



# Centene Corporation

Q4 2025 Earnings Call Insight Report

Competitive Intelligence Analysis for MA Payers

 Insights Summarized from February 6, 2026 Earnings Call

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## EXECUTIVE SUMMARY

The most striking revelation from Centene's Q4 2025 earnings call: management explicitly acknowledged that if they only deliver a stable 93.7% Medicaid HBR in 2025, CEO Sarah London will be "very disappointed"—signaling aggressive expectations for margin improvement beyond the conservative guidance baseline. Despite reporting a challenging 2025 (adjusted EPS of \$2.08 versus \$7.17 in 2024 and Q4 adjusted loss of \$(1.19)), the company positioned for sharp 2026 recovery with guidance of >\$3.00 adjusted EPS (+44% growth). Total revenues reached \$194.8B (+19% YoY) with premium and service revenues of \$174.6B (+20%), while total at-risk membership of 27.6M reflected strategic portfolio rationalization. The 2026 outlook incorporates Medicaid stabilization at 93.7% HBR (though management targets better), Marketplace margin recovery from ~4% pretax following mid-30s% repricing, and Medicare Advantage progression toward 2027 breakeven. This represents a critical inflection year testing whether aggressive operational intervention can offset policy-driven margin compression—with major implications for industry dynamics around Medicaid rate adequacy, post-subsidy Marketplace viability, and MA profitability thresholds in a repricing cycle.

# Strategic Positioning & Key Developments



## Medicaid Margin Stabilization Through Multi-Lever Execution

Q4 2025 Medicaid HBR of 93.0% represents 40 basis points sequential improvement from Q3 and 190 basis points improvement from Q2's 94.9% peak, driven by coordinated execution across rate advocacy (composite rates ended 2025 at +5.5% versus 2024), network optimization targeting outlier providers, clinical management programs (particularly ABA task force analyzing 29-state data), and aggressive fraud/waste/abuse enforcement. 2026 guidance assumes flat 93.7% HBR with mid-4% net rates and mid-4% net trend, though management explicitly communicated dissatisfaction with this baseline and expectation to exceed it.



## Marketplace Profitability Inflection Through Comprehensive Repricing

Management executed mid-30s% rate increases in Q3 2025 pricing cycle to address 2025's -1% pretax margin performance, positioning for ~4% pretax margin in 2026. Membership expected to decline from 5.5M (December 2025) to 3.5M (Q1 2026 ending) following Enhanced APTC expiration, with bronze plans representing >30% of mix (versus 19-24% historically). Q4 underlying trend came in "slightly better than expectations" despite 100 bps adverse development from No Surprises Act accruals and 2023 CMS reconciliation.



## Medicare Segment Bifurcation: MA Progress, PDP Margin Moderation

Medicare Advantage advanced toward 2027 breakeven target with elimination of premium deficiency reserve in Q4 signaling 2026 margin improvement, though business "not quite at breakeven yet" on fully allocated basis. PDP business demonstrated operational excellence navigating IRA headwinds, growing to 8.7M members but with margin expectation moderating from "well into the threes" in 2025 to ~2% in 2026. Segment revenue mix shifting to ~59% PDP / 41% MA.



## Portfolio Rationalization Driving Membership Declines Across Segments

Total at-risk membership of 27.6M reflects deliberate reductions prioritizing profitability over volume across all segments. This represents fundamental strategic pivot from growth to margin focus that management expects will be mirrored across industry.



## No Surprises Act Litigation Escalation and Fraud Enforcement

Company filed multimillion-dollar lawsuit this week against New York provider alleging fraudulent manipulation of in-network/out-of-network claims, signaling more proactive litigious posture. Broader fraud/waste/abuse initiative leverages “75 AI algorithms to score claims data and triangulate potential fraud.”



## Capital Allocation Focused on Deleveraging, No Share Buyback

Ended 2025 with \$400M cash available, total debt of \$17.4B, debt-to-cap of 46.5%, and \$5.1B operating cash flow. 2026 guidance includes zero share repurchase assumption, focusing capital on operational recovery and continued deleveraging.

# KEY LEADERSHIP QUOTES

## Medicaid Margin Expectations Beyond Guidance Baseline



**Sarah London**

Chief Executive Officer

"I will say it again because I will just keep saying it both internally and externally. If all we do is deliver a 93.7 in Medicaid, I will be very disappointed and I know the team will too."

