

Could a Humana-Cano Health deal corner CVS in the senior-focused primary care market?

Article

The news: Senior-focused primary care company **Cano Health** is exploring a sale, with **Humana** and **CVS Health** emerging as prospective buyers, [per](#) a Wall Street Journal report.

Who is Cano Health? It's a tech-enabled primary care disruptor with 143 centers in 9 states and Puerto Rico.

- The provider mostly serves seniors—many of whom are low-income and immigrant populations—through the Medicare Advantage (MA) program. As of June 30, it had **281,525** total members.
- Cano went public last year via a SPAC deal with Jaws Acquisition Corp. Its market cap is now approximately **\$4.3 billion**.

MA moneymaker: It's no surprise that Cano is receiving buyout interest, given its strong presence in the MA market—a moneymaker for payers such as Humana and CVS Health/Aetna.

- **About 44% of Cano's members are in the MA program—a 19.2% annual increase—**creating a big revenue opportunity if patients' healthcare costs can be managed.
- Value-based primary care for seniors is a **\$700 billion+ total addressable market**, Humana president and CEO Bruce Broussard said during the company's investor day earlier this month.

For context, Medicare Advantage is a value-based payment program in which the Centers for Medicare & Medicaid Services pays a commercial insurer a fixed amount for each beneficiary enrolled—irrespective of how much care that patient utilizes.

Why a deal makes sense for Humana: Humana has strong ties to Cano and has already invested in the company.

Cano was Humana's most prominent independent primary care provider in Florida. And as part of a 2019 agreement, Humana has the right of first refusal in the event of a sale, the WSJ reported.

Humana is an established primary care provider for seniors. It operates 214 senior-focused primary care clinics and has plans to add around **100 more by 2025** through a recently formed joint venture.

But what about CVS Health? CVS wants to employ more physicians while raking in MA profits, too. It's been nosing around the primary care market, and it's only a matter of time before it strikes.

CVS has not been hiding its desire to get in the healthcare provider M&A game, and [recently won](#) the bidding war for home health tech services company **Signify Health**. [Regulatory filings](#) showed that CVS was dueling **Amazon** for primary care company One Medical before ultimately falling short.

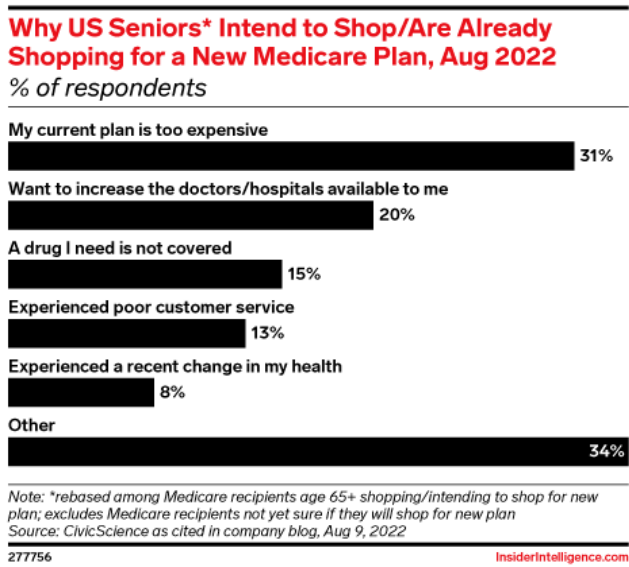
What's next? CVS could find itself trapped if it loses the Cano sweepstakes to Humana.

We think the odds are skewed in Humana's favor for two reasons:

- 1. Its agreement with Cano gives it the first right of refusal on a sale.
- 2. It has a massive foothold in the MA market—a position that [only trails UnitedHealthcare](#).

If Humana were to acquire Cano, we think CVS could turn to other senior-led primary care disruptors such as **Oak Street Health** or **ChenMed**. Oak Street [does operate](#) some clinics in Walmart supercenters, creating a potential competitive roadblock.

Irrespective of M&A target, CVS will be looking to supplement its Signify acquisition with a primary care one. “There is no one-and-done asset,” Shawn Guertin, CVS Health's EVP and CFO [said](#) during the company's Q2 earnings call.



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