and clinical outcomes. Historically, this manifested in the company's top-quartile star-rating performance (right table), which led to higher reimbursement rates and in turn superior benefits to its members. As a result, Humana has consistently been at the top of the list in terms of member satisfaction rates (right after Kaiser).

The trade-off is that the company is heavily reliant on government reimbursement rates and maintaining star performance to drive profitability, which is why the recent downgrade in 2025 (for benefit years 2026 and 2027) was so detrimental for HUM relative to peers (EPS estimates -73% vs. peers ~-30%). The key question is whether this competitive advantage is now permanently impaired. The stars downgrade and recovery story is discussed in detail in the thesis section. In addition to the above, the company is typically the #1 or #2 MA insurer in the counties where it operates, with ~33% average member share in core markets. This local market density drives negotiating leverage with providers.

"History doesn't repeat, but it often rhymes."

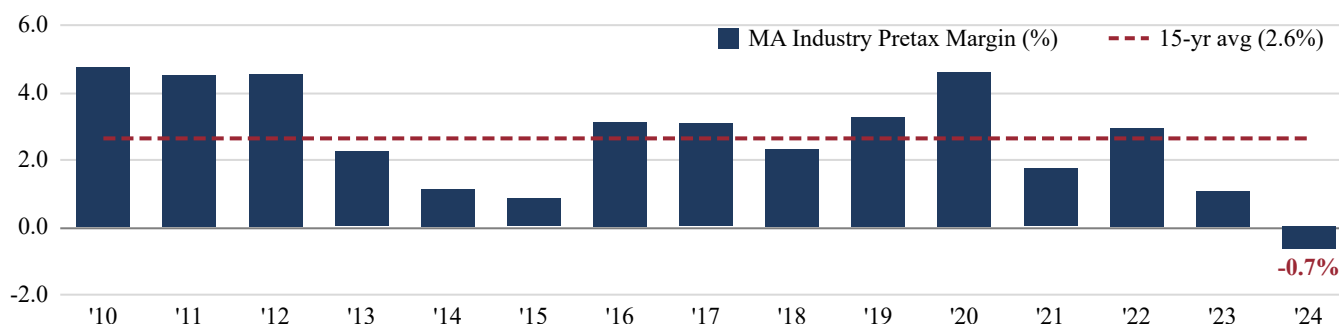
Before we get into Humana's specific margin headwinds, it's important to acknowledge that Medicare facing companies (be it providers or payers) often go through margin cycles that create highly attractive opportunities for investors. The cycles are defined by clear phases: the industry over-earns, a cost or reimbursement/regulatory shock compresses margins, the market extrapolates a pessimistic new normal, price/cost catches up (with companies adjusting to the new rules), and margins (and the stocks) recover. These cycle phases underpin a repeatable investment framework. Below I highlight five select precedents that exemplify this, where the median peak-to-trough drawdown was -75% followed by a +190% recovery.

Representative Company	Business	Cycle	Margins (bps)		Stock Performance		Cycle Time (Yrs)		
			Peak to Trough	Trough to Recovery	Peak to Trough	Trough to Recovery	Peak to Trough	Trough to Recovery	Full Cycle
Aetna	Insurance	Medical cost spike (1998-2003)	-660	+950	-74%	189%	2.0	2.6	4.6
Lifepoint Health	Inpatient Hospital	Medicare reimb. cuts (1999-2005)	-560	+770	-61%	159%	2.3	2.2	4.5
Amedisys	Home Health	Medicare reimb. cuts + regulatory overhaul (2010-2018)	-1090	+700	-82%	714%	1.9	6.4	8.3
PacifiCare	Insurance	BBA Medicare+Choice rate (1999-2005)	-410	+350	-79%	442%	1.7	4.6	6.3
Labcorp	Diagnostics	PAMA reimb. cuts (2017-2020)	-350	+200	-30%	39%	0.6	1.1	1.7
Average			-614	+594	-65%	309%	1.7	3.4	5.1
Median			-560	+700	-74%	189%	1.9	2.6	4.6
Humana	Insurance	Post-Covid Utilization + MA Stars (2022-)	-382	TBD	-71%	TBD	3.4	TBD	
Source: Company filings, FactSet.									

