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ANTM - Q4 2017 Anthem Inc Earnings Call

EVENT DATE/TIME: JANUARY 31, 2018 / 1:30PM GMT

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PRESENTATION

Operator

Good morning Ladies and gentlemen, thank you for standing by, and welcome to the Anthem Fourth Quarter Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to the company's management.

Doug Simpson - *Anthem, Inc. - SVP and CFO, Business Operations*

Morning, and welcome to Anthem's Fourth Quarter 2017 Earnings Call. This is Doug Simpson. And with us this morning are Gail Boudreaux, President and CEO; John Gallina, our CFO; Pete Haytaian, the President of our Government Business Division; Brian Griffin, President of our Commercial Specialty Business Division; and Tom Zielinski, our General Counsel.

Gail will begin the call by giving an overview of her first few months at Anthem and her vision for the company. John will then discuss our financial results for 2017 and the fourth quarter, our business unit performance and our key financial metrics performance. Finally, Gail will go over our initial 2018 outlook. We will then be available for Q&A.

During the call, we will reference certain non-GAAP measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are available on our website at antheminc.com. We will also be making some forward-looking statements on this call. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of Anthem. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to review the risk factors discussed in today's press release and in our quarterly and annual filings with the SEC.

I will now turn the call over to Gail.

Gail K. Boudreaux - *Anthem, Inc. - President and CEO*

Good morning, everyone. Thank you for joining us as we review Anthem's fourth quarter and year-end 2017 performance and our plans for continued growth in 2018 and beyond.

This morning, we reported fourth quarter 2017 GAAP earnings per share of $4.67 and adjusted earnings per share of $1.29, which were ahead of our expectations, driven by balanced performance across our businesses. Operating revenues in 2017 grew by 5.8% to over $89 billion. Our medical loss ratio came in a better-than-expected 86.4% for the year, and operating cash flow exceeded $4.2 billion for the year, growth of 28% over 2016.

We are pleased with our improved business momentum in the quarter and our continued traction in the marketplace, as evidenced by solid membership trends in key parts of our business, including our fully insured large and small group commercial markets and the completion of the HealthSun transaction, which added approximately 40,000 new consumers to our Medicare Advantage business. We finished 2017 slightly ahead of expectations, serving the benefits needs of more than 40.2 million consumers, representing growth of 325,000 members during the year.

Also, medical costs were well managed for the year, and our full year medical loss ratio came in better-than-expected. Our continued focus on cost of care improvement drove improved medical expense trend, specifically in our Medicaid, Individual and Local Group insured businesses and resulted in a medical loss ratio of 88.6% in the fourth quarter.

As a result of our solid fourth quarter 2017 results, we entered 2018 with operating momentum and are well positioned for sustainable long-term, high-quality earnings growth.

One of my key priorities since joining Anthem a little more than 2 months ago, has been to perform a thorough review of the business and to quickly gain a deep understanding of how the company operates and the opportunities we have to improve our performance in 2018 and beyond.

I spent a lot of time in recent weeks visiting our local markets around the country and meeting with our associates as well as care providers, customers, brokers and other business partners. I've seen firsthand our strong business foundation built on a deep commitment to our communities and the people we serve and a culture that embodies our values of being accountable, caring, easy to do business with, innovative and trustworthy.

Building on our strong legacy, I believe we have a substantial opportunity to further raise our performance across Anthem. I've challenged our organization to have a relentless focus on day-to-day execution in order to deliver continuously greater impact on the affordability and quality of health care in America. Specifically, we need to advance our consumer-focused innovation and data analytics capabilities to leverage our strong brand and local market position and drive greater value for our customers.

While I will continue to refine my views, I have some initial thoughts to share on my priorities and vision for Anthem. In the near term, my primary focus is on optimizing execution across our business segments. Anthem has been building a strong operating platform, but there is still more that we can do to better serve our customers and improve our financial performance.

In order to meet the increasing expectations and needs of our members, we need to increase our focus on developing innovative solutions that emphasize affordability and flexibility and increase speed to market in delivering these solutions. We will continue to focus on the drivers of medical costs and identify new ways to deploy cost of care solutions more quickly and effectively so that we can further improve the quality of care our members receive while also reducing the cost they incur. And we will work to better leverage Anthem's many best-in-class capabilities to drive further growth, including our deep expertise in integrated care, our increased focus on provider relations, our medical cost value proposition, our growing consumer capabilities, our local market presence and our brand advantages through our Blue commercial business and the Amerigroup name.

In 2018, we will also be making incremental investments in technology modernization efforts, consumer-facing digital technologies and product development capabilities. Specifically, we're accelerating our efforts to migrate our membership on to our end-state platforms which will improve consistency in the consumer experience and make us more efficient.

Additionally, we're investing in new digital and mobile capabilities to drive greater automation and enhance our consumer experience. This includes developing new external-facing applications and portals that will make it easier for members, agents and care providers to conduct business with Anthem, and also enhancing capabilities for more personalized and responsive customer support. We are also building an end-to-end modular process to allow controlled flexibility to efficiently configure product designs and make it simpler to integrate those products on to our data platforms.

These investments are a few examples of our efforts to make the health care system simpler to navigate, more effective and more affordable for our consumers.

Looking more specifically at the growth opportunities in our businesses. Anthem's Government Business, which currently represents over 50% of consolidated operating revenues, is positioned for sustainable growth across the Medicaid and Medicare platforms. Our Medicaid team is targeting a significant pipeline of opportunity as states increasingly recognize the role of that health care companies like Anthem can play as their partner, working within ever-tightening-budget constraints, to better manage the health care of the individuals they serve. We see $80 billion worth of incremental business opportunities between now and the end of 2022, much of which encompasses state's specialized service populations.

We're also focused on developing strategic partnerships with other health plans and providers, including plans in the Blue network that combine our best-in-class Medicaid operating platform with their local market expertise. For example, we recently formed a partnership with Blue Cross Blue Shield in Minnesota, which goes into effect in the fall of 2018 and will serve approximately 375,000 members by the end of the year through its Medicaid and dual eligible program. In 2017, we also partnered with Blue Cross Blue Shield of Louisiana to form Healthy Blue, which currently serves approximately 240,000 Medicaid members.

Looking ahead, we see opportunities to continue to leverage our deep expertise in Medicaid to form new partnerships and alliances with our Blue colleagues, providers and other health plans to expand our presence and reach into new markets.

In Medicare, we continue to see substantial growth opportunities as approximately 11,000 baby boomers aging to Medicare-eligible population every day. Historically, Anthem has lagged the Medicare Advantage penetration, and we have been working to capture more of our fair share of this market. I believe we are now well positioned to leverage our improved individual Medicare Advantage platform.

Specifically, I am confident that we have the ability to leverage our strong brand, our more competitive product offering and our focused marketing and sales investment to further capture share in this growing market. We are encouraged with our strong individual Medicare Advantage growth rate in 2017 and continuing through the 2018 open enrollment period, where we have outpaced the growth rate of the market. We continue to expect organic growth rates in the low to mid-double digits over the next few years, outpacing growth in our existing markets of 6% to 9%.

