CFA Institute

CFA Institute Research Challenge

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CFA Society of Louisville

University of Kentucky

University of Kentucky Student Research

Sector: Healthcare Industry: Managed Care

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Humana Inc. NYSE: HUM

Feb 11, 2013

Recommendation	
Current Price	$81.35
Fair Value Range	$93-$96
Appreciation Potential	14%-18%

Highlights

Recommendation
Based on our intrinsic valuation estimate of $93-$96, we place a BUY rating on Humana, Inc. (HUM). Our analysis indicates significant undervaluation and a meaningful capital appreciation potential in the year ahead.

Significant concentration of business in Medicare
Approximately 64.6% of HUM's revenues stem from services related to Medicare. As the second largest provider of Medicare services, HUM is a formidable competitor that posts sustainable revenues.

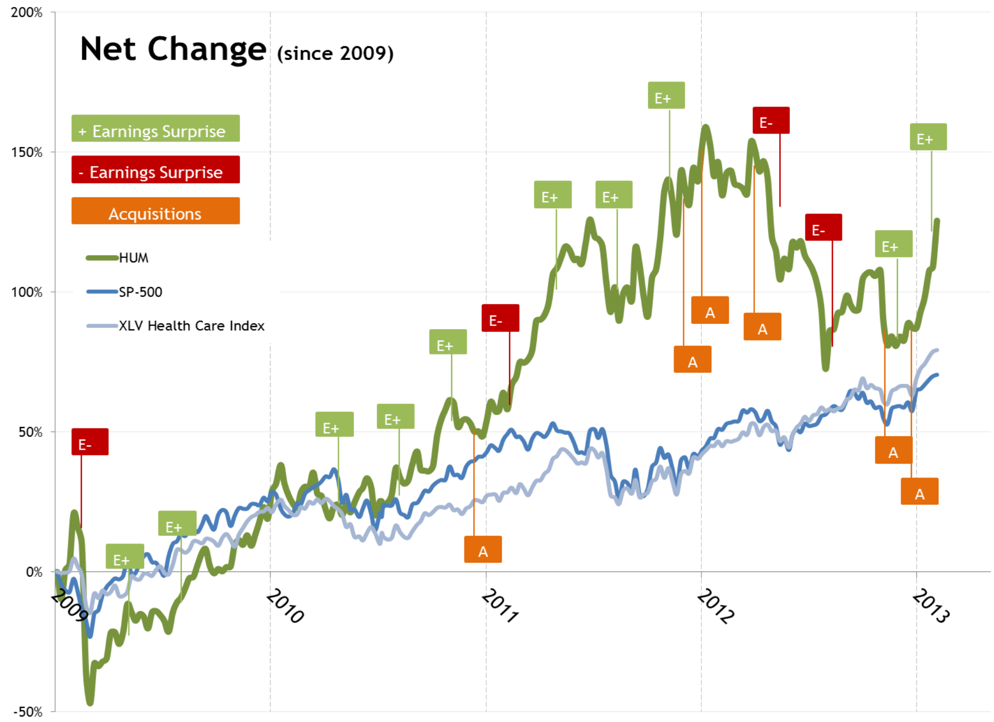
Economic impacts
The Patient Protection and Affordable Care Act (PPACA) should initiate a surge of enrollees for health care coverage, as well as generate substantial increase in national health expenditures over time. Significant growth in the healthcare industry should present considerable opportunities for HUM.

CMS Medicare Advantage Star Ratings marks Humana as a leader
HUM is the only publicly traded company with a CMS 5-star rating on any of its Medicare Advantage plans. CMS is a government agency that assigns quality ratings to plans of industry operators. Second only to UnitedHealth, HUM receives the second highest amount of bonuses due to plans rated 4 stars or higher.

Integrated care initiative
Signifying an understanding of the continuously evolving healthcare industry, HUM has identified a niche market opportunity in integrated care. By reducing administrative costs and utilizing a direct care delivery system via health maintenance organizations (HMOs) and information technology advances, HUM can reduce costs and generate incremental revenue. Recent acquisitions, such as Metropolitan Health Network (MHN) and others have been strategic plays at positioning toward this future direction of healthcare administration. HUM's move toward integrated care will be made possible by an efficient debt structure, allowing for the continued pursuit of acquisitions.

Fourth quarter update
HUM's 4Q 2012 saw a decline in net income. This 3.5% drop-off was the result of an increase in claims from an unexpected flu outbreak. While the increased costs totaling approximately $75 million are in a current state of decline, they still hindered growth in its Medicare Advantage enrollees, which have consistently increased in past quarters. HUM reaffirmed its acquisition strategy and reiterated its future economic benefit. Also of note is HUM's continuing focus on integrated care, which was reflected in its MHN and Certify Data Systems acquisitions.

Market Summary	
52 Week Price Range	$59.92-$93.36
Average Daily Volume (3 mo.)	1,899,040
Beta	0.87
Dividend Yield	1.4%
Dividend Payout Ratio	14.0%
Shares Outstanding	158,764,000
Institutional Holdings	93.1%
Insider Holdings	0.6%
Cash Flow/Share	12.11
Book Value Per Share	55.73
Return on Equity	14.45%
Shares Short (% of Float)	1.40%



Business Description

Overview

HUM is a health services company that provides health insurance products and healthcare services to its members primarily through health maintenance organizations (HMOs) and preferred provider organizations (PPOs) in the United States. HUM was founded in 1961, incorporated in 1964, and is currently listed on the NYSE. HUM is headquartered in Louisville, Kentucky.

Products and Services Offered

HUM's products and services are structured into four business segments consisting of retail, employer group, health and well-being services, and other businesses.

Retail Segment Products—63.4% of 2012 Revenues

HUM provides private health plans through the Medicare Advantage program and offers at least one type of Medicare plan in all 50 states. Under the brand HumanaOne, the company offers customizable individual health plans to consumers.

Employer Group Segment Products—27.1% of 2012 Revenues

HUM offers customizable commercial Point of Service (POS), HMO, and PPO group plans, as well as administrative services only (ASO) plans for employers that wish to self-insure. The company also participates in the Federal Employee Health Benefits Program (FEHBP), providing medical services for Federal employees, retirees, and their families. For employers that provide benefits to current employees and retirees, HUM offers group Medicare health plans to accommodate this segment.

Health and Well-Being Services Segment Products—2.7% of 2012 Revenues

HUM provides prescription drug coverage and pharmacy solutions for individuals and employer groups through HUM's subsidiary, Humana Pharmacy Solutions (HPS). The company also provides primary care services and integrated wellness services. These integrated wellness services include disease management, behavioral health, and work-life services. HUM also provides home care services to individuals with severe conditions and disabilities.

Other Businesses Segment Products—6.8% of 2012 Revenues

In this segment, HUM currently provides services for dependents of both active duty military personnel and retired military personnel under its TRICARE South Region contract with the Department of Defense. HUM's current 5-year contract was renewed in February 2011, took effect in April 2012, and expires in March 2017. HUM also provides services under Medicaid in Puerto Rico and Florida.

Strategic Acquisitions

Metropolitan Health Networks—December 2012

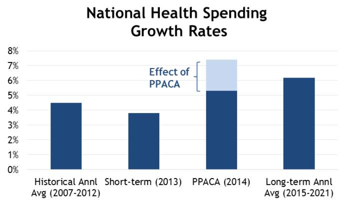
HUM acquired MHN in an $850 million deal. This move is primarily a strategic follow-up to HUM's 2008 acquisition of Florida-based Metcare Health Plans, Inc. By adding MHN to its subsidiaries, HUM expands care possibilities for those already subscribed with Metcare, as it adds over 35 technologically advanced primary care facilities and an entirely new network of physician options. HUM will also pick up 87,500 Medicare Advantage, Medicaid, and other beneficiaries for its care network via the acquisition. This is a step towards integrated care delivery for HUM's increased focus on customer-first offerings. This acquisition was financed through issuance of senior notes and is expected to modestly increase 2013 earnings.

