

Anthem, Inc.(ANTM)

\$305.39 (As of 01/17/20)

Price Target (6-12 Months): **\$321.00**

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: A

Growth: B

Momentum: B

Summary

Anthem's shares have outperformed its industry in a year's time. The company has witnessed its 2020 estimates being revised upward over the past 30 days. 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. A diverse product portfolio also helped the company enhance its revenues. Its strong capital position and solid guidance also impress. 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 for Anthem.

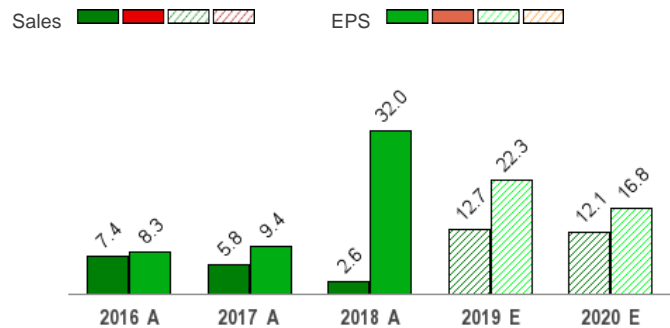
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$317.99 - \$227.16
20 Day Average Volume (sh)	1,079,227
Market Cap	\$77.4 B
YTD Price Change	1.1%
Beta	0.76
Dividend / Div Yld	\$3.20 / 1.0%
Industry	Medical - HMOs
Zacks Industry Rank	Top 18% (45 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.6%
Last Sales Surprise	4.1%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	01/29/2020
Earnings ESP	-1.2%
P/E TTM	17.0
P/E F1	13.5
PEG F1	1.0
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	27,977 E	28,818 E	28,986 E	29,323 E	115,370 E
2019	24,388 A	25,177 A	26,444 A	26,852 E	102,900 E
2018	22,342 A	22,715 A	22,980 A	23,304 A	91,341 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$7.01 E	\$5.91 E	\$5.49 E	\$4.34 E	\$22.70 E
2019	\$6.03 A	\$4.64 A	\$4.87 A	\$3.90 E	\$19.43 E
2018	\$5.41 A	\$4.25 A	\$3.81 A	\$2.44 A	\$15.89 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 01/17/2020. The reports text is as of 01/20/2020.

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".

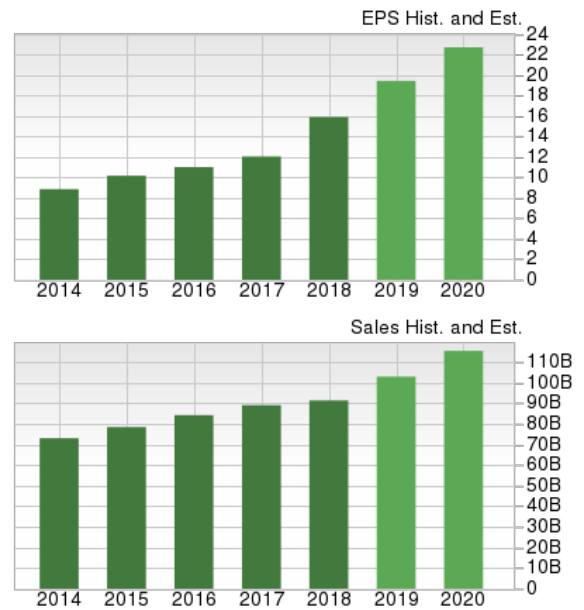
The company is also an independent licensee of the Blue Cross Blue Shield Association (BCBSA). Anthem is the largest BCBS plan provider in the United States. As of Dec 31, 2018, it catered to 40 million medical members through its affiliated health plans.

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 61% of the company's operating revenues in 2018): The segment consists of the Medicaid and Medicare businesses, National Government Services, and the Federal Employee Program ("FEP").

Commercial & Specialty Business (39%): The segment covers the Local Group, National Accounts, Individual and Specialty businesses.