Our Medicare Advantage market share will also benefit from the completion of our acquisition of HealthSun and the pending acquisition of Americas 1st Choice. Together, these companies will add approximately 170,000 new Medicare Advantage lives as well as deep provider relationships in the key Florida market. With the addition of these plans, our total Florida Medicare Advantage membership will be approximately 220,000. We are now focused on strengthening our capabilities in the employer group business and expect to see noticeable growth in this Medicare Advantage segment soon.

Supporting all of this growth is our improved star ratings, now with over 70% of our membership residing in 4-star plans for the 2018 payment year. Additionally, Anthem will be the only carrier with 5 5-star plan following the close of America's 1st Choice acquisition.

In the Commercial business, there is meaningful opportunity to leverage our local market knowledge and improve the historical membership trends of Anthem's fully insured medical business at appropriate margins by providing more consumer-focused offering and investing in digital capabilities.

We have a solid foundation to build even deeper relationships with consumers and care providers. For example, Anthem operates 3 of the top 10 best-performing commercial health plans as ranked by the NCQA. These are superior plans which consistently deliver top scores in customer satisfaction, preventive care and outcomes in areas such as diabetes, asthma and heart disease.

In addition, we plan to extend the breadth of our self-funded customer relationships by improving the penetration rates of specialty products. The specialty team has made significant progress over the past few years, improving the competitiveness of our dental and vision offerings. We ended 2017 with a commercial dental penetration rate of a little less than 20% and vision penetration rate of about 25%. Both of these rates have improved meaningfully over the last several years. We will continue to invest in our specialty products and expect continued improvement in those penetration rates in the years to come.

While we have significant opportunities in 2018, another key priority during my first 60 days at Anthem has been to align the organization around plans to develop a long-term strategy focused on accelerating our top line and bottom line growth. We need to augment our recent successes in commercial fee business and Medicaid with stronger profitable growth and higher-revenue businesses. We are building an organization with an agile culture that proactively identifies and engages in new opportunities to drive revenue growth by leveraging our existing capabilities and better packaging our assets in the marketplace.

One of those opportunities will be to better leverage the power of our local market presence, which is key to driving change in health care. Anthem has best-in-class local market share, and we need to combine that strength with our increased cost of care initiatives to drive down the cost of health care for our members while also delivering a more consumer-focused experience and continuing to build on our depth of experience and provider collaboration and integrated care. Success in these priorities will accelerate our growth, improve affordability for our customers and strengthen our financial performance as we enhance our competitive position.

Anthem also has quite a few unique assets that we are focused on packaging to better deploy in the market. A great example is our AIM Specialty Health subsidiary, which provides a variety of medical cost management, provider workflow integration and member engagement solutions to its customers. AIM supports evidence-based care and affordability across all major clinical areas, including oncology, cardiology, advanced imaging, genetic testing, specialty Rx and several others. Depending on the clinical domain, AIM's solutions have been able to provide savings of 10% to 40%. Additionally, our technology platform enables 75% of provider interactions to be electronic, with a user satisfaction rate of 95%.

By better organizing our existing assets as well as investing in or acquiring new capabilities, we will be better able to accelerate our top line growth and diversify our revenue base.

In addition, we will continue to work with our Blue partners to explore ways to leverage Anthem's capabilities to help them improve their product offerings and competitive position. We have a unique opportunity to cultivate strategic partnerships with our Blue plan colleagues to grow and advance the impact of the Blue system as a whole.

We will also continue our strong focus on becoming a more consumer-centric company. Anthem has made some meaningful improvements to the consumer experience, which drives loyalty and helps to make the health care experience simpler for individual. For example, we've been focused on improving the visual clarity and usefulness of our member communications and have deployed a real-time notification feature to help inform our members of key updates, like the status of a claim.

By combining these opportunities with improved integrated medical and pharmacy offering through our new PBM, IngenioRx, we have a unique opportunity to deliver a highly innovative product offering to the market. We continue to expect our new PBM to deliver at least $4 billion of gross pharmaceutical savings on a run-rate basis once we migrate our enrollment to the new platform by January 1, 2021. We also continue to project that at least 20% of this benefit will accrue to shareholders on a pretax basis.

Additionally, we will continue to be a strong community partner in the markets we serve. Through more than $40 million in open community activity, the Anthem foundation is positively impacting some of the nation's most pressing health issues. For example, together with the American Heart Association, we're tracking towards doubling cardiac arrest survival rates through hands-only CPR training. To date, we've trained more than

6.5 million Americans. This is just one example. And we believe that it's important that our members see Anthem out in the community and making a difference for those that we serve.

As it relates to overall capital deployment, my view is consistent with what you've heard historically. We will prioritize making the necessary investments in the business first, then evaluate what M&A opportunities exist in the market, and then finally, deploy capital to shareholders through a balanced approach of share buybacks and dividends.

I believe a coordinated, thoughtful, long-term strategy should drive our M&A plan. We will be very disciplined in how we leverage the M&A pipeline to help build Anthem for the long term, and evaluate how to strategically position and enhance our current asset base to capitalize on the opportunities of tomorrow. Our acquisition of HealthSun and pending acquisition of America's 1st Choice demonstrates this focus. Both of these companies fit well into our larger strategy: Well-run Medicare assets in strategic locations which we can further grow and scale.

As a company, we remain committed to achieving our long-term earnings per share target growth range of upper-single to low double-digits with a focus on generating sustainable, high-quality earnings. I am optimistic that, over time, we can move to the upper end of this range.

As I've laid out, our emphasis will be on improving our ability to manage the total cost of care as well as leveraging the capabilities we have to diversify our revenue base, leading to improved top line growth. Combining these opportunities with an improved integrated medical and pharmacy offering through IngenioRx, with very competitive economics, will position Anthem very well for growth.

Finally, we will focus on being efficient and effective stewards of shareholder capital.

With that, I'll turn the call over to John to discuss our 2017 financial results in more detail. John?

John E. Gallina *- Anthem, Inc. - EVP and CFO*

Thank you, Gail, and good morning. As Gail mentioned, our strong fourth quarter 2017 results came in ahead of expectations, and we entered 2018 with positive operating momentum.

Fourth quarter 2017 GAAP earnings per share was $4.67, and adjusted earnings per share was $1.29. During the fourth quarter, we recorded a $1.1 billion onetime, noncash deferred tax benefit as a result of the recently passed tax reform legislation.

For the full year 2017, GAAP earnings per share was $14.35, and adjusted earnings per share was $12.04, representing growth of 9.5% over 2016. The results were within our longer-term targeted range, and we are optimistic that we can build on this performance and drive towards the upper end of our targeted range.

Membership came in slightly ahead of expectations, primarily driven by our fully insured business, as we finished the year with over 40.2 million members, representing growth of 325,000 members during 2017.