The Current Cycle: Medicare Advantage

The MA industry posted its first underwriting loss in 2024 (-0.7% pretax margin vs 2.6% on average over 15 years). Three drivers explain the cycle. 1) healthcare utilization surged from mid-2023 as patients presented with higher-acuity conditions (deferred care during COVID) which collided with labor tightness and high-cost drug adoption (GLP-1s, specialty therapies), driving medical cost trend from ~5% to ~7-8% annually since 2023 roughly 150-250bps above CMS reimbursement increases. 2) CMS responded to aggressive risk scoring by tightening V28 risk-adjustment, effectively cutting reimbursement and further compressing margins. 3) HUM's Star Ratings collapsed: 94% of members were in 4-star+ plans in 2024, which fell to ~25% in 2025 creating a ~\$3.5Bn net revenue/EBIT headwind in 2026E (4-star+ plans receive a 5% bonus). While peers like UNH were quick to cut benefits for seniors in the face of a negative price/cost environment, Humana admirably resisted the temptation to do so, and its stock was punished for it. I think this decision pays dividends for Humana in the form of market share gains and member retention, both of which are key to the success of an insurance company's long-term earnings power. From a prospective shareholder's point of view, I'd want to own a company that will do the right thing even when it's difficult, particularly in a regulated space like Medicare.

MA Industry Pre-Tax Margins (NAIC)

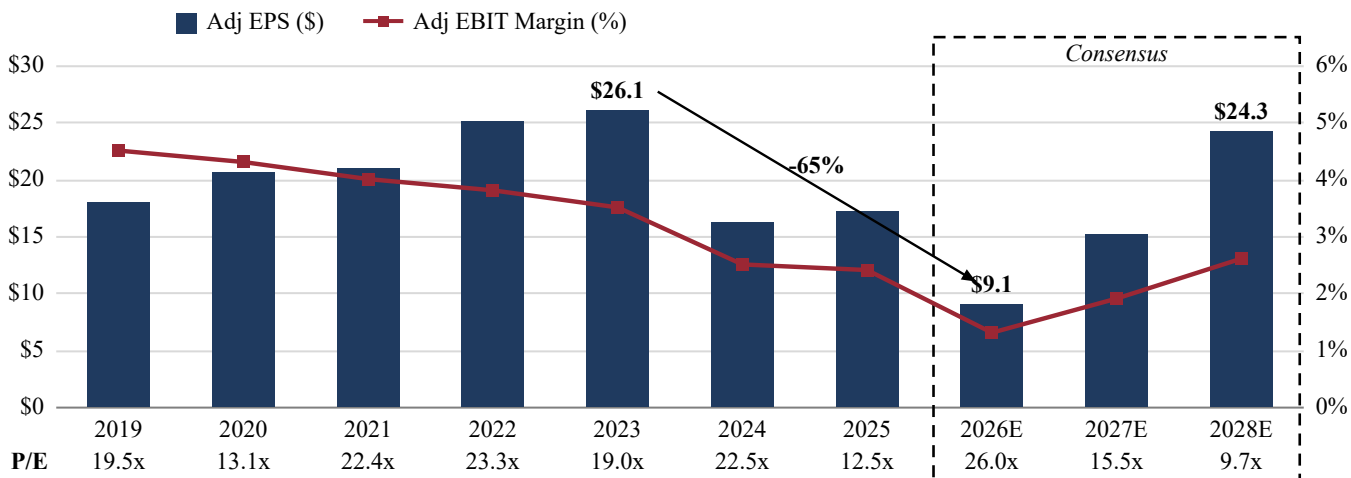


Source: NAIC statutory filings.

