SEATTLEU

**Ticker:** ANTM
**Company:** Anthem Health Insurance
**Sector:** Healthcare
**Analyst:** Joshua Wu

**Recommendation:** LIMIT BUY
**Current Price:** 265.53
**Target Price Range:** $318.34-$368.80
**Date:** 6/18/2020

## Investment Thesis

| Market Snapshot | |
|---|---|
| Shares Outstanding | 252.11 |
| Market Cap (USD bn) | 66.94 |
| 52-Week low | 171.03 |
| 52 week high | 312.48 |
| TTM P/E | 14.38 |
| Beta | 0.97 |

We issue a LIMIT BUY @ $300 recommendation on ANTM with a target price range of $318.34 - $368.80, presenting a potential minimum upside of 19.89% and a maximum 38.89%. Our opinion is based on a 50%/50% mix of intrinsic (FCFF) and relative (EV/EBITDA & P/E) valuation respectively.

## Business Description


Anthem is a Health Insurance Provider in the United States. The company is the largest for-profit managed healthcare company in the Blue Cross Blue Shield Association. As of 2018 they have over 40 million members. They were born in 1946 in Indianapolis, Indiana as Mutual Hospital Insurance Inc. and Mutual Medical Insurance Inc. The companies grew significantly, controlling approximately 80% of the medical insurance market in Indiana by the 1970s. In 1972, the two companies merged and became known as Blue Cross of Indiana and Blue Shield of Indiana. In 1985, the two companies merged into Associated Insurance Companies later becoming The Associated Group, a holding company, but the name “Anthem” persisted. After 10 years of mergers and acquisitions, the group acquired Community Mutual Insurance, setting up Anthem Blue Cross and Blue Shield, later finally adopting the name Anthem Insurance Company.

**Product Mix:** Their core businesses are split into 4 segments. Their Commercial and Specialty businesses, their government businesses, IngenioRx, and other.

**Commercial and Specialty Businesses:** The commercial and specialty business includes their local group, national account, individual and specialty businesses. This is the general insurance business for fully insured customers including claims processing, underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, disease management, wellness programs and other administrative services, this segment also includes other insurance products such as dental, vision, life and disability. Membership for the commercial and specialty business rose 1.5%.

businesses, national government services or NGS and services provided to the federal government in combination with the FEHB program or Federal Employees Health Benefits Program. This business segment includes all of their federal insurance programs related to the Patient Protection and Affordable Care Act. NGS on the other hand is a Medicare contractor for the federal government. The membership for this segment of their business rose nearly 8% between 2019-2020. This business segment is their mainstream of revenue.

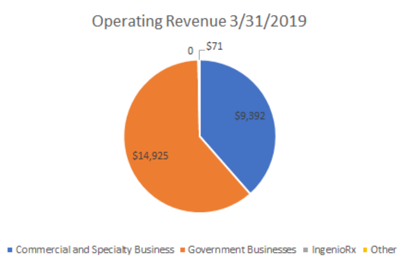
**IngenioRX:** IngenioRx is their Pharmacy Benefits Manager or PBM service. In 2017 Anthem and CVS Health partnered together and created IngenioRx which went fully into effect at the beginning of year 2020. The point of IngenioRx is to create a holistic and integrated approach in providing healthcare to those in need. By combining Anthem's member network and engagement initiatives with CVS in store experience and their direct customer engagement including programs like minute clinic and direct member messaging Anthem is trying to migrate its pharmacy business under one roof. Essentially, Anthem provides the health insurance plans while CVS Health or their PBM Express Scripts specialize in prescription fulfillment. This comes after Anthem ended its relationship with Cigna's PBM. Anthem has very high hopes for this business segment, late last year CEO Gail Boudreaux said they were very optimistic about IngenioRx and believe that the business will generate $800 million in operating gain, or another $2.30 per share in 2020. Currently, the operating gain for quarter 1 2020 is $349, well above expectation.

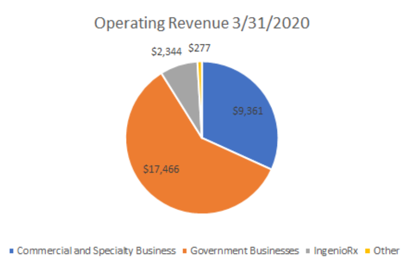
A Pharmacy Benefits Manager or PBM aims to reduce drug costs and improve convenience and safety for consumers, employers, unions, and government programs. They are the middleman between drug companies and consumers. Anthem's PBM provides services such as formulary management or the navigation of rising drug prices, pharmacy networks, prescription drug databases, member services and mail order capabilities. While in the first quarter of 2020 IngenioRx looks to be performing at expected results there are some important risks to remember. There are quite a few PBM's already. Anthem's PBM is released at a time when companies like United Health Group or Cigna and CVS health all own their own established PBMs. However, Anthem's PBM has already come out the gates swinging, they announced their first contract win in July of 2019 with Blue Cross of Idaho, starting services at the beginning of this year. Anthem expects the PBM to generate more profits and lower costs by bringing the ability to offer health plan clients a package that combines medical coverage with prescription benefits in house. That way Anthem becomes the one stop shop for anyone searching for an optimal health insurance company.

**Diversified Revenue Stream (Other):** Anthem has a long history of acquisitions and mergers. Any profits from their affiliate businesses are tied to these companies. The businesses in this segment include radiology companies, dental insurance providers, mail pharmacy fulfillment services and senior health insurance providers. The most recent business acquisition was Beacon Health Options. This purchase happened on February 28th 2020. Beacon Health Options provides behavioral healthcare management to 41 Fortune 500 companies and serves 45 million people nationwide. All in all, Anthem has a very diversified business portfolio. Their biggest holding is Amerigroup, a $4.9 billion dollar. This was in response to the Patient Protection and million members nationwide.

**Financial Analysis**

**Revenue Stream Breakdown 2019-2020:** The most noticeable difference is the large increase in government business revenue as well as the addition of IngenioRx into their product mix for 2020. IngenioRx has already begun to pay off for Anthem and will only pay off more in the future. In an earnings call, Anthem reported that the operating gain from this segment was $349 million. The segment is performing above original estimates of operating gain of $200 million.