Fully insured membership finished 2017 with 15.3 million lives, a slight increase over the prior year and a little ahead of our latest projections. The better-than-expected enrollment was primarily driven by higher membership gains in the Medicaid business and approximately 40,000 HealthSun members, which closed at the end of the fourth quarter.

Year-end 2017 self-funded membership totaled 25 million, representing growth of 278,000 or 1.1% versus the end of 2016. The increase over the last 12 months was mainly driven by growth in our Local Group business as our market-leading medical cost value proposition continues to drive new account wins in the marketplace.

Our 2017 operating revenue of $89.1 billion grew by $4.9 billion or 5.8% during the year. The increase is reflective of our enrollment growth, especially in Medicare and Local Group, as well as premium increases across our business to cover overall cost trends. These factors more than offset the decrease in revenue from the waiver of the health insurance tax in 2017.

Our 2017 medical loss ratio came in at 86.4%, an increase of 160 basis points from the prior year. The ratio for the year was better than previously expected, driven primarily by our continued focus on cost of care improvements. We saw better-than-expected medical loss ratios in our individual ACA-compliant and Medicaid businesses during the fourth quarter.

Our Local Group insured medical cost trend for the year was approximately 6.5%. I want to highlight that we are updating the reporting of our underlying Local Group medical cost trend in 2018. We will now report a trend based on the allowed amount, which represents a contractual rate to the providers, whether the amount is paid by Anthem or our members through copays and deductibles. The previous methodology was based on paid amount, which is the allowed amount less the copays and deductibles, representing only amounts paid by Anthem. This revised methodology is a better indicator of overall health care costs and trend.

On this basis, the company anticipates Local Group medical cost trend will be in the range of 6%, plus or minus 50 basis points in 2018. On an apples-to-apples basis, Local Group medical cost trends would have been approximately 5.5% in 2017 under this methodology.

The 2017 full year SG&A expense ratio came in at 14.2%, 70 basis points lower than 2016, mainly due to the 1-year waiver of the health insurance tax. The ratio for the year was higher than previous expectations, driven by incremental investment spending during the fourth quarter and higher incentive compensation expense from the better-than-expected financial performance.

Now turning to our business unit financial results. Our commercial business finished 2017 strong, with total operating revenues of $40.8 billion for the year, an increase of $2.1 billion or 5.3% in 2016. Commercial membership finished the year with 30.7 million members, an increase of 278,000 or 0.9% over the prior year end. This increase was mainly driven by our growth in our Local Group business in both fully insured and self-funded products. These increases were partially offset by lower enrollment in our National Business and the expected decrease in our Individual business.

Our Individual enrollment declined by 108,000 during the quarter, which was in line with our expectations. We ended 2017 with 1.6 million total individual lives, of which, 1.3 million were ACA-compliant, and a little less than 300,000 were non-ACA-compliant. Of the 1.3 million ACA-compliant lives, a little more than 850,000 of them were from the public exchanges.

The operating margin in Commercial for the year was 7.1%, a decrease of 120 basis points from the 2016 ratio. This decrease, as discussed, was mainly driven by the impact of the 1-year waiver of the health insurance tax, partially offset by better-than-expected medical cost trends in our Local Group and Individual businesses.

The claims experience in our Individual ACA-compliant business was better than expected during the fourth quarter. As a result, our business was slightly profitable during the year, better than the relatively breakeven performance we had expected in our latest outlook.

Now turning to the Government Business. We ended 2017 with 9.6 million members, growth of 87,000 lives during the quarter and 47,000 during the year. We are pleased that our Medicare membership grew by 107,000 lives, including approximately 40,000 members from the recently completed HealthSun acquisition. Excluding HealthSun, we grew our Individual and Medicare Advantage enrollment by 68,000 or 13.5% during 2017.

Total operating revenue in the Government business was $48.3 billion for the year, an increase of $2.8 billion or 6.2% versus 2016. The increase in revenue was driven by premium rate increases to cover overall cost trends, the full year impact of membership growth in our Medicaid business during 2016 and enrollment gains in our Medicare Advantage business.

The Government operating margin for the full year 2017 was 3%, which is 90 basis points lower than the prior year. Fourth quarter operating margins of 2.9% reflect better-than-expected claim trends in our Medicaid business, partially offset by the previously discussed timing impact of retroactive revenue adjustments that were made in the third quarter but were originally expected to occur in the fourth quarter.

In Iowa, we continue to work with our state partners and CMS to ensure our rates for the July 2017 to 2018 period are actuarially sound and appropriately address any new members from the AmeriHealth exit. Additionally, we are very focused on making sure our July 1, 2018, rate increase is actuarially sound and establishes a path to target profitability.

Moving to the balance sheet. Consistent with our past practice, we have included a roll-forward of our medical claims payable balance in this morning's press release. For the full year 2017, we experienced favorable prior year reserve development of $1.2 billion, which was better than expected. Our reserves continued to include a provision for adverse deviation in the mid- to high single digits and believe our reserve balances remain consistent and strong as of December 31, 2017.

Our days in claims payable was 39.4 days in the fourth quarter of 2017, a decrease of 1.1 days from the 40.5 days we reported in the third quarter. The decrease was driven by operational improvements in our claims processing systems that we continue to focus our efforts on improving payment integrity and increasing our auto adjudication rates, leading to improved cycle times. As a result of these and other ongoing efforts, we believe our DCP will continue to trend down and be in the high 30s over time.

We ended 2017 with a debt-to-cap ratio of 42.9%, an increase of 440 basis points from the 38.5% we reported at the end of third quarter. The increase was primarily due to the issuance of a $5.5 billion debt offering during the quarter at an average coupon rate of 3.5%. During the quarter, we did use some of those funds to complete a cash tender offer, allowing us to repurchase approximately $1.5 billion of higher-coupon debt, including the entire 7% notes that were due in 2019. The debt raised in the quarter was also used to complete the HealthSun acquisition and will fund the America's 1st Choice acquisition upon closing. We plan to decrease our debt-to-capital ratio over time back towards the low 40s.

We ended the quarter with cash and investments at the parent company of $2.8 billion, which included the timing impact of approximately $900 million of intercompany funding arrangements. Excluding the timing impact, which was resolved early in the year, cash and investments at the parent company would have totaled $3.7 billion.

For cash flow, we reported operating cash flow for the full year 2017 of $4.2 billion or 1.1x net income. Cash flow in the fourth quarter was negative $1.3 billion, as expected, driven by several timing items, including the timing of monthly CMS Medicare receipts, as discussed on our third quarter call, and the payment of provider capitation pass-through funding which was received in the third quarter.

We also used $179.5 million during the quarter for our cash dividend. Yesterday, our Board of Directors increased our first quarter dividend by $0.05 to $0.75 per share, and we continue to pay an industry-leading dividend. We have increased our dividend every year since we began paying a dividend 8 years ago.

