

HEALTH

Anthem Lifts Profit Target

But the health insurer said Medicaid results are hurting an important spending measure



Anthem faces continued pressure on its Medicaid business. PHOTO: © GUS RUELAS/REUTERS/REUTERS

By Anna Wilde Mathews and Dave Sebastian

Oct. 23, 2019 11:33 am ET

Anthem Inc. [ANTM 1.25% ▲](#) posted higher third-quarter profits and increased its earnings guidance for this year, but a key spending metric came in higher than expected due to continued pressure on its Medicaid business.

The health insurer also gave some initial projections for 2020, suggesting that adjusted earnings per share growth will be around the low end of its 12% to 15% targeted rate.

Anthem also said it still expects its new pharmacy-benefit manager, IngenioRx, to produce gains of at least \$800 million, or around \$2.30 per share, next year.

Anthem shares were up about 4% in late morning trading.

For the third quarter, Anthem reported net income of \$1.18 billion, or \$4.55 a share, compared with \$960 million, or \$3.62 a share, in the comparable quarter last year. Analysts polled by FactSet were expecting \$4.57 a share.

On an adjusted basis, earnings were \$4.87 a share, above the \$4.82 a share analysts had expected. Revenue rose to \$26.67 billion from \$23.25 billion. Analysts expected \$25.9 billion.

The Indianapolis company said it now expects net earnings to be more than \$18.45 a share for 2019, and projected adjusted earnings at \$19.40. The health insurer said it sees operating revenue to be about \$103 billion, compared with its prior guidance of \$102 billion.

But the company's medical-loss ratio, which represents the share of premiums paid out in claims, was 87.2% in the third quarter, higher than the 86.7% that a consensus of analysts had anticipated, according to their research notes. The figure was 84.8% in the prior year. Anthem also raised its full-year projection for the ratio.

Anthem said that the MLR has been pushed up by its Medicaid business, an issue it also flagged last quarter. State crackdowns on verifying eligibility, which have been occurring in more than half of its Medicaid states, have changed the mix of enrollees, the company said. But the rates the insurer receives haven't always matched the new enrollment.

Speaking of the MLR guidance move, Anthem financial chief John Gallina said on a conference call with analysts that "the entire increase is associated with Medicaid."

Anthem said it expects Medicaid results to improve in 2020 as it renegotiates rates with states.

Anthem also said the MLR rose compared with last year due to the suspension of an Affordable Care Act health-insurance tax, a dynamic that is affecting all insurers' results this year. The tax, a pass-through, had previously increased the revenue part of the ratio.

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