



Anthem, Inc. (ANTM)

Updated April 21st, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$382	5 Year CAGR Estimate:	9.8%	Market Cap:	\$94 billion
Fair Value Price:	\$377	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	6/9/2021 ¹
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.3%	Dividend Payment Date:	6/25/2021 ²
Dividend Yield:	1.2%	5 Year Price Target	\$579	Years Of Dividend Growth:	11
Dividend Risk Score:	A	Retirement Suitability Score:	C	Last Dividend Increase:	19.0%

Overview & Current Events

Anthem, Inc. is a healthcare benefits company that through its plans has nearly 43 million members. The company provides managed plans to a wide variety of markets, including individual, commercial, Medicare and Medicaid. Its two largest customer groups are government (59% of 2020 sales) and commercial business (30% of 2020 sales). Anthem has annual sales of nearly \$136 billion and a market capitalization in excess of \$94 billion.

On March 24, 2021, Anthem announced that it had entered into agreement to acquire myNEXUS, Inc., a home-based nursing management company.

On April 21st, 2021, Anthem reported first quarter results for the period ending March 31st, 2021. Revenue grew 9% to \$32.1 billion, but was \$910 million less than expected. Adjusted net income of \$1,739M, or \$7.01 per share, compared favorably to adjusted net income of \$1,662M, or \$6.48 per share, in the prior year. Adjusted earnings-per-share was \$0.54 better than expected.

Much of the growth was driven by higher premiums, which increased 8.5% to \$27,676M while product revenue was higher by almost 17%. Total memberships increased 3.3% to 43.5 million. For customer types, memberships grew 20.4%, 9.4% and 1.1% for Medicaid, Medicare and National, respectively. Individual memberships grew 2%. For reportable segments, membership declined 1.3% for Commercial & Specialty Business and improved 15.6% for Government Business. Commercial & Specialty revenues increased 1.4% while the Government Business and IngenioRx both had double-digit gains. The operating margin declined 80 basis points to 6.7% due to higher expenses related to the COVID-19 pandemic.

Anthem provided updated guidance for 2021. The company now expects adjusted earnings-per-share of at least \$25.10, compared to \$24.50 previously. If achieved, this would represent a nearly 12% improvement from the prior year.

Anthem reaffirmed that it expects membership to grow to 44.1 million to 44.7 million this year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$7.25	\$8.18	\$8.20	\$8.98	\$9.38	\$9.21	\$10.21	\$15.89	\$19.44	\$22.48	\$25.10	\$38.62
DPS	\$1.00	\$1.15	\$1.50	\$1.75	\$2.50	\$2.60	\$2.70	\$3.00	\$3.20	\$3.80	\$4.52	\$6.95
Shares³	339	305	282	267	261	264	256	257	253	245	245	235

Anthem has increased earnings-per-share at a rate of 12% annually over the last decade. The company has achieved this high rate of growth through improvements in business and aggressive share repurchases. Anthem's share count has been reduced by 3.1% per year from 2011 through 2020. Even with share repurchases, profits have improved 9% annually over this period of time. We believe an earnings growth rate of 9% is appropriate given the size of the company and the guidance for the year. Share repurchases will also remain part of bottom-line growth.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Anthem increased its dividend 19% for the March 25th, 2021 payment, marking the company's 11th consecutive year of dividend growth.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	9.5	7.8	9.6	12.1	15.7	14.5	18.1	15.7	14.3	12.4	15.2	15.0
Avg. Yld.	1.5%	1.8%	1.9%	1.6%	1.7%	2.0%	1.5%	1.2%	1.1%	1.4%	1.2%	1.2%

Using updated company guidance for 2021, Anthem trades with a price-to-earnings ratio of 15.2. Shares have averaged a price-to-earnings ratio of 13 over the last decade. However, we feel a target valuation of 15 times earnings is appropriate. Price-to-earnings ratios were lower in the early portions of the decade due to concerns about how health care plans would do. Those fears are largely gone now. Valuation could be a negligible headwind to results over the next five years.