With that, I'll turn the call back to Gail to discuss our 2018 outlook. Gail?

Gail K. Boudreaux - *Anthem, Inc. - President and CEO*

Thanks, John. Before I begin, it's important to note that our 2018 outlook does not include any impact from the pending acquisition of America's 1st Choice, which we continue to expect to close during the first quarter.

We expect operating revenues to grow to a range of $90.5 billion to $91.5 billion in 2018, reflecting the impact of the return of the health insurer fee in 2018, premium rate increases to cover overall medical cost trends and growth in higher-revenue PMPM insured membership in the Government business. These will be partially offset by the impact of reducing our footprint in the individual ACA-compliant marketplace.

In total, we expect our enrollment in 2018 to be relatively flat to down a little more than 200,000. In Government, we expect another year of solid growth, with membership expected to increase by more than 600,000 consumers served. However, we expect Commercial membership to decrease by about 700,000 members because of our reduced individual ACA-compliant footprint.

We expect Medicaid to add about 500,000 lives, reflecting the recently announced Minnesota partnership as well as organic growth from existing contracts. During the year, we also expect to be active participants in various RFPs.

With our Medicare business, we're projecting growth of approximately 125,000 members, primarily in our individual Medicare Advantage product offerings through an increasing percentage of enrollment in 4-star plans This represents individual Medicare Advantage growth in the mid-double digits and is faster than the overall market average of 6% to 9%.

In Commercial insured, we project our enrollment will decline by a little more than 1 million members over the next 12 months. Our individual ACA-compliant and non-ACA-compliant enrollment is expected to decline by approximately 950,000, reflecting the actions we took to only participate in rating regions where we have an appropriate level of confidence that the financial performance in these markets is predictable.

Finally, our Local Group insured enrollment is expected to decrease by about 50,000 lives as a result of funding conversions from fully insured to self-funded as employers look to lessen the impact of rate increases resulting from the return of the health insurer fee.

The decrease in Commercial fully insured will be partially offset by the growth in Commercial self-funded enrollment, which is expected to increase by approximately 300,000 lives in 2018, with positive momentum in securing new contract wins and maintaining retention rates in National Accounts and large group employers. We expect our BlueCard enrollment will be down slightly year-over-year.

Turning to the financial metrics. The return of the health insurer fee in 2018 impacts all of our major financial metrics, such that comparison to 2017 on a reported basis will be distorted. We expect our 2018 consolidated MLR to be 84.5% at the midpoint, a decrease of 190 basis points versus 2017, largely reflecting the impact of the return of the health insurer fee. Aside from the fee impact, our MLR outlook is flat to slightly better than 2017.

Our outlook reflects the impact of an intensified focus on driving down the cost of care across our businesses while maintaining a disciplined approach to pricing. Also, profitability in our individual ACA-compliant business is projected to improve towards our targeted margin range as a result of the pricing and participation strategies deployed in 2017. These improvements are partially offset by a change in the mix of premium revenue coming from the Government business, which has a higher MLR than the consolidated average.

We expect our SG&A ratio in 2018 to be 15.5% at the midpoint, an increase of 130 basis points from the 14.2% in 2017, which also largely reflects the impact of the return of the health insurer fee.

We anticipate using a portion of the corporate tax reform benefits for incremental investment spending, as I referenced earlier: In the areas of technology modernization efforts, consumer-facing digital technologies and product development capabilities.

Finally, we will continue to incur some costs in our individual ACA-compliant markets, which allows us to be positioned to reenter certain markets in 2019, if appropriate.

Below the line, we expect investment income of approximately $825 million and interest expense of approximately of $775 million. We also expect our tax rate to be in the range of 25.5% to 27.5% for the year, reflecting the impact of the reduced corporate tax rate, partially offset by the return of the nondeductible health insurer fee.

Operating cash flow is expected to be relatively consistent with 2017 at greater than $4 billion. As we discussed previously, 2017 operating cash flows were positively impacted by the final reinsurance receipt related to 2016 claims and the timing of incentive compensation payments. Partially offsetting these headwinds to cash flow in 2018 is the net cash benefit of corporate tax reform as well as increased core earnings.

We also expect 2018 will benefit from the impact of share repurchase activity in both 2017 and 2018. As a reminder, our 2017 share repurchase activity was more heavily weighted towards the back half of the year, and our 2018 activity will look more normalized throughout the year.

Our outlook assumes we repurchase approximately $1.5 billion worth of shares during 2018. We do have certain equity units that will be issued in May of 2018, and our outlook currently expects the repurchase activity we have committed to in 2018 to more than offset the dilution impact of the equity issuance. As a result, we now expect our average share count for the year to be in the range of 260 million to 264 million shares. We will continue to evaluate the best use of available capital for deployment during the year to strategically position Anthem for long-term growth.

Overall, the reduction of our corporate tax rate to 21% will drive a gross tax benefit of a little less than $4 per share, and our outlook expects a net benefit of about $2 per share. The difference between these 2 numbers reflects 2 items. First, we expect higher MLR rebates and pass-backs in

Medicaid and certain other refunding contracts. Additionally, roughly 25% of the gross tax benefit is funding the incremental investment priorities we laid out for you earlier.

To conclude, our 2018 GAAP earnings per share estimate is greater than $14.28, and our adjusted earings per share outlook is greater than $15. The difference between these 2 estimates is the exclusion of the amortization of deal-related intangibles.

With that, I'll turn the call back over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of A.J. Rice from Crédit Suisse.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

Welcome aboard, Gail. Best wishes in the new role there. I was going to jump off of some of your comments about strategy. And 2 quick areas to ask about. First, you touched a little bit on the IngenioRx stand up. I wondered if you would highlight what you're looking for in terms of milestones to know that, that is on track. Any opportunities or challenges that you see in that, that, maybe looking at it with fresh eyes, would highlight? And the an aspect about it with the selling season for 2019 and 2020, I know most of it happens in 2020, 2021, but I'm wondering, given 3-year contracting, how fast do you think you guys would get engaged in actually marketing the capabilities to try to win outside accounts?

Gail K. Boudreaux - *Anthem, Inc. - President and CEO*

Great. Thank you for the comments. First, let me address your overall comments on the IngenioRx and my thoughts about that. And then I'm going to ask Brian Griffin, who leads that area, to also add his commentary on it. First and foremost, as I think about the Ingenio contract with CVS, it's, quite frankly, a great value creator for us. As I shared my opening comments, our ability to deliver greater than $4 billion of gross savings, with [more than] (corrected by company after the call) 20% of that on a pretax basis incurring to our shareholders, just really an incredible opportunity for us. Our opportunity here is really, first and foremost, a focus on execution. We've got a lot of optionality in that contract, and I remain very confident in our ability to execute on that across our book of business. We have been very focused on that. We want to see a flawless acquisition. What I think I'll do, though, is ask Brian, maybe, to comment a little bit more about how the teams have been working together and our outlook for the future on that.