Other: 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 outperformed its industry. The company has witnessed its 2020 estimates being revised upward by 0.1% over the past 30 days. Moreover, factors like an improving top line and a solid capital deployment are likely to help the stock continue performing well 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. The company has also launched successful partnerships with various companies recently and it expects its partnership model to accelerate growth.

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.

Anthem will also be buying the Missouri and Nebraska Medicaid plans of WellCare Health. The move is related to the \$17-billion pending merger of Centene and WellCare. With this deal, Anthem, which is at the helm of implementing Blue Cross and Blue Shield plans across 14 states, will win around 300,000 Medicaid members. The company is on track to acquire Beacon Health in the fourth quarter of 2019, which would strengthen its position in behavioral health.

▲ **Earnings Guidance:** Following solid third-quarter results, the company has raised its 2019 outlook. Its adjusted net income is now expected to be higher than \$19.40 per share, indicating a rise from the prior projection of more than \$19.30. Medical membership is estimated to be around 41 million, indicating a 2.7% rise from the reported 2018 figure. Operating revenues are predicted to be around \$103 billion including the premium revenues of \$94-95 billion, suggesting a rise from the earlier projection of \$103 billion. Operating cash flow is envisioned to be higher than \$5.5 billion, up from the earlier guidance of \$5.2 billion. A solid outlook should instill investor confidence in the stock.

The company remains positive about its 2020 performance as well and expects adjusted per share growth at the lower end of 12-15% growth rate compared with the original 2019 outlook. It also expects the IngenioRx migration to lead to minimum \$800 million of total operating gain in 2020. 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.

▲ **Improving Top Line:** The company's top-line improvement remains impressive, witnessing a 5-year CAGR of 4.88% (2013-2018). Following the same trend, the metric was up nearly 11.8% year over year on the back of a premium rate increase and higher membership in the first nine months of 2019. For 2019, the company expects its operating revenues to be around \$103 billion, suggesting a rise from the earlier estimate of \$102 billion. 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 has raised its dividend by about 200% from 2011-2018. It has also been aggressively engaged in share buybacks, utilizing its excess capital to boost shareholder value. As of Sep 30, 2019, the company had shares worth around \$4.1 billion remaining under its share buyback authorization. The company's cash flow from operations remains impressive. The metric saw a CAGR of 4.54% from 2013 to 2018. In the first nine months of 2019, the same was up 41% year over year. The company projects operating cash flow to be higher than \$5.5 billion for the year, implying an increase from the earlier projection of \$5.2 billion.

▲ **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 the first nine months of 2019 on the back of fully insured business. Medical membership for 2019 is now estimated to be around 41 million, indicating a 2.7% rise from the reported 2018 figure. The company's Medicaid business is also well-poised for growth. Its partnership in North Carolina will add around 4,00,000 members in the first quarter of 2020. On completion of the Centene-WellCare deal, Anthem will be able to win around 3,00,000 Medicaid members.

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 increased 12% during 2018 and the first nine months of 2019, respectively. For 2019, SG&A ratio is forecast in the 13-13.3% band, indicating a decline from the earlier projection of 13.2-13.5%. The company estimates the benefit expense ratio to be 86.5-86.8%, suggesting an improvement from the 86.2-86.5% range.

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

▼ **Profitability:** Anthem's return on equity (ROE) undermines its growth potential. Although the company's trailing 12-month ROE of 15.6% improved over the years, the same compares unfavorably with the industry average of 23.4%, indicating that it is less efficient in using 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 8.3, lower than its industry's average of 10.7.

Last Earnings Report

Anthem's Q3 Earnings Beat Estimates, Improve Y/Y

Anthem delivered third-quarter 2019 earnings of \$4.87 per share, marginally beating the Zacks Consensus Estimate by 0.6%. Additionally, the bottom line improved 27.8% year over year on the back of higher revenues.

