

Anthem, Inc.(ANTM)

\$270.21 (As of 08/26/20)

Price Target (6-12 Months): **\$284.00**

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 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. Its increasing top line paves the way for long-term growth. Its solid guidance also impresses. The company witnessed a rise of usage of its Telehealth and virtual care services. 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. Its weak balance sheet remains a concern too. Its second-quarter 2020 earnings of \$9.20 per share beat the Zacks Consensus Estimate by 4.9% and also soared 98.3% year over year on the back of Medicaid and Medicare businesses.

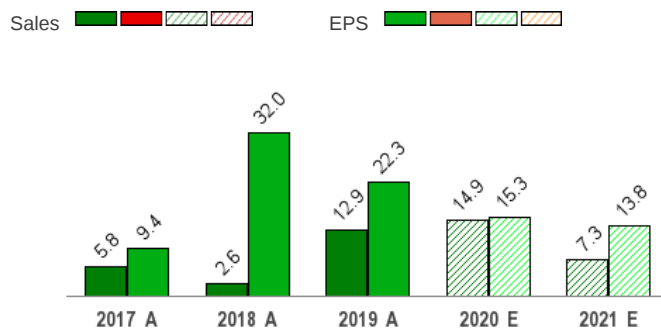
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$309.10 - \$171.03
20 Day Average Volume (sh)	931,832
Market Cap	\$68.0 B
YTD Price Change	-10.5%
Beta	0.95
Dividend / Div Yld	\$3.80 / 1.4%
Industry	Medical - HMOs
Zacks Industry Rank	Top 13% (33 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.9%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	10/28/2020
Earnings ESP	0.0%
P/E TTM	11.1
P/E F1	12.1
PEG F1	0.9
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	31,726 E	30,835 E	31,889 E	32,368 E	127,157 E
2020	29,448 A	29,178 A	29,808 E	30,169 E	118,462 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	\$7.24 E	\$6.28 E	\$6.44 E	\$5.58 E	\$25.52 E
2020	\$6.48 A	\$9.20 A	\$4.05 E	\$2.74 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 08/26/2020. The reports text is as of 08/27/2020.

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.

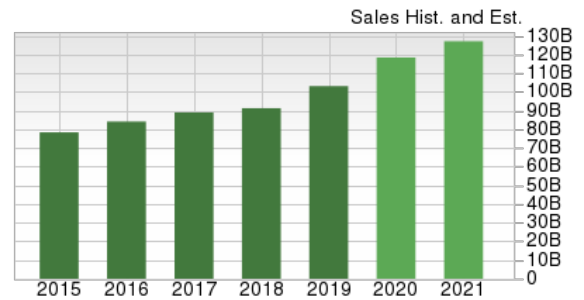
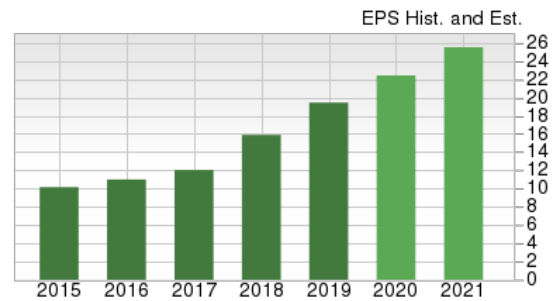
The company serves customers across all 50 states in the United States through its subsidiaries, namely UniCare and CareMore. Anthem now operates through four reportable segments:

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. Virtual health check-ups soared 300% from the pre-COVID levels. On the last earnings call, management had confirmed that the company catered to 475,000 telehealth visits in 82,000 COVID-19 assessments. Its live health online surpassed 1 million visits in early April. Given the current scenario and rising demand for telemedicine in behavioral health as well, the company expects this business to continue to fare 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 second-quarter results, the company reaffirmed 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 six months of 2020, its operating revenues of \$58.6 billion were up 18.3% year over year, aided by pharmacy product revenues. 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%. Its dividend yield stands at 1.4%, above the industry's average of 1.3%. 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 the first six months of 2020, the same exceeded expectation by surging 161.7% year over year. Share buyback activity was resumed in late June considering the company's solid solvency position. The company expects to buy back more than \$1.5 billion of shares for the year.
- ▲ **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 3.9% year over year to 42.1 million members, backed by Government Business enrollment and Commercial & Specialty Business in the first half 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.

