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Anthem, Inc. ***(NASDAQ:ANTM)***

Introduction

Anthem, Inc. is a health benefits company headquartered in Indianapolis, Indiana. They provide life, hospital and medical insurance plans to both the private and public insurance markets. They operate in the United States and are the largest for-profit insurance provider that partners with the Blue Cross Blue Shield Association. Anthem is the second largest healthcare insurance provider in terms of market capitalization and supply coverage to over 40 million members within the United States. Their Commercial and Specialty Business segment accounts for 40% of sales and their Government segment accounts for 60% of sales. Since 2014, Anthem has seen overall revenue growth of 25% and net income growth of 46%. Their business strategy is geared towards creating organic growth, strategic acquisitions, increasing enrollment in current markets, and giving more clarity and control to the consumers.

Management

Since 11/2017 Gail K. Boudreaux has served as Anthem's President, Chief Financial Officer & Director. Under her guidance Anthem successfully launched their own Pharmaceutical Benefits Manager, IngenioRx. Before becoming the CEO of Anthem, she was the Chief Financial Officer, President, and Vice President of UnitedHealth Group. Her timeline with UnitedHealth Group spans 01/11-11/2014. Before that she was the President of Blue Cross Blue Shield Illinois. In summation, she has been in the healthcare industry for over 30 years and brings to Anthem insight into a large competitor and partnership. Her focus is driven towards the holistic and fair care of healthcare consumers.

John E. Gallina is the Executive Vice President and Chief Financial Officer. He oversees the management of all financial, actuarial, corporate real estate, and procurement aspects of Anthem. In previous positions he has accumulated 35 years of related experience in accounting, internal auditing, and risk management. He has been with Anthem for 11 consecutive years.

Key Statistics

Current Price	**$267.67**	**Revenue (in millions)**	**26,444**
Price Target	**$354.85**	**Operating Margin**	**6.28 %**
52 Week High/Low	**227.16-317.99**	**EBITDA Margin**	**7.45 %**
Market Cap	**66,705 M**	**EPS**	**$14.31**
Average Daily Volume	**1,530,828.00**	**Profit Margin**	**4.44 %**
Dividend Yield	**1.20 %**	**Cash Flow/ Share**	**14.49**
Enterprise Value	**83,854,000**	**Price/ Earnings**	**15.46**
Beta	**0.889**	**Loss Ratio**	**84.2 %**
WACC	**6.30 %**	**ROA**	**5.6 %**
Long-Term Growth Rate	**16.40 %**	**ROIC**	**8.37 %**
Debt/ Equity	**66.61 %**	**ROE**	**14.2 %**

Recommendation

I am recommending a **BUY** on Anthem, inc. (ANTM) at $267.67 per share. Anthem is changing the way Pharmaceutical Benefit Managers (PBMs) are impacting the industry. The tension surrounding possible policy changes aimed at exposing the excessive profit margins has provided Anthem with the opportunity to has decided to discontinue their relationship with their PBM and restructure a new benefits manager that's main goal is to be transparent with pricing, and for the benefit of whole person health care. In 2019 they launched their own PBM, IngenioRx. Since there is only three main PBMs in the industry, this is kind of restructuring hasn't been seen before. Through Mergers and Acquisitions Anthem continues to grow in market presence in both the public and private markets. Their diversified portfolio provides risk mitigation and promotes growth in revenue streams. Their current acquisition of WellCare Health Plans will provide more exposure to the trend of increased revenue from the Medicare market. Anthem's vision of whole person health drove the other 2019 acquisition of Beacon Health Options. This company specializes in behavioral health options, giving Anthem a stronger market position within these insurance options. Anthem presents investors with promising action aimed at becoming the most progressive health insurer that is leading the way to better health care in America.

