

Anthem, Inc.(ANTM)

\$271.84 (As of 04/16/20)

Price Target (6-12 Months): **\$285.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: D

Summary

Anthem's prudent acquisitions and collaborations complement its organic growth and help it boost Medicare Advantage growth. Anthem won around 3,00,000 Medicaid members with the WellCare-Centene deal as well. The company is now 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 growing top line paves the way for long-term growth. Its strong capital position and solid guidance also impress. 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. Rising level of debt is another concern.

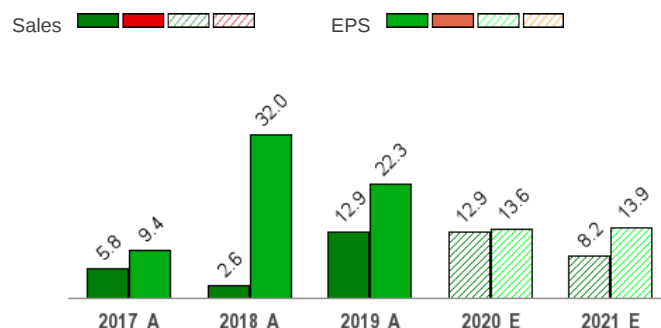
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$312.48 - \$171.03
20 Day Average Volume (sh)	2,483,484
Market Cap	\$68.5 B
YTD Price Change	-10.0%
Beta	0.83
Dividend / Div Yld	\$3.80 / 1.4%
Industry	Medical - HMOs
Zacks Industry Rank	Top 33% (83 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.5%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	-2.4%
Expected Report Date	04/29/2020
Earnings ESP	1.3%
P/E TTM	14.0
P/E F1	12.3
PEG F1	0.9
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	31,169 E	31,814 E	31,874 E	32,562 E	125,983 E
2020	28,702 E	29,229 E	29,110 E	29,430 E	116,430 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	\$7.70 E	\$6.66 E	\$6.25 E	\$4.64 E	\$25.16 E
2020	\$6.59 E	\$6.13 E	\$5.41 E	\$3.98 E	\$22.09 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 04/16/2020. The reports text is as of 04/17/2020.

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".

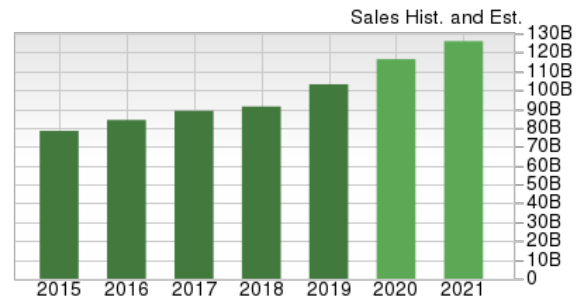
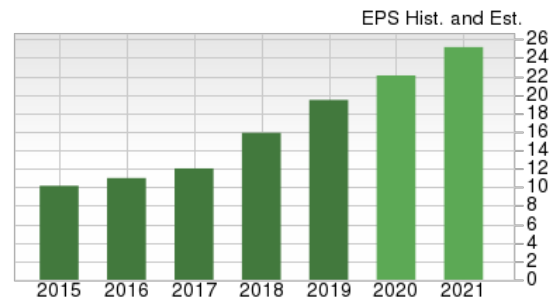
The company is also an independent licensee of the Blue Cross Blue Shield Association (BCBSA). Anthem is the largest BCBS plan provider in the United States. As of Dec 31, 2019, it catered to 41 million medical members through its affiliated health plans.

The company serves customers in all 50 states in the U.S. through its subsidiaries - UniCare and CareMore. Anthem operates through three segments:

Government Business (reporting 58% of the company's operating revenues in 2019): The segment consists of the Medicaid and Medicare businesses, National Government Services, and the Federal Employee Program ("FEP").

Commercial & Specialty Business (34.7%): The segment covers the Local Group, National Accounts, Individual and Specialty businesses.

Other (7.3%) : 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.
- ▲ **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 also added around 300,000 Medicaid members under its coverage. The company is also set to acquire Beacon Health, the largest independently held behavioral health organization in the country, which would strengthen its position in the space.
- ▲ **Earnings Guidance:** Following solid fourth-quarter results, the company issued 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. Operating revenues are anticipated around \$117 billion, indicating a 13% increase from the 2019 reported figure. For the current year, investment income is expected to be \$970 million, suggesting a 3.6% improvement from the 2019 reported figure. Medical membership is expected in the range of 41.9-42.3 million, the midpoint implying a 2.7% improvement. Other factors, such as margin improvement in Medicaid and membership growth, more specialty and clinical programs in fee-based businesses and accretion from capital deployment would lead to the company's overall growth. 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 2020, operating revenues are anticipated nearly \$117 billion including premium revenues of \$101-\$103 billion. The figure hints at 13% growth from the reported figure in 2019. We expect the top-line improvement to continue given its strong business growth and rise in membership.
- ▲ **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, the same exceeded expectation by surging 58% year over year, mainly on the back of its superior performing government business. Also, the company's operating cash flow forecast of more than \$6.4 billion indicates a 5.6% hike from the 2019 reported figure.
- ▲ **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 membership is expected in the range of 41.9-42.3 million for 2020. The company's Medicaid business is also well-poised for growth. Anthem won around 3,00,000 Medicaid members with the WellCare-Centene deal as well. The company is now the fourth largest individual Medicare Advantage plan in the nation.

