

Anthem, Inc.(ANTM)

\$273.28 (As of 05/14/20)

Price Target (6-12 Months): **\$287.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/12/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

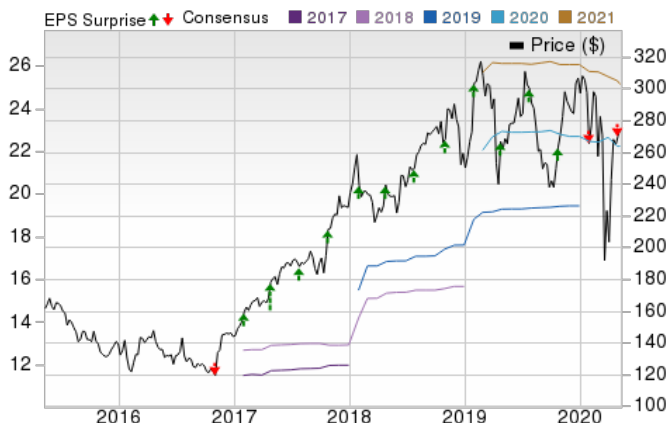
Growth: A

Momentum: A

Summary

Anthem's first-quarter 2020 earnings of \$6.48 per share missed the Zacks Consensus Estimate by 0.9% but improved 7.5% year over year on the back of membership. Its prudent acquisitions and collaborations complement its inorganic growth profile and help it boost Medicare Advantage growth. The company is the fourth largest individual Medicare Advantage plan in the nation. It has launched successful partnerships with various companies and it expects its partnership model to accelerate growth. Its increasing top line paves the way for long-term growth. Its solid guidance also impresses. Its balance sheet strength is another positive. Its shares have underperformed its industry in a year's time. However, it has been suffering from high benefit costs and selling, general and administrative expense, which continues to weigh on its bottom line.

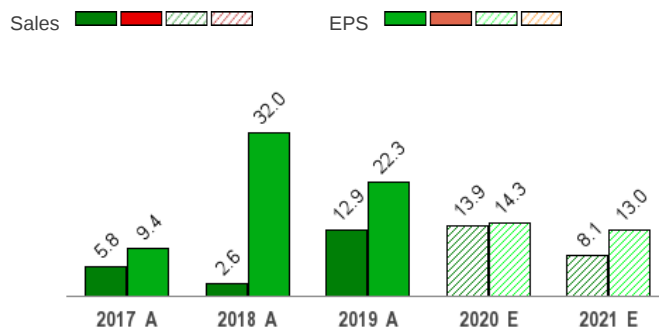
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$312.48 - \$171.03
20 Day Average Volume (sh)	1,455,441
Market Cap	\$68.9 B
YTD Price Change	-9.5%
Beta	0.97
Dividend / Div Yld	\$3.80 / 1.4%
Industry	Medical - HMOs
Zacks Industry Rank	Top 30% (75 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.9%
Last Sales Surprise	2.6%
EPS F1 Est- 4 week change	0.7%
Expected Report Date	07/22/2020
Earnings ESP	1.2%
P/E TTM	13.8
P/E F1	12.3
PEG F1	0.9
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	31,700 E	31,836 E	32,026 E	32,641 E	126,978 E
2020	29,448 A	29,254 E	29,284 E	29,715 E	117,484 E
2019	24,388 A	25,177 A	26,444 A	27,132 A	103,141 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$6.56 E	\$7.31 E	\$6.81 E	\$5.14 E	\$25.12 E
2020	\$6.48 A	\$6.80 E	\$5.40 E	\$3.97 E	\$22.23 E
2019	\$6.03 A	\$4.64 A	\$4.87 A	\$3.88 A	\$19.44 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/14/2020. The reports text is as of 05/15/2020.

Overview

Based in Indianapolis, IN, and formed through the merger of Anthem Inc. and WellPoint Health Networks Inc. in Nov 2004, Anthem Inc. is one of the largest publicly traded managed care organizations in terms of membership. The company was previously named WellPoint Inc. (WLP).

Effective Dec 3, 2014, the corporate name was changed to Anthem, Inc. and began trading under the ticker "ANTM".