Long Humana

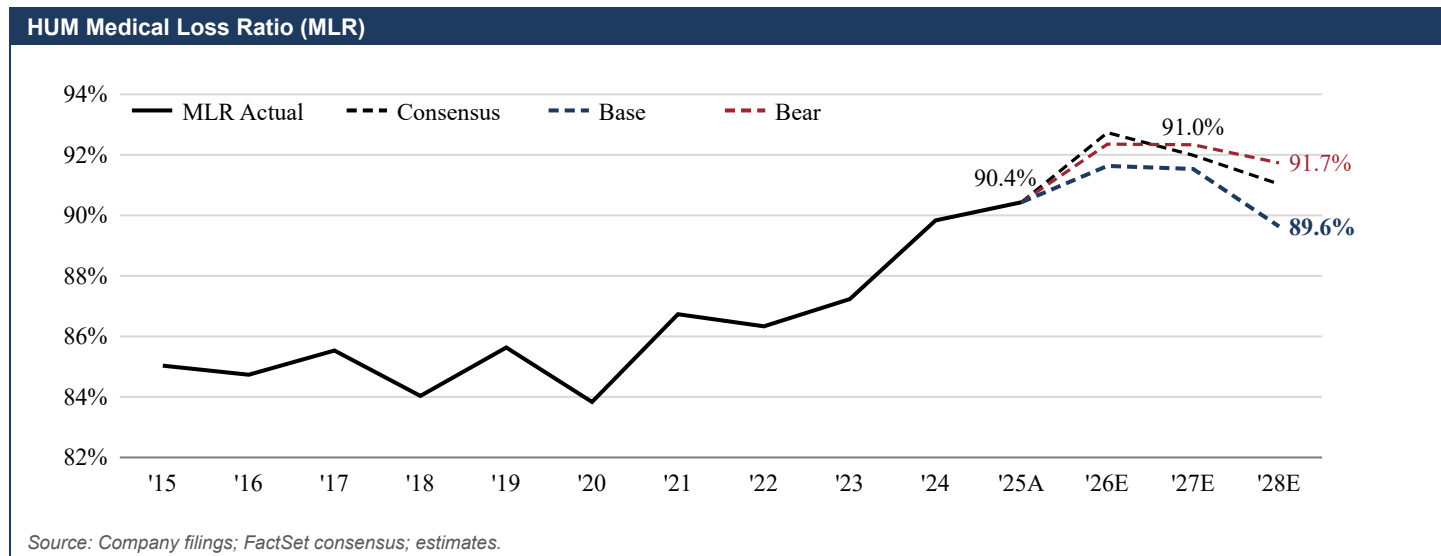
“Peak on trough” setup. The Stars downgrade (94% to 25% of members in 4+ Star plans) locks in the ~\$3.5Bn EBIT headwind in 2026, and management assumes a partial recovery to top-quartile Stars economics by 2028. And due to the price/cost volatility highlighted earlier, companies like Humana often trade like short-cycle businesses. In other words, the stocks follow near-term expectations, and we are being paid to wait while operating leverage rebuilds and Star Ratings recover.

HUM Adj. EPS (\$), Adj. EBIT Margin (%)

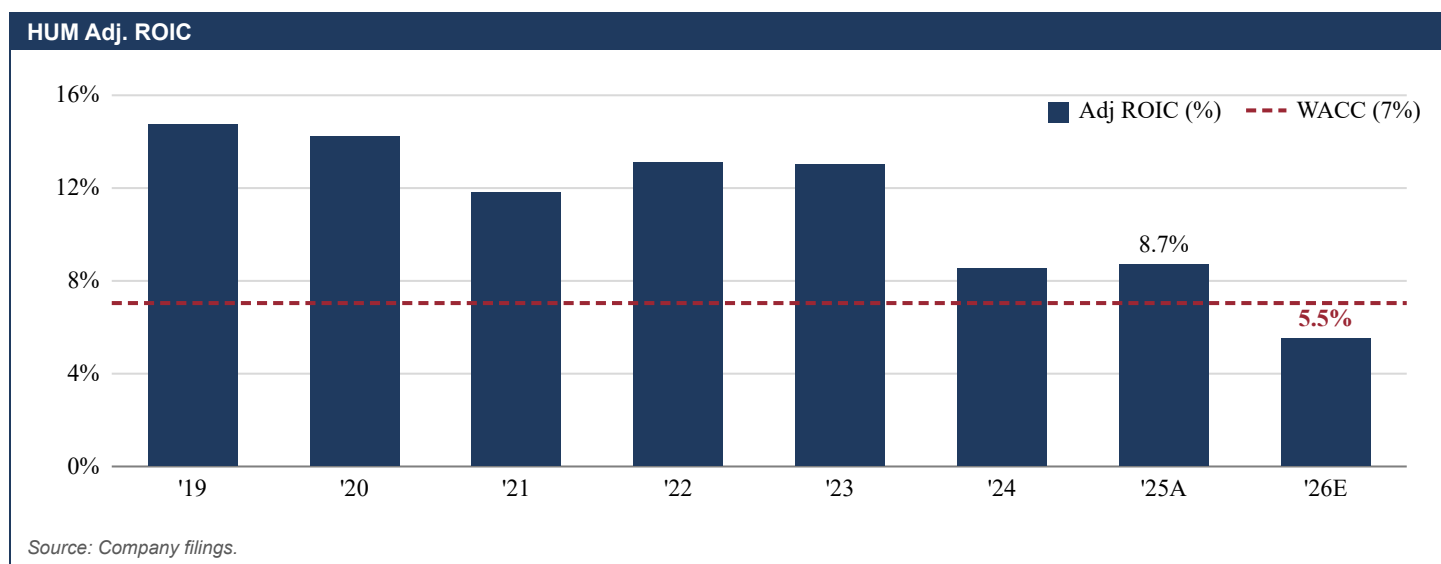


Source: Company financials; Koyfin consensus.

