

Anthem, Inc.
Form 10-Q
July 27, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-16751

ANTHEM, INC.

(Exact name of registrant as specified in its charter)

INDIANA 35-2145715

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

120 MONUMENT CIRCLE 46204-4903
INDIANAPOLIS, INDIANA (Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code: (317) 488-6000

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

| Title of Each Class | Outstanding at July 14, 2016 |
|--------------------------------|------------------------------|
| Common Stock, \$0.01 par value | 263,171,006 shares |

Anthem, Inc.
 Quarterly Report on Form 10-Q
 For the Period Ended June 30, 2016
 Table of Contents

| | Page |
|--|-----------|
| PART I. FINANCIAL INFORMATION | |
| ITEM 1. <u>FINANCIAL STATEMENTS</u> | |
| <u>Consolidated Balance Sheets as of June 30, 2016 (Unaudited) and December 31, 2015</u> | <u>2</u> |
| <u>Consolidated Statements of Income (Unaudited) for the Three and Six Months Ended June 30, 2016 and 2015</u> | <u>3</u> |
| <u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Six Months Ended June 30, 2016 and 2015</u> | <u>4</u> |
| <u>Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2016 and 2015</u> | <u>5</u> |
| <u>Consolidated Statements of Shareholders' Equity (Unaudited) for the Six Months Ended June 30, 2016 and 2015</u> | <u>6</u> |
| <u>Notes to Consolidated Financial Statements (Unaudited)</u> | <u>7</u> |
| ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | <u>38</u> |
| ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | <u>57</u> |
| ITEM 4. <u>CONTROLS AND PROCEDURES</u> | <u>57</u> |
| PART II. OTHER INFORMATION | |
| ITEM 1. <u>LEGAL PROCEEDINGS</u> | <u>57</u> |
| ITEM 1A. <u>RISK FACTORS</u> | <u>57</u> |
| ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> | <u>58</u> |
| ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u> | <u>58</u> |
| ITEM 4. <u>MINE SAFETY DISCLOSURES</u> | <u>58</u> |
| ITEM 5. <u>OTHER INFORMATION</u> | <u>58</u> |
| ITEM 6. <u>EXHIBITS</u> | <u>58</u> |
| <u>SIGNATURES</u> | <u>59</u> |
| <u>INDEX TO EXHIBITS</u> | <u>60</u> |

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Anthem, Inc.

Consolidated Balance Sheets

| | June 30, 2016 | December 31, 2015 |
|---|------------------|----------------------|
| | (Unaudited) | |
| (In millions, except share data) | | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,582.7 | \$ 2,113.5 |
| Investments available-for-sale, at fair value: | | |
| Fixed maturity securities (amortized cost of \$17,957.7 and \$16,950.0) | 18,563.2 | 16,920.0 |
| Equity securities (cost of \$1,304.0 and \$1,055.8) | 1,633.5 | 1,441.8 |
| Other invested assets, current | 18.8 | 19.1 |
| Accrued investment income | 168.7 | 170.8 |
| Premium and self-funded receivables | 5,260.9 | 4,602.8 |
| Other receivables | 2,125.2 | 2,421.4 |
| Income taxes receivable | 9.0 | 316.6 |
| Securities lending collateral | 1,512.4 | 1,300.4 |
| Other current assets | 2,083.3 | 1,555.7 |
| Total current assets | 32,957.7 | 30,862.1 |
| Long-term investments available-for-sale, at fair value: | | |
| Fixed maturity securities (amortized cost of \$493.2 and \$550.4) | 512.0 | 558.2 |
| Equity securities (cost of \$27.1 and \$27.3) | 30.9 | 31.0 |
| Other invested assets, long-term | 2,088.1 | 2,041.1 |
| Property and equipment, net | 1,989.8 | 2,019.8 |
| Goodwill | 17,562.2 | 17,562.2 |
| Other intangible assets | 8,059.7 | 8,158.0 |
| Other noncurrent assets | 862.2 | 485.4 |
| Total assets | \$ 64,062.6 | \$ 61,717.8 |
| Liabilities and shareholders' equity | | |
| Liabilities | | |
| Current liabilities: | | |
| Policy liabilities: | | |
| Medical claims payable | \$ 7,498.6 | \$ 7,569.8 |
| Reserves for future policy benefits | 69.5 | 71.9 |
| Other policyholder liabilities | 2,390.8 | 2,256.5 |
| Total policy liabilities | 9,958.9 | 9,898.2 |
| Unearned income | 832.8 | 1,145.5 |
| Accounts payable and accrued expenses | 4,272.2 | 3,318.8 |
| Security trades pending payable | 110.9 | 73.1 |
| Securities lending payable | 1,512.0 | 1,300.9 |
| Short-term borrowings | 440.0 | 540.0 |
| Current portion of long-term debt | 927.9 | — |
| Other current liabilities | 2,762.1 | 2,816.1 |
| Total current liabilities | 20,816.8 | 19,092.6 |
| Long-term debt, less current portion | 14,202.4 | 15,324.5 |
| Reserves for future policy benefits, noncurrent | 625.1 | 631.7 |

Edgar Filing: Anthem, Inc. - Form 10-Q

| | | |
|--|------------|-------------|
| Deferred tax liabilities, net | 2,704.9 | 2,630.6 |
| Other noncurrent liabilities | 1,479.8 | 994.3 |
| Total liabilities | 39,829.0 | 38,673.7 |
| Commitment and contingencies – Note 10 | | |
| Shareholders' equity | | |
| Preferred stock, without par value, shares authorized – 100,000,000; shares issued and outstanding – none | — | — |
| Common stock, par value \$0.01, shares authorized – 900,000,000; shares issued and outstanding – 263,153,816 and 261,238,188 | 2.6 | 2.6 |
| Additional paid-in capital | 8,677.5 | 8,555.6 |
| Retained earnings | 15,918.4 | 14,778.5 |
| Accumulated other comprehensive loss | (364.9) | (292.6) |
| Total shareholders' equity | 24,233.6 | 23,044.1 |
| Total liabilities and shareholders' equity | \$64,062.6 | \$ 61,717.8 |

See accompanying notes.