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 increased 1.2% and 15.2% during 2018 and 2019, respectively. The company predicts the benefit expense ratio at 85.8% (+/- 50 basis points). Anthem envisions its SG&A ratio in the range of 12.8% (+/- 30 basis points).
- ▼ **Profitability:** Anthem's return on equity (ROE) undermines its growth potential. Although the company's trailing 12-month ROE of 16.3% 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.
- ▼ **Increased Leverage:** The company's overdependence on debt induced a persistent increase in the leverage level. Interest expense of the company has been rising over the past several quarter, which remains a concern for the company. Its times interest earned, a ratio that measures the company's ability to pay its interest expenses, stands at 9.02, lower than its industry's average of 10.73.

Rising debt level and increasing expenses due to benefit expense along with selling, general and administrative expense are headwinds for the company.

Last Earnings Report

Anthem's Q4 Earnings Miss Estimates, Rise Y/Y

Anthem's fourth-quarter earnings of \$3.88 per share missed the Zacks Consensus Estimate of \$3.90 by 0.5% due to high expenses. However, the bottom line surged 59% year over year, driven by solid revenues and the successful launch of IngenioRx.

Anthem posted operating revenues of \$27.1 billion, surpassing the Zacks Consensus Estimate by 1%. The top line was also up 16.4% year over year, boosted by higher premium revenues derived from membership growth across all businesses as well as rate surges to cover overall cost trends. The results were supported by growth in value-added services including pharmacy and integrated health offerings, partially offset by the one-year waiver of the health insurance tax in 2019.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	1.04%
EPS Surprise	-0.51%
Quarterly EPS	3.88
Annual EPS (TTM)	19.42

Quarterly Operational Update

Anthem's benefit expense ratio of 89% improved 220 basis points (bps) from the prior-year quarter, aided by the one-year waiver of the health insurance tax in 2019. SG&A expense ratio of 12.9% contracted 260 bps from the year-ago quarter on the back of growth in operating revenues and a year-long waiver of the health insurance tax in 2019. Total expenses of the company increased 15.2% year over year to \$26.3 billion.

Strong Segmental Results

Commercial & Specialty Business

Operating revenues of \$9.3 billion in the fourth quarter rose 5.5% year over year. Operating gain totaled \$535 million, up 69.3% year over year, led by the launch of IngenioRx and a greater penetration of value-added services. However, the same was partially offset by margin normalization in the Individual business. Operating margin was 5.7%, up 210 bps year over year.

Government Business

Operating revenues of \$16.2 billion ascended 12.6% from the prior-year quarter. Operating gain was \$583 million, up 29.3% year over year. This uptick reflects the impact of higher premiums from rate adjustments and more members in the Medicaid business. However, the same was offset to some extent by higher selling, general and administrative expenses. Operating margin was 3.6%, expanding 50 bps year over year.

Other

The Other segment generated operating revenues of \$3.8 billion skyrocketed 835.5% year over year. However, this segment incurred an operating loss of \$20 million, wider than \$17 million in the year-earlier period.

Financial Update

As of Dec 31, 2019, Anthem had cash and cash equivalents of \$4.9 billion, up 25.5% from 2018-end level. As of Dec 31, 2019, its long-term debt inched up 3.3% to \$17.7 billion from the figure at 2018 end. Operating cash outflow was \$1.3 billion for the fourth quarter of 2019.

Capital Deployment

During the fourth quarter, the company paid out a quarterly dividend of 80 cents per share, leading to a distribution of cash totaling \$202 million. Moreover, the company announced a first-quarter 2020 dividend of 95 cents per share, payable Mar 27 to its shareholders as of Mar 16, 2020. The company also bought back shares worth \$306 million during the quarter under review. As of Dec 31, 2019, it had \$3.8 billion board-approved share repurchase authorization left.

Full-Year Update

For 2019, operating revenues totaled \$103.1 billion, up 12.9% year over year. As of Dec 31, 2019, Medical enrollment inched up 2.7% year over year to 41 million members. This upside was primarily driven by higher total risk enrollment, fee-based enrollment, Government Business enrollment and Commercial & Specialty Business enrollment. Operating cash flow of the year soared 58.4% year over year to \$6.1 billion.

Guidance for 2020

Following the company's fourth-quarter results, Anthem issued its outlook for 2020. Adjusted net income for the current year is projected to be more than \$22.30 per share. Medical membership is expected in the range of 41.9-42.3 million. Operating revenues are anticipated around \$117 billion including premium revenues of \$101-\$103 billion. Also, the company estimates operating cash flow of more than \$6.4 billion. The company predicts the benefit expense ratio at 85.8%, plus or minus 50 basis points. For the current year, investment income is expected to be \$970 million.