**Strategic Implication:** This is management explicitly setting market expectations above their formal guidance—a rare and aggressive move signaling high confidence in trend mitigation execution. London is essentially promising that the 93.7% HBR guidance represents a conservative floor, not a realistic outcome. This creates both upside potential and execution risk.

## 2026 Earnings Extreme Seasonality Warning



**Drew Asher**

Executive Vice President and Chief Financial Officer

"We expect the majority of 2026 adjusted EPS in Q1 stepping down in Q2, and further to around breakeven in Q3 with a loss in Q4."

**Strategic Implication:** This is CFO Asher preemptively managing expectations for jarring quarterly volatility. The company will report strong Q1, declining Q2, near-zero Q3, and a loss in Q4, yet still hit full-year targets. This pattern creates limited ability to correct course if assumptions prove wrong, since earnings are front-loaded.

## Medicaid ABA initiative - quality and cost discipline



**Sarah London**

Chief Executive Officer

"The second biggest lever is network. And again, you heard me talk about the ABA example but really making sure that we focus our network on the highest performing, highest quality providers, the introduction of clinical management programs, hitting transitions of care and member engagement, program reform."

**Strategic Implication:** Demonstrates sophisticated trend management approach leveraging enterprise data analytics while framing through quality-of-care lens to support state partnerships and rate adequacy.

# FY 2025 FINANCIAL PERFORMANCE

## A. Segment Revenue & Performance Summary

Segment	FY 2025 Revenue	YoY Growth	Q4 2025 HBR	FY 2025 HBR
Medicaid	\$90.2B	+8%	93.0%	93.7%
Commercial (Marketplace)	\$42.0B	+25%	95.4%	87.9%
Medicare (MA + PDP)	\$37.2B	+62%	96.1%	92.0%
Consolidated	\$174.6B	+20%	94.3%	91.9%

## Benefit Expense Ratio & Key Performance Drivers

Centene's consolidated FY 2025 Health Benefits Ratio of 91.9% represents 360 basis points of deterioration from 2024's 88.3%, driven primarily by Marketplace morbidity and risk adjustment adverse development, Medicare PDP impacts from IRA implementation, and Medicaid elevated trend in behavioral health, home health, and high-cost drugs. The company ended 2025 with 46 days in claims payable, \$20.5B in medical claims liabilities, and demonstrated \$2.3B of favorable prior year reserve development.

- **Medicaid Sequential HBR Improvement:** Q4 93.0% represents 190 bps improvement from Q2 peak of 94.9%. Composite rates matured to +5.5% above 2024.
- **Marketplace Operated at Pretax Loss:** Commercial segment reported -1% pretax margin for 2025, driven by risk adjustment receivable deteriorating to adverse development.

- **Medicare Revenue Growth from PDP:** 62% revenue growth reflects PDP membership expansion (6.9M→8.1M) and premium yield increases from IRA direct subsidy changes.
- **SG&A Discipline:** Adjusted SG&A ratio of 7.4% represents 110 bps improvement from 2024's 8.5%.
- **Strong Operating Cash Flow:** \$5.1B in operating cash flow demonstrates underlying business fundamentals remain solid.
- **Goodwill Impairment:** \$6.7B non-cash goodwill impairment in Q3 and \$513M Magellan impairment in Q4 drove GAAP losses.

## 2026 OUTLOOK & STRATEGIC PRIORITIES

### A. 2026 Guidance Summary

Metric	2026 Guidance	2025 Actual	Change / Commentary
Total Revenues	\$186.5-190.5B	\$194.8B	Down 2-4% (membership declines)
Premium & Service Revenues	\$170.0-174.0B	\$174.6B	Flat to -3% (mix shift)
Consolidated HBR	90.9-91.7%	91.9%	-60bps Improvement at midpoint
Adjusted SG&A expense Ratio	7.1-7.7%	7.4%	Maintains discipline
<b>Adjusted EPS</b>	<b>&gt;\$3.00</b>	<b>\$2.08</b>	<b>+44% growth, margin recovery</b>
Adjusted Tax Rate	26-27%	20.4%	Normalization
Diluted Shares (M)	495.6-498.6	494.5	No buyback

### B. Membership Outlook & Strategic Trade-offs

Centene's 2026 membership guidance reflects deliberate profitability-focused portfolio optimization across all segments, with total at-risk membership declining as the company prioritizes margin over volume—a strategic pivot management expects competitors will mirror.