Further, Anthem reported operating revenues of \$26.4 billion, beating the Zacks Consensus Estimate by 4.1%. Moreover, the top line was up 15.1% year over year, aided by membership growth across businesses, growth in value-added services and the premium rate increases to cover the overall cost trends. However, this upside was partially offset by the year-long waiver of the health insurance tax in 2019.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	4.07%
EPS Surprise	0.62%
Quarterly EPS	4.87
Annual EPS (TTM)	17.98

Quarterly Operational Update

Medical enrollment inched up 2.7% year over year to 41 million members, backed by growth in Medicaid and Medicare, partly offset by the declines in Commercial & Specialty Business enrollment. Anthem's benefit expense ratio of 87.2% expanded 240 basis points (bps) from the prior-year quarter. This increase was attributable to one-year waiver of the health insurance tax in 2019. SG&A expense ratio of 12.9% contracted 250 bps from the year-ago quarter owing to the year-long waiver of the health insurance tax in 2019 plus growth in the operating revenues.

Strong Segmental Results

Commercial & Specialty Business

Operating revenues were \$9.2 billion in the second quarter, up 3.9% year over year. Operating gain totaled \$930 million, up 11.5% million year over year. This increase is driven by more penetration of value-added services, such as pharmacy and integrated health offerings. However, the same was partly offset by unfavorable reserve development. Operating margin was 10%, up 70 basis points (bps) year over year.

Government Business

Operating revenues were \$16 billion, up 14.1% from the prior-year quarter.

Operating gain was \$616 million, up 35.1% year over year, driven by better medical cost performance in Medicaid. However, the same was offset by one-year waiver of the health insurance tax to some extent. Operating margin was 3.9%, up 60 bps year over year.

Other

The Other segment's operating loss of \$18 million is narrower than the year-earlier quarterly loss of \$41 million.

Financial Update

As of Sep 30, 2019, Anthem's cash and cash equivalents summed \$4.2 billion, up 6.5% from 2018 end. As of Sep 30, 2019, its long-term debt less current portion increased 9.3% to \$18.8 billion from the level at 2018 end.

Operating cash flow at the end of the first nine months of 2019 was \$4.7 billion, up 40.7% year over year.

Capital Deployment

During the third quarter, Anthem bought back shares worth \$644 million. As of Sep 30, 2019, the company had shares worth around \$4.1 billion remaining under its share buyback authorization. Moreover, the company paid out a quarterly dividend of 80 cents per share, adding up to a cash distribution worth \$204 million. The company announced a fourth-quarter dividend of 80 cents per share on Oct 22, 2019, payable Dec 20 to shareholders of record on Dec 5, 2019.

Revised Guidance for 2019

Based on solid third-quarter results, Anthem has updated its outlook for 2019. The company's adjusted net income is now expected to be higher than \$19.40 per share, up from the prior projection of \$19.30. Medical membership is still estimated to be around 41 million. Operating revenues are predicted to be around \$103 billion, up from the earlier estimate of \$102 billion. This includes premium revenues of \$94-\$95 billion.

Operating cash flow is now anticipated to be higher than \$5.5 billion.

SG&A ratio is forecast in the band of 13-13.3%, lower than the earlier outlook of 13.2-13.5%. The company estimates the benefit expense ratio to be 86.5-86.8%, up from the range of 86.2-86.5%.

Recent News

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.

AM Best Assigns Credit Rating to Anthem's Senior Unsecured Notes – Sep 5, 2019

Credit rating agency AM Best has allotted a Long-Term Issue Credit Rating of "bbb+" to the three tranches of senior unsecured notes issued by Anthem. The outlook is stable.

Valuation

Anthem shares are up 14.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 13.2% and 4.8%, respectively.

The S&P 500 index is up 24% in the past year.

The stock is currently trading at 13.35X trailing 12-month price to earnings ratio, which compares to 16.51X for the Zacks sub-industry, 21.79X for the Zacks sector and 19.2X 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 14.17X. Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$321 price target reflects 14.03X price to earnings ratio.