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 15% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 10.6% and 8.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 20.8%, but the sector is down 0.5%.

The S&P 500 index is down 13.7% in the year-to-date period and 4.5% in the past year.

The stock is currently trading at 11.68x forward 12-month price to earnings, which compares to 15.03x for the Zacks sub-industry, 20.43x for the Zacks sector and 18.65x for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.22x and as low as 8.72x, with a 5-year median of 14.02x. Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$285 price target reflects 12.25x 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	11.68	15.03	20.43	18.65
	5-Year High	19.22	20.58	21.07	19.34
	5-Year Low	8.72	12.48	15.81	15.19
	5-Year Median	14.02	16.14	18.81	17.45
P/S F12M	Current	0.57	0.73	2.59	3.09
	5-Year High	0.81	0.86	3.84	3.44
	5-Year Low	0.36	0.48	2.25	2.54
	5-Year Median	0.55	0.67	2.96	3.01
P/B TTM	Current	2.16	3.38	3.54	3.69
	5-Year High	2.88	4.07	5.05	4.55
	5-Year Low	1.25	2.3	2.9	2.84
	5-Year Median	1.92	3.13	4.29	3.64

As of 04/16/2020

Industry Analysis Zacks Industry Rank: Top 33% (83 out of 253)



Top Peers

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

Industry Comparison Industry: Medical - Hmos				Industry Peers		
	ANTM Neutral	X Industry	S&P 500	CNC Neutral	HUM Neutral	MOH Neutral
VGM Score	A	-	-	C	D	C
Market Cap	68.54 B	2.08 B	19.06 B	42.75 B	49.85 B	10.40 B
# of Analysts	10	4.5	14	11	11	9
Dividend Yield	1.40%	0.00%	2.26%	0.00%	0.66%	0.00%
Value Score	B	-	-	B	C	C
Cash/Price	0.43	0.33	0.06	0.33	0.33	0.47
EV/EBITDA	7.67	8.20	11.49	13.96	9.31	6.48
PEG Ratio	0.88	0.94	2.09	1.04	1.65	1.96
Price/Book (P/B)	2.17	2.32	2.55	2.39	4.15	5.47
Price/Cash Flow (P/CF)	11.13	11.13	10.06	10.91	16.76	12.81
P/E (F1)	12.31	14.39	17.56	15.26	20.37	14.39
Price/Sales (P/S)	0.66	0.62	1.94	0.57	0.77	0.62
Earnings Yield	8.13%	6.75%	5.57%	6.55%	4.91%	6.95%
Debt/Equity	0.56	0.58	0.70	1.08	0.41	0.75
Cash Flow (\$/share)	24.42	6.68	7.01	6.68	22.51	13.35
Growth Score	A	-	-	D	D	F
Hist. EPS Growth (3-5 yrs)	14.87%	19.46%	10.92%	31.44%	24.18%	47.72%
Proj. EPS Growth (F1/F0)	13.64%	8.01%	-3.36%	8.02%	3.65%	2.69%
Curr. Cash Flow Growth	16.15%	14.42%	5.93%	45.38%	17.03%	-7.00%
Hist. Cash Flow Growth (3-5 yrs)	12.87%	13.62%	8.55%	49.67%	12.98%	30.21%
Current Ratio	1.65	1.61	1.24	1.57	1.82	1.83
Debt/Capital	35.92%	37.22%	42.78%	51.92%	29.21%	42.82%
Net Margin	4.61%	4.17%	11.64%	1.77%	4.17%	4.38%
Return on Equity	16.34%	16.89%	16.74%	15.18%	20.89%	40.80%
Sales/Assets	1.36	1.40	0.54	2.09	2.25	2.43
Proj. Sales Growth (F1/F0)	12.88%	12.17%	-0.14%	44.30%	13.40%	11.45%
Momentum Score	D	-	-	B	C	A
Daily Price Chg	8.53%	1.95%	-0.20%	5.55%	6.72%	6.72%
1 Week Price Chg	19.26%	18.25%	16.01%	21.65%	17.24%	16.01%
4 Week Price Chg	35.33%	26.57%	14.56%	35.91%	47.28%	41.91%
12 Week Price Chg	-10.70%	-9.87%	-22.94%	7.10%	3.78%	23.92%
52 Week Price Chg	13.45%	-7.20%	-15.02%	51.14%	56.76%	41.67%
20 Day Average Volume	2,483,484	310,992	3,220,598	5,427,915	1,916,400	795,620
(F1) EPS Est 1 week change	-1.90%	-0.11%	0.00%	-0.23%	-1.27%	-0.58%
(F1) EPS Est 4 week change	-2.45%	-0.31%	-7.09%	1.13%	-0.63%	1.75%
(F1) EPS Est 12 week change	-4.15%	-0.87%	-9.32%	-0.68%	-0.87%	0.43%
(Q1) EPS Est Mthly Chg	3.65%	5.86%	-10.68%	23.06%	13.62%	24.96%

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	B
Growth Score	A
Momentum Score	D
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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