Brian T. Griffin - *Anthem, Inc. - EVP and President of Commercial & Specialty Business Division*

Thanks very much, Gail. At this point, I'd just -- I'm very impressed with where the level of commitment that we're seeing out of the CVS relationship. They've been very engaged with us. They've had their senior leadership team directly engaged in the planning process. And I've been also very impressed with the dedicated resources that they're putting into the IngenioRx-dedicated division. Relative to the implementation itself, in terms of success factors, as you can appreciate, we're building out a very detailed implementation plan that will, to Gail's point, put us in the position to realize the value that we've discussed starting 1/1/20. And in terms of key metrics, obviously, we're going to be looking at things like the testing environments, ensuring that we've got interfaces across our systems and doing the appropriate user testing to ensure our claims adjudication is well positioned well in advance of the implementation itself, including parallel processing, et cetera. So without getting too detailed in terms of the implementation process itself, that detailed implementation plan, we're going to be finalizing over the next several quarters. And then we'll start to look at metrics against that implementation plan, but with a very heavy focus on testing itself.

Gail K. Boudreaux - *Anthem, Inc. - President and CEO*

Thanks, Brian. I would just add, A.J. We've been also building our own PBM capabilities here. So we're standing up our own model in addition to working very closely with them on the execution of the transition of the membership. So overall, feel that things are progressing very well, and we feel very confident about this.

Operator

Your next question comes from the line of Christine Arnold from Cowen.

Christine Mary Arnold - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Welcome back, Gail. Could you talk a little bit about the partnerships with the Blues? And I'm particularly interested in how the economics might work for that, looking on the Medicaid side that. And then separately, how are you thinking about association health plans and the impact they might have on your small group business?

Gail K. Boudreaux - *Anthem, Inc. - President and CEO*

Let me address the first question around the partnerships that we have with our Blue partners, strategic partnerships. As I've come back to the Blues, one of the things that are, clearly, I've seen in my time with Healthcare Service Company, understanding the strengths of the Blues overall and the partnerships and strategic opportunities we have, we have a very, very strong Medicaid platform in our Amerigroup presence. And we've formed over 5 of these partnerships, not only with Blues, but with other health plans. And basically, what we're doing is leveraging the strength of our platform in Medicaid with the local market expertise and their relationships in the provider network. So that's been a really strong opportunity for us, it allows us to leverage our investments, and quite frankly, a return on capital for an investment that we think gives us greater presence and depth in the marketplace. We also have some other capabilities, and I've been really impressed by some of the other assets that we have inside of Anthem. For example, our AIM subsidiary that I shared with you is another great opportunity, that I see an ability to package that, to continue to scale it and invest in capabilities. And we already do a lot of that work with other Blues across the system. And again, that's another great opportunity for us to have, I think, very strong strategic partnerships. In terms of the association health plans, I think quite frankly, there's a positive for expanding access for consumers across the space, and so we're very supportive of that. We do have expertise in working in different types of association businesses across our book, so it's something that we'll continue and innovate our products. But overall, I feel pretty positively about our small group business because we're doing quite a bit of work on affordability, obviously our brand presence, and also offering new products in that marketplace. So overall, I think it gives us another option for consumers and it gives us an option to continue to put additional products in the market with association health plans.

Operator

Your next question comes from the line of Chris Rigg from Deutsche Bank.

Christian Douglas Rigg - *Deutsche Bank AG, Research Division - Research Analyst*

Just wanted to touch on the tax reform investment spending and then tax reform generally. I guess first, I think you're saying you're going to spend about $260 million-ish on investment spending this year. I was just wondering, is that something you see in the baseline over the long term? Or something you would expect to dial back? And then separately, with tax reform, you've heard some chatter out of New York and California about seeking ways to potentially claw back some of the benefit over time. Would love to just get your thoughts on that.

Gail K. Boudreaux - *Anthem, Inc. - President and CEO*

Thanks for the question, Chris. Just a couple of things. First, as John, I think, and I shared, about 25% of the tax benefit is going into acceleration of investments that are predominantly focused on growth. I see some pretty significant opportunities to, one, simplify our business in terms of system migrations and getting us to our destination platforms, plus investing in digital capabilities and product development and modularization. And those are things that we had started already and that we are continuing to accelerate. But I'll let John maybe give a little bit more color on the overall picture and how we're thinking about the tax.

John E. Gallina - *Anthem, Inc. - EVP and CFO*

Thank you. So in terms of the tax reform, maybe I'll just spend a minute going through some of the dynamics associated with it. It's really a good thing when you have lower taxes that can really help drive affordability in the marketplace and share that with the members and the consumers. And of the gross benefit that will receive from the tax reform in 2018, about 25% of that is going to go back to the customer directly, either through MLR rebates or just the true up of how the HIF fee works and things like that. And then as you said, maybe another 25% associated with accelerating investments, as Gail talked about. And then the remaining 50% gets returned to the shareholders. Your question specifically associated with, is investment strategic priority the new normal? Tax reform has allowed us to accelerate our investment spending and growth initiatives, and we'll continue to have an ongoing focus on investing in growth and adding to our market-leading capabilities. As we look at our uses of capital, reinvesting in the business is always something that's very, very high in the list and something that we believe we need to continue to do.

Operator

Your next question comes from the line of Josh Raskin from Nephron Research.

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

I'll echo the comments, welcome the new role, Gail, as well. I wanted to ask just first on the Medicare Advantage acquisitions. And I was looking at the cash flow statement, it looks like you paid about $2 billion for HealthSun, maybe there's some other true-up type of stuff in there. Obviously, that screens as a big number for 40,000 lives. So could you talk a little bit more of the capability, I assume there's some provider business in there, et cetera? And Gail, I'd be curious. I know it's hard to say explicitly on a call like this, but from your perspective on the management side, do you think there's a need for augmentation or more changes? And then I'd be interested to get your sense on the Anthem team working together. Historically, it's been, geographically, a diverse management team. I'm curious if there's thoughts to get people closer together.