Market Extrapolating a Pessimistic New Normal. Consensus models a ~91% MLR in 2028, well above the 87.5% 2019-2025 average. As of 2024 (the latest available industry data point we have), industry ROIC is below WACC for ~50% of MA capital; HUM's ROIC currently sits at ~5.5% (vs. 5-year average of 12%), with subscale peers likely materially more underwater. The industry cannot operate at current unit economics and the only correcting mechanism is effective price increases or benefit redesigns (which management will incorporate into 2027 bids per 1Q26 commentary).

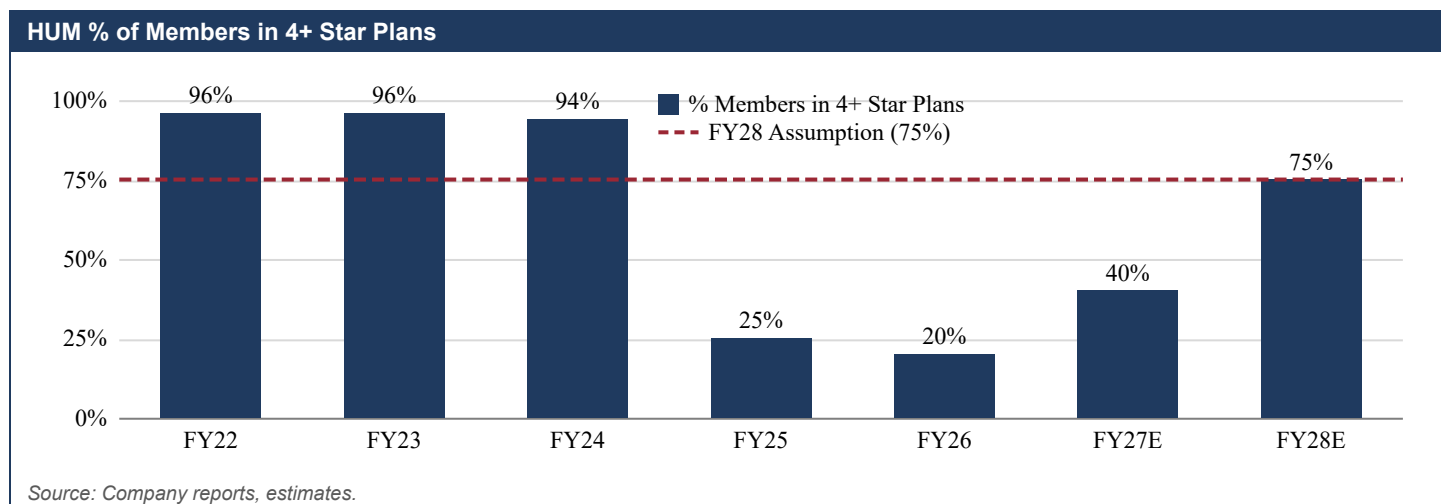


Share Gains From Underwater Subscale Competitors. HUM is a scaled MA franchise (6.4M Indiv MA members) with a top-quartile cost structure and statutory capital of \$14Bn. Competitors are already exiting with the number of plans down -9% in 2024 vs. 2022 (NAIC) with likely more on the horizon. HUM is well positioned to take share, evidenced by membership growth in 2026E of >20%.



Regulatory/Reimbursement Green Shoots Suggest the Trough Is In. The insight here is CMS frequently responds to the industry's questionable or aggressive behavior by instituting changes that compress margins. This can come in many different forms (pure price cuts, adding administrative burden, etc). One could call these "slaps on the wrist" or the governments efforts to maintain an equilibrium. But when the industry has seen enough pain, regulators start showing signs of backing off, at which point the risk reward equation changes. CMS' Final Rate update (April '26) for 2027 came in ~240bps above the Advance Rate Notice and ~120bps above consensus, implying potential price/cost upside in 2027. The key positive surprise was that CMS excluded the proposed 2027 risk-adjustment model, a signal that regulators are becoming less punitive and are acknowledging elevated medical cost trends.

CMS also finalized the 2028 Stars methodology and removed 11 administrative measures, including the call-center audit which was the key downgrade factor for HUM. For background, every year CMS runs a “secret shopper” program where limited-English-proficient test callers phone into MA plan call centers and try to reach a foreign language interpreter, and the plan is scored on the ratio of successful connections to total attempts. Sample sizes are tiny (3-5 calls per plan) and if the call dropped or the connection failed, the attempt was scored as a failure with no second chance. In 2025, Humana’s flagship contract H5216 (~45% of total membership) fell below the 4-Star threshold, pulling the entire contract from 4.5 Stars to 3.5 Stars. Management reiterated confidence in returning to “top-quartile Stars by FY28”, which I translate to a 75% 4-star mix and ~\$1.5-\$2.0Bn bottom line accretion. Combined with the pricing reset and organic operating leverage, MA pre-tax margin expands from ~1.5% to 3%, consistent with management’s targets.