I am also recommending a **SELL** on UnitedHealth Group (UNH). Within our current portfolio, the sub-industry of managed health care is fairly represented by UnitedHealth Group at 3.57%. Growth projections are showing signs of stagnating growth within this company. This can be seen by their revenue growth YoY. From 2015 until the current period their growth has decreased from 20.4% to 9.0%. We have gained a healthy 14.87% return from our investment in this company. If sold, we could lock in this return and replace UnitedHealth Group with Anthem to maximize our growth potential and continue to fairly represent the Managed Health Care sub-industry.

Investment Thesis

- Being subjected to the risk of political policy provides a unique opportunity for Anthem. Due to their presence in both public insurance markets and the commercial markets, they can adapt to changes in health care policy. Anthem's 2012 introduction into the public insurance market created a duel revenue segment that added significant diversification and flexibility to their product portfolio. Due to The Affordable Care Act, Anthem's revenue stream over the past seven years has seen a significant increase in public insurance products. If policy shifts in favor of the commercial insurance markets, we can confidently infer that Anthem's products within this market will absorb the shift in consumer product preferences.
- Pharmacy Benefit Managers (PBM) work with insurance providers and pharmacies to negotiate prescription prices. These middlemen have been the largest contributor to rising pharmaceutical costs. Up until 2019 Anthem was partnered with ExpressScripts. The nature of this PBM was not aligned with Anthem's vision of the lowest net costs for their consumers. In order to benefit their members, Anthem severed their partnership with ExpressScripts. IngenioRx is Anthem's reinvented PBM that's goal is to increase consumer clarity, lower costs, and increase Whole Person Healthcare. IngenioRx is projected to bring an operating gain of at least 800 million or $2.30 per share.
- In order to combat the complexity of healthcare for the consumer Anthem has created products geared for consumer clarity. The most prominent of which being Sydney. Sydney provides

members with online access to their health records, bills, and other patient information along with the ability to schedule appointments and search nearby providers that work with your insurance. It provides in-depth information about coverage as well.

- Mergers and Acquisitions are important for the growth of managed health care companies. The significance of M&A activity can be shown historically by back testing the S&P 500 Health Care Sector using a factor Mergers and Acquisitions Expense (Higher is better). The results are provided in the table below. Anthem is continuously working towards expanding their market share by acquiring and merging with companies. Anthem's in progress acquisition of WellCare will open more revenue growth from Medicare and Medicaid. Since 2012, the public insurance market has taken over as the leading source of revenue for Anthem. Their addition of WellCare will be able to capitalize on this revenue driver. The acquisition of Beacon Health was pursued in order to strengthen their market position in behavioral health for the increased effort in whole person care. This will create an even more diversified product portfolio and aligns with the current trend of holistic care.

Q Spread Annual Return	**11.75%**
Sharpe Ratio	**0.37**
Information Ratio	**0.37**

Peer Analysis

Column1	Ticker Symbol	Market Cap (B)	Sales (B)	EBITDA (B)	Dividend Yield (%)	EV/Sales
Anthem	ANTM	67.87	100.21	6	1.7	0.8
UnitedHealth Group	UHN	234.10	239.67	21.12	1.62	1.11
Cigna Corporation	CI	66.00	102.51	8.89	0.02	0.98
Industry Average	N/A	50.12	59.417	12.5	0.91	0.32

Valuation

Using a discounted cash flow valuation for the next five years with a more conservative terminal growth rate of 2%, the current earnings per share of $16.43, and a weighted average cost of capital of 6.2%, the fair value market price arrived at was $354.85. Concluding that Anthem is currently undervalued by 32.6% at its current market price of $267.67.