Gail K. Boudreaux - *Anthem, Inc. - President and CEO*

Thank you. Two distinct questions in there. Let me start with the management team, and then I'll touch on HealthSun and ask Pete also to provide some commentary. First, I've spent the last 75 days since joining Anthem really meeting our leaders and our managers across the country. And my assessment is we have a strong leadership team with a deep understanding of the business. I've had the opportunity to meet many of them, and I look forward, quite frankly, to engaging with all of our leaders. It's something that I am going to continue to do over the next several months and through the course of time. Part of that is we're going to continue to invest in our leaders as we build the new capabilities that I've discussed, and we'll also be adding talent in those areas because we are going to be investing in some areas around consumer focus and digital capabilities, and we will add talent to those areas. But overall, I do feel that we have a strong team in place today. In terms of how they work together, I think we have a really unique opportunity, and that's why I'm pretty excited actually about at the opportunity to focus on execution and growth. And as I think about the strong brand and our local market presence, part of bringing that together, which is -- actually has begun already, and leveraging that with some scale opportunity. So I see that as really a blending of taking advantage of our market presence and our leadership in those markets, with also bringing scale and discipline from our corporate offices and our segment leadership. So I actually see a nice balance there, and I think we've got a real opportunity on continuing to focus on execution at the market level, bringing new products and new capabilities. And again, I'm very bullish about Medicaid and Medicare and our commercial penetration. I feel good about our leaders. In terms of your second question, I'll start my commentary on that a little bit because I think it plays into the strong growth I feel that we have in the Medicare space. Over the last several years, Anthem has been investing in really repositioning Medicare. And you'll see from the results of over 70% of our members right now are in 4-star plans, plus, we have 5 5-star plans, which is very unique among competitors in this space, and 2 of those are in Florida. HealthSun really gave us a nice footprint, along with America's 1st Choice, and gave us scale in that key Florida marketplace. And it's more than just the health plan and the members. Obviously, it gives us clinical capabilities in the market and a deep penetration and an opportunity to really leverage some of the work that's been done in that community. But before I go into too much detail, let me ask Pete to comment because he leads that business, and I think he can give you some great color on what's happening.

Peter D. Haytaian - *Anthem, Inc. - EVP and President Government Business Division*

Thanks a lot, Gail. Yes, I'll just reiterate what Gail said in large part, really excited about this transaction. It's in a key geographic for us, Florida, which we think is a really important Medicare Advantage market. Don't think about this transaction in isolation of 40,000 members. As Gail talked about and you mentioned, Josh, in terms of capabilities, included in the HealthSun transaction are 19 wholly owned care centers. We're very focused on managing the chronically ill. We talked about that being a very important part of our business going forward, managing the chronically ill effectively as well as managing dual eligibles. And then I'll add, obviously, a high quality asset. One of the few companies nationally that have a 5-star plan. So we're really excited about this transaction and also the growth opportunities that exist down in South Florida. And with the combination of America's 1st Choice, we're talking about spanning a lot of the state of Florida, both in the Central part of the state as well as in the Southern part of the state.

Operator

Your next question comes from the line of Kevin Fischbeck from Bank of America.

Kevin Mark Fischbeck - *BofA Merrill Lynch, Research Division - MD in Equity Research*

I just want to go back to taxes for a minute. Do you have any thoughts today as to the sustainability of the $2 per share into future years? And then, I guess, the HIF in -- coming back in 2018, but not in 2019, I guess (inaudible) your competitors talked about that actually being a headwind in 2018. I was wondering if you factored that into this guidance as well.

John E. Gallina - *Anthem, Inc. - EVP and CFO*

Thank you, Kevin. This is John. I'll answer the first question -- or the second question first on the 2019 HIF being waived. And of course, we're pleased with the waiver for 2019. As I stated earlier, whenever taxes and regulations decrease, it helps with the affordability of health care through reduced premiums. And so 2 pieces on the HIF. So coming into 2018, the HIF came back. And as we had stated, that's about a $0.40 to $0.45 headwind on our growth rate from 2017 to 2018, given how the midyear renewals work and how that's all processed in. So then when you get into 2018, you do the mid-year renewals from 2018 to 2019, that can actually create a tailwind associated with 2019. So again, it's something that we're going to manage through. And yes, all of those things are already included in the guidance that we provided. They're all inherent in the greater than $15 earnings per share number that Gail had mentioned. In terms of the sustainability of how much of tax reform can be maintained, it's really premature to speculate on that at this point in time. We believe we're in a very competitive marketplace. We believe, with competition and really the need to drive more affordable products, the savings from the tax reform will help address that in some regards. And we'll continue to be opportunistic in terms of reinvesting it in the business, associated with accelerating our growth opportunities. And at this point in time, we really can't put a percentage or a number on a run rate sustainability associated with tax reform.

Operator

Your next question comes from the line of Ana Gupte from Leerink Partners.

Anagha A. Gupte - *Leerink Partners LLC, Research Division - MD, Healthcare Services and Senior Research Analyst*

Congrats, Gail. Great to see you back. My question was near and long-term both on the medical cost trends. In near term, it looks like your guidance is 50 basis points higher, apples-to-apples, relative to 2017. And is this conservatism, or are there any components, either pricing or utilization, that you're beginning to see pressure? We had one of the larger public hospitals yesterday report pretty strong volumes. And then on the medium term, strategically, you've had this competitive advantage for a while on cost of care, the local market share. Where do you think you could go relative to your competition? And would that be a pricing advantage? Would that be on beds per thousand? And might you consider buying docs or starting surgery centers or the like? Or is just market share good enough to get the leg up?

Gail K. Boudreaux - *Anthem, Inc. - President and CEO*

Well, there's a lot of questions in there, Ana, so thank you. I'll try to parse through them, and hopefully, we'll get to each of them. Let me first start with where our trend finished and then a little bit of our guidance. And I'll actually ask John to give his commentary, too. We finished 2017 at 5.5% under the new methodology, which essentially, was at the low end of our guidance range. And we put in an intense focus on managing costs overall. So cost of care initiatives across -- investments in those across our business. But I think more than just specific cost of care, we've had a big commitment integrated care and really moving value-based payments along, across our continuum of care providers. And that has been a differential for us. And I believe Anthem has been a leader in that front. And that's an area that we continue to invest in across our business. As we think about our forward view of trend, we're always obviously very prudent about how we think about the forward view of trend. And we've given you a trend of 6% plus or minus 50 basis points. Taking into consideration, this year, we obviously have a more intense flu season than we've had in the past, so that's baked into our assumptions. And as we look at trend overall, basically placing it, we do have a very detailed drill down of each of the components of inpatient, outpatient, pharmacy, et cetera. And at this stage, what we're seeing is roughly, at the midpoint, about a 50 basis point increase. And obviously, that's something that we continue to watch across all of our businesses. In terms of your other question about pure delivery assets, one of the things that I'd like to point out in the assets that I had the opportunity to spend time with is our CareMore asset. I'm not sure if people know how much that we use that asset in our Government Business right now. We have seen some very, very strong results in terms of managing our more acute populations, not only in Medicare, but have also expanded into our Medicaid population. And we're expanding that model to not just be facility-based, but also at home and at the workplace. So we think that asset gives us a really nice footprint to expand upon, to continue to scale. And it has delivered some strong results in terms of readmission rates, managing our most acute population, integration of behavioral and social element. And recently kicked off a program around isolation and loneliness nationally across that platform. So there's some very, very good work going on in CareMore. So I feel, between our integration of our value-based payments, what we're doing there, integrated care, as well as our provider enablement, and then what we do through CareMore and now our clinics down in the Florida market, that we have a really nice footprint upon which to grow. But I'll turn it over to John maybe to give a little bit more color on sort of the numbers around our trend guidance.