Industry 1Q26 earnings represent the first upward earnings revisions for the industry in over two years. UNH (closest comp) posted a +10% EPS beat with MLR -90bps y/y and FY26 guide raised 2.8%. ELV saw a 9% beat with the guide raised 5%, citing improving claims experience particularly in their Medicare book. And HUM reported EPS at high end of guide (1Q26 EPS was ~110-115% of FY26 EPS) with MLR 60bps below guide, stating that cost trends were slightly better than expected with better visibility relative to prior years. While HUM management didn’t raise the guide of “at least \$9”, the stock was up +5% on the print, another cyclical buy signal (expectations may have bottomed).

Risk/Reward Skewed Heavily to the Upside

Assuming management achieves its stars target of “top quartile stars by 2028” implies a ~160bp tailwind to MLR and would get the company to its 3% MA pre-tax margin target and imply >\$40 in EPS. Applying a conservative 15x P/E multiple (vs. 17.5x 10-yr average) yields ~200% upside in my base case.

In a downside scenario, cost trends remain elevated and stars remain a disproportionate headwind. This would imply roughly flat margins vs. consensus 2027E and ~24% downside to consensus EPS in 2028. Applying a 10x (trough) multiple implies ~22% downside.

FCF inflection creates capital-return optionality. I model cumulative '26-'28 FCF of ~\$10Bn in the base case or >35% of market cap.

Risk/Reward Summary	Base	Downside
2028 Medical Loss Ratio	89.6%	91.7%
Adj. EBIT	\$7,492	\$3,656
margin	3.9%	1.9%
Adj. EPS	\$42.1	\$18.4
vs. Consensus	74%	-24%
Adj. EPS (incl. \$1.5Bn ann. buyback)	\$48.2	—
Target P/E Multiple	15.0x	10.0x
Target Price	\$723	\$184
% Upside/Downside	207%	-22%
Skew vs. Downside	9.6x	
Base target price uses \$48.2 EPS (incl. \$1.5Bn annual buybacks); downside uses \$18.4 EPS (ex. buybacks).		

Alternative Valuation: Earnings Power Value Analysis

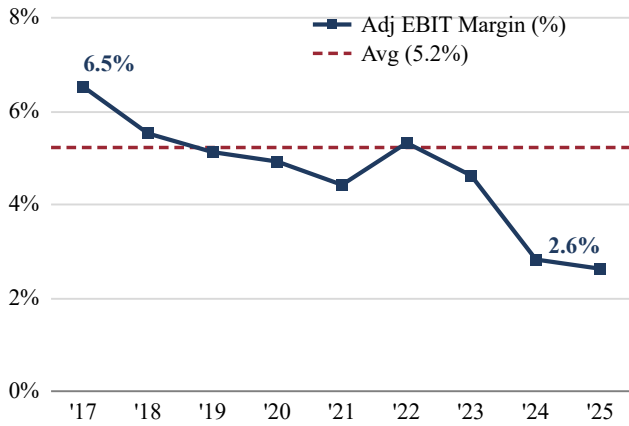
At \$235 (~\$28Bn market cap), the implied sustainable EBIT margin is 2.1-2.7% across a WACC range of 6.5-8.5% - in-line with 2025's (still depressed) 2.6% EBIT margin or ~half the 10-year average. In other words, the market is underwriting structural impairment and >90% MLRs, implying a permanent reset to the company's long-term earnings power rather than a temporary headwind. Assuming a normalized 3.8% margin, consistent with the earnings framework presented at Investor Day, on the 2026E revenue base produces an equity value of approximately \$58Bn, or \$479/share (104% upside).

For the current share price to represent fair value, Humana would need to earn only modestly above its cost of capital on its existing capital base indefinitely.