The company is also an independent licensee of the Blue Cross Blue Shield Association (BCBSA). Anthem is the largest BCBS plan provider in the United States. As of Mar 31, 2020, it catered to 42.1 million medical members through its affiliated health plans.

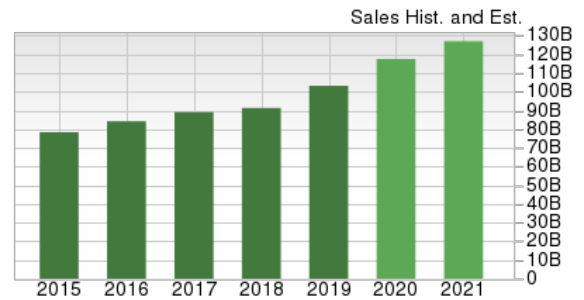
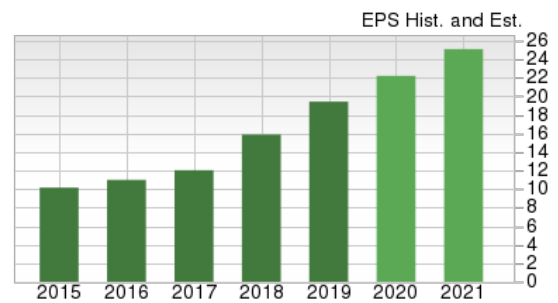
The company serves customers across all 50 states in the United States through its subsidiaries, namely UniCare and CareMore. Anthem now operates through four reportable segments:

Government Business (reporting 31.8% of the company's operating revenues in 1Q20): The segment consists of the Medicaid and Medicare businesses, National Government Services, and the Federal Employee Program ("FEP").

Commercial & Specialty Business (59.2%): The segment covers the Local Group, National Accounts, Individual and Specialty businesses.

IngenioRx (8%): The IngenioRx segment includes the company's PBM business, which began its operations in the second quarter of 2019. IngenioRx markets and offers PBM services to fully-insured and self-funded Anthem health plan as well as external customers.

Other (1%) : This comprises the unallocated corporate expenses as well as some businesses, which are not covered by the other two segments as they do not meet the quantitative thresholds for an operating segment as defined by Financial Accounting Standards Board.



Reasons To Buy:

- ▲ **Price Impact:** In a year's time, shares of Anthem have underperformed its industry. However, factors like an improving top line and a solid capital deployment are likely to help the stock bounce back going forward.
- ▲ **Rise of Telehealth:** The company witnessed a rise of usage of its Telehealth and virtual care services. It witnessed more than 170,000 downloads of the app and a 250% surge in virtual care engagements. Given the current scenario, the company expects this business to continue performing well.
- ▲ **Active Acquisitions and Collaborations:** The company has been actively collaborating and acquiring companies for enhancing its expansion process. Acquisitions have helped the company boost its Medicare Advantage growth as well as add to its business portfolio. Some of the most remarkable ones are that of America's 1st Choice of South Carolina, Inc. and CVS Health in 2018 and 2017, respectively. The company has also launched successful partnerships with various companies recently and it expects its partnership model to accelerate growth. Anthem's acquisitions of Missouri and Nebraska Medicaid plans of WellCare Health in January 2020 also added around 300,000 Medicaid members under its coverage. The company's Beacon Health's buyout, the largest independently held behavioral health organization in the country, should strengthen its position in the space.
- ▲ **Earnings Guidance:** Following first-quarter results, the company affirmed its 2020 outlook. Adjusted net income for the current year is projected to be more than \$22.30 per share compared with \$19.44 for 2019. A solid outlook should instill investor confidence in the stock.
- ▲ **Improving Top Line:** The company's top-line improvement remains impressive, witnessing a 4-year CAGR of 7.1% (2015-2019) on the back of a premium rate increase and higher membership. For the first quarter, its operating revenues of \$29.4 billion were up 20.7% year over year, aided by pharmacy product revenues pertaining to the launch of IngenioRx. We expect the top-line improvement to continue given its strong business growth.
- ▲ **Capital Deployment:** Anthem's strong capital and cash position have driven consistent dividend payouts and stock repurchases. The company initiated cash dividends in early 2011 and raised its dividend consistently, witnessing CAGR of 8.58% during the 2015-2018 period. In January 2020, it again increased its dividend by 19%. It has also been aggressively engaged in share buybacks, utilizing its excess capital to boost shareholder value. The company's cash flow from operations remains impressive. In 2019 and first quarter of 2020, the same exceeded expectation by surging 58% year over year, mainly on the back of its superior performing government business. As of Mar 31, 2020, the company had shares worth \$3.3 billion remaining under its share buyback authorization. Although it suspended its share buyback program as of now, we are hopeful that it will resume the same once things get back to normalcy.
- ▲ **Increasing Membership:** The company's Medical membership has been rising over the last several quarters on the back of its Medicare and Medicaid businesses. Although the metric dipped 0.9% in 2018, the same inched up 2.7% in 2019 on the back of fully insured business. Medical enrollment increased 3.2% year over year to 42.1 million members, backed by Government Business enrollment and Commercial & Specialty Business in the first quarter of 2020. The company is now the fourth largest individual Medicare Advantage plan in the nation. Several contract wins and organic growth are expected to drive its membership.
- ▲ **Solid Capital Position:** The company's total debt is 65% (compared with 61.1% sequentially) of its equity, marginally higher than the industry's average of 64.7%. Its cash and cash equivalents of \$25.8 billion as of Mar 31, 2020 are higher than the long-term debt of \$19 billion. It also extended its liquidity drawing down \$600 million from various credit facilities and an incremental \$900 million through the commercial paper market. The company is well-positioned with an undrawn borrowing capacity worth of additional \$2.1 billion.