Their commercial and specialty business remains the most consistent of their business sectors although there was a slight decrease from 2019 to 2020, this is made up from large increases in their government business segment.

Their commercial and specialty businesses remained their most consistent business segment. Overall although there was a loss, revenue changed by less than 1%.

Moving on to their second segment, government businesses, we see the largest growth in managed care products. These are products health insurance products provide to government workers through federal contracts. The main difference between a managed health care plan and a traditional health insurance plan is that managed health care plans are dependent on a network of key providers to establish contracts with health insurance providers to offer plans for their members. These started to gain more popularity when the Affordable Care Act also known as Obamacare went into effect in 2010.

**Growth Drivers:** The slight decreases in revenue for the commercial and specialty business were due to membership declines in their individual and local group fully insured businesses. Also, their pharmacy revenue previously allocated to this segment of their business was switched over to their IngenioRx segment. These decreases were partially offset by rate increases and the impact of the HIP fee reinstatement. Ultimately, the decrease in operating gain was driven by margin normalization and the shift of pharmacy earnings to the IngenioRx segment. However, these decreases were offset in their other businesses.

The increase in operating gain for their government business was due to premium rate adjustment as well as membership growth expansion in their Medicare and Medicaid businesses. As well as the reinstatement of the Health Insurance Providers Fee or HIP Fee. The HIP fee is paid for by insurers, but insurance companies pass it along and factor it into premiums paid by policyholders.

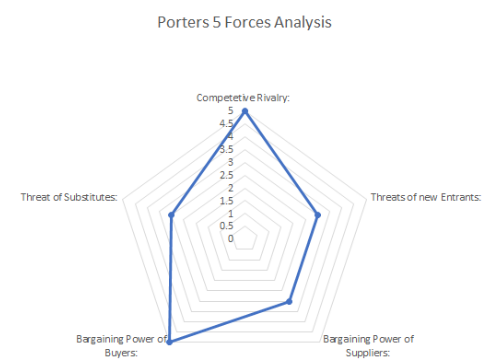
The growth in their Diversified Business Group was due to higher administrative fees and revenues from their different businesses.

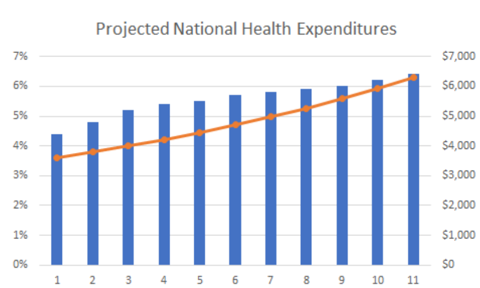
## Industry Overview

The biggest factor currently concerning the industry right now is COVID-19. As a result of the pandemic, the largest companies in health and medical insurance have agreed to cover the costs of testing and treatment. Testing and treatment for COVID-19 will result in lower profit margins for all companies as a result of an increase in medical benefits expenses, and healthcare providers are expected to see an influx of patients with symptoms. The health and medical insurance industry have experienced strong growth over the past 5 years as a result of consistent growth in total healthcare expenditures. However, due to the price-sensitive nature of services and a cash-strapped customer base, revenue growth has lagged behind total spending. As a result, revenue for the health and medicare insurance industry is expected to increase at an annualized rate of 2.9% reaching $1.1 trillion.

The industry has also been insulated by an aging population. In the next 5 years the median age of the population is expected to increase by 0.4%. Though this increase is small, given the size of the population, slight changes are significant. This has resulted in growth in the industry because elderly people require and demand more health insurance coverage. This is also further magnified by the pandemic, since the group most affected are senior citizens. Additionally, the baby boomer population is quickly approaching retirement age, this provides an opportunity for growth in the industry and has helped to mitigate many of the downward trends.

## Competitive Positioning



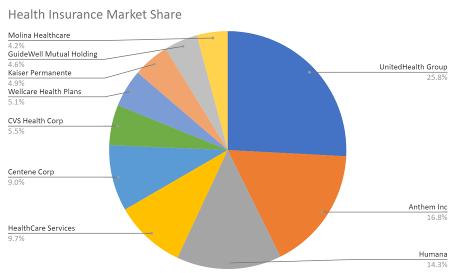




Taking a look at the industry. On the left is a Porter's 5 Forces analysis and on the right is the projected national health insurance expenditures. In 2018 national Health spending grew 4.4% and 4.8% in 2019. Over 2020-2027 it is expected to grow at an average rate of 5.7 trillion reaching 6 trillion by 2027. National Health Expenditures will only continue to grow as consumers look to shop around for the best healthcare plan. This willingness to shop is only being further magnified by the coronavirus pandemic as people look to ensure the safety of themselves and their families at the most affordable rates. This time is a good opportunity for Anthem to further expand and tailor their health insurance plans to attract those currently in the market.

**Competitive Rivalry: High** The main competitors in the industry are Centene, Oscar Health, humana, Aetna, and United Health. The industry potential to grow as new competitors enter the market. Fixed cost for business operations are moderate and come in the form of establishing the business, office space, and strategies to attract consumers. Firms compete in terms of coverage, different premiums and other factors. It is also very difficult to leave the industry as insurance contracts require long-term so competing for market share is very difficult.

**Threat of new entrants: Moderate** Unlike other industries, establishing a business in the healthcare industry does not require extensive capital investment. However, existing firms have already optimized and developed cost saving strategies in order to generate maximum returns on their premiums. It is also very hard to establish oneself in the industry as a lot of the big competitors have been market and perfecting marketing strategies for the past decade.

**Bargaining Power of buyers: High** There are millions of buyers of health insurance companies and insurance plans range in thousands of dollars. If a buyer wants to switch to another insurance company, they might have to pay higher premiums or suffer a loss of benefits on their existing insurance plan. The buyer also needs lots of information and there is a lot of back and forth when developing a health insurance plan. It is tedious and not something everybody wants to do all the time. Customers are price sensitive and tend to choose plans that offer flexible and affordable premium plans. The plans are unique and designed for each customer based on a variety of factors including, age, lifestyle, and previous medical history. Also, insurance companies tailor rates based on factors such as loyalty. As a result, bargaining power is high.