Certify Data Systems — November 2012

HUM acquired health information exchange firm Certify Data Systems in order to keep pace with technological advancements in clinical data recording. Most notable for HUM was the "Health Logix" platform that Certify specializes in. This is an electronic health record system which offers cloud-based technology in order to provide members safer, more organized, and cheaper healthcare. The acquisition of Certify will improve customer experiences and the scalability of HUM's move toward integrated care.

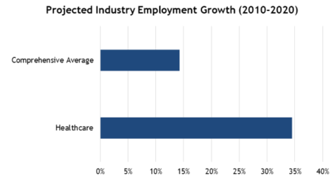
Concentra—December 2010

HUM acquired Texas-based, private healthcare provider Concentra through a $790 million cash deal. Concentra was a privately operated health system consisting of over 330 medical centers spanning 42 different states. This was an attractive addition for HUM, as it widened its integrated care network and provided a geographically expanded care-providing framework. There are almost three million current HUM subscribers living near a Concentra center. The deal was projected to yield a revenue increase of approximately $800M for 2011.

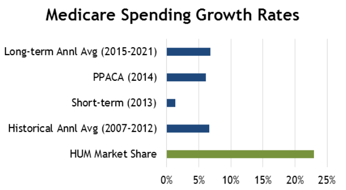


Management

Under management's watch, earnings and stock price growth have been impressive in turbulent times. Part of this change has been exogenous; government actions, including spending increases outside of HUM's control certainly contributed to growth. Within HUM's control was management's ability to effectively capitalize on opportunities presented in Medicare Part D and Medicare Advantage reimbursement increases. Strategic alignment of subsidiaries acquired through effective use of capital, such as the aforementioned purchase of MHN, should contribute to shareholder value.



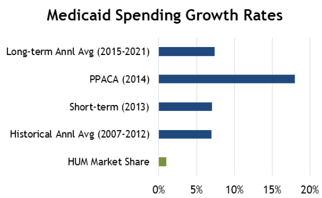
In January 2013, Bruce Broussard was announced as the new CEO of the company, already serving as President since December 2011. Prior to his service with HUM, he served as CEO, CFO, and Chairman of the Board at McKesson Specialty/U.S. Oncology, Inc. These positions have given him extensive experience as an executive in the medical field. In conjunction with impressive experience, Broussard's transition into the role of CEO has been facilitated greatly by his predecessor, Mike McCallister. McCallister, HUM CEO since 2000 and employee since 1974, has helped ease Broussard into the role over the past thirteen months. Broussard seems poised to move positively forward by implementing the acquisition philosophy that has made HUM successful in the past. On his watch, the company successfully acquired MHN in December 2012, a positively received move. Continuing effective use of capital will be a key measurement of management performance going forward.

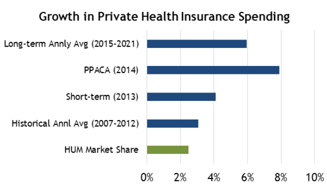


Industry Overview

Strong prospects for healthcare.

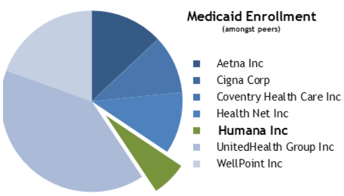
According to the Bureau of Labor Statistics (BLS), the healthcare industry is among the industries expected to have the fastest job growth between 2010 and 2020. Driving this projection is the fact that the entire baby-boom generation will be over the age of 55 by 2020. As the average age of the U.S. population increases, the demand for healthcare related services is expected to increase significantly. Employment in healthcare support occupations is expected to grow more rapidly than any of the other major occupational groups measured by the BLS. In fact, 33% of the projected fastest growing jobs are related to healthcare.



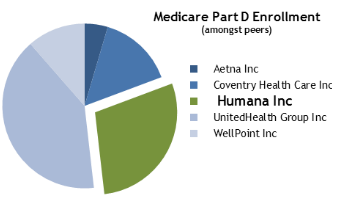


PPACA will significantly increase national health spending.

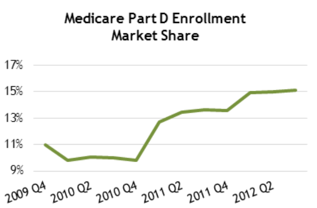
Throughout 2013, national health spending is expected to grow slightly below the average rate experienced over the past five years, as enrollees hold out for services until full implementation of nationalized healthcare. However, due to the implementation of the PPACA in 2014, national health spending is expected to increase significantly. After the implementation, national health spending should subside slightly in the following years. Through 2021, the U.S is expected to see a new trend of increased national health spending.



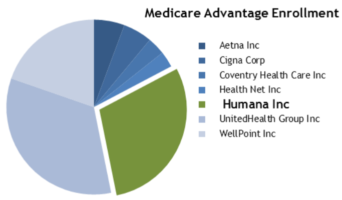
Over the next few years, changes in Medicare spending is expected to have the largest impact on HUM's operations. In the short-run, growth in the spending on Medicare is expected to slow to a mere 1.3% due to a significant physician payment rate reduction of 30.9%. Upon implementation of the PPACA, Medicare spending growth is expected to return to the approximate norms seen historically over the past five years. The growth stems from the continued increase in the number of Medicare enrollees as the population age increases due to the baby-boom generation.



The most significant growth in national health spending is expected to be driven by the growth in Medicaid spending. The growth in Medicaid spending is expected to increase from 7% in 2013 to 18% in 2014. This is one of the most significant provisions of the PPACA, as enrollment in Medicaid is expected to increase 34.8% in 2014. HUM, however, holds only a miniscule slice of the Medicaid spending market share. After the major impact in 2014, Medicaid spending should subside back to regular growth rates that have been seen historically in the program.

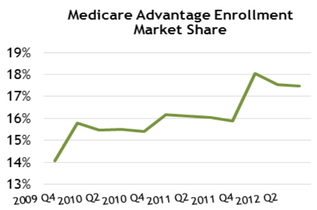


Private health insurance spending growth should follow a similar pattern, increasing significantly in 2014 and then subsiding in the following years. This growth is driven by an estimated 12.3 million people obtaining private health insurance coverage in 2014. Prescription drug spending is expected to increase as well. Newly insured individuals are expected to be younger and healthier than currently insured individuals. These individuals are expected to increase the proportion of expenditures on clinical services and prescription drugs, rather than hospital



utilizations and other health services typically utilized by elderly individuals.

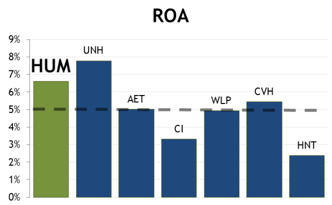
The expansion of Medicaid through the PPACA, the baby-boom generation becoming eligible for Medicare by age, and the increase in healthcare subsidies from the government are driving the expected increases in national health spending. The overall increase, both in the short and long-term, leaves sizeable opportunities for HUM to grow its operations both through future acquisitions and organically.



Insurance Coverage demand will decline in 2013, but 2014 holds future opportunities.

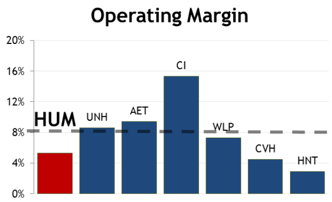
Investors remain cautious of the PPACA's implications. However, with its proactive growth strategies, HUM is poised for long-term growth. Consumer hospital utilization is currently well below typical norms. This is due, in part, to a number of consumers postponing medical care until the PPACA is in place. In 2014, approximately 30 million more Americans will obtain health coverage. This places hospitals, clinics, and health insurance providers in an outstanding position to boost revenues through the substantial increase in consumers come 2014.