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 six months of 2020, total expenses rose 14.8% 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 19.4% improved over the years, the same compares unfavorably with the industry average of 26.2%, indicating that it is less efficient in utilizing its shareholders' funds.
- ▼ **Weak Capital Position:** The company's total debt accounts for 38.4% (compared with the sequential figure of 61.1%) of its capital, almost in line with the industry's average of 38.2%. Its cash and cash equivalents of \$6 billion as of Jun 30, 2020 are much lower than the long-term debt of \$19.8 billion. In fact, its times interest earned of 11.2X is way lower than its industry's average of 12.4X. Thus, its lack of solvency remains a concern.

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

Last Earnings Report

Anthem Q2 Earnings Surpass Estimates, Improve Y/Y

Anthem delivered second-quarter 2020 earnings of \$9.20 per share, which beat the Zacks Consensus Estimate by 4.9% on the back of Medicaid and Medicare businesses. Moreover, the bottom line jumped 98.3% year over year.

However, Anthem's operating revenues of \$29.2 billion missed the Zacks Consensus Estimate by 0.9%. But the top line was up 15.9% year over year, aided by pharmacy product revenues in relation to the launch of IngenioRx. The increase was further led by higher premium revenues from growth in Medicaid and Medicare and the return of the health insurance tax in 2020.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	-0.87%
EPS Surprise	4.90%
Quarterly EPS	9.20
Annual EPS (TTM)	24.43

Quarterly Operational Update

Medical enrollment inched up 3.9% year over year to 42.5 million members, backed by growth in Medicaid, National and Medicare businesses.

Anthem's benefit expense ratio of 77.9% contracted 880 basis points (bps) from the prior-year quarter, driven by the return of the health insurance tax in 2020 and the deferral of healthcare utilization amid COVID-19 pandemic.

SG&A expense ratio of 13.9% expanded 90 bps from the year-ago quarter due to the return of the health insurance tax in 2020 and an increased spend on growth initiatives.

Strong Segmental Results

Commercial & Specialty Business

Operating revenues of \$8.8 billion in the second quarter were down 6.7% year over year.

Operating gain totaled \$1.4 billion, up 39.6% year over year on the back of reduced healthcare benefit utilization during the COVID-19 pandemic.

Operating margin was 15.6%, expanding 520 bps year over year.

Government Business

Operating revenues were \$17.2 billion, up 11% from the prior-year quarter.

Operating gain was \$1.6 billion, up 237.1% year over year on the back of reduced healthcare benefit utilization during the COVID-19 pandemic.

Operating margin was 9.4%, up 630 bps year over year.

Other

The Other segment's operating gain of \$66 million came against the year-earlier quarterly loss of \$30 million on the back of growth in the Diversified Business Group.

Financial Update

As of Jun 30, 2020, Anthem's cash and cash equivalents totaled \$6 billion, up 22.1% from the level at 2019 end.

As of Jun 30, 2020, its long-term debt less current portion increased 11.7% to \$19.8 billion from the level at 2019 end.

Cash provided by operating activities at the end of the second quarter was \$8 billion, up 161.7% year over year.

Capital Deployment

After considering the company's solvency level, share buyback activity was resumed in late June.

During the second quarter, Anthem bought back shares worth \$55 million.

As of Jun 30, 2020, the company had shares worth \$3.2 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 \$242 million.

The company announced a dividend of 95 cents per share on Jul 28, 2020 for the third quarter, payable Sep 25 to its shareholders of record as of Sep 10, 2020.

Guidance for 2020

Based on solid second-quarter results, Anthem updated its guidance for 2020. GAAP net income is expected to be greater than \$20.91 per share including approximately \$1.39 per share of net unfavorable items. The company's adjusted net income is now expected to be higher than \$22.30 per share excluding these items.

The company withdrew all other previously issued guidance for the current-year financial metrics due to the unprecedented uncertainty around the COVID-19 pandemic and its impact.

Recent News

Anthem, Quest Tie up to Improve Healthcare Across the US - Aug 18, 2020

Anthem collaborated with Quest Diagnostics DGX to bring about improved health outcomes for several consumers across the United States. Anthem and Quest have collaborated to utilize a diverse range of tools and programs. The partnership is not only expected to reduce healthcare costs but also provide operational efficiencies and pricing transparencies.

By teaming up, both the healthcare providers intend to reach out to all the communities they serve with their innovative solutions.

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.

Valuation

Anthem's shares are down 5.5% in the year to date period and up 7.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 1% and 2.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 21.8% and the sector is up 10.3%.

The S&P 500 index is up 6.6% in the year-to-date period and 18.3% in the past year.