**Threat of new substitutes: Moderate** The substitute to an insurance plan includes saving your own money to pay for bills, using welfare and so on. However, each of these substitutes has limitations. Saving money to pay for medical bills can get costly quickly. Customers looking for an insurance plan would like the insurance providers to remove uncertainty and provide coverage.

**Valuation**

We issue a LIMIT BUY @ $300 recommendation for ANTM with a target price range of $318.34 - $368.80. I decided to give my relative valuation a 50% weight since the health insurance industry is very competitive. A lot of the products and plans they offer are the same, they differ in coverage and premiums. They operate similar business segments, so they are a good way to evaluate Anthem. On the other hand, I think Anthem has an abnormally high intrinsic value due to their long history of mergers and acquisition, making it difficult to gauge their true value. The price target range represents a minimum potential upside of 19.89% and a potential maximum upside of 38.89%. I decided on a limit buy price of $300 meaning, we should purchase the stock before it hits $300. This is due to the fact that the pandemic is still going on, and while the true future of the company remains unclear, the outlook remains positive. By setting a buy price, we can create a margin of error and remain relatively safe.

**Free Cash Flow to Firm (FCFF) Valuation**

**Revenues**

I forecasted ANTM's revenue based on historical data. Although guidance released by Anthem predicts that their growth will remain consistent with previous years. As a result of the COVID pandemic I forecasted their revenue growth rate to be slightly lower than their predictions. Anthem's main revenue stream is based on their membership. Although membership growth in membership.

**Moderately Strong Credit Rating**

On April 30th 2020, Moody's assigned Anthem a credit rating of Baa2. This is mainly due to the stable outlook for the company. Some positives include the company's strong business profile driven by its national presence, the BCBS branding, its leading market position in most states it operates, consistent earnings performance and good level of capitalization. However, these are partially offset by the pandemic and increased financial leverage.

**Weighted Average Cost of Capital (WACC) Calculation:**

We arrive at a WACC of 6.66% for ANTM. A detailed breakdown is presented below:

| Assumptions | Rate | Methodology |
|---|---|---|
| Risk-Free Rate | 0.66% | US 30-year Treasury Bond |
| Equity Risk Premium | 7% | Market Return - Risk Free rate |
| Beta (x) | 0.97 | Yahoo Finance |
| Cost of Equity | 7.78% | Calculated Via CAPM |
| Cost of Debt | 4% | |
| Tax Rate | 22.54% | Effective Tax Rate |
| WACC | 6.66% | |

**COVID-19 and Subsequent Adjustments**

As the pandemic grips the globe, especially the United States, there are many unforeseen costs as a result of necessary changes in order to adapt to the virus. Although the pandemic provides a unique opportunity for Anthem to grow, there are many ways that the pandemic could potentially affect Anthem's bottom line. For example, as more people get sick, their covered medical expenses may rise, membership may decline as consumers may leave and shop around for an optimal healthcare plan to deal with these challenging times, premiums from their commercial and government customers may be delayed or uncollectable as unemployment hits record highs, reimbursements for benefit payments made on behalf of their self-insured customers may be delayed or uncollectable.

In response to COVID Anthem has also imposed travel limitations and directed employees to work remotely wherever possible. The company also is expanding employee benefits to provide additional support, including up to 80 hours of paid emergency leave for those that need it. Also, they rolled out virtual visits and have begun pushing their phone application. These changes to their business structure are necessary but incur new costs. These are reflected in an increased estimate of Cost of Goods sold (COGS) to 80% of revenue, up from the historical average of 76% and operating expenses. Because there may be potential receivables that are uncollectable or delayed, I increased my assumptions for accounts receivables to 10% to remain safe. Also, with the potential to lose business, I forecasted their revenue growth rate to decrease at a quicker rate before reaching terminal growth.

**Sensitivity Analysis**

As a mainly financial company, it is challenging to accurately determine the equity value of the corporation. This is mainly due to their history of acquisitions inflating their true value. As a result, I utilized a sensitivity analysis in order to provide a range of possible equity values. The results from this analysis are as follows:

| | | Terminal Growth Rate | | | | |
|---|---|---|---|---|---|---|
| | 167,745.78 | 2% | 2.50% | 3% | 3.50% | 4% |
| Market Return | 6% | 201121.3744 | 233786.3442 | 281576.5729 | 358156.9143 | 500745.9087 |
| | 7% | 163176.1169 | 183147.2108 | 209979.4178 | 247939.2283 | 305755.4564 |
| | 8% | 137451.3097 | 150778.607 | 167745.7791 | 190078.3774 | 220797.3442 |
| | 9% | 118858.0474 | 128298.0058 | 139877.7414 | 154416.8903 | 173214.9619 |
| | 10% | 104788.8574 | 111770.9387 | 120105.8155 | 130228.209 | 142781.4415 |

The two factors I used to calculate a range of equity values was the terminal growth rate and the market return. I chose market return, because in the midst of the pandemic, market premium returns cannot be expected to follow historical data. By using a range of market returns we in turn have a range of market premiums that investors may expect from the company. My line of reasoning is the same for choosing the terminal growth rate as my second variable. As a result of the pandemic, it is not known if Anthem will outperform the market or not. By having a fairly wide range, we cover multiple scenarios.

Through a combination of my sensitivity and FCFF analysis I calculated a target range of $415.64 and $516.55.

**Relative Valuation**

For my relative valuation, the 5 competitors I used to evaluate against Anthem are CIGNA, HUMANA, CVS Health, United Health Corps, and Centene. These are the companies that have the biggest market share within the health insurance industry and compete with Anthem in all the same areas. Much like Anthem, a lot of these companies are fairly diversified and gain revenue from all over the healthcare industry. I calculated Anthem's forward EPS by using their forecasted earnings for 2021 divided by shares outstanding. Ultimately, I reached a target price of $221.03.

