

## Southern Health Finally Gaining Ground

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Southern Health Inc., which purchased embattled QualChoice of Virginia Health Plan Inc. last year, is beginning to enjoy some success in the marketplace, the company's top official said.

Cosby Davis, Southern Health's president and CEO, said several recent deals are helping to turn around the insurance company's declining membership numbers.

Davis said he believes the Albemarle County-based company should reach its goal of 160,000 members by the end of next year.

The health insurer's membership has declined by 5.2 percent to 138,165 in its third quarter, compared with 145,711 members in its second quarter, according to the company.

Revenues, however, rose to \$176.4 million in the third quarter, compared with \$118.6 million in the second.

"I think we are positioning the company to be an alternative to the major players," Davis said. "We are working with providers and physicians to make sure we have the best prices."

Davis said the company has continued to expand its market area, inking a deal with Henrico County to provide its health insurance coverage to the county's employees beginning next year.

Southern Health also was selected as one of the top five health plans for the Carilion Health System in Southwest Virginia, Davis said. He added that the company plans to open an office in Roanoke in the next month. In October, Southern Health created a preferred provider organization plan.

In May, the insurer faced a setback when the University of Virginia dropped the company as its student health-care provider.

Davis said the company lost several thousand customers, but recent deals have helped balance the loss and doesn't consider it a major loss.

"We hate to lose any group, but it's a free market," he said. The university made the decision shortly after the merger, before the company could prove itself, he said.

Souther Health's parent company, Coventry Health Care Inc., said its membership for the third quarter also dropped, by about 2 percent.

An analyst for Baltimore-based Legg Mason Inc., however, said the company's drop in membership does not pose a major concern for him. He rates the company stock a "buy."

"I would expect to see their enrollment decrease because as they are making acquisitions, they are raising prices," said Thomas A. Carroll, equity research analyst for Legg Mason. "They are bound to lose some membership." But the membership the company keeps represents profitable customers, Carroll said.

"It's more of a margin game than a market share game," he added.

Equity analysts at New York-based Credit Suisse First Boston, however, rate the company's stock "under-perform" despite the increase in earnings per share for Coventry's stock price.

"The company continues to raise prices substantially faster than its costs, a strategy that is clearly unsustainable in a competitive market," Credit Suisse researchers said in a recent report.

Davis said that at Southern Health, management is pricing for the company's costs. This has contributed to the profitability of the company, but has been a "a little bit of a drag on the growth," he said.

"We want really consistent, profitable growth," Davis said. "We don't need to get there overnight."

Coventry Health Care's stock dropped 35 cents, or 1.12 percent, Friday to \$30.87. The stock peaked at \$38 on Oct. 15.