Anthem had never been a high yielding name, with the current yield at the low end of the 10-year range. On the plus side, the dividend has a compound annual growth rate in the mid-teens since 2011, showing that Anthem has aggressively raised its dividend since initiation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	14%	14%	18%	19%	27%	28%	26%	19%	16%	17%	18%	18%

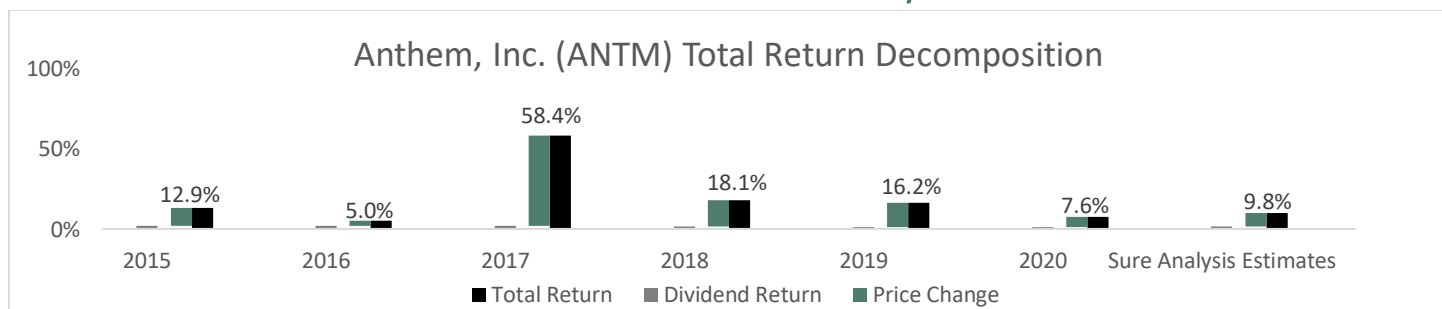
Anthem was not immune to the last recession as earnings-per-share declined from \$5.57 to \$4.95 for the 2007 to 2009 period. However, the company returned to growth the very next year. The company has had just one year where EPS declined from the previous period (2016). Anthem ended the first quarter of 2021 with assets of \$95.7 billion, investments of \$24.6 billion and cash and equivalents of \$9.3 billion against liabilities of \$61.8 billion, including total debt of \$22.5 billion.

Anthem has several factors working in its favor. First and foremost, the company has a large membership pool. This allows Anthem to keep premium prices low. The Medicare and Medicaid businesses are fairly reliable as well, though potential future cuts in payments could impair results.

Final Thoughts & Recommendation

Anthem is expected to produce total returns of 9.8% through 2026, down from our prior estimate of 11.0%. Our projected return stems from a 9% earnings growth rate, a starting yield of 1.2% that are offset by a slight headwind from multiple reversion. Shares of Anthem are up more than 8% from our last report just two weeks ago, but we feel the stock still warrants a buy rating due to expected returns. We have raised our 2026 price target \$14 to \$579 due to updated guidance from the company.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	60711	61497	71024	73874	79157	84863	90040	92105	104213	121867
SG&A Exp.	8436	8681	9953	11748	12535	12559	12650	14020	13364	17450
D&A Exp.	637	741	909	851	908	912	891	1132	1133	1154
Net Profit	2647	2656	2490	2570	2560	2470	3843	3750	4807	4572
Net Margin	0	0	0	0	0	0	0	0	0	0
Free Cash Flow	2855	2200	2406	2655	3574	2686	3394	2619	4984	9667
Income Tax	1311	1207	1206	1808	2071	2085	121	1318	1178	1666

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	52163	58955	59575	61676	61718	65083	70540	71571	77453	86615
Cash & Equivalents	2202	2475	1582	2152	2114	4075	3609	3934	4937	5741
Accounts Receivable	3403	3687	3969	4826	4603	5861	6185	6743	7584	8128
Goodwill & Int. Ass.	21790	25555	25358	25040	25720	25526	27599	29511	29174	31096
Total Liabilities	28875	35153	34809	37425	38674	39983	44037	43030	45725	53416
Accounts Payable	8613	9273	9554	10513	10889	11908	13016	12413	13040	16852
Long-Term Debt	9840	14978	14492	15044	15865	15727	19932	19211	20085	20035
Shareholder's Equity	23288	23803	24765	24251	23044	25100	26503	28541	31728	33199
D/E Ratio	0.4	0.6	0.6	0.6	0.7	0.6	0.8	0.7	0.6	0.6

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.2%	4.8%	4.2%	4.2%	4.1%	3.9%	5.7%	5.3%	6.5%	5.6%
Return on Equity	11.2%	11.3%	10.3%	10.5%	10.8%	10.3%	14.9%	13.6%	16.0%	14.1%
ROIC	8.0%	7.4%	6.4%	6.5%	6.5%	6.2%	8.8%	8.0%	9.7%	8.7%
Shares Out.	365.1	324.8	303.8	285.9	272.9	268.1	267.8	254.3	264.2	260.3
Revenue/Share	166.29	189.34	233.78	258.39	290.06	316.53	336.22	362.19	394.45	468.18
FCF/Share	7.82	6.77	7.92	9.29	13.10	10.02	12.67	10.30	18.86	37.14

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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