**Investment Risk|Underwriting Risk**

An associated risk with any investment in a health insurance company is underwriting risk, where the premiums the company offers specific markets is too low because the company underestimated the risk of the market. In the past many insurance companies have lost a lot of money because of underwriting risk and have had to pull out of markets.

**Investment Risk|Regulatory Factors**

The biggest risk associated with Health insurance companies are the regulatory factors that are set in place to mitigate price gouging or in response to times of need, such as a global pandemic. This is especially relevant today and as brought forward more and more supporters of a single payer healthcare plan. Although a single payer healthcare plan has been proposed and shut down before, it is becoming more and more attractive for many working-class Americans. Although a shape as a result of this pandemic. Also, regulations such as the Families and Workers First act, or CARES Act, or Paycheck Protection Program and Healthcare Enhancement Act all twist and affect the way Anthem can do business. Regulatory changes at the state and federal level in response to pandemics or not have significant impact on health benefits, consumer eligibility for public programs, and cash flows, including mandated expansion of premium payment terms including the time period for which claims can be denied for lack of payment, mandates related to prior authorizations and payment level to providers, additional consumer windows, and increased ability to provide services virtually. All these factors will affect and influence the way Anthem can do business.

**Environmental, Social and Corporate Governance**

**Environmental**

Anthem is committed to environmental sustainability. Their long term goals are to reduce their greenhouse gas emissions in their facilities and operations by 30%, reduce water intensity by 30% and source 100% renewable energy by 2025. Anthem looks to create healthy, sustainable workspaces in 4 main areas. They aim to reduce energy usage by outfitting their centers with energy efficient optimization such as LED lighting retrofit, and advanced HVAC controls, reduce water usage through Xeriscape, or ultra-low-flow restroom retrofits, reduce waste management through mainly paperless technology for member communication, and providing alternative transportation such as ride sharing, public transportation, and biking. They promote this by providing electric-vehicle charging stations at all major office locations.

**Social**

Anthem promotes these initiatives and releases data through their Energy Star Portfolio manager, where they continue to analyze and benchmark their emissions levels, releasing the data to the public.

**Corporate**

Anthem's board is tailored to have the most optimal number of members for effective deliberation of issues. Thus, board size ranges from eight to fourteen members. Members are uniquely selected and at a minimum must have personal and professional integrity and accountability, informed judgement, financial literacy, mature confidence and high performance standards. Additionally, the Chief Executive Officer (CEO) role and chairman of the board role are separate. Anthem also goes as far as to have a Lead Director, or a liaison between the chair and independent directors. This role is elected annually and serves to bridge the gap between the board and the company. Anthem's current CEO is a female, they are one of thirty-three Fortune 500 companies to have a female CEO. This sets great precedence and only speaks to the diversity of the board.