-2-

Anthem, Inc.
Consolidated Statements of Income
(Unaudited)

| (In millions, except per share data) | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------|------------------|------------|
| | June 30 | | June 30 | |
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | |
| Premiums | \$19,948.0 | \$18,516.3 | \$38,936.9 | \$36,126.8 |
| Administrative fees | 1,315.8 | 1,229.5 | 2,626.8 | 2,456.6 |
| Other revenue | 10.7 | 12.5 | 20.2 | 26.3 |
| Total operating revenue | 21,274.5 | 19,758.3 | 41,583.9 | 38,609.7 |
| Net investment income | 194.9 | 186.7 | 366.0 | 354.3 |
| Net realized gains (losses) on financial instruments | 12.5 | 92.3 | (112.6) | 138.8 |
| Other-than-temporary impairment losses on investments: | | | | |
| Total other-than-temporary impairment losses on investments | (33.8) | (26.2) | (119.0) | (41.6) |
| Portion of other-than-temporary impairment losses recognized in other comprehensive income | 8.1 | 4.4 | 26.4 | 5.8 |
| Other-than-temporary impairment losses recognized in income | (25.7) | (21.8) | (92.6) | (35.8) |
| Total revenues | 21,456.2 | 20,015.5 | 41,744.7 | 39,067.0 |
| Expenses | | | | |
| Benefit expense | 16,805.2 | 15,205.4 | 32,344.0 | 29,332.3 |
| Selling, general and administrative expense: | | | | |
| Selling expense | 351.5 | 363.8 | 701.4 | 732.0 |
| General and administrative expense | 2,617.6 | 2,677.0 | 5,467.9 | 5,454.0 |
| Total selling, general and administrative expense | 2,969.1 | 3,040.8 | 6,169.3 | 6,186.0 |
| Interest expense | 185.7 | 154.1 | 372.8 | 308.5 |
| Amortization of other intangible assets | 47.9 | 60.1 | 98.3 | 112.6 |
| (Gain) loss on extinguishment of debt | — | (2.9) | — | 0.5 |
| Total expenses | 20,007.9 | 18,457.5 | 38,984.4 | 35,939.9 |
| Income before income tax expense | 1,448.3 | 1,558.0 | 2,760.3 | 3,127.1 |
| Income tax expense | 667.7 | 698.9 | 1,276.7 | 1,402.8 |
| Net income | \$780.6 | \$859.1 | \$1,483.6 | \$1,724.3 |
| Net income per share | | | | |
| Basic | \$2.97 | \$3.27 | \$5.65 | \$6.51 |
| Diluted | \$2.91 | \$3.13 | \$5.54 | \$6.22 |
| Dividends per share | \$0.650 | \$0.625 | \$1.300 | \$1.250 |

See accompanying notes.

Edgar Filing: Anthem, Inc. - Form 10-Q

Anthem, Inc.
 Consolidated Statements of Comprehensive Income
 (Unaudited)

| (In millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|----------------------------------|----------|-----------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | \$780.6 | \$859.1 | \$1,483.6 | \$1,724.3 |
| Other comprehensive income (loss), net of tax: | | | | |
| Change in net unrealized gains/losses on investments | 209.8 | (241.2) | 382.1 | (180.8) |
| Change in non-credit component of other-than-temporary impairment losses on investments | (5.4) | (2.8) | (7.1) | 0.7 |
| Change in net unrealized losses on cash flow hedges | (190.0) | 0.9 | (455.5) | 1.8 |
| Change in net periodic pension and postretirement costs | 3.8 | 4.9 | 7.6 | 9.6 |
| Foreign currency translation adjustments | (0.7) | 0.7 | 0.6 | (2.8) |
| Other comprehensive income (loss) | 17.5 | (237.5) | (72.3) | (171.5) |
| Total comprehensive income | \$798.1 | \$621.6 | \$1,411.3 | \$1,552.8 |

See accompanying notes.

-4-

Edgar Filing: Anthem, Inc. - Form 10-Q

Anthem, Inc.
 Consolidated Statements of Cash Flows
 (Unaudited)

| (In millions) | Six Months Ended | |
|---|------------------|------------|
| | June 30 | 2015 |
| | 2016 | |
| Operating activities | | |
| Net income | \$ 1,483.6 | \$ 1,724.3 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net realized losses (gains) on financial instruments | 112.6 | (138.8) |
| Other-than-temporary impairment losses recognized in income | 92.6 | 35.8 |
| Loss on extinguishment of debt | — | 0.5 |
| Loss on disposal of assets | 0.6 | 1.2 |
| Deferred income taxes | 99.7 | 47.5 |
| Amortization, net of accretion | 399.4 | 655.5 |
| Depreciation expense | 51.7 | 50.3 |
| Share-based compensation | 82.4 | 68.6 |
| Excess tax benefits from share-based compensation | (46.0) | (89.0) |
| Changes in operating assets and liabilities: | | |
| Receivables, net | (332.8) | (318.5) |
| Other invested assets | (13.2) | (4.0) |
| Other assets | (284.5 | |