Competitive Positioning

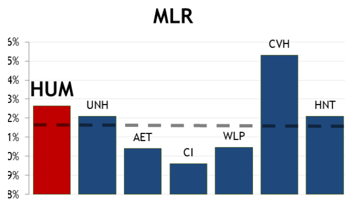


HUM's major competitors are (in descending order of market capitalization): United Health (UNH), Aetna (AET), Cigna (CI), WellPoint (WLP), Coventry Health Care (CVH), and Health Net (HNT). For HUM's two major product segments, Medicare Advantage and Medicare Part D, it controls the second largest market shares. In addition, HUM has been able to steadily increase its market share from the end of 2009.

Profitability

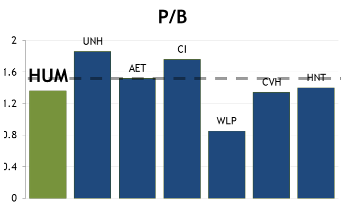


Though HUM's return on assets (ROA) is above average for the industry, the company has a below-average operating margin. We think this is due in large part to the competitive pricing structure put in place to gain traction for operating in new regions. In terms of the industry's central profitability ratio, the medical loss ratio (MLR), HUM is slightly above the industry average. Regulation has set a floor to this so that healthcare companies no longer gain a large competitive advantage on the MLR. With PPACA's requirement of the 80/20 and 85/15 rules, the MLR is now a function of product segmentation. Though HUM's margins are below industry average, its efficiency makes the company's profitability attractive.



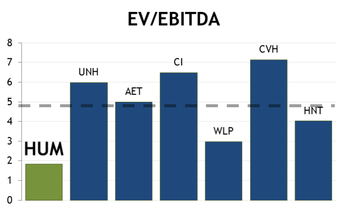
Valuation Ratios

From a value standpoint, HUM looks favorable amongst competitors on the standard ratios. It falls favorably below the average on Price/Book (P/B) and Price/Earnings (P/E) ratios. It also has an especially attractive Enterprise-Value/EBITDA (EV/EBITDA) ratio. This is in large part due to the deleveraging of the company as well as its large cash position. We see potential value in this as the company is able to generate large gross profit relative to its competitors. This also exhibits efficiency in the company as it is able to maintain large market share relative to the size of its balance sheet.



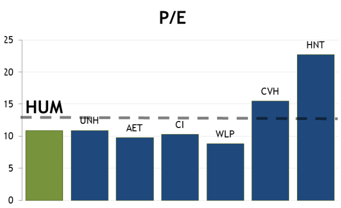
Dividend Yield

In June 2011, the company began distributing dividends. The current yield is approximately 1.4%, slightly below average for mature companies like UNH, WLP, and AET. Though this seems late given HUM's historical position in the industry, we don't find it to be a major issue. WLP began paying dividends at around the same time, and the others that have a long history of distributions, starting to competitively increase their rates within the last 3 years.



CMS Star Ratings

Since 2007, Centers for Medicaid and Medicare (CMS) has implemented Medicare Advantage Star Ratings to provide transparency of plans to the public. As of fiscal year end 2012, over 40% of HUM's plans are rated at least 4 out of 5 stars. HUM is also the only publicly traded company with any plans rated at 5 stars. As of 2012, plans with ratings of 4 stars or higher receive bonuses. Contingencies of these bonuses only improve HUM's integrated care delivery model, since they must be reinvested into the plan qualities or benefits. For the upcoming bonus year 2014, the company's average star rating increased from 2.38 to 3.82. HUM receives the second highest amount of bonuses amongst publicly traded companies. The company is second only to UNH, a company with nearly 5 times the market capitalization of HUM.



Financial Analysis

Profitability

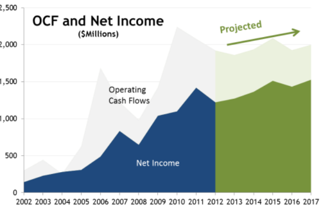
Healthcare will likely remain a highly regulated industry for years to come. As such, the profitability of health insurance providers could be limited. Namely, the aforementioned minimum required MLRs and higher provider care standards will be major contributors. HUM's net margins have steadily increased from 1.27% to 3.85% (2002-2011). However, government regulation will potentially curtail future growth (profit margin down to 3.12% in 2012). With the vertical integration component of HUM's business strategy, it could possibly avert extreme pressure over the long term.

Efficiency

Over the past 2.5 years HUM has maintained a fairly consistent asset turnover ratio (ATR) with a slight downward trend. This is due in part to the recent acquisition of MHN which has annual ATR lower than HUM's. MHN's growth continues to impact consolidated data, which explains the ATR trend . Over the next few years this trend is expected to continue due to the vertical integration costs and regulation overhauls. In the long run, the current change is expected to be worth the risk.

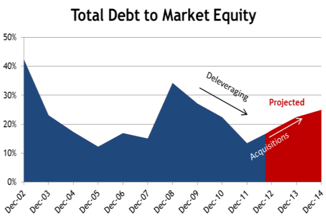
Liquidity

Over the past five years HUM has taken aim at innovation through a vertical integration strategy, the affects of which are apparent on the balance sheet. Lower cash reserves have been a trend over the past 5 years as HUM has expanded through means of several acquisitions. In 2007 and 2008 cash ratios were approximately 15% of total assets whereas 2012 numbers have shrunk to 6.5% However, there is no reason for concern because of the offsetting rise in investments on the balance sheet. Over the past five years, HUM has seen an increase from 36% in 2007 to 49% in 2012 in the investment to total assets ratio.



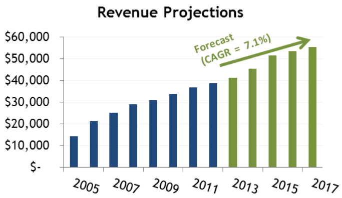
Earnings

HUM's earnings fell year over year for FY2012 to $7.47 but were above management's expectations. Guidance for 2013 is for an increase to $7.60-$7.80/share (diluted), or about 3%. Margins are decreasing, but because of projected enrollment increases, we expect a modest growth in earnings. We expect between 4-7% EPS growth for the next 5 years, slower than the overall sales growth. HUM's Operating Cash Flows (OCF) have remained well correlated with earnings. This is a sign of good earnings quality, and we expect this to continue into the future.



Debt

From management's discussion during a recent earnings call, HUM will finance its future acquisitions primarily with debt. As has been the theme throughout the U.S. economy, HUM has deleveraged its balance sheet post-2008 crisis. This was primarily achieved by retiring $562M in long-term debt during FY2009. HUM has historically carried a 15-25% total debt/assets load. Moving forward, as the company vertically integrates through acquisitions, we expect this ratio to move into the range of 25-30% by 2014. From the most recent 8-K, the ratio has increased from 17% (Q3 2012) to just under 22.5%. This will lower the weighted average cost of capital (WACC) for the company moving forward, and along with share repurchasing, will make the equity more valuable. But for valuation purposes, we applied an estimated debt/equity ratio to the present value of future cash flows to extract the equity portion.



Revenue

HUM has demonstrated the ability to consistently grow revenues and add enrollees. From the CMS projections of increases in the medical care industry, an annual growth rate of 7-9% is expected as the PPACA comes online in 2014. We project HUM's revenue growth rate will increase through 2015 and then taper off to a more conservative 3.75% for 2016-2017. For our base case, this results in a CAGR of just over 7% (on the low end of CMS's total growth estimates). Though the company will face regulatory standards that decrease profitability, we believe that HUM will be able to continue to attract customers and grow its sales, especially beginning in FY2015 as its recent acquisitions become fully integrated.

Cash Flows

In 2012 HUM had net cash provided by operating activities of $1.9 billion. This allows HUM to enact shareholder friendly actions such as acquisitions ($1.2B), dividend payments ($165B), stock buybacks ($518M), and debt pay-down ($36M). It is attractive that HUM is proactively engaging in strategic investments rather than hoarding its cash. Although some

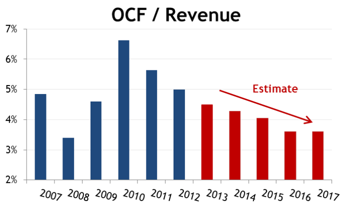
Base Case	
Current Price	$ 81.35
Perpetual Growth Rate	1.735%
WACC	9.06%
Terminal Value	21,190,924,324
Net Present Value of Future CF:	18,218,648,972
Cash & Cash Equivalent (12/31/2012):	1,306,000,000
Debt	4,303,121,716
Equity	15,256,522,447
Share Price	$ 96.10
Upside	18%

might have wished for this to begin sooner, we are glad HUM demonstrated restraint. Now that the implementation of the PPACA was secured following the 2012 election, patience should prove favorable.