John E. Gallina - *Anthem, Inc. - EVP and CFO*

Yes. Thank you, Gail. In terms of the trend, I do want to just clarify we changed the metric in terms of how we calculate it from a paid basis to an allowed basis. And that as no impact on our pricing methodologies, it has no impact on our reserving, it has no impact on any of our financial statement issues. It is really a metric that is utilized to discuss health care trend. And we believe that this change really provides a better view of health care trend overall to look at it on an allowed basis versus paid basis. But with that, as Gail said, we're at the very low end of our range in 2017, really driven by lower-than-expected increases in AWP, with the cognizant effort to tighten up our formulary during the year, lower-than-expected hepatitis C spending, and lower utilization trends overall. Of course, we did have the bump with the flu here at the end of the fourth quarter. And then heading into 2018, really, the single biggest driver for the 50 basis points that we're looking at, raising it, at the midpoint of our range, are really the AWP pricing is going up a little bit faster than overall trend and taking the flu into consideration. All in though, everything else, we believe, is a very well controlled trend. And we're really returning to a more of a normalization process. So thank you for the question.

Operator

Your next question comes from the line of Lance Wilkes from Sanford Bernstein.

Lance Arthur Wilkes - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Congratulations, Gail, on the role. Great to speak with you again. just have 2 quick questions, really strategic in nature. One is further on the care delivery side. And just thinking about your value-based care strategy, and trying to understand if your market share makes it easier and more attractive or less attractive to own providers in those markets. And then the second question is really related to your cross-selling efforts and focus, in particular in the self-insured market. I'm trying to understand where you think the biggest opportunities there are. And what are some of the other capabilities that you need to add to be able to sell into that market?

Gail K. Boudreaux - *Anthem, Inc. - President and CEO*

Great, Lance, thanks again for the question. Again, 2 questions. Let me take the first one around our capabilities and market share, which you appropriately referenced. Absolutely, that market share has an impact on our ability to drive best-in-class medical cost. And I think that's actually a very important component of it. And we have had, I think, a fairly comprehensive approach of value-based incentives, all the way from gained shares through full risk sharing. And our primary approach is enablement with the providers in partnership, because we feel that's the right approach in the marketplace. In other markets, as I've mentioned, we also are augmenting that, certainly in the Florida market, with the clinics now that, that is the more standard how things are done, and then with our CareMore model across the country. So I think it's a combination for us of what best fits the marketplace as opposed to one stated strategy. We do have an overarching strategy around moving to more value-based payment. We're over 60% now, and we would expect to move to over 70% going forward and continue to work collaboratively with providers. In terms of your second question, specialty penetration, we have been investing in the capabilities and have seen a nice improvement in the penetration rates of our dental and vision business in particular. I shared that in my opening prepared remarks. Our investments there are really on product, product positioning, technology, broker support, sales effectiveness. Obviously, even with the penetration rate improvements we've had, we think that there's a significant upside there that we can continue, by different businesses, to increase the penetration rate significantly. I will ask Brian Griffin, who leads, again, that area, maybe to give a little bit of commentary about the kinds of things that we've been working on and what he's seeing in the marketplace. Brian?

Brian T. Griffin - *Anthem, Inc. - EVP and President of Commercial & Specialty Business Division*

Thanks, Gail. In terms of the, Lance, your question around the specialty. To Gail's point, we've had significant success in really driving specialty penetration across all of our key products. I think you've seen that, and we talked about that in previous calls. Relative to dental and vision, to Gail's point, I do believe that there's incremental opportunity. Specifically around to our life and disability products, I think that there's more that we can do there. Obviously, we talked earlier about pharmacy, and we're seeing significant interest in the integrated value proposition in medical and Rx together. Particularly, in our large group and national account marketplace, that message seems to be resonating significantly in those markets. And I think we have a unique value proposition that we can bring to market. Obviously, you've heard me talked about that. But we're seeing, at this point, given where we are in the implementation of our own PBM, significant interest there in that the value proposition. I think, actually, that will help us more broadly across all of our products because we can then begin to think about integrated value propositions across dental, vision and pharmacy all together in a single package. So I think to Gail's point, there's quite a bit that we can do in terms of the repackaging of our value proposition to drive that penetration rate. The other key investment that Gail alluded to is we made a really significant investment in our broker portal, which is really designed to allow the brokers to more efficiently compare plan designs, various products. It brings in our specialty products into that evaluation, and it just makes it candidly easier to do business with us in that regard and allows them to look at the full product suite that we bring to both small group and large group. So that was an investment that we see paying off. We're getting great reaction from the broker community, and I think we'll get deeper penetration rates as a result of it.

Operator

Your next question comes from the line of Ralph Giacobbe from Citi.

Ralph Giacobbe - *Citigroup Inc, Research Division - Director*

Gail, can you maybe talk about the competitive landscape? Obviously, a big vertical deal in the space. Maybe just broad thoughts about opportunity maybe near term during potential disruption there and maybe longer term on sort of the comfort with the margin profile, particularly within commercial risk. And then just your position, again, as we sort of see models evolve that seem to offer a lot more than largely an insurance product in terms of your position, or where you'd like to be positioned there.

Gail K. Boudreaux - *Anthem, Inc. - President and CEO*

Thanks, Ralph. Let me try to get through the different parts of your question in terms of the landscape. And I'll go back to where I started, I think, again in my remarks in that I think we have significant opportunity for growth across all of our businesses. And as I think about the competitive landscape, I think we're actually fairly well positioned. I am going to be intensely focused on the execution of the capabilities. We are investing in growth, we're investing in product modularization so we can get product to market more quickly and that we can be simpler in terms of how we face off externally to our clients and brokers and customers, and more agile. In terms of the overall market space, I'll start with where I think we have a significant opportunity is the Medicare space. We have been historically underpenetrated in the Medicare Advantage Individual market. Our acquisitions give us some nice scale. And we've had a very strong open enrollment. And we will continue, I think, to do very well on the dual eligible market. We've got strong capabilities, a strong star rating, and those will help position us well. And so we see that as the significant growth. The other areas that I haven't talked about is the group Medicare market. That's an area that we really have not participated in that extensively in the past. We have been investing in that area to build our capabilities, and I think that we're going to see very strong enrollment going forward because of, quite frankly, the strong Blue brand resonates very well with that marketplace. And we do think we have an opportunity to also have agents from our current book of business, our commercial book, to keep the Blue brand into Medicare. So that's one strong area of growth, and I think we're well positioned competitively in that market. And we have been and our margins have been improving in that marketplace. It's again, an area of investment. And certainly, having 70% this year in 4-stars helps in that regard. On the Medicaid side, I do think we have a best-of-breed asset. And we will continue to compete for RFPs. We do see an opportunity with an $80 billion pipeline to compete in the specialized services marketplace. Again, our CareMore assets are really interesting opportunity for us there because it allows us to take some of the most acute and ill population and really manage their care to deliver extraordinary results, both in cost of care, but also in outcomes for those patients. So that's an opportunity. We're expanding that into the Medicaid population. And then we also talked about the partnerships that we recently formed, and. We think that there will be more opportunity for those partnerships across other plans as well as our Blue brethren. On the commercial side, again, the margin profile there. I think we have market-leading commercial market share, but I think there's an opportunity for us to do more. And I see that opportunity, again, with leveraging our Blue brand but also leveraging our local market expertise with greater ability to put new product into the market, improve our digital-facing capabilities and streamline how we work with each of the partners that we have. And those are investments that we started making, and we're accelerating those. As part of our outlook into 2018, again, we have very, very solid margin profile, and I feel good about our ability to manage medical costs. And our focus really is on affordability and access for consumers. So that will continue to be areas of priority. And then finally, again, going back to some of the other assets that I've seen inside of Anthem, which I don't think are as well known, like AIM. We have an opportunity, again, to invest and scale those across the system. And they are already delivering good value, and I think we can even increase and enhance those more. So overall, I'm pretty positive about the competitive environment. Obviously, we are in a very competitive environment. There's many players in our space in each of the markets that I shared. But I feel good about our positioning and where we're heading in the future and our opportunity to continue to enhance and focus our execution.

