

## Anthem, Inc.(ANTM)

**\$302.45** (As of 02/18/20)

Price Target (6-12 Months): **\$318.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank: (1-5)**

**4-Sell**

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

## Summary

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 on solid revenues and the successful launch of IngenioRx. Its prudent acquisitions and collaborations complement its organic growth and helps it boost Medicare Advantage growth. 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.

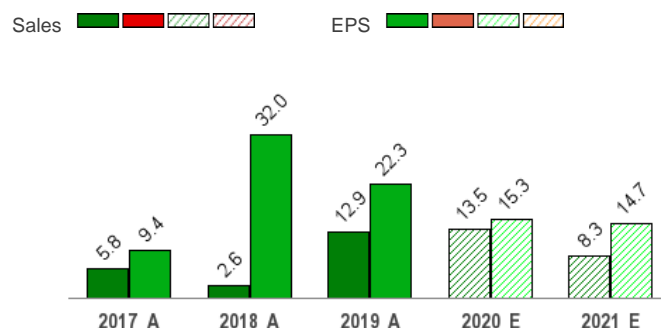
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$317.99 - \$227.16
20 Day Average Volume (sh)	1,856,568
Market Cap	\$76.7 B
YTD Price Change	0.1%
Beta	0.84
Dividend / Div Yld	\$3.80 / 1.1%
Industry	<a href="#">Medical - HMOs</a>
Zacks Industry Rank	Top 13% (34 out of 255)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.5%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	-1.3%
Expected Report Date	04/22/2020
Earnings ESP	0.0%
P/E TTM	15.6
P/E F1	13.5
PEG F1	1.0
P/S TTM	0.7

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	31,610 E	30,860 E	31,090 E	33,059 E	126,721 E
2020	28,834 E	29,136 E	29,245 E	29,857 E	117,039 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	\$7.98 E	\$6.36 E	\$6.07 E	\$5.00 E	\$25.71 E
2020	\$6.58 E	\$5.73 E	\$5.44 E	\$4.56 E	\$22.42 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 02/18/2020. The reports text is as of 02/19/2020.

## 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".

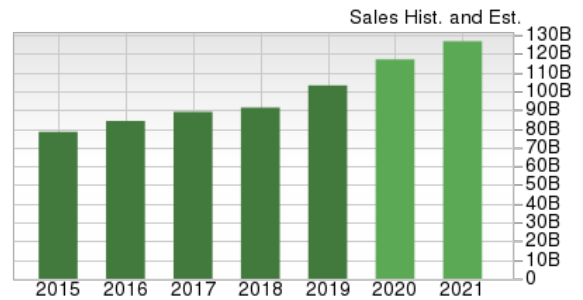
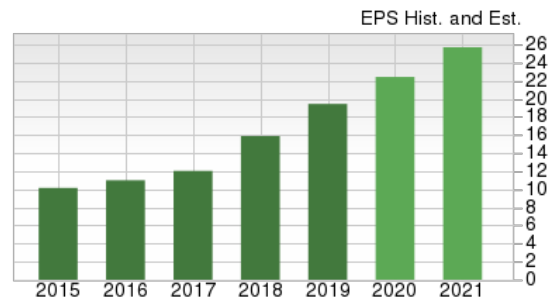
The company is also an independent licensee of the Blue Cross Blue Shield Association (BCBSA). Anthem is the largest BCBS plan provider in the United States. As of Dec 31, 2018, it catered to 40 million medical members through its affiliated health plans.

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.



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## 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.

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## 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 23.4%, 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 10.7.

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.

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## Recent News

### **Anthem Acquires Medicaid Plans in Missouri and Nebraska** — Jan 23, 2020

Anthem acquired Medicaid plans in Missouri and Nebraska following the recent regulatory approval of WellCare's merger with Centene Corporation.

### **AM Best Affirms Anthem and Units' Credit Ratings** — Nov 7, 2019

Credit rating agency AM Best affirmed Anthem's Financial Strength Rating (FSR) of A (Excellent) and the Long-Term Issuer Credit Ratings (Long-Term ICR) of "a+" of the Blue Cross Blue Shield-branded insurance units of Anthem. The outlook of these ratings is stable.

### **WellCare's Unit to Divest Medicaid Health Plans to Anthem** – Sep 26, 2019

WellCare Health has announced that it will be selling its Missouri and Nebraska Medicaid plans to Anthem. This move is related to the \$17-billion worth pending merger of Centene and WellCare, which is expected to close in the first half of 2020.

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## Valuation

Anthem shares are down 3% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 7.7% and 2.1%, respectively.

The S&P 500 index is up 21% in the past year.

The stock is currently trading at 13.23X trailing 12-month price to earnings ratio, which compares to 16.44X for the Zacks sub-industry, 21.35X for the Zacks sector and 19.34X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.22X and as low as 10.22X, with a 5-year median of 14.14X. Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$318 price target reflects 13.91X earnings.