EBIT Margin \ WACC	6.5%	7.0%	7.5%	8.0%	8.5%
1.5%	\$146	\$129	\$114	\$101	\$90
2.0%	\$225	\$202	\$183	\$166	\$150
2.5%	\$304	\$276	\$251	\$230	\$211
3.0%	\$384	\$350	\$320	\$294	\$272
3.5%	\$463	\$423	\$389	\$359	\$332
4.0%	\$542	\$497	\$458	\$423	\$393
4.5%	\$621	\$570	\$526	\$488	\$454
5.0%	\$701	\$644	\$595	\$552	\$514
5.5%	\$780	\$718	\$664	\$616	\$575
Implied Margin @ \$235	2.1%	2.2%	2.4%	2.5%	2.7%
<i>Shaded row: sustainable EBIT margin implied at the \$235 stock price.</i>					

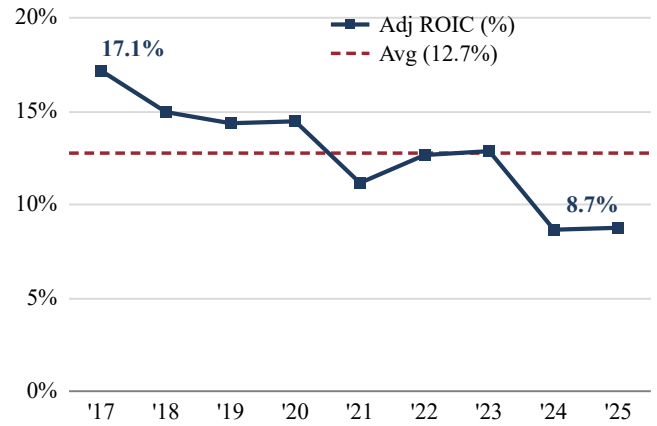
EPV Calculation / Scenario Analysis	Base	Bear	Bull	2025 Margin	Notes
Revenue (\$mn)	\$165,845	\$165,845	\$165,845	\$165,845	Using 2026E revenue as memberships +25% y/y
Sustainable operating margin	3.5%	1.5%	4.5%	2.6%	2025 = 2.6%
Operating income	\$5,805	\$2,488	\$7,463	\$4,312	
Adjustments					
+Over/(under) depreciation adjustment	\$0	\$0	\$0	\$0	HUM D&A = capex over cycle
+Growth expenses	\$415	\$415	\$415	\$415	0.25% of revenue: CenterWell de novo + member acq
+Extraordinary items	\$0	\$0	\$0	\$0	Already netted out in margin smoothing
Total adjustments	\$415	\$415	\$415	\$415	
EPV Adjusted operating income	\$6,219	\$2,902	\$7,878	\$4,727	
<i>margin</i>	<i>3.8%</i>	<i>1.8%</i>	<i>4.8%</i>	<i>2.9%</i>	Corresponds to sensitivity table above
x (1 – tax rate)	75.0%	75.0%	75.0%	75.0%	
Sustainable EPV NOPAT	\$4,664	\$2,177	\$5,908	\$3,545	
/ WACC	6.77%	6.77%	6.77%	6.77%	4.4% Rf, 4.29% ERP (Damodaran), 0.82 beta, 5.5% PT CoD
EPV Operating Business	\$68,875	\$32,142	\$87,241	\$52,345	
Bridge to equity value					
+Cash & equivalents	\$111	\$111	\$111	\$111	Excludes investment securities
+Deployable statutory surplus	\$2,437	\$2,437	\$2,437	\$2,437	Investments above statutory minimum + claims reserves (estimated)
-CenterWell primary-care JV put obligation	-\$1,380	-\$1,380	-\$1,380	-\$1,380	Primary care JV put option
-Debt	-\$12,274	-\$12,274	-\$12,274	-\$12,274	
EPV Equity	\$57,769	\$21,036	\$76,135	\$41,239	
EPV per share	\$479	\$174	\$631	\$342	
Current market price	\$235	\$235	\$235	\$235	
Implied upside / (downside)	104%	(26%)	168%	45%	
APV (Book Equity)	\$18,580	\$18,580	\$18,580	\$18,580	
APV per share	\$154	\$154	\$154	\$154	
EPV vs. APV	211%	13%	310%	122%	
ROIC Calculation					
Sustainable EPV NOPAT	\$4,664	\$2,177	\$5,908	\$3,545	
Total invested capital (incl. gw)	\$31,439	\$31,439	\$31,439	\$31,439	Includes minimum statutory capital and reserve requirements
Total invested capital (excl. gw)	\$20,950	\$20,950	\$20,950	\$20,950	Includes minimum statutory capital and reserve requirements
ROIC	15%	7%	19%	11%	
ROIC (ex. gw)	22%	10%	28%	17%	
<i>Source: Company filings, estimates. EPV = sustainable NOPAT ÷ WACC, a flat perpetuity valuing the business as-is with no growth credit (norm. margins, maint. capex, growth spend added back).</i>					

HUM Adj. EBIT Margin vs. Avg



Source: Company filings.