Valuation

Discounted Cash Flow: FCFF

A Free Cash Flow to the Firm (FCFF) model took previously stated Financial Analysis assumptions to project future cash flows and discount them back to the present. We implemented these projections from Q4 2012 to 2017. The DCF model relied upon many variables, but some of the major factors were WACC, operating cash flow (OCF), and perpetual growth rate. The model was constructed by projecting free cash flow available to the firm for 6 years, using a growth model to predict a terminal value. For modeling purposes we used *FCFF = OCF + IE*(1-T) - CAPEX*. We then discounted the future cash flows to the present, added in Cash and Cash Equivalents (mrq.) of $1.3B, and applied a debt-to-market equity ratio of 28% (in the middle of the forecasted future range). This was done instead of subtracting out the current value of debt. Rather than forecasting total debt and equity value, this was a more stable method of extracting an equity portion of the fair value target. For our base case scenario, erring on the side of conservatism provided a fair value of $96.10.

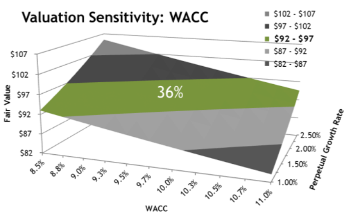


Operating Cash Flow

As stated, we expect government healthcare reform to put pressure on profit margins for HUM. For the past 5 years, HUM has managed a 5% OCF/Revenue ratio. In the 5 year projections, we began at 5%, but we expect this to deteriorate to below 4% in our base case projection from 2012-2017.

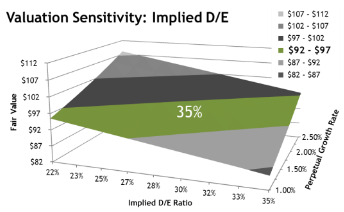
Interest Expense, Tax Rate, and Capital Expenditures

For the base case, interest expense (IE) was projected using the historical average of 0.25% of total revenues. HUM's tax rate (T) was projected at a constant 37%, both historical average and management's guidance for 2013. Historically HUM spends 0.95% of revenues on capital expenditures (CAPEX). However, given HUM's acquisition integration strategy, we projected CAPEX at a more aggressive (valuation conservative) 25 bps above historical average, 1.2% of revenues.



Weighted Average Cost of Capital

HUM's current debt to market equity ratio is 22.5% (Q4 2012 results). From a weighted average of outstanding long and short term bonds, we calculated a 1.07% cost of debt. For the equity portion, the Capital Asset Pricing Model (CAPM) was used with a relatively aggressive 10% market risk premium and 2.13% 10-year Treasury STRIPS yield to err on the side of caution for equity cost. The 3-year beta (to S&P 500) of HUM was calculated to be 0.87. This resulted in a WACC of 9.1%.



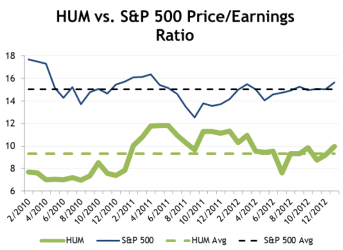
Industry Perpetual Growth Rate

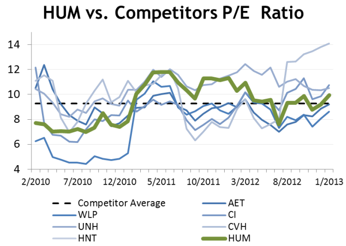
In the medium term, we expect the growth rate for healthcare to increase at a more rapid pace as our 7% revenue growth rate indicated. However, to calculate a growth rate into perpetuity, a more conservative value was used by averaging the 5-year US population growth rate of 0.97% and a conservatively projected 2.5% GDP growth. This gave an average 1.73% perpetual growth rate.

	Model Inputs					
	2012	2013	2014	2015	2016	2017
Revenue	$39,126	$41,363	$45,332	$51,591	$53,537	$55,557
%chg (yoy)	6%	6%	10%	14%	4%	4%
Operating Cash Flow	1923	1820	1904	2064	1927	2000
	-8%	-5%	5%	8%	-7%	4%
Int Expense*(1-Tax Rate)	61	65	71	81	84	87
	7%	6%	10%	14%	4%	4%
CAPEX	-410	-496	-544	-619	-642	-667
	18%	21%	10%	14%	4%	4%
FCFF	1574	1389	1431	1525	1369	1421
	-12%	-12%	3%	7%	-10%	4%

Sensitivity

We stress tested the model, varying WACC and the implied debt/equity ratio against the perpetual growth rate (from 1% to 2.5%). Varying the WACC from 8.5% to 11% yielded a fair value range of $84-$105. Similarly, varying the implied D/E ratio from 22% to 35% yielded a fair value range of $86-$108. Over a third of the results fell within the $92-$97range. This reiterates our fair value target range of $93-96.

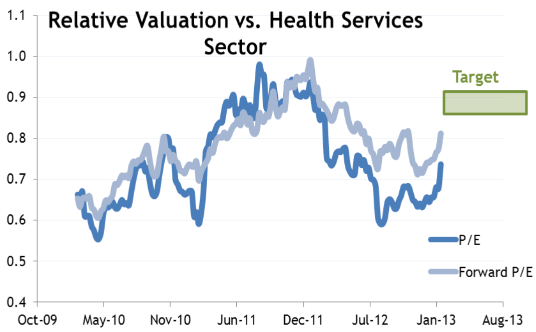


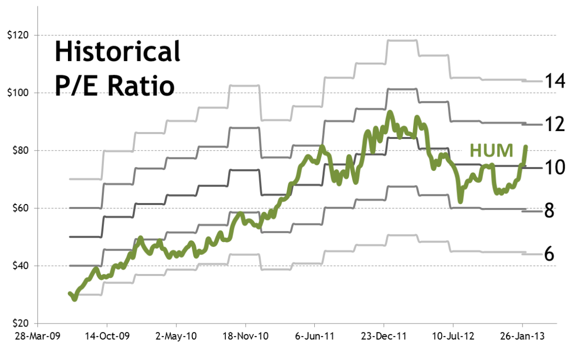


Price Multiples Valuation

HUM has traded at an average trailing P/E ratio of 10.1 over the past 36 months, lower than that of the S&P 500 Index (14.1) and the S&P 500 Healthcare Sector GICS Index (12.2). HUM, at its recent price, had a trailing P/E of 11.2, which is below the current multiple for the S&P 500 (14.8), the Healthcare Sector (14.5) and our selected peer group (13.0). Therefore, HUM appears somewhat undervalued relative to the general equities market, its sector, and a comparable peer group. Despite a potentially turbulent 2013 healthcare environment, management dictated its forward-looking 2013 earnings number of $7.60-$7.80 versus $7.47 in 2012. For our valuation framework, we choose the mid-point of management's earnings guidance, $7.70. For a secondary fair value estimate, we looked at both relative and absolute P/E. Currently, HUM is trading at a 23% discount to the sector's trailing P/E.

For our relative valuation, we used a target 15% discount, which was in the upper third of the 3 year historical relative valuation. This yielded a target P/E of 12.3, which we then applied to 2013 estimated EPS of $7.70, resulting in a target fair value of approximately $95. For absolute valuation, the mid-point of management's earnings guidance and a P/E multiple of 12.1 (near the upper end of the 3-year range of 7.2-12.6) produced a fair value range of $93 per share, or the low end of our fair value range. Given HUM's history of positive earnings surprises and a generally favorable longer term outlook, this implied multiple expansion (target multiple of 12.1 versus current trailing multiple of 11.2) seems attainable. We note that our target multiple assumption of 12.1 is still below the current trailing multiples for the overall market, the sector, and an industry peer group.