Strategic buyouts and collaborations and an improving top line along with the company's expanded product portfolio should drive long-term growth. A solid 2019 outlook also impresses.

Reasons To Sell:

- ▼ **Rising Expenses:** Anthem has been suffering higher expenses over the past few years, primarily caused by an increasing benefit expense along with selling, general and administrative (SG&A) expense. Increasing level of expenses continues to drain the bottom line. Anthem's total expenses inched up 1.2% and 15.2% during 2018 and 2019, respectively. In the first quarter of 2020, total expenses rose 22.2% year over year. The constant rise in expense might weigh down its margins going forward.
- ▼ **Profitability:** Anthem's return on equity (ROE) undermines its growth potential. Although the company's trailing 12-month ROE of 16.4% improved over the years, the same compares unfavorably with the industry average of 23.6%, indicating that it is less efficient in using its shareholder's funds.

Rising expenses due to benefit expense along with selling, general and administrative expense are a headwind to the company.

Last Earnings Report

Anthem's Q1 Earnings Miss Estimates, Improve Y/Y

Anthem delivered first-quarter 2020 earnings of \$6.48 per share, which missed the Zacks Consensus Estimate by 0.9%. However, the bottom line improved 7.5% year over year on the back of higher membership. Anthem reported operating revenues of \$29.4 billion, which beat the Zacks Consensus Estimate by 2.6%. Moreover, the top line was up 20.7% year over year, aided by pharmacy product revenues related to the launch of IngenioRx. The increase was further attributable to higher premium revenues from rate increases to cover overall cost trends, including the return of the health insurance tax in 2020, and membership growth.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	2.60%
EPS Surprise	-0.92%
Quarterly EPS	6.48
Annual EPS (TTM)	19.87

Quarterly Operational Update

Medical enrollment increased 3.2% year over year to 42.1 million members, backed by Government Business enrollment and Commercial & Specialty Business. Anthem's benefit expense ratio of 84.2% decreased 20 basis points (bps) from the prior-year quarter, driven by the return of the health insurance tax in 2020, partially offset by the extra calendar day in the first quarter of 2020 and margin normalization in the Individual business. SG&A expense ratio of 12.8% contracted 20 bps from the year-ago quarter driven by growth in operating revenues, partially offset by the return of the health insurance tax in 2020 and increased spend to support growth initiatives.

Strong Segmental Results

Commercial & Specialty Business

Operating revenues were \$9.4 billion in the first quarter, down 0.3% year over year. Operating gain totaled \$1.4 billion, down 11.1% year over year due to margin normalization in the Individual business and the shift of pharmacy earnings to the IngenioRx segment. The decrease was further due to the impact of one extra calendar day compared to the prior-year quarter, partially offset by growth in value-added services.

Operating margin was 15.2%, down 180 bps year over year.