# Appendix

## Income Statement

**Anthem Inc (ANTM US) - Adjusted**

| In Millions of USD except Per Share<br>12 Months Ending | FY 2001<br>12/31/2001 | FY 2002<br>12/31/2002 | FY 2003<br>12/31/2003 | FY 2004<br>12/31/2004 | FY 2005<br>12/31/2005 | FY 2006<br>12/31/2006 | FY 2007<br>12/31/2007 | FY 2008<br>12/31/2008 | FY 2009<br>12/31/2009 | FY 2010<br>12/31/2010 | FY 2011<br>12/31/2011 | FY 2012<br>12/31/2012 | FY 2013<br>12/31/2013 | FY 2014<br>12/31/2014 | FY 2015<br>12/31/2015 | FY 2016<br>12/31/2016 | FY 2017<br>12/31/2017 | FY 2018<br>12/31/2018 | FY 2019<br>12/31/2019 | Last 12M<br>03/31/2020 | FY 2020 Est<br>12/31/2020 | FY 2021<br>12/31/2021 | FY 2022<br>12/31/2022 | FY 2023<br>12/31/2023 | FY 2024<br>12/31/2024 | FY 2025<br>12/31/2025 | FY 2026<br>12/31/2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **10,444.7** | **13,282.3** | **16,781.4** | **20,815.1** | **44,541.3** | **57,038.8** | **61,167.9** | **61,251.1** | **61,147.2** | **58,698.5** | **60,710.7** | **61,497.2** | **71,023.5** | **73,746.1** | **79,230.6** | **84,973.5** | **90,073.0** | **92,311.0** | **104,146.0** | **109,237.0** | **114,576.9** | **124,888.8** | **133,631.0** | **140,801.2** | **145,025.2** | **149,376.0** | **153,857.3** |
| **Growth Rate** | **19%** | **27%** | **26%** | **24%** | **114%** | **28%** | **7%** | **0%** | **0%** | **-4%** | **3%** | **1%** | **15%** | **4%** | **7%** | **7%** | **6%** | **2%** | **13%** | **5%** | **9%** | **7%** | **5%** | **3%** | **3%** | **3%** | **3%** |
| + Sales & Services Revenue | — | — | — | — | — | — | — | — | 3,751.7 | 3,730.4 | 3,854.6 | 3,934.1 | 4,031.9 | 4,590.6 | 4,976.6 | 5,298.8 | 5,413.0 | 5,920.0 | 8,968.0 | 11,354.0 | | | | | | | |
| + Other Revenue | — | — | — | — | — | — | — | — | 57,395.5 | 54,968.1 | 56,856.1 | 57,563.1 | 66,991.6 | 69,155.5 | 74,254.0 | 79,674.7 | 84,660.0 | 86,391.0 | 95,178.0 | 97,883.0 | | | | | | | |
| - Cost of Revenue | 7,814.7 | 9,839.4 | 12,254.5 | 15,387.8 | 32,625.2 | 42,191.4 | 46,037.2 | 47,742.4 | 47,122.3 | 44,930.4 | 47,647.5 | 48,213.6 | 56,237.1 | 56,854.9 | 61,116.9 | 66,834.4 | 72,236.0 | 71,895.0 | 83,778.0 | 87,969.0 | 91,661.5 | 99,911.0 | 105,568.5 | 109,824.9 | 116,662.4 | 120,162.3 | 123,767.2 |
| + Cost of Goods & Services | — | — | — | — | — | — | — | — | 47,122.3 | 44,930.4 | 47,647.5 | 48,213.6 | 56,237.1 | 56,854.9 | 61,116.9 | 66,834.4 | 72,236.0 | 71,895.0 | 83,778.0 | 87,969.0 | | | | | | | |
| Cost of Revenue/Revenue | 75% | 74% | 73% | 74% | 73% | 74% | 75% | 78% | 77% | 77% | 78% | 78% | 79% | 77% | 77% | 79% | 80% | 78% | 80% | 81% | 80% | 80% | 79% | 78% | 80% | 80% | 80% |
| **Gross Profit** | **2,630.0** | **3,442.9** | **4,526.9** | **5,427.3** | **11,916.1** | **14,847.4** | **15,130.7** | **13,508.7** | **14,024.9** | **13,768.1** | **13,063.2** | **13,283.6** | **14,786.4** | **16,891.2** | **18,113.7** | **18,139.1** | **17,837.0** | **20,416.0** | **20,368.0** | **21,268.0** | **22,915.4** | **24,977.8** | **28,062.5** | **30,976.3** | **28,362.8** | **29,213.7** | **30,090.1** |
| + Other Operating Income | — | — | — | — | — | — | — | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | | |
| - Operating Expenses | 2,045.2 | 2,536.8 | 3,183.8 | 3,634.1 | 7,799.6 | 9,529.5 | 9,424.9 | 9,775.1 | 9,082.5 | 8,913.8 | 8,581.7 | 8,733.5 | 10,074.2 | 11,963.1 | 12,477.3 | 12,342.4 | 12,268.7 | 14,356.0 | 13,636.0 | 14,240.0 | 18,049.0 | 19,434.3 | 20,558.3 | 21,408.8 | 21,887.6 | 22,363.6 | 22,901.0 |
| + Selling, General & Admin | — | — | 3,097.5 | 3,477.7 | 7,272.7 | 8,817.7 | 8,701.5 | 9,020.5 | 9,019.3 | 8,732.6 | 8,435.6 | 8,680.5 | 9,952.9 | 11,748.4 | 12,534.8 | 12,557.9 | 12,650.0 | 14,020.0 | 13,364.0 | 13,979.0 | | | | | | | |
| *+ Selling & Marketing* | — | — | *411.2* | *537.2* | — | *1,654.5* | *1,716.8* | *1,778.4* | *1,685.5* | *1,610.3* | *1,616.8* | *1,586.9* | *1,526.9* | *1,490.1* | *1,441.1* | *1,391.5* | *1,395.5* | — | — | | | | | | | | |
| *+ General & Administrative* | — | — | — | — | — | — | — | — | *7,333.8* | *7,122.3* | *6,818.8* | *7,093.6* | *8,426.0* | *10,258.3* | *11,093.7* | *11,166.4* | *11,254.1* | — | — | | | | | | | | |
| *Over Revenue* | *20%* | *19%* | *19%* | *17%* | *18%* | *17%* | *15%* | *16%* | *15%* | *15%* | *14%* | *14%* | *14%* | *16%* | *16%* | *15%* | *14%* | *16%* | *13%* | *13%* | *16%* | *16%* | *15%* | *15%* | *15%* | *15%* | *15%* |
| + Research & Development | — | — | — | — | — | — | — | — | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | | | |
| + Other Operating Expense | — | — | — | — | — | — | — | — | 63.2 | 181.2 | 146.1 | 53.0 | 121.3 | 214.7 | -57.5 | -215.5 | -381.3 | 336.0 | 272.0 | 261.0 | | | | | | | |
| **Operating Income (Loss)** | **584.8** | **906.1** | **1,343.1** | **1,793.2** | **4,116.5** | **5,317.9** | **5,705.8** | **3,733.6** | **4,942.4** | **4,854.3** | **4,481.5** | **4,550.1** | **4,712.2** | **4,928.1** | **5,636.4** | **5,796.7** | **5,568.3** | **6,060.0** | **6,732.0** | **7,028.0** | **4,866.4** | **5,543.5** | **7,504.2** | **9,567.4** | **6,475.2** | **6,850.1** | **7,189.1** |
| - Non-Operating (Income) Loss | — | — | — | — | — | — | — | — | 503.8 | 613.0 | 665.4 | 846.7 | 874.6 | 600.7 | 653.0 | 723.0 | 738.6 | 753.0 | 746.0 | 753.0 | | | | | | | |
| + Interest Expense, Net | 60.2 | 98.5 | 131.2 | 142.3 | 226.2 | — | — | — | — | — | — | — | — | — | — | — | 739.0 | 753.0 | 746.0 | | | | | | | | |
| *+ Interest Expense* | *60.2* | *98.5* | *131.2* | *142.3* | *226.2* | *403.5* | *447.9* | *469.8* | *447.4* | *418.9* | *430.3* | *511.8* | *602.7* | *600.7* | *653.0* | *723.0* | *739.0* | *753.0* | *746.0* | *753.0* | *786.5* | *821.3* | *856.1* | *892.9* | *931.7* | *972.1* | *1,013.9* |
| *Over Total Debt* | *5%* | *5%* | *8%* | *3%* | *3%* | *5%* | *5%* | *5%* | *5%* | *5%* | *4%* | *3%* | *4%* | *4%* | *4%* | *5%* | *4%* | *4%* | *4%* | *4%* | *4%* | *4%* | *4%* | *4%* | *4%* | *4%* | *4%* |
| *- Interest Income* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | — | — | — | — | — | — | — | — | — | — | *0.0* | *0.0* | *0.0* | | | | | | | | |
| + Foreign Exch (Gain) Loss | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | — | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | | | |
| + Other Non-Op (Income) Loss | — | — | — | — | — | — | — | — | 56.4 | 194.1 | 235.1 | 334.9 | 271.9 | 0.0 | 0.0 | 0.0 | -0.4 | 0.0 | 0.0 | 0.0 | | | | | | | |
| **Pretax Income (Loss), Adjusted** | **524.6** | **807.6** | **1,211.9** | **1,443.3** | **3,890.3** | **4,914.4** | **5,257.9** | **3,122.4** | **4,438.6** | **4,241.3** | **3,816.1** | **3,703.4** | **3,837.6** | **4,327.4** | **4,983.4** | **5,073.7** | **4,829.7** | **5,307.0** | **5,986.0** | **6,275.0** | **4,079.9** | **4,722.2** | **6,648.1** | **8,674.5** | **5,543.5** | **5,878.0** | **6,175.2** |
| - Abnormal Losses (Gains) | — | 0.0 | 0.0 | 165.1 | 75.0 | -28.0 | -11.2 | 141.4 | -2,964.4 | -112.5 | -141.8 | -154.9 | -2.6 | -40.7 | 352.4 | 518.3 | 865.7 | 239.0 | 1.0 | 146.0 | | | | | | | |
| + Merger/Acquisition Expense | — | — | — | — | — | — | — | — | — | — | — | 105.2 | 25.1 | — | 103.0 | 321.1 | 165.9 | 9.0 | 11.0 | 23.0 | | | | | | | |
| + Disposal of Assets | — | — | — | — | — | — | — | — | — | — | — | — | — | -1.7 | 16.0 | 4.5 | 13.0 | 13.0 | 3.0 | | | | | | | | |
| + Early Extinguishment of Debt | — | — | — | — | — | — | — | — | — | — | — | — | 145.3 | 81.1 | -9.3 | — | 282.4 | 11.0 | 2.0 | -3.0 | | | | | | | |
| + Asset Write-Down | — | — | — | — | — | — | — | — | — | 21.1 | — | — | — | 7.9 | 1.8 | 44.8 | 2.5 | 5.0 | — | | | | | | | | |
| + Impairment of Goodwill | — | — | — | — | 0.0 | 0.0 | — | — | — | — | — | — | — | — | — | — | — | — | — | | | | | | | | |
| + Impairment of Intangibles | — | — | — | — | — | — | — | — | 262.5 | 21.1 | — | — | — | — | — | — | — | — | — | | | | | | | | |
| + Gain/Loss on Sale/Acquisition of Business | — | — | — | — | — | — | — | — | -3,792.3 | — | — | — | — | — | — | — | — | — | — | | | | | | | | |
| + Legal Settlement | — | — | — | — | — | — | — | — | — | — | — | 36.9 | — | — | — | — | 115.0 | — | 52.0 | 34.0 | | | | | | | |
| + Restructuring | — | — | — | — | — | — | — | — | 171.6 | — | — | — | — | — | — | — | — | — | — | | | | | | | | |
| + Sale of Investments | — | — | — | — | — | — | — | — | -56.4 | -194.1 | -235.1 | -334.9 | -271.9 | -177.0 | 157.5 | -4.9 | — | 180.0 | -114.0 | -12.0 | | | | | | | |
| + Other Abnormal Items | — | — | — | — | — | — | — | — | 450.2 | 39.4 | 93.3 | 37.8 | 98.9 | 49.0 | 83.4 | 152.8 | 286.9 | 26.0 | 47.0 | 94.0 | | | | | | | |
| **Pretax Income (Loss), GAAP** | **524.6** | **807.6** | **1,211.9** | **1,443.3** | **3,890.3** | **4,914.4** | **5,257.9** | **3,122.4** | **7,403.0** | **4,353.8** | **3,957.9** | **3,858.3** | **3,840.2** | **4,368.1** | **4,631.0** | **4,555.4** | **3,964.0** | **5,068.0** | **5,985.0** | **6,129.0** | **4,079.9** | **4,722.2** | **6,648.1** | **8,674.5** | **5,543.5** | **5,878.0** | **6,175.2** |
| - Income Tax Expense (Benefit) | 183.4 | 255.2 | 437.6 | 483.2 | 1,426.5 | 1,819.5 | 1,912.5 | 631.7 | 2,657.1 | 1,466.7 | 1,311.2 | 1,207.3 | 1,205.9 | 1,808.0 | 2,071.0 | 2,085.6 | 121.0 | 1,318.0 | 1,178.0 | 1,350.0 | 1,038.3 | 1,184.0 | 1,633.4 | 2,101.0 | 1,325.3 | 1,374.4 | 1,430.2 |
| + Current Income Tax | — | — | — | — | — | — | — | — | 2,603.3 | 1,358.0 | 1,172.0 | 1,155.9 | 1,183.8 | 1,695.2 | 2,129.6 | 1,956.5 | 1,395.0 | 1,206.0 | 1,103.0 | 2,016.5 | 1,105.3 | 1,279.2 | 1,801.0 | 2,349.9 | 1,501.7 | 1,592.3 | 1,672.9 |
| Over Pretax Income | | | | | | | | | 35% | 31% | 30% | 30% | 31% | 39% | 46% | 43% | 35% | 24% | 18% | 33% | 27% | 27% | 27% | 27% | 27% | 27% | 27% |
| + Deferred Income Tax | — | — | — | — | — | — | — | — | 53.8 | 108.7 | 139.2 | 51.4 | 22.1 | 112.8 | -58.6 | 129.1 | -1,274.0 | 112.0 | 75.0 | -88.5 | -66.9 | -95.2 | -167.5 | -249.0 | -176.5 | -217.9 | -242.6 |
| Over Current Income Tax | | | | | | | | | 1% | 2% | 4% | 1% | 1% | 3% | -1% | 3% | -32% | 2% | 1% | -1% | -2% | -2% | -3% | -3% | -3% | -4% | -4% |
| **Income (Loss) from Cont Ops** | **341.2** | **552.4** | **774.3** | **960.1** | **2,463.8** | **3,094.9** | **3,345.4** | **2,490.7** | **4,745.9** | **2,887.1** | **2,646.7** | **2,651.0** | **2,634.3** | **2,560.1** | **2,560.0** | **2,469.8** | **3,843.0** | **3,750.0** | **4,807.0** | **4,779.0** | **3,041.6** | **3,538.2** | **5,014.6** | **6,573.6** | **4,218.2** | **4,503.5** | **4,745.0** |
| - Net Extraordinary Losses (Gains) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | — | 0.0 | 0.0 | 0.0 | 0.0 | -4.5 | 144.6 | -9.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | | |
| + Discontinued Operations | — | — | — | — | — | — | — | — | 0.0 | 0.0 | 0.0 | -4.5 | 144.6 | -9.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | | |
| + XO & Accounting Changes | — | — | — | — | — | — | — | — | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | | |
| **Income (Loss) Incl. MI** | **341.2** | **552.4** | **774.3** | **960.1** | **2,463.8** | **3,094.9** | **3,345.4** | **2,490.7** | **4,745.9** | **2,887.1** | **2,646.7** | **2,655.5** | **2,489.7** | **2,569.7** | **2,560.0** | **2,469.8** | **3,843.0** | **3,750.0** | **4,807.0** | **4,779.0** | | | | | | | |
| - Minority Interest | -1.0 | 3.3 | 0.0 | 0.0 | 0.0 | 0.0 | — | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | | |
| **Net Income, GAAP** | **342.2** | **549.1** | **774.3** | **960.1** | **2,463.8** | **3,094.9** | **3,345.4** | **2,490.7** | **4,745.9** | **2,887.1** | **2,646.7** | **2,655.5** | **2,489.7** | **2,569.7** | **2,560.0** | **2,469.8** | **3,843.0** | **3,750.0** | **4,807.0** | **4,779.0** | **3,041.6** | **3,538.2** | **5,014.6** | **6,573.6** | **4,218.2** | **4,503.5** | **4,745.0** |
| - Preferred Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | | |
| - Other Adjustments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | — | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | | |
| **Net Income Avail to Common, GAAP** | **342.2** | **549.1** | **774.3** | **960.1** | **2,463.8** | **3,094.9** | **3,345.4** | **2,490.7** | **4,745.9** | **2,887.1** | **2,646.7** | **2,655.5** | **2,489.7** | **2,569.7** | **2,560.0** | **2,469.8** | **3,843.0** | **3,750.0** | **4,807.0** | **4,779.0** | **3,041.6** | **3,538.2** | **5,014.6** | **6,573.6** | **4,218.2** | **4,503.5** | **4,745.0** |