Strengths

- Integrated Care Network
- Diversity of Products
- Ability to integrate acquisitions
- TRICARE South Region Contract
- Member focus

SWOT Analysis

Strengths

With recent acquisition of integrated care specialist Metropolitan Health Networks along with many other calibrated expansionary moves, HUM is coordinating a strategic position in integrated care. It is observed in the industry that "coordinated care management and delivery…is critical for the success of private insurers," according to a Sanford Bernstein & Co. Analyst.

HUM boasts an impressive array of products and services, spanning from private Medicare retail products to military supplemental programs.

Many of HUM's acquisitions have been geographic plays and attempts to expand integrated care lines. This is no more evident than in HUM's acquisition of Concentra, a healthcare provider with over 330 medical centers in 40 states.

In February 2011, TRICARE Management Activity, a branch of the Department of Defense, gave HUM the exclusive right to the T-3 contract, which has since been contested by competitive bidders and upheld in HUM's favor. This makes HUM the sole healthcare administrator for the T-3 contract.

HUM intelligently tailors its business model to fit well with customer needs. It offers members unique opportunities, such as the "Mail-Order Rx" plan, which mails prescription drugs for home delivery via mail for cost-savings, accuracy, and convenience.

Weaknesses

- Size of network relative to competitors
- Low Margins
- Government contract reliance

Weaknesses

One of the larger problems HUM faces is its small size relative to geographic competitors. As a company that spans all fifty states, HUM often runs into foes that are smaller in total size but dominant in their respective region.

HUM has low margins relative to competitors and operates in an industry with an already thin margin. HUM's operating margin of 5.30% trails the industry average of around 6.00%, as well

as competitors' operating margins of Aetna, Inc. (8.93%), Cigna, Inc. (9.96%), UnitedHealth Group, Inc. (8.37%).

HUM is reliant upon government-based contracts. Though lasting contracts such as TRICARE South Region have proven advantageous, excessive government reliance increases operational risk in the long-term as competitors fight over short-lived contracts. Approximately 75% of HUM's premiums and service revenues came from contracts with the federal government.

Opportunities

CMS has forecasted an increase in Medicare enrollments, which falls right in line with HUM's primary revenue stream. From 2013 to 2020, Medicare enrollments are projected to increase from 50.9 million to 62.3 million. This increase in enrollment will better position HUM to increase market share.

HUM demonstrated its focus on alliances by snatching up a partnership with retail giant Wal-Mart. In this alliance, Wal-Mart and HUM have teamed up to launch a Medicare prescription drug improvement plan, as well as a healthier food savings program. These two initiatives demonstrate to shareholders an innovative step in business planning and a commitment to community improvement.

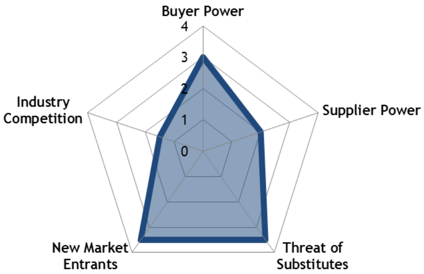
In 2008, PricewaterhouseCooper estimated that more than half of all health spending is wasteful. HUM's "Fifteen Percent Solution" is attractively positioned to soak up this waste in the form of increased revenues. The plan, an initiative aimed at reducing the cost of providing Medicare Advantage, targets a 15% reduction below federal government plan price levels. Anvita, a healthcare analytics company recently acquired by HUM, provides HUM with alerts to members and care providers of gaps in care and wasteful costs to form an efficient, cost-saving, revenue-gaining machine for the future.

Threats

HUM operates in a market space where margins are thin, and competitors abound at every enrollee's renewal period.

The government has plans to continue to encourage seniors on Medicare to take part in government provided plans with goals similar to Medicare Advantage plans. This would decrease the demand in the majority of HUM's products, if the government-issued programs prove to be competitive.

Vertically integrated care, while representing a beacon to the future of care, poses significant threats to HUM. As widely positioned as HUM is geographically, there are significant questions as to whether or not it will be able to provide care effectively and directly to customers.



Porter's Five Forces

Buyer Power – Low Threat (3/4)

Healthcare consumers are not able to change their spending on the basis of fluctuations in economic cycles or medicinal pricing. Consumers have little to no control over sickness and disease, and are therefore at the mercy of a managed healthcare company, such as HUM. Geography also plays a large role in the decreased buyer power. Consumers are often driven to obtain insurance and healthcare services that are available in their geographic region.

Supplier Power – Moderate Threat (2/4)

Physicians are often seen as the suppliers to insurers such as HUM. Physicians, therefore, have significant power in the initial stages of managed care networking. If there are not enough physicians enlisted in a certain offered healthcare network offering, the plan loses its appeal. HUM, however, acquires healthcare providers within its supply chain. Rather than stepping into scenarios where HUM is organizing networks, it has acquired networks with already established physician mixes.

Threat of Substitutes – Low Threat (3.5/4)

Substitutes in the health insurance industry represent a relatively insignificant threat. The majority of individuals acquire health insurance through employment. The companies that they work for primarily have only one plan to choose from. This reduces substitution considerably. Because of healthcare's exceeding costs, consumers who choose to pay for expenses out of pocket, are not relevant. Individuals also have the option of obtaining health insurance on an individual level.

New Market Entrants – Low Threat (3.5/4)

The threat of new market entrants is extremely low due to high barriers to entry. These barriers include state and federal regulations, which inhibit the start-up of health insurance companies. Aside from the legal impositions, there is a significant amount of capital required to startup a sizeable insurance company. Insurance and healthcare providers such as HUM have developed significant economies of scale due to the sheer size of its networks, which also acts as a barrier to entry. The PPACA makes these barriers to entry more apparent as health insurance companies are subject to higher accountability and regulations such as the "80/20 rule," where 80% of an insurance holder's dollar must be applied toward actual healthcare costs. Any excess will be returned as a rebate to policyholders.

Industry Competition – High Threat (1.5/4)

Competition between health insurance providers is fierce. Insurance companies are constantly competing to provide their services to large companies that provide employer group insurance to employees. Regulation also makes it more difficult for health insurance providers to differentiate their products within the industry. Switching costs are relatively low, as well, so once a company decides that the healthcare concerns of its employees are not being adequately met, it is easy for competitors to replace the current provider.

Investment Risks

PPACA's impact on Humana

For HUM, some of the most important parts of PPACA include: 1) minimum MLR of 80/20 and 85/15 large groups, 2) the elimination of pre-existing conditions as reason for denial of service or difference in fees, 3) changes to government payment structures, and 4) the introduction of medical insurance exchanges.

Given HUM's current Medicare concentration (approximately 65% of revenues), the medical insurance exchanges will provide it with the potential to expand, especially in geographic areas where it already exists. Within these regions, HUM already possesses pricing leverage with local provider groups giving it more room to be competitive.

According to PPACA, reductions in Medicare funding begin this year (2013) with the full impact being phased in over a period of 4 years ending in 2016. These affects may offset some of HUM's established economic moat. In an attempt to compensate for the reduced funding, insurance industry companies have cut selling, general, and administrative expenses (SG&A). This alone hasn't been enough to stop the bleeding. That is why we are now seeing companies attempting to change the entire healthcare delivery model.

Instead of fee-for-service based payment, the new delivery system will focus on the success of the entire treatment. Thus it is extremely important to align all of the involved caretakers' interests in order to increase margins and improve effectiveness. HUM has recently begun to implement a vertical integration strategy in attempt to capture these benefits, which will prove challenging.