Government Business

Operating revenues were \$17.5 billion, up 17% from the prior-year quarter.

Operating gain was \$411 million, up 9.9% year over year on the back of higher premiums from rate adjustments and membership growth in the Medicaid business as well as the return of the health insurance tax in 2020, partially offset by higher selling, general, and administrative spend to support growth as well as the impact of one extra calendar day compared to the prior-year quarter. Operating margin was 2.4%, down 10 bps year over year.

Other

The Other segment's operating profit was \$14 million against year-earlier quarterly loss of \$32 million.

Financial Update

As of Mar 31, 2020, Anthem's cash and cash equivalents totaled \$5.3 billion, up 8.3% from year-end 2019.

As of Mar 31, 2020, its long-term debt less current portion increased 6.8% to \$19 billion from the level at 2019 end. Operating cash outflow at the end of the first quarter was \$2.5 billion, up 54.3% from the figure as of Mar 31, 2019.

Capital Deployment

During the first quarter, Anthem bought back shares worth \$529 million. As of Mar 31, 2020, the company had shares worth around \$3.3 billion remaining under its share buyback authorization. Moreover, the company paid out a quarterly dividend of 95 cents per share, adding up to a distribution of cash worth \$240 million. The company announced a dividend of 95 cents per share on Apr 28, 2020 for the second quarter, payable on Jun 25 to shareholders of record as of Jun 10, 2020.

Revised Guidance for 2020

Based on solid first-quarter results, Anthem updated its guidance for 2020. GAAP net income is expected to be greater than \$18.27 per share, including approximately 93 cents per share of net unfavorable items. The company's adjusted net income is now expected to be higher than \$22.30 per share. The company has withdrawn all other previously issued financial guidance metrics for 2020 due to unprecedented uncertainty around the COVID-19 pandemic and its impact.

Recent News

Anthem to Remove Costs Related to Coronavirus Treatment — Apr 2, 2020

Anthem decided to eliminate certain 'out-of-pocket' costs required for the treatment of its clients, who are severely infected by the coronavirus. The action will extend until May 31 of this year. Enrollees of affiliated health plan fully insured, Individual, Medicaid and Medicare Advantage are likely to benefit from this initiative. Anthem has come forward to meet the emergency health requirements of its Medicare members after they get discharged from hospitals.

Anthem Issues Policies for Safe Coronavirus Testing — Mar 27, 2020

Anthem has designed certain policies and declared resources and updates so that patients can be taken care of more efficiently by providers. As part of the policies, prior authorization requirements for patient transfers and use of medical equipment critical to COVID-19 treatment have terminated. Anthem will cover respiratory services for acute treatment of COVID-19 along with in-network and out-of-network coverage for related laboratory testing.

Anthem will further adjust handling and monitoring of claims and audits to lessen the administrative demand on providers.

Anthem Issues Updates on COVID-19 Testing and Care — Mar 17, 2020

Anthem's affiliated plans announced extended updates and resources to help fight the coronavirus outbreak. It is developing COVID-19 assessment capabilities through Sydney Care mobile application. Anthem's affiliated plans will also continue to waive copays, coinsurance and deductibles for COVID-19 tests. It is helping members with early prescription refill limits as well. Moreover, it provided an access to virtual care for its members.

Valuation

Anthem's shares are down 10% in the year to date period but up 14% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 7% and 4.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 15% and the sector is up 1.1%.

The S&P 500 index is down 28% in the year-to-date period and 1.2% in the past year.

The stock is currently trading at 11.73x forward 12-month price to earnings, which compares to 15.63x for the Zacks sub-industry, 22.2x for the Zacks sector and 20.67x for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.22x and as low as 7.57x, with a 5-year median of 13.8x. Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$287 price target reflects 12.32x forward 12-month earnings.