The table below shows summary valuation data for ANTM

Valuation Multiples - ANTM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.35	16.51	21.79	19.2
	5-Year High	19.22	20.68	21.79	19.33
	5-Year Low	10.22	12.6	15.88	15.16
	5-Year Median	14.17	16.33	18.95	17.43
P/S F12M	Current	0.67	0.81	2.88	3.57
	5-Year High	0.81	0.86	3.81	3.57
	5-Year Low	0.36	0.48	2.42	2.54
	5-Year Median	0.54	0.65	2.93	3
P/B TTM	Current	2.47	3.82	4.61	4.55
	5-Year High	2.88	4.09	5.01	4.55
	5-Year Low	1.25	2.44	3.42	2.85
	5-Year Median	1.89	3.1	4.28	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 18% (45 out of 254)



Top Peers

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

Industry Comparison Industry: Medical - Hmos				Industry Peers		
	ANTM Neutral	X Industry	S&P 500	CNC Neutral	HUM Neutral	WCG Outperform
VGM Score	A	-	-	A	A	B
Market Cap	77.44 B	2.56 B	24.65 B	26.71 B	48.54 B	16.97 B
# of Analysts	10	6	13	11	11	8
Dividend Yield	1.05%	0.00%	1.73%	0.00%	0.60%	0.00%
Value Score	A	-	-	A	A	C
Cash/Price	0.35	0.26	0.04	0.26	0.33	0.22
EV/EBITDA	9.97	11.17	14.11	12.09	13.48	15.98
PEG Ratio	0.96	1.24	2.08	0.94	1.41	1.33
Price/Book (P/B)	2.47	3.58	3.39	2.15	4.18	3.49
Price/Cash Flow (P/CF)	14.82	14.36	13.81	13.91	19.50	24.01
P/E (F1)	13.45	17.70	19.19	13.43	19.62	19.72
Price/Sales (P/S)	0.77	0.62	2.69	0.37	0.77	0.63
Earnings Yield	7.43%	5.58%	5.21%	7.45%	5.10%	5.07%
Debt/Equity	0.60	0.60	0.72	0.56	0.46	0.42
Cash Flow (\$/share)	20.61	6.35	6.94	4.64	18.79	14.04
Growth Score	B	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	14.19%	23.12%	10.56%	32.24%	23.12%	53.28%
Proj. EPS Growth (F1/F0)	16.82%	9.36%	7.57%	8.65%	5.14%	8.81%
Curr. Cash Flow Growth	29.54%	16.18%	14.73%	52.48%	16.31%	39.40%
Hist. Cash Flow Growth (3-5 yrs)	8.80%	14.42%	9.00%	52.29%	7.02%	23.15%
Current Ratio	1.70	1.16	1.24	1.01	1.83	1.16
Debt/Capital	37.53%	37.53%	42.99%	36.09%	31.62%	29.47%
Net Margin	4.29%	3.34%	11.14%	1.87%	4.06%	2.34%
Return on Equity	15.59%	15.97%	17.16%	15.54%	22.32%	17.00%
Sales/Assets	1.34	1.75	0.55	2.17	2.24	2.07
Proj. Sales Growth (F1/F0)	12.12%	9.47%	4.16%	7.40%	10.29%	13.81%
Momentum Score	B	-	-	B	F	A
Daily Price Chg	0.11%	-0.16%	0.27%	-0.91%	-0.16%	-0.51%
1 Week Price Chg	3.66%	0.97%	0.39%	5.43%	-0.20%	3.56%
4 Week Price Chg	2.40%	1.31%	2.95%	4.32%	0.26%	3.11%
12 Week Price Chg	17.69%	21.08%	7.76%	35.47%	27.89%	21.54%
52 Week Price Chg	16.61%	8.97%	22.29%	3.04%	25.95%	30.10%
20 Day Average Volume	1,079,227	259,027	1,536,375	3,119,109	809,733	304,890
(F1) EPS Est 1 week change	0.06%	0.00%	0.00%	0.19%	0.00%	0.06%
(F1) EPS Est 4 week change	0.06%	0.00%	0.00%	0.57%	-0.00%	0.06%
(F1) EPS Est 12 week change	-0.69%	-1.18%	-0.40%	-2.47%	-0.56%	3.21%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-2.30%	-0.14%	9.12%

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	B
Momentum Score	B
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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