Product Pricing

Within the healthcare insurance industry, premiums are normally fixed for 1-year periods. Thus any unforeseen costs cannot be offset until the next year. The pharmaceutical industry, in particular, is highly competitive and exposes the companies' margins to increased volatility. HUM is also exposed to long-term care policies associated with the KMG America Corporation acquisition of 2007. The acquisition involves estimated premiums and liabilities not being recognized for many years.

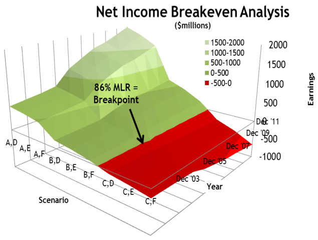
Managements Strategic Ability

The medical industry is highly regulated and subject to changes. HUM is highly exposed to new laws and changes to current legislations. The ability of management to anticipate these changes and properly position the company will have a large impact on future performance. Future performance will depend on the expansion of HUM's HMO and PPO products within the Medicare programs. Failure to successfully bid for these contracts will have adverse consequences on future performance. Also, the inability of management to further its strategic goal of making and integrating acquisitions will hurt the company's competitive positioning.

Other Risks

- Data Network Integrity
- Downgrades in debt ratings
- Continued discounts and volume rebates from pharmaceutical manufactures
- Changes in economic conditions
- CMS's adoption of new coding set for diagnoses
- Legal Inquiries into HUM's Florida subsidiary operations
- Maintaining HUM's relations with providers and customers

Net Income Breakeven Analysis



In order to understand the risks and sensitivity associated HUM's net income we can simplify the company's operations down to SG&A (variable costs) and the MLR (fixed costs). Medical loss ratios can vary according to the member base. This is incorporated by taking three different ratios 80% (best possible case per PPACA), 84% and 86% (above the large group minimum which Humana focuses on). For the model the SG&A costs are varied according to the range of the last ten years, which was between 15-15.77%. For the 9 possible permutations over the last ten years the only negative outcomes occurred with the worst medical loss ratio of 86% with all three SG&A combinations.

This model is a simple representation showing HUM's leeway in its major cost. The model also gives validation for management's vertical integration strategy. According to PPACA the payouts are now tied to revenues thus HUM will have to look elsewhere for margin growth. Vertical integration should thus bolster HUM's efficiency and bottom line growth via margin expansions.

Investment Summary

HUM is a mid-cap value stock with promising vision and market share momentum.

HUM's management has it well aligned to adapt to regulatory action.

The healthcare industry paradigm is shifting from "fee-for-service" to more quality-oriented delivery. Overall industry participation will dramatically increase in the future, and companies that are able to improve cost efficiency will thrive. We believe that HUM has shown great proactivity in adjusting to this shift. Specifically, the "Fifteen Percent Solution," aimed at targeting efficient spending, will continue to make HUM's government healthcare plans attractive. Management also continues to be aggressive in acquisitions and partnerships, and if integration proves successful, HUM will be very well aligned to benefit.

HUM is a leader in a highly competitive industry.

Because of low switching costs and government-negotiated contracts, the healthcare industry is very competitive. HUM's ability to provide low-cost services has helped them develop and compete in diverse regions across the U.S. The company maintains a relatively small balance sheet while taking a large market share, especially in Medicare Advantage and Medicare Part D. This indicates an efficient operational structure, which we find particularly appealing.

Financial analysis and valuation indicate undervalued market pricing.

Though we expect profitability margins to decrease in coming years for HUM, it will be offset by above average revenue growth and a modest free cash flow growth through 2017. Our conservatively calculated fair value range for HUM is between $93-$96. Low-interest debt accumulation for acquisitions and share repurchasing in the near term will lower the WACC and make HUM's equity more attractive. From a relative valuation standpoint, HUM's P/E is just below average amongst its industry group. However, the managed care industry seems to be slightly undervalued within the Health Services Sector, and applying a target P/E of 12.5 to HUM's estimated 2013 earnings yields a price of 96.25, just on the high end of our FCFF fair value range.

PPACA will remain ambiguous

Long term uncertainty in PPACA regulation implementations provides a significant source of risk. There is and will continue to be regulatory intervention in existing operations. For instance, the Florida TRICARE contract pricing structure is undergoing third party review. Though specifics remain ambiguous moving forward, this is a recognized uncertainty for management.

Recommendation

We recommend a BUY in HUM with a price target range of $93-$96.

Humana Inc. (HUM)

Income Statement

(Dollars in millions, except per share amounts) Year Ended December 31	2012	2011	2010	2009
Revenues:				
Premiums	$37,009	$35,106	$32,712	$29,927
Services	1,726	1,360	555	520
Investment Income	391	366	329	296
Total Revenues	39,126	36,832	33,596	30,743
Operating Expense:				
Benefits	30,985	28,823	27,117	24,784
Operating Costs	5,830	5,395	4,380	4,014
Depreciation and Amortization	295	270	245	237
Total Operating Expenses	37,110	34,488	31,742	29,035
Income from Operations	2,016	2,344	1,854	1,708
Interest Expense	105	109	105	106
Interest Before Taxes	1,911	2,235	1,749	1,602
Provision for Income Taxes	689	816	650	562
Net Income	$1,222	$1,419	$1,099	$1,040
Other Comprehensive Income, Net of Tax:				
Net unrealized investment gains, net of tax expense of $109 million in 2011, $47 milliion in 2010, and $131 million in 2009		190	82	230
Less: Reclassification adjustment for net realized gains included in net income, net of tax expense of $4 million in 2011, $2 million in 2010, and $7 million in 2009		(7)	(4)	(13)
Other Comprehensive Income, Net of Tax		183	78	217
Comprehensive Income	$1,222	$1,602	$1,177	$1,257
Basic Earnings per Common Share	$7.56	$8.58	$6.55	$6.21
Diluted Earnings per Common Share	$7.47	$8.46	$6.47	$6.15

Humana Inc. (HUM)

Balance Sheet

(Dollars in millions) Year Ended December 31	2012	2011	2010	2009
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$1,306	$1,377	$1,673	$1,614
Investment Securities	8,001	7,743	6,873	6,190
Receivables less allowance for doubtful accts.	733	1,034	959	824
Securities Lending Invested Collateral			50	119
Other current assets	1,670	1,027	583	506
Total Current Assets	11,710	11,181	10,138	9,253
Long-term Assets:				
Property and equipment	1,098	912	815	679
Long-term investment securities	1,846	1,710	1,500	1,307
Goodwill	3,640	2,740	2,568	1,993
Other long-term assets	1,685	1,165	1,083	921
Total Assets	$19,979	$17,708	$16,104	$14,153
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Benefits payable	$3,779	$3,754	$3,469	$3,223
Trade accounts payable and accrued expenses	2,042	1,783	1,625	1,308
Book overdraft	324	306	409	374
Securites lending payable			56	126
Unearned revenues	230	213	185	229
Total Current Liabilities	6,375	6,056	5,744	5,260
Long-term debt	2,611	1,659	1,669	1,678
Future policy benefits payable	1,858	1,663	1,493	1,193
Other long-term liabilities	288	267	273	246
Total Liabilities	$11,132	$9,645	$9,179	$8,377
Commitments and contingencies				
Stockholders' Equity:				
Common stock	$32	$32	$32	$32
Capital in excess of par value	2,101	1,938	1,737	1,658
Retained earnings	7,881	6,825	5,529	4,430
Accumulated other comprehensive income	386	303	121	42
Treasury stock	(1,553)	(1,035)	(494)	(386)
Total Stockholders' Equity	8,847	8,063	6,925	5,776
Total Liabilities and Stockholders Equity	$19,979	$17,708	$16,104	$14,153

Humana Inc. (HUM)

Statement of Cash Flows

(Dollars in millions)