The table below shows summary valuation data for ANTM

Valuation Multiples - ANTM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.73	15.63	22.2	20.67
	5-Year High	19.22	20.6	22.2	20.8
	5-Year Low	7.57	12.48	15.83	15.18
	5-Year Median	13.8	16.05	18.81	17.47
P/S F12M	Current	0.57	0.75	2.69	3.22
	5-Year High	0.81	0.86	3.83	3.44
	5-Year Low	0.36	0.48	2.24	2.54
	5-Year Median	0.54	0.67	2.97	3
P/B TTM	Current	2.2	3.51	3.7	3.74
	5-Year High	2.88	4.07	5.05	4.55
	5-Year Low	1.25	2.3	2.92	2.85
	5-Year Median	1.91	3.16	4.27	3.65

As of 05/14/2020

Industry Analysis Zacks Industry Rank: Top 30% (75 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Centene Corporation (CNC)	Neutral	3
CVS Health Corporation (CVS)	Neutral	3
Humana Inc. (HUM)	Neutral	2
The Joint Corp. (JYNT)	Neutral	3
Magellan Health, Inc. (MGLN)	Neutral	4
Molina Healthcare, Inc (MOH)	Neutral	3
Select Medical Holdings Corporation (SEM)	Neutral	3
UnitedHealth Group Incorporated (UNH)	Neutral	3

Industry Comparison Industry: Medical - Hmos				Industry Peers		
	ANTM	X Industry	S&P 500	CNC	HUM	MOH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	A	-	-	B	A	A
Market Cap	68.90 B	1.79 B	18.95 B	38.13 B	51.01 B	10.45 B
# of Analysts	10	4.5	14	11	10	9
Dividend Yield	1.39%	0.00%	2.2%	0.00%	0.65%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.37	0.32	0.06	0.28	0.34	0.42
EV/EBITDA	7.90	8.45	11.58	14.35	9.34	6.85
PEG Ratio	0.88	1.11	2.60	0.95	1.69	2.00
Price/Book (P/B)	2.17	2.05	2.59	1.61	4.13	6.34
Price/Cash Flow (P/CF)	11.19	11.19	10.20	9.86	17.14	13.22
P/E (F1)	12.29	14.70	19.00	13.89	20.80	14.70
Price/Sales (P/S)	0.63	0.61	1.93	0.46	0.75	0.61
Earnings Yield	8.13%	6.19%	5.05%	7.20%	4.81%	6.80%
Debt/Equity	0.60	0.60	0.75	0.72	0.49	1.11
Cash Flow (\$/share)	24.42	6.68	7.01	6.68	22.51	13.35
Growth Score	A	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	15.82%	23.51%	10.82%	29.09%	25.08%	49.59%
Proj. EPS Growth (F1/F0)	14.33%	4.09%	-10.48%	7.26%	3.82%	3.73%
Curr. Cash Flow Growth	16.15%	14.42%	5.68%	45.38%	17.03%	-7.00%
Hist. Cash Flow Growth (3-5 yrs)	12.87%	13.62%	8.52%	49.67%	12.98%	30.21%
Current Ratio	1.53	1.36	1.27	1.14	1.66	1.77
Debt/Capital	37.49%	38.01%	44.25%	42.08%	32.90%	52.56%
Net Margin	4.38%	3.86%	10.54%	1.03%	3.86%	4.15%
Return on Equity	16.38%	17.56%	16.29%	11.47%	21.02%	40.87%
Sales/Assets	1.39	1.40	0.54	1.87	2.22	2.53
Proj. Sales Growth (F1/F0)	13.91%	9.68%	-2.55%	49.06%	14.76%	12.36%
Momentum Score	A	-	-	A	B	A
Daily Price Chg	2.05%	1.18%	1.17%	1.78%	2.22%	1.20%
1 Week Price Chg	1.77%	0.44%	3.23%	1.40%	1.41%	1.33%
4 Week Price Chg	0.53%	1.26%	1.06%	-9.62%	2.25%	3.22%
12 Week Price Chg	-7.03%	-6.80%	-22.80%	0.17%	3.99%	17.27%
52 Week Price Chg	3.59%	-1.55%	-12.40%	18.48%	59.28%	36.01%
20 Day Average Volume	1,455,441	262,457	2,553,422	3,947,246	1,048,842	579,866
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.63%	0.00%	1.44%
(F1) EPS Est 4 week change	0.72%	-0.22%	-5.57%	-0.70%	0.16%	0.82%
(F1) EPS Est 12 week change	-0.89%	-1.36%	-16.22%	-1.36%	-0.47%	2.59%
(Q1) EPS Est Mthly Chg	10.95%	7.56%	-11.63%	11.02%	7.79%	7.61%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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