- **Medicaid (Expected: ~12.5M):** Member months down 5-6%, incorporating Florida CMS roll-off, NY Essential Plan changes (~140K members), continued eligibility tightening, and RFP probability-weighted assumptions.
- **Marketplace (Q1 End: ~3.5M):** Declining from 5.5M December 2025 following Enhanced APTC expiration. Bronze plans now >30% of mix.
- **Medicare Advantage:** Intentional membership decline as company refines footprint and value proposition toward 2027 breakeven.
- **Medicare PDP (~8.7M):** High single-digit growth expected through Q1, with segment mix shifting to ~59% PDP / 41% MA.

# KEY RISKS & CONSIDERATIONS

## 2026 Headwinds

- **Medicaid trend** persistence if behavioral health (50% of excess trend), home health, high-cost drugs prove difficult to bend despite targeted interventions.
- **Marketplace risk adjustment execution** - "meaningful payable position" assumption represents massive swing from 2025's adverse development.
- **Extreme earnings seasonality** (majority Q1, loss Q4) limits course-correction ability if underlying assumptions deteriorate.
- **Medicare Advantage 2027 rate** pressure from "more pressured view than industry expectations" in advance notice.
- **No Surprises Act cost** escalation despite litigation posture—Q4 included 100 bps Marketplace HBR deterioration from NSA.
- **Policy uncertainty** (Medicaid work requirements, ACA subsidy restoration, CMS program integrity, state budget pressures).

## Strategic Opportunities

- Industry margin vs growth repricing cycle—if competitors follow Centene's profitability-first approach, creates rational market dynamics.
- Medicaid margin improvement beyond 93.7% baseline through continued trend mitigation. ABA task force model scalable to other behavioral health categories and service lines demonstrating clinical + financial value.
- Marketplace margin recovery execution delivering ~4% pretax margin via mid-30s% repricing and risk adjustment management.
- Medicare Advantage progression to 2027 breakeven through quality improvement, dual-eligible model redesign, SG&A efficiency.
- Medicare PDP scale and operational excellence generate earnings and offset MA investment period amid IRA impacts and direct subsidy dynamics.
- Network optimization and fraud/waste/abuse enforcement leveraging 75 AI algorithms and provider terminations.
- Capital allocation focused on deleveraging (debt-to-cap 46.5%), operational investment, no share repurchases.
- Weakly risk adjustment data transparency partnership positions Centene's actuarial capabilities to outperform if forecasting improves industry wide.

# BOTTOM LINE ASSESSMENT

Centene's 2026 guidance represents a high-stakes bet that aggressive operational intervention can offset policy-driven margin compression—with CEO London explicitly promising to exceed conservative Medicaid HBR guidance and management projecting 44% EPS growth despite membership declines. The strategic narrative is coherent: stabilize Medicaid through multi-lever execution (rates, network, clinical programs, fraud enforcement), recover Marketplace profitability via comprehensive repricing following EAPTC expiration, and progress Medicare Advantage toward 2027 breakeven while managing PDP margin dynamics. Execution credibility rests on tangible proof points from late 2025: Medicaid HBR sequential improvement, Marketplace improved data visibility supporting risk adjustment confidence, and MA premium deficiency reserve elimination.

## Key Dependencies



### Industry pricing discipline

Competitors must mirror profitability-over-growth focus or Centene loses members to aggressive bidders.



### Medicaid trend mitigation

Behavioral health, home health, high-cost drugs must respond to targeted interventions beyond rate increases.



### Marketplace risk adjustment reversal

Moving from 2025's adverse development to "meaningful payable position" is single biggest variable.



### State Medicaid rate adequacy

Mid-4% net rate assumption must hold and ideally improve as two-year trend data incorporate.



### Medicare 2027 rates

"More pressured view" in advance notice could delay MA breakeven timeline if April final rates disappoint.



### Execution on front-loaded earnings

Extreme Q1 weighting limits course-correction ability if Q2-Q4 trends deteriorate.

For MA payer competitors: Centene's margin-first pivot signals industry inflection from growth to profitability focus—management's bet is that policy environment (Medicaid redeterminations, EAPTC expiration, IRA impacts, MA rate pressure) has fundamentally reset competitive dynamics toward rational pricing. If true, this validates similar strategic repositioning across the industry. If Centene's aggressive margin targets prove achievable, it demonstrates that operational intervention (network optimization, clinical programs, fraud enforcement, AI analytics) can successfully offset policy headwinds—creating template for industry. The 2026 results will determine whether this was wishful thinking or realistic roadmap for earnings recovery in a post-subsidy, post-redetermination, post-IRA policy environment.

## REAL-TIME INTELLIGENCE WITH STRATEGIC ADVANTAGE

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