Anthem, Inc. (ANTM)

Updated January 26th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$435	**5 Year CAGR Estimate:**	8.4%	**Market Cap:**	$105 billion
Fair Value Price:	$401	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	3/10/2022
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.6%	**Dividend Payment Date:**	3/25/2022
Dividend Yield:	1.0%	**5 Year Price Target**	$617	**Years Of Dividend Growth:**	12
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	13.3%

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 $152 billion and a market capitalization of $105 billion.

On January 26th, Anthem increased its dividend 13.3% for the 3/25/2022, marking the company's 12th consecutive year of dividend growth.

On January 26th, 2022, Anthem reported fourth quarter and full year results for the period ending December 31st, 2021. For the quarter, revenue grew 14.2% to $36 billion. Adjusted earnings-per-share was $5.14 per share, which compared very favorably to adjusted earnings-per-share of $2.54 in the prior year. For the year, revenue grew 13.4% to $136.9 billion while adjusted earnings-per-share improved 15.6% to $25.98.

Revenue growth benefited from higher membership totals and gains in Medicaid and Medicare Advantage businesses. Premiums grew 13.5% to $30.8 billion and product revenue was higher by 21.6% to $3.5 billion. Commercial & Specialty revenues increased 7.4% while the Government Business and IngenioRx both had mid-double-digit growth. Total membership increased 5.7% year-over-year to 45.4 million. For reportable segments, membership for Commercial & Specialty Business was up 0.8% while Government Business grew 19.1%.

Anthem provided guidance for 2022 as well. The company expects adjusted earnings-per-share of at least $26.75 for the year. If achieved, this would represent a 3% improvement from the prior year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$8.18	$8.20	$8.98	$9.38	$9.21	$10.21	$15.89	$19.44	$22.48	$25.98	***$26.75***	***$41.16***
DPS	$1.15	$1.50	$1.75	$2.50	$2.60	$2.70	$3.00	$3.20	$3.80	$4.52	***$4.52***	***$7.88***
Shares[1]	305	282	267	261	264	256	257	253	245	247	***247***	***240***

Anthem has increased earnings-per-share at a rate of nearly 14% 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 over the last decade. 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.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	7.8	9.6	12.1	15.7	14.5	18.1	15.7	14.3	12.4	17.8	***16.3***	***15.0***
Avg. Yld.	1.8%	1.9%	1.6%	1.7%	2.0%	1.5%	1.2%	1.1%	1.4%	1.0%	***1.0%***	***1.3%***

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[1] Share count in millions

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Shares are higher by $11, or 2.6%, since our 10/20/2021 update. Using company guidance for 2022, Anthem trades with a price-to-earnings ratio of 16.3. 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 perform. Those fears are largely gone now. Valuation could be a 1.6% annual 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	14%	18%	19%	27%	28%	26%	19%	16%	17%	17%	***16%***	***19%***

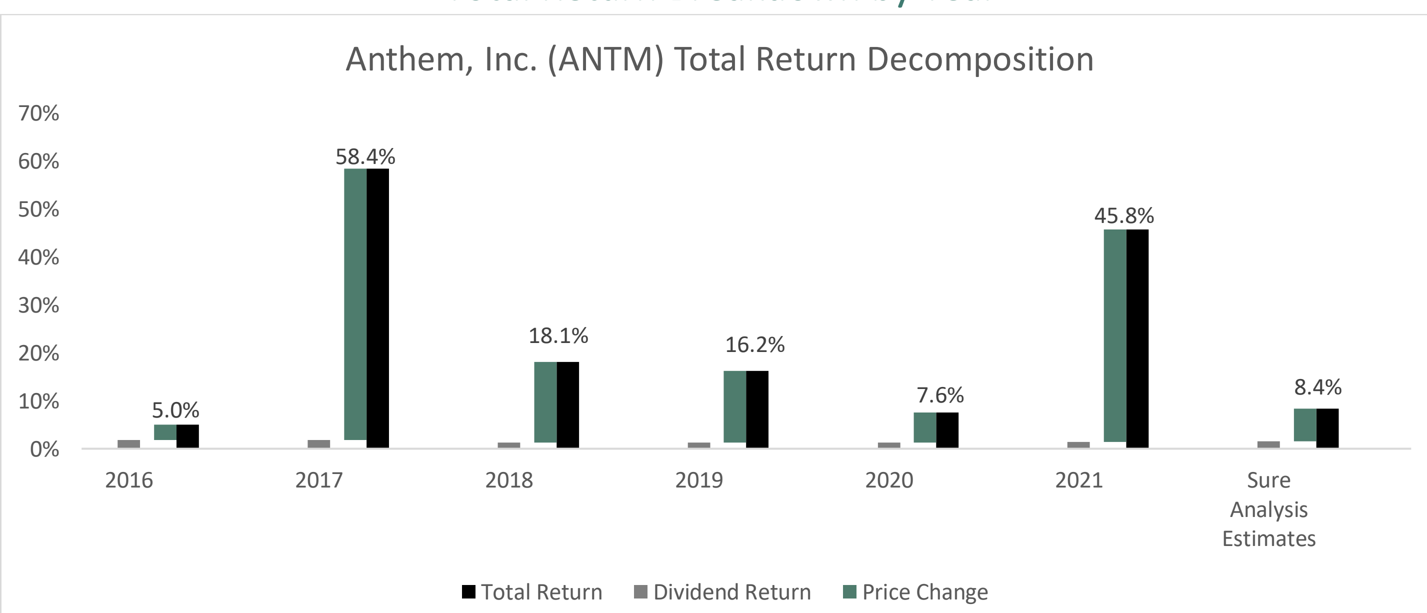
Anthem was not immune to the last recession as earnings-per-share declined from $5.57 to $4.95 for the 2007 to 2009 period. However, the company returned to growth the very next year. The company has had just one year where EPS declined from the previous period (2016). Anthem ended the fourth quarter of 2021 with assets of $97.3 billion, investments of $28.1 billion, and cash and equivalents of $4.9 billion against liabilities of $61.2 billion, including total debt of $22.8 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 8.4% through 2027, up from our prior estimate of 8.1%. Our projected return stems from a 9% earnings growth rate and a starting yield of 1% that are offset by a small headwind from multiple reversion. The company closed 2021 on a high note and delivered solid guidance for the year. We have raised our five-year price target $20 to $617, but maintain our hold rating on Anthem due to projected returns.

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.