The stock is currently trading at 11.05x forward 12-month price to earnings, which compares to 15.35x for the Zacks sub-industry, 22.29x for the Zacks sector and 23.11x 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 13.37x. Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$284 price target reflects 11.62x 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	11.05	15.35	22.29	23.11
	5-Year High	19.22	20.58	23.21	23.11
	5-Year Low	7.57	12.48	15.89	15.25
	5-Year Median	13.37	16	18.97	17.58
P/S F12M	Current	0.55	0.77	2.81	3.77
	5-Year High	0.81	0.86	3.41	3.77
	5-Year Low	0.36	0.48	2.22	2.54
	5-Year Median	0.56	0.7	2.89	3.05
P/B TTM	Current	1.97	3.23	3.84	4.66
	5-Year High	2.88	4.07	5.07	4.66
	5-Year Low	1.25	2.3	2.94	2.83
	5-Year Median	2.06	3.21	4.28	3.75

As of 08/26/2020

Industry Analysis Zacks Industry Rank: Top 13% (33 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
The Joint Corp. (JYNT)	Outperform	2
Select Medical Holdings Corporation (SEM)	Outperform	1
Centene Corporation (CNC)	Neutral	3
CVS Health Corporation (CVS)	Neutral	3
Humana Inc. (HUM)	Neutral	2
Magellan Health, Inc. (MGLN)	Neutral	3
Molina Healthcare, Inc (MOH)	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	-	-	A	A	A
Market Cap	67.96 B	2.22 B	23.69 B	34.41 B	53.41 B	10.75 B
# of Analysts	10	5	14	12	9	8
Dividend Yield	1.41%	0.00%	1.65%	0.00%	0.62%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.44	0.33	0.07	0.40	0.36	0.47
EV/EBITDA	7.16	9.15	13.37	11.83	9.24	6.57
PEG Ratio	0.86	1.47	3.04	0.86	1.74	1.55
Price/Book (P/B)	1.97	2.10	3.17	1.37	3.70	5.38
Price/Cash Flow (P/CF)	11.06	11.06	12.78	8.89	17.93	13.57
P/E (F1)	12.05	15.31	21.63	12.18	21.52	15.31
Price/Sales (P/S)	0.60	0.60	2.50	0.38	0.76	0.61
Earnings Yield	8.30%	5.95%	4.44%	8.20%	4.65%	6.53%
Debt/Equity	0.58	0.59	0.75	0.66	0.42	1.02
Cash Flow (\$/share)	24.42	6.68	6.94	6.68	22.51	13.35
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	18.14%	26.09%	10.41%	28.45%	26.89%	52.12%
Proj. EPS Growth (F1/F0)	15.32%	10.44%	-4.92%	10.28%	4.97%	2.32%
Curr. Cash Flow Growth	16.15%	14.42%	5.22%	45.38%	17.03%	-7.00%
Hist. Cash Flow Growth (3-5 yrs)	12.87%	13.62%	8.50%	49.67%	12.98%	30.21%
Current Ratio	1.64	1.46	1.34	1.22	1.69	1.88
Debt/Capital	36.58%	37.57%	44.18%	39.94%	29.59%	50.56%
Net Margin	5.24%	4.51%	10.25%	1.70%	4.96%	4.51%
Return on Equity	19.44%	19.01%	14.66%	14.07%	26.70%	44.07%
Sales/Assets	1.39	1.39	0.50	1.74	2.15	2.48
Proj. Sales Growth (F1/F0)	14.85%	12.30%	-1.45%	48.27%	15.64%	11.50%
Momentum Score	A	-	-	B	F	C
Daily Price Chg	-2.26%	-0.87%	-0.18%	-2.32%	-0.52%	-0.58%
1 Week Price Chg	0.49%	-2.38%	-1.45%	-3.36%	-0.77%	-2.69%
4 Week Price Chg	-4.03%	-1.22%	2.10%	-10.49%	1.85%	-3.43%
12 Week Price Chg	-6.59%	0.80%	3.61%	-9.15%	2.54%	1.16%
52 Week Price Chg	6.46%	7.40%	3.61%	31.02%	46.24%	42.78%
20 Day Average Volume	931,832	215,368	1,883,291	2,684,890	571,869	325,213
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.18%	0.03%	0.93%	-0.69%	-0.09%	-0.90%
(F1) EPS Est 12 week change	0.83%	1.47%	3.41%	2.81%	0.94%	-0.47%
(Q1) EPS Est Mthly Chg	-6.24%	-2.48%	0.00%	-7.47%	4.52%	-4.97%

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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