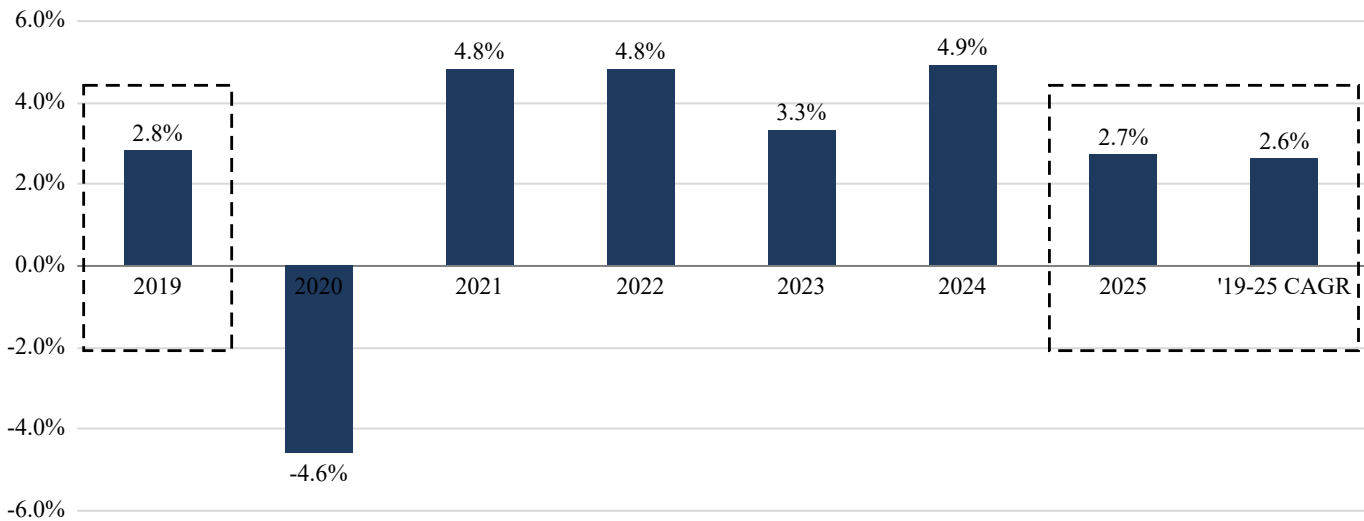
HUM ROIC vs. Avg



Source: Company filings.

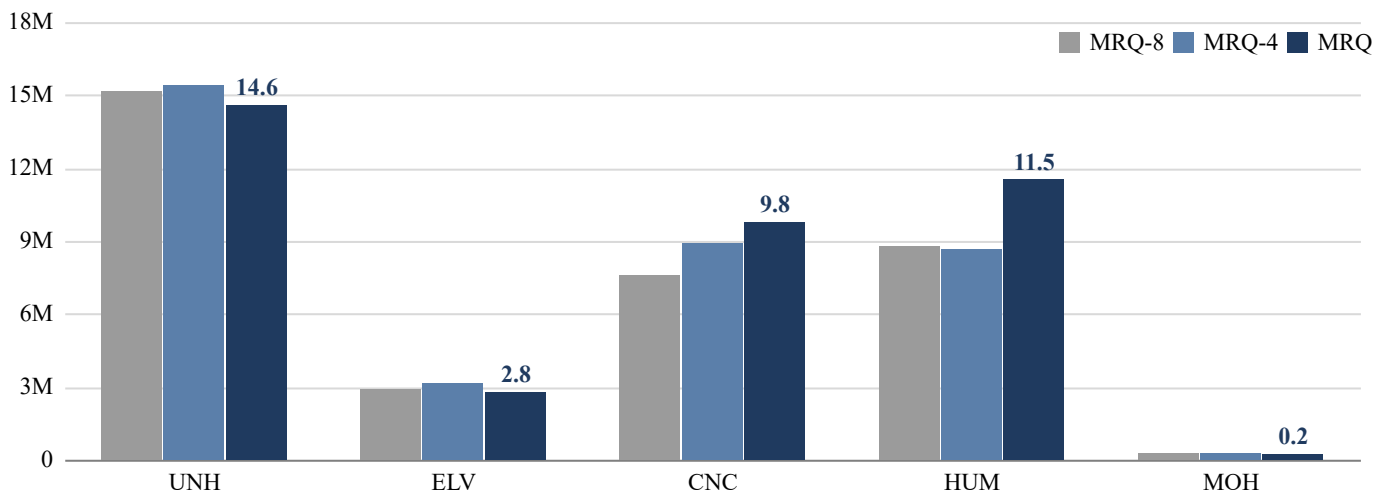
Appendix

HCA (Largest U.S. Hospital Operator) Same-Store Volumes Suggest Utilization Trends Have Normalized



Source: HCA company reports.