Year Ended December 31	2012	2011	2010	2009
Cash Flows From Operating Activities				
Net Income	$1,222	$1,419	$1,099	$1,040
Adjustments to reconcile net income to net cash				
Depreciation and amortization	338	303	263	250
Stock-based compensation	82	67	63	66
Net realized capital gains	(33)	(11)	(6)	(20)
Provision (benefit) from deferred income tax	(80)	22	(199)	(27)
Provision for doubtful accounts		31	19	19
Changes in operating assets and liabilities				
Receivables	352	(106)	(46)	(60)
Other assets	(253)	(183)	81	113
Benefits payable	(41)	256	247	17
Other liabilities	300	194	722	14
Unearned revenues	(43)	26	(46)	(9)
Other	79	61	45	19
Net Cash Provided by Operating Activities	1,923	2,079	2,242	1,422
Cash Flows From Investing Activities				
Acqusitions, net of cash acquired	($1,235)	($226)	($833)	($12)
Purchases of property and equipment	(410)	(346)	(222)	(185)
Proceeds from sales of property and equipment		10	0	1
Purchases of investment securities	(3,221)	(3,678)	(4,589)	(7,197)
Maturities of investment securities	1,497	1,569	1,750	1,271
Proceeds from sales of investment securities	1,404	1,259	2,012	3,951
Change in securities lending collateral		54	71	312
Net Cash Used In Investing Activities	($1,965)	($1,358)	($1,811)	($1,859)
Cash Flows From Financing Activities				
Receipts from CMS contract deposits		$2,517	$1,757	$2,354
Withdrawals from CMS contract deposits	(397)	(2,895)	(1,994)	(1,861)
Repayments under credit agreement		0	0	(250)
Change in securities lending payable		(56)	(71)	(312)
Change in book overdraft	18	(103)	35	150
Common stock repurchases	(518)	(541)	(108)	(23)
Dividends paid	(165)	(82)	0	0
Excess tax benefit from stock-based comp.	22	15	2	5
Proceeds from stock option exercises	57	128	8	17
Repayment of long-term debt	(36)			
Proceeds from issuance of senior notes	990			
Net Cash Provided by Financing Activities	($29)	($1,017)	($371)	$80
Increase (decrease) in cash and cash equivalents	(71)	(296)	60	(357)
Cash and cash equivalents at beginning of year	1,377	1,673	1,613	1,970

Growth Rates in Expenditures				
	National Health Expenditures	Private Health Insurance	Medicare	Medicaid
Year	Growth Rates			
2006	--	--	--	--
2007	6.20%	4.90%	7.20%	6.40%
2008	4.70%	4.00%	8.00%	5.30%
2009	3.80%	2.60%	7.00%	8.90%
2010	3.90%	2.40%	5.00%	7.20%
2011	3.90%	1.80%	6.30%	6.80%
2012	4.20%	2.80%	5.90%	7.00%
2013	3.80%	4.10%	1.30%	7.00%
2014	7.40%	7.90%	6.10%	18.00%
2015	5.70%	6.30%	4.90%	7.20%
2016	6.30%	6.60%	6.10%	8.30%
2017	5.90%	5.40%	6.80%	7.00%
2018	6.20%	5.20%	7.20%	7.00%
2019	6.50%	6.10%	7.30%	7.30%
2020	6.70%	6.20%	7.70%	7.60%
2021	6.50%	5.90%	7.70%	7.70%

Projected Employment Growth from 2010 - 2020	
Healthcare	34.50%
Comprehensive Average	14.30%

Market Share of Medicaid Enrollment	
Company	2012 Q3
Aetna Inc	2.58%
Centene Corp	5.16%
Cigna Corp	0.04%
Coventry Health Care Inc	2.06%
Health Net Inc	2.20%
Humana Inc	1.25%
Molina Healthcare Inc	4.31%
UnitedHealth Group Inc	7.97%
WellCare Health Plans Inc	3.12%
WellPoint Inc	3.90%
Other	67.42%

Market Share of Medicare Part D Enrollment	
Company	2012 Q3
Aetna Inc	2.39%
Coventry Health Care Inc	7.72%
Humana Inc	15.12%
UnitedHealth Group Inc	21.14%
Universal American Corp/NY	0.37%
WellCare Health Plans Inc	4.39%
WellPoint Inc	6.00%
Other	42.87%

Market Share of Medicare Advantage Enrollment	
Company	2012 Q3
Aetna Inc	3.35%
Cigna Corp	3.18%
Coventry Health Care Inc	1.94%
Health Net Inc	1.75%
Humana Inc	17.46%
UnitedHealth Group Inc	19.79%
WellCare Health Plans Inc	1.26%
WellPoint Inc	11.64%
Other	38.34%

Humana's Market Share of Medicare Advantage Enrollment Over Time												
Quarter	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
Market Share (%)	14.07%	15.78%	15.46%	15.50%	15.39%	16.18%	16.11%	16.05%	15.88%	18.05%	17.54%	17.46%

Humana's Market Share of Medicare Part D Enrollment Over Time												
Quarter	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
Market Share (%)	10.96%	9.79%	10.06%	9.96%	9.81%	12.68%	13.43%	13.63%	13.54%	14.91%	14.99%	15.12%

Appendix E: Peer Analysis Tables

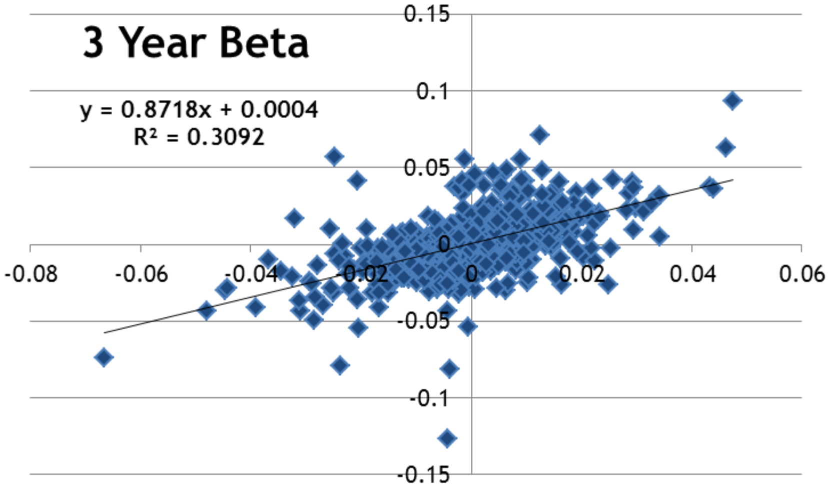
Valuation Ratios				
	P/E	P/B	PEG	D/ME
HUM	8.71	1.36	1.51	0.17
UNH	10.56	1.86	0.93	0.287
AET	9.56	1.52	1.18	0.282
CI	10.55	1.76	0.98	0.311
WLP	8.78	0.85	0.7	0.776
CVH	14.19	1.34	2.02	0.255
HNT	19.6	1.4	2.77	0.232
Avg	11.70	1.44	1.44	0.33

Other Statistics						
	Market Cap	P/E	ROE	Div Yield	Short Ratio	MLR
HUM	11.78	10.9	0.1485	0.0139	1.15	0.821
UNH	57.57	10.9	0.1858	0.0152	1.52	0.804
AET	16.58	9.8	0.1718	0.0162	6.19	0.796
CI	16.77	10.3	0.1743	0.0007	1.93	0.8047
WLP	20.05	8.8	0.1128	0.0174	3.16	0.853
CVH	6.23	15.5	0.0992	0.0108	0.87	0.821
HNT	2.15	22.7	0.1181	0	1.63	0.864
Avg	11.3	13.0	0.1139	0.0064	2.59	0.8264

	WACC Sensitivity										
Perpetual Growth Rate	8.50%	8.75%	9.00%	9.25%	9.50%	9.75%	10.00%	10.25%	10.50%	10.75%	11.00%
1.00%	93.03	92.05	91.09	90.14	89.21	88.29	87.38	86.49	85.61	84.74	83.88
1.25%	94.75	93.75	92.76	91.79	90.83	89.89	88.96	88.05	87.14	86.25	85.38
1.50%	96.58	95.55	94.54	93.54	92.56	91.60	90.65	89.71	88.78	87.87	86.98
1.75%	98.53	97.48	96.44	95.42	94.41	93.42	92.45	91.48	90.54	89.60	88.68
2.00%	100.63	99.54	98.48	97.43	96.40	95.38	94.37	93.39	92.41	91.45	90.51
2.25%	102.87	101.76	100.67	99.59	98.52	97.48	96.44	95.43	94.43	93.44	92.47
2.50%	105.29	104.15	103.02	101.91	100.81	99.73	98.67	97.62	96.59	95.58	94.58