The table below shows summary valuation data for ANTM

Valuation Multiples - ANTM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.23	16.44	21.35	19.34
	5-Year High	19.22	20.65	21.35	19.34
	5-Year Low	10.22	12.48	15.83	15.18
	5-Year Median	14.14	16.24	18.89	17.47
P/S F12M	Current	0.65	0.78	2.84	3.57
	5-Year High	0.81	0.86	3.83	3.57
	5-Year Low	0.36	0.48	2.45	2.54
	5-Year Median	0.54	0.67	2.97	3
P/B TTM	Current	2.42	3.82	4.5	4.66
	5-Year High	2.88	4.07	4.97	4.68
	5-Year Low	1.25	2.46	3.44	2.85
	5-Year Median	1.91	3.11	4.27	3.61

As of 02/18/2020

## Industry Analysis Zacks Industry Rank: Top 13% (34 out of 255)



## Top Peers

The Joint Corp. (JYNT)	Outperform
Select Medical Holdings Corporation (SEM)	Outperform
Cigna Corporation (CI)	Neutral
Centene Corporation (CNC)	Neutral
Humana Inc. (HUM)	Neutral
Magellan Health, Inc. (MGLN)	Neutral
Molina Healthcare, Inc (MOH)	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
<b>VGM Score</b>	<b>A</b>	-	-	<b>C</b>	<b>D</b>	<b>D</b>
Market Cap	76.69 B	2.59 B	24.50 B	27.60 B	49.28 B	9.07 B
# of Analysts	10	4.5	13	11	11	9
Dividend Yield	1.06%	0.00%	1.78%	0.00%	0.59%	0.00%
<b>Value Score</b>	<b>B</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Cash/Price	0.34	0.27	0.04	0.48	0.30	0.48
EV/EBITDA	8.71	8.90	14.25	9.09	9.18	5.33
PEG Ratio	0.96	1.19	2.08	0.96	1.49	1.19
Price/Book (P/B)	2.42	3.51	3.28	2.18	4.09	4.77
Price/Cash Flow (P/CF)	12.39	11.78	13.68	9.96	16.53	11.18
P/E (F1)	13.37	16.82	19.12	13.88	19.96	12.74
Price/Sales (P/S)	0.74	0.63	2.67	0.37	0.76	0.54
Earnings Yield	7.41%	5.50%	5.23%	7.21%	5.01%	7.85%
Debt/Equity	0.56	0.58	0.70	1.08	0.41	0.75
Cash Flow (\$/share)	24.42	6.70	6.93	6.70	22.51	13.35
<b>Growth Score</b>	<b>A</b>	-	-	<b>D</b>	<b>C</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	14.87%	19.46%	10.84%	31.44%	24.18%	47.72%
Proj. EPS Growth (F1/F0)	15.34%	9.92%	7.11%	8.74%	4.30%	1.19%
Curr. Cash Flow Growth	16.15%	13.35%	7.81%	45.38%	17.03%	-4.67%
Hist. Cash Flow Growth (3-5 yrs)	12.87%	12.98%	8.25%	49.67%	12.98%	30.21%
Current Ratio	1.65	1.61	1.24	1.57	1.82	1.83
Debt/Capital	35.92%	37.43%	42.37%	51.92%	29.21%	42.82%
Net Margin	4.61%	4.17%	11.76%	1.77%	4.17%	4.38%
Return on Equity	16.34%	16.16%	16.86%	15.18%	20.89%	40.80%
Sales/Assets	1.36	1.43	0.55	2.09	2.25	2.43
Proj. Sales Growth (F1/F0)	13.47%	13.47%	4.05%	43.99%	14.22%	8.20%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>B</b>	<b>F</b>	<b>F</b>
Daily Price Chg	1.55%	0.00%	-0.38%	2.73%	-0.99%	2.91%
1 Week Price Chg	7.72%	1.41%	1.65%	2.82%	6.39%	13.27%
4 Week Price Chg	-1.16%	1.92%	0.39%	1.86%	1.99%	7.83%
12 Week Price Chg	5.30%	6.33%	4.84%	11.15%	8.78%	11.66%
52 Week Price Chg	-2.94%	4.01%	14.99%	3.57%	21.85%	10.64%
20 Day Average Volume	1,856,568	408,068	1,996,897	6,545,949	1,076,216	634,498
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.26%
(F1) EPS Est 4 week change	-1.27%	0.00%	-0.01%	0.08%	-0.24%	-1.27%
(F1) EPS Est 12 week change	-1.20%	-0.66%	-0.21%	-0.66%	-0.19%	-1.34%
(Q1) EPS Est Mthly Chg	-6.17%	-0.06%	-0.26%	-2.79%	-3.45%	-12.18%

## 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>B</b>
Growth Score	<b>A</b>
Momentum Score	<b>C</b>
VGM Score	<b>A</b>

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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