Humana's Medicare Membership +25% Y/Y (+33% Including Medicare Supplement)



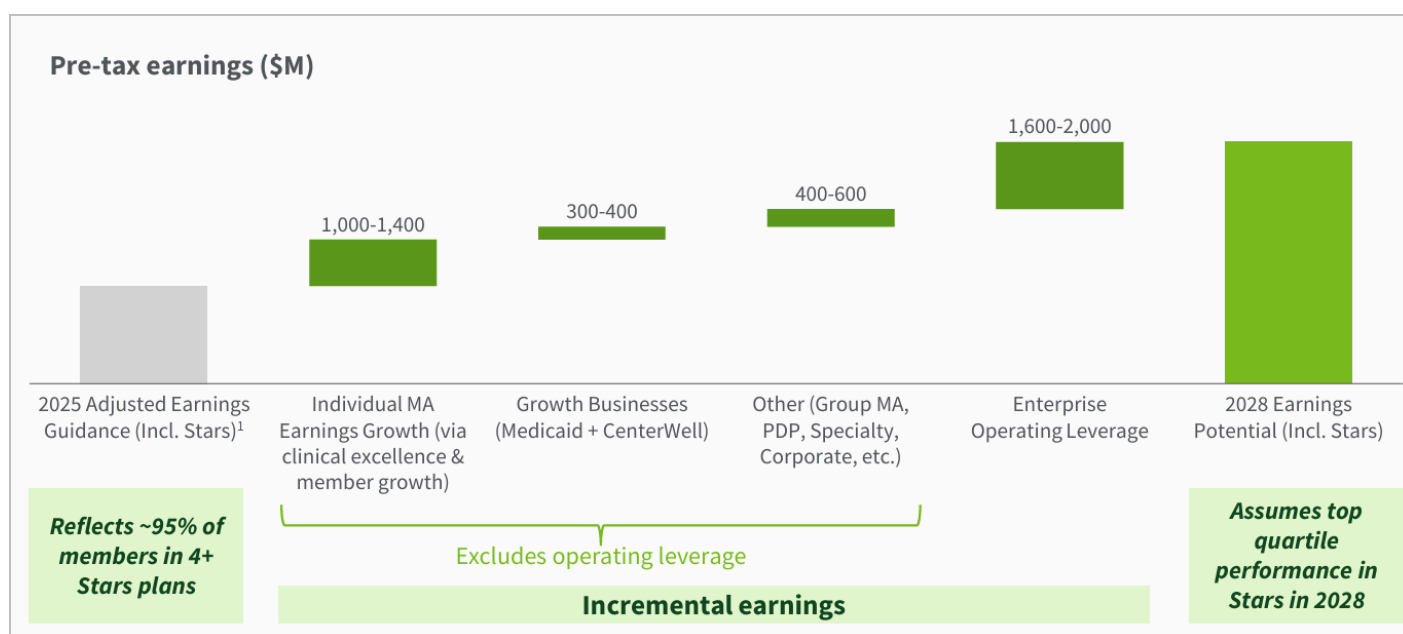
Medicare members, # of members in millions (incl. Medicare Supplement); MRQ = most recent quarter. Source: Company reports.

Our messages

1. Today, our **core** business is **Medicare Advantage (MA)**
2. Medicare Advantage **remains** an attractive sector
3. Our focus is on **delivering** a more **stable** and **compelling MA margin**
 - **Clinical Excellence:** Our North Star, with the bar set high
 - **Operating leverage:** Efficient, tech-enabled operating platform
4. The levers to unlock margin are **within our control**
5. In time, this is expected to enable **steady, profitable** multi-year member **growth**
6. We will continue to allocate **capital to CenterWell and Medicaid**

Source: Humana Investor Day presentation (June 2025).

Management's Earnings Bridge - Implies ~\$37-\$44 EPS by 2028



Source: Humana Investor Day presentation (June 2025).

Our progress can be tracked through key metrics

Trackable Metrics

Individual Medicare Advantage Earnings Growth	Clinical Excellence	• PMPM (per member per month) improvement in Underwriting Margin ¹
	Member Growth	• Member retention improvement ²
Stars Performance		• Stars revenue (PMPM) relative to peers
Growth Businesses	Medicaid	• Medicaid pre-tax margin improvement ³
	CenterWell	• Average contribution margin ⁴ improvement for wholly-owned centers (same store expectations)
Other Lines of Business		• Group Medicare Advantage pre-tax margin improvement ³
Enterprise Operating Leverage		• Operating leverage improvement ⁵

Targeting 3%+ Individual Medicare Advantage pre-tax margin³

Source: Humana Investor Day presentation (June 2025).