	Debt to Equity Ratio								
Perpetual Growth Rate	22%	23%	25%	27%	28%	30%	32%	33%	35%
1.00%	95.53	94.36	93.20	92.03	90.87	89.70	88.54	87.37	86.10
1.25%	97.28	96.09	94.91	93.72	92.53	91.35	90.16	88.97	87.79
1.50%	99.14	97.94	96.73	95.52	94.31	93.10	91.89	90.68	89.47
1.75%	101.14	99.90	98.67	97.44	96.20	94.97	93.74	92.50	91.27
2.00%	103.27	102.01	100.75	99.49	98.23	96.97	95.71	94.46	93.20
2.25%	105.56	104.28	102.99	101.70	100.41	99.13	97.84	96.55	95.26
2.50%	108.03	106.71	105.39	104.08	102.76	101.44	100.12	98.81	97.49

Regression Statistics	
Multiple R	0.5560
R Square	0.3092
Adjusted R Square	0.3083
Standard Error	0.0152
Observations	762.0000

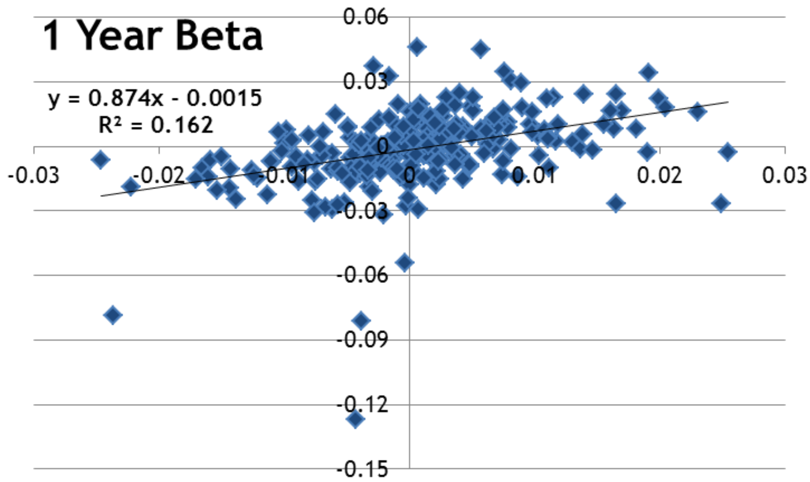


ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1.0000	0.0785	0.0785	340.1120	0.0000
Residual	760.0000	0.1754	0.0002		
Total	761.0000	0.2539			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.0004	0.0006	0.7708	0.4411	-0.0007	0.0015	-0.0007	0.0015
X Variable 1	0.8718	0.0473	18.4421	0.0000	0.7790	0.9646	0.7790	0.9646

Regression Statistics	
Multiple R	0.4025
R Square	0.1620
Adjusted R Square	0.1587
Standard Error	0.0162
Observations	252.0000



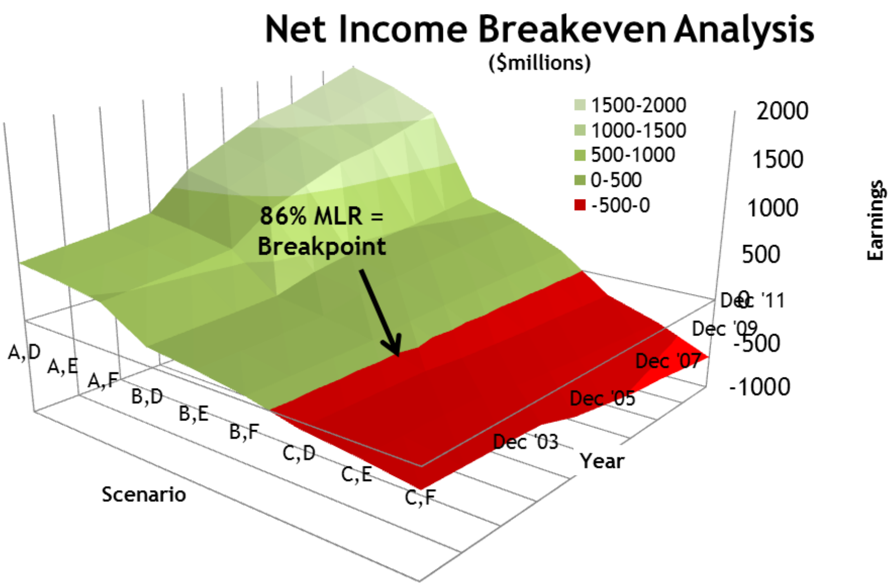
ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1.0000	0.0126	0.0126	48.3350	0.0000
Residual	250.0000	0.0653	0.0003		
Total	251.0000	0.0779			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-0.0015	0.0010	-1.4460	0.1494	-0.0035	0.0005	-0.0035	0.0005
X Variable 1	0.8740	0.1257	6.9523	0.0000	0.6264	1.1216	0.6264	1.1216

An 86% MLR is the breakeven point for HUM's earnings over the last 10 years.

		Dec '11	Dec '10	Dec '09	Dec '08	Dec '07	Dec '06	Dec '05	Dec '04	Dec '03	Dec '02
A	Best MLR	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
B	Avg. MLR	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%
C	Worst MLR	86%	86%	86%	86%	86%	86%	86%	86%	86%	86%
D	Best SGA ratio	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
E	Avg. SGA	15.09%	15.09%	15.09%	15.09%	15.09%	15.09%	15.09%	15.09%	15.09%	15.09%
F	Worst SGA	15.77%	15.77%	15.77%	15.77%	15.77%	15.77%	15.77%	15.77%	15.77%	15.77%
Scenario Combination	A,D	1990	1829	1672	1569	1366	1157	779	708	660	609
	A,E	1807	1661	1519	1425	1241	1051	707	643	599	553
	A,F	1557	1432	1309	1228	1069	906	610	554	516	477
	B,D	608	559	511	480	418	354	238	216	202	186
	B,E	426	391	358	336	292	247	167	151	141	130
	B,F	176	162	148	139	121	103	69	63	58	54
	C,D	-220	-203	-185	-174	-151	-128	-86	-78	-73	-67
	C,E	-403	-371	-339	-318	-277	-234	-158	-143	-134	-123
	C,F	-652	-600	-548	-515	-448	-379	-255	-232	-216	-200
	% above Breakeven	67.45%									



DCF Analysis	Humana Inc.
2/8/2013	HUM

Market Cap:		12.92
Current Price	$	81.35

Perpetual Growth Rate	1.735%
US population growth rate 2005-2010	0.97%
US GDP Estimate	2.50%

WACC	9.06%

Net Present Value of Future CF:	18,253,644,163
Cash & Cash Equivalent (12/31/2012):	1,306,000,000
Debt	4,303,121,716
Equity	15,256,522,447

Shares Outstanding	158,764,000

Share Price	$	96.10
Upside		18%

WACC

Effective Tax Rate		**Risk Free Rate**	
0.3671		0.0213	10 Yr Strips
		Market Risk Premium	
		0.075	Journal for Corporate Finance
Cost of Debt		0.1	
1.07%		**Cost of Equity (CAPM)**	
0.87	1yr	**10.87%**	
0.872	3yr		
Weight of Debt		**Weight of Equity**	
18.49%		81.51%	
4-Feb-12			

Total Debt	2,935,000,000	**WACC = Cd*Wd+Ce*We=**
Share Price	81.50	9.06%
Shares out	158,764,000	
Market Cap	12,939,266,000	

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