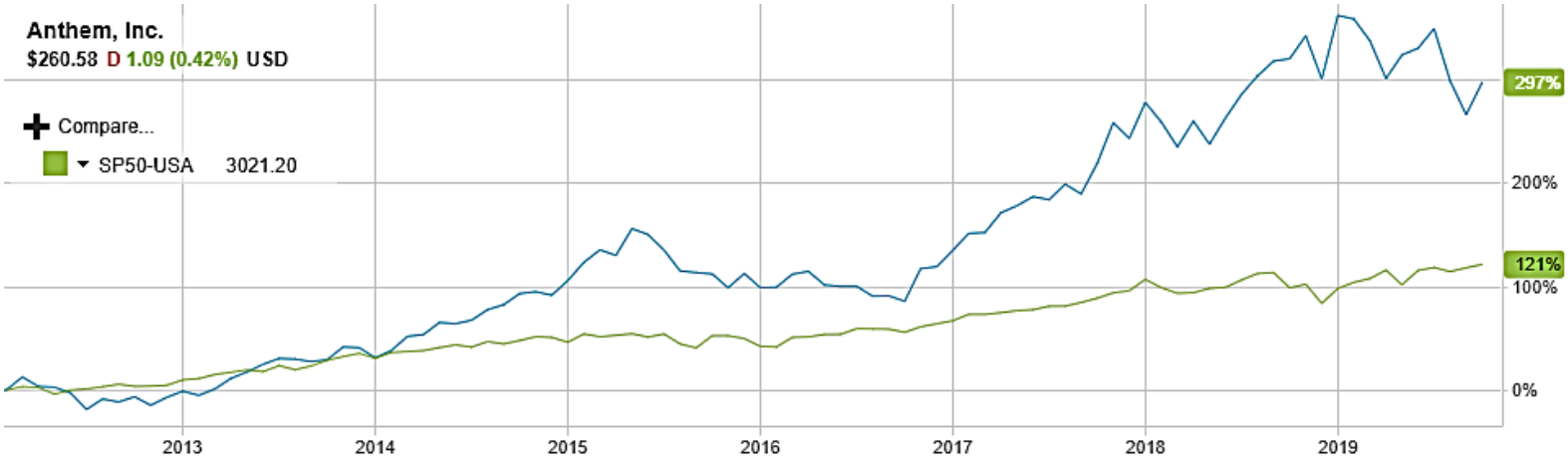
The multiples analysis of market capitalization/customer base of Anthem and its main competitors UnitedHealth Group and Cigna Corporation is shown below. This multiple valuation against benchmark competitors shows Anthem to be currently on sale in comparison.

COMPANY	CUSTOMER BASE	MARKET CAP	MKT/CUST X
ANTHEM, INC	41000000	67000000000	1634
UNITEDHEALTH GROUP	63400000	234124000000	3693
CIGNA CORPORATION	12400000	20110000000	1622

Risks

- The health care sector is subjected to uncertainly regarding political policy decisions. Managed health care is one of the topics at the forefront of policy changes. The direction of this industry lies heavily on the shoulders of the next administration and the potential changes they may enact. In this environment, the uncertainty creates the need for companies to be diversified in their product portfolios.
- The Affordable Care Act was largely aimed at decreasing the portion of Americans that were uninsured and exposed to the excessive out-of-pocket costs of healthcare. Due to the success of this act, the uninsured rate has decreased significantly. Even though this is a positive result, it does pose the threat of decreasing enrollment growth for the managed healthcare sector. The current administration has repealed the Individual Mandate component of the ACA. Looking forward, this gives consumers incentive to stay uninsured. This adds to the threat of potential stagnating membership enrollment.
- Rising healthcare costs are have had a negative impact on insurance providers. Even though deductibles and premiums are rising to offset this increase, it does not create an environment where managed health care companies are immune to the rising costs.

Price Comparison against the S&P 500



Ownership

Ownership Statistics

SHARES OS
255,817,000
92.20% TOTAL OWNERSHIP

- 91.92% Inst. Ownership
- 36.95% Top 10 Inst. Holders
- 0.32% Insider Ownership
- 7.76% Unknown

Shareholder	% Ownership	Market Valuation (In millions)	Report Date
The Vanguard Group, Inc	7.47	4,956	6/30/19
T. Rowe Price	6.63	4,400	6/30/19
BlackRock Fund Advisors	4.75	3,150	6/30/19
SSgA Funds Management	4.39	2,914	6/30/19
Fidelity	3.49	2,320	6/30/19