Operator

Your next question comes from the line of Steve Tanal from Goldman Sachs.

Stephen Vartan Tanal - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Congrats, Gail, on your role. I just wanted to follow up on sort of the discussion around value-based contracting and get your kind of thoughts on the opportunity moving forward. So 60% penetration sort of sounds like a high number, but also sounded like the mix, maybe those arrangements are a bit lower on the risk spectrum. And so I was wondering if you could kind of frame the opportunity from sort of an earnings perspective. And what inning you would say we're in overall. And I guess just relatedly, but a little bit separate here. Should we expect to see you guys moving into the provider space in a bigger way, and maybe the localities or states where your share is highest?

Gail K. Boudreaux - *Anthem, Inc. - President and CEO*

Thanks for the question, Steve. It's a great way to frame what inning we're in, I think we think that about that a lot. And I would say it's probably early innings, in truth, across the entire industry. We're all looking for ways to find greater affordability and drive, I think, more integrated care. And so we have, as you can imagine, a breadth of relationships across our markets. And we try to meet the care provider community where they are. We would love to see them be willing to take on more risk. And part of where we're investing is also in provider enablement capability. So I'd say were going to continue to focus on building those relationships and moving them from maybe just to gain share to taking more upside/downside risk to more full ACO participation. But again, we also realize that that's not going to be perfect for each of the care providers that we work with, and they have to come along and feel comfortable about the relationship. In terms of our focus we are focused on our best use of capital to drive value. And we do think the partnership model makes sense. Again, we do own some assets already, and we feel good about those. We'll continue to invest in those because we see the real return that they are. But overall, we're going to look to leverage the best use of capital in the markets where we are. And one of the advantages that we have is our deep market share. So partnerships can work because we have deep market share across all of the businesses we serve, and we see that as a real opportunity.

Operator

And your final question today comes from the line of Justin Lake from Wolfe Research.

Justin Lake - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

Thanks for squeezing me in. And I'll add my welcome and congratulations to Gail as well. First, a follow-up on the PBM. Gail, the company's done a good job of laying out the earnings benefit from retaining the 20% of savings to the bottom line, but you're also going to be returning $3 billion or more here to customers. And I was hoping you could flush out your view of how your top line could benefit from this significant improvement in competitive positioning that should come here. And then my core question is, what are the 2 or 3 areas that we should be focused on that are going to drive the shift to the higher end of your earnings targets that you talked about? And over what time period?

Gail K. Boudreaux - *Anthem, Inc. - President and CEO*

Let me take your second half of your question first, Justin, and then I'll start with the PBM, and I'll ask Brian also to give his commentary. In terms of what will drive, where we look to be at the top end of our earnings per share guidance, I think it's the growth opportunities that I've outlined: The opportunity in Medicare, both group and individual; the opportunity in partnerships to leverage our capital effectively in Medicaid; and I also see opportunities in Commercial. The other areas that I think has really been under-leveraged is the existing assets. So the assets that we have a name in CareMore, to leverage those in the marketplace across other Blues and form real strategic partnerships. So I see that giving us the lift. And I think just much more detailed execution on the initiatives that we had, I think, give us a really nice pathway to the type of growth that we're looking for across of business. In terms of PBM question I'm going to ask Brian maybe to comment on those directly, because I know it's been very directly involved in all of this.

Brian T. Griffin - *Anthem, Inc. - EVP and President of Commercial & Specialty Business Division*

I'd just tie it back to my comments on Lance's question. I think with us launching our new PBM, and really as a result of that, taking full control over all of the key financial levers, I think that really puts us in a very different competitive position moving forward. Our focus through Ingenio is really on a better overall health outcomes. And I think that's very different than the way that the PBM industry has looked at that. I think that there's been a focus on driving pure rebate optimization as opposed to a focus on total health care costs. So I think as I mentioned earlier, our integrated value proposition is really resonating out in the market. And I think as a result of that, that positions us really nicely for growth, both in terms of our local business, but our national ASO business. My vision for Ingenio is really to become a utility within the Blue system as well. And we have some interest in that regard that's already developing. And I think we're building our own platform that really meets the needs of other Blue plans. So I see that as a great new opportunity. We've just been executing our strategy already. We've made significant progress in terms of driving improved values, in terms of new formulary designs as well as new network strategies. That will continue to be a focus for us as we launch Ingenio in 1/1/20 more broadly. And I think, as a result, we'll be in a better overall competitive position. So expect us to really focus on growth outside of -- both within our local markets, local small group and large group and our national account business, but really looking at new ASO standalone pharmacy business as a new market for us as well as that Blue opportunity. And in addition to that, additional sets of clinical services that we'll be offering through Ingenio that have been developed here at Anthem over the last several years. So we're excited about what the new growth opportunities mean in terms of -- to your point, obviously, we're going to see significant savings as a result of our new contract position that will flow through to our customers, but then the expanded growth opportunities in these new markets, where historically, we haven't participated.

Gail K. Boudreaux - *Anthem, Inc. - President and CEO*

Thank you, Brian. And I'll put a fine point on maybe, Justin, just the 3 things that will really drive volume. We see, as Brian said, success in our new Rx-only RFPs, increasing the penetration rates in our existing medical book of business and being the PBM for other health plans. Those will be 3 key drivers for us going forward.

Well, thank you very much, everyone, for all of your thoughtful questions. As I hope you can tell, I'm excited to be here at Anthem and the opportunity to advance our strategic priorities to create a health care system that's more affordable and simpler. As I outlined earlier, we'll be focused on optimizing execution across our business and ensuring that we leverage our unique assets to strategically position the company for sustainable, high-quality earnings growth.

I want to thank each of our associates for their commitment to Anthem and for living our values each and every day to deliver on the promises to our consumers.

Thank you for your interest in Anthem, and I look forward to speaking with you at future events.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T Executive TeleConference. You may now disconnect.