# Balance Sheet

**Anthem Inc (ANTM US) - Standardized**

| In Millions of USD except Per Share / 12 Months Ending | FY 2001 12/31/2001 | FY 2002 – FY 2026 |
|---|---|---|
| **Total Assets** | | |
| + Cash, Cash Equivalents & STI | 4,478.2 | [illegible] |
| Over Revenue | 43% | [illegible] |
| + Cash & Cash Equivalents | 406.4 | [illegible] |
| + ST Investments | 4,071.8 | [illegible] |
| + Accounts & Notes Receiv | 541.7 | [illegible] |
| Over Revenue | 5% | [illegible] |
| + Inventories | 0.0 | [illegible] |
| + Raw Materials | 0.0 | [illegible] |
| + Work In Process | 0.0 | [illegible] |
| + Finished Goods | 0.0 | [illegible] |
| + Other Inventory | 0.0 | [illegible] |
| + Other ST Assets | 277.0 | [illegible] |
| Over Revenue | 3% | [illegible] |
| + Derivative & Hedging Assets | — | [illegible] |
| + Assets Held-for-Sale | — | [illegible] |
| + Deferred Tax Assets | — | [illegible] |
| + Taxes Receivable | — | [illegible] |
| + Misc ST Assets | — | [illegible] |
| **Total Current Assets** | **5,298.9** | [illegible] |
| + Property, Plant & Equip, Net | 402.3 | [illegible] |
| + Property, Plant & Equip | 742.1 | [illegible] |
| Over Revenue | 7% | [illegible] |
| - Accumulated Depreciation | 339.8 | [illegible] |
| Over PPE | 46% | [illegible] |
| + LT Investments & Receivables | 10.8 | [illegible] |
| + LT Investments | — | [illegible] |
| + LT Marketable Securities | — | [illegible] |
| Over Revenue | 0.10% | [illegible] |
| + Other LT Assets | 563.6 | [illegible] |
| Over Revenue | 5% | [illegible] |
| + Total Intangible Assets | 467.4 | [illegible] |
| Over Revenue | 4% | [illegible] |
| + Goodwill | 467.4 | [illegible] |
| + Other Intangible Assets | 0.0 | [illegible] |
| + Derivative & Hedging Assets | — | [illegible] |
| + Prepaid Pension Costs | — | [illegible] |
| + Misc LT Assets | 96.2 | [illegible] |
| **Total Noncurrent Assets** | **976.7** | [illegible] |
| **Total Assets** | **6,276.6** | [illegible] |
| **Liabilities & Shareholders' Equity** | | |
| + Payables & Accruals | 331 | [illegible] |
| Payable Turnover | 20.60937 | [illegible] |
| + Accounts Payable | 331 | [illegible] |
| Over Revenue | 3% | [illegible] |
| + Accrued Taxes | — | [illegible] |
| + Other Payables & Accruals | — | [illegible] |
| + ST Debt | 310.7 | [illegible] |
| Over Revenue | 3% | [illegible] |
| + ST Borrowings | 310.7 | [illegible] |
| + ST Lease Liabilities | 0 | [illegible] |
| + *ST Finance Leases* | 0 | [illegible] |
| + *ST Operating Leases* | — | [illegible] |
| + Current Portion of LT Debt | — | [illegible] |
| + Other ST Liabilities | 2,320.90 | [illegible] |
| Over Revenue | 22% | [illegible] |
| + Deferred Revenue | — | [illegible] |
| + Derivatives & Hedging | — | [illegible] |
| + Misc ST Liabilities | 2,320.90 | [illegible] |
| **Total Current Liabilities** | **2,962.60** | [illegible] |
| + LT Debt | 818 | [illegible] |
| Over Revenue | 8% | [illegible] |
| + LT Borrowings | 818 | [illegible] |
| + LT Lease Liabilities | 0 | [illegible] |
| + *LT Finance Leases* | 0 | [illegible] |
| + *LT Operating Leases* | — | [illegible] |
| + Other LT Liabilities | 436 | [illegible] |
| Over Revenue | 4% | [illegible] |
| + Accrued Liabilities | — | [illegible] |
| + Pension Liabilities | — | [illegible] |
| + Deferred Revenue | — | [illegible] |
| + Deferred Tax Liabilities | — | [illegible] |
| + Derivatives & Hedging | — | [illegible] |
| + Misc LT Liabilities | 436 | [illegible] |
| **Total Noncurrent Liabilities** | **1,254.00** | [illegible] |
| **Total Liabilities** | **4,216.60** | [illegible] |
| + Preferred Equity and Hybrid Capital | 0 | [illegible] |
| + Share Capital & APIC | 1,961.90 | [illegible] |
| + Common Stock | — | [illegible] |
| + Additional Paid in Capital | — | [illegible] |
| - Treasury Stock | 0 | [illegible] |
| + Retained Earnings | 55.7 | [illegible] |
| + Other Equity | 42.4 | [illegible] |
| **Equity Before Minority Interest** | **2,060.00** | [illegible] |
| + Minority/Non Controlling Interest | — | [illegible] |
| **Total Equity** | **2,060.00** | [illegible] |
| **Total Liabilities & Equity** | **6,276.60** | [illegible] |

FCFF Calculation (Initial, the sensitivity analysis is more accurate)

| In milions of USD except per share<br>12 Months Ending | 2015<br>12/31/2015 | 2016<br>12/31/2016 | 2017<br>12/31/2017 | 2018<br>12/31/2018 | 2019<br>12/31/2019 | 2020<br>12/31/2020 | 2021<br>12/31/2021 | 2022<br>12/31/2022 | 2023<br>12/31/2023 | 2024<br>12/31/2024 | 2025<br>12/31/2025 | 2026<br>12/31/2026 | Terminal Value |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Income | 2,560.0 | 2,469.8 | 3,843.0 | 3,750.0 | 4,807.0 | 3,041.6 | 3,538.2 | 5,014.6 | 6,573.6 | 4,218.2 | 4,503.5 | 4,745.0 | |
| Depreciation and Amortization | 907.9 | 911.8 | 891.0 | 1,132.0 | 1,133.0 | 1,248.2 | 1,347.1 | 1,443.1 | 1,531.9 | 1,592.8 | 1,659.8 | 1,718.6 | |
| Deferred Income Taxes | -58.6 | 129.1 | -1,274.0 | 112.0 | 75.0 | -88.5 | -66.9 | -95.2 | -167.5 | -249.0 | -176.5 | -217.9 | |
| Change in Non-cash Work Cap | -654.5 | -977.3 | -1,993.6 | 1,911.8 | -435.0 | 9,009.9 | -1,627.1 | -341.3 | -592.4 | -1,234.5 | -1,074.9 | -937.3 | |
| **Cash from Operations** | **2,754.8** | **2,533.4** | **1,466.4** | **6,905.8** | **5,580.0** | **-4,808.6** | **6,445.5** | **6,703.8** | **8,530.4** | **6,796.6** | **7,061.8** | **7,183.0** | **7,398.5** |
| **CapEx** | **-638** | **-584** | **-791** | **-1,208** | **-1,077** | **-860** | **-937** | **-982** | **-1,028** | **-1,077** | **-1,129** | **-1,183** | |
| **Int exp*(1-TAX)** | 1,604.2 | 1,615.5 | 93.7 | 1,020.9 | 912.5 | 1,045.7 | 804.3 | 917.1 | 1,265.3 | 1,627.4 | 1,026.5 | 1,064.6 | |
| **FCFF** | **3,721** | **3,565** | **769** | **6,719** | **5,415** | **-4,622** | **6,313** | **6,639** | **8,767** | **7,347** | **6,960** | **7,065** | **7,277** |
| Discount Rate | | | | | | 7% | 7% | 7% | 7% | 7% | 7% | 7% | 7% |
| Time Amount | | | | | | 0.6 | 1.61 | 2.61 | 3.61 | 4.61 | 5.61 | 6.61 | |
| *PV of FCFF* | | | | | | *-4,445.4* | *5,691.7* | *5,612.1* | *6,947.8* | *5,457.2* | *4,846.7* | *4,612.8* | *129,667.43* |

| FCFF | Values |
|---|---|
| Total PV of FCFF | $ 162,835.78 |
| PV of Terminal Value | $ 129,667.43 |
| Add Cash | $ 25,635.00 |
| Less Debt | $ 20,725.00 |
| Equity Value | $ 167,745.78 |
| Number of Shares | 252.11 |
| Current Price | 283.42 |
| Target Price | $ 665.37 |
| Margin of Safety | 135% |
| Relative Valuation Price Target | $221.04 |

Relative Calculation

| Name | Ticker | MKT CAP | EV/EBITDA | P/E | Relative Valuation | |
|---|---|---|---|---|---|---|
| Anthem | ANTM | | 11.69986541 | 20.1948499 | Column1 | Column2 |
| CIGNA | CIG | | 8.940193492 | 10.28 | Forward EPS | 14.0342712 |
| HUMANA | HUM | | 14.49865229 | 21.39 | Shares outstanding | 252.11 |
| CVS | CVS | | 9.45 | 9.05 | | |
| United Health | UNH | | 13.21 | 17.61 | | |
| Centene CNC | CNC | | 17.79 | 13.89 | | |
| | | | | | | |
| Column1 | Column2 | Column3 | Column4 | Column5 | | |
| Median | | | 13.21 | 13.89 | | |
| Average | | | 13.85432615 | 15.75 | | |
| | | | Target Price | 221.039772 | | |