REFINITIV STREETEVENTS

EDITED TRANSCRIPT

ANTM.N - Anthem Inc at Barclays Global Healthcare Conference (Virtual)

EVENT DATE/TIME: MARCH 09, 2021 / 6:15PM GMT

CORPORATE PARTICIPANTS

Jeffrey Donald Alter *Anthem, Inc. - EVP of IngenioRx & Anthem Health Solutions*

John Edward Gallina *Anthem, Inc. - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

Steven James Valiquette *Barclays Bank PLC, Research Division - Research Analyst*

PRESENTATION

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. Good afternoon, and welcome to the continuation of day 1 of the Barclays Global Healthcare Conference. I'm Steven Valiquette, the health care services analyst here at Barclays.

Our next session will be with Anthem. With us from the company today, we have John Gallina, the company's CFO. We also have Jeff Alter, who's the EVP of the IngenioRx PBM operations, and Steve Tanal from Investor Relations as well.

So this will be a fireside chat. So I'm going to just start with a high-level question, then I'll hit a few on the PBM since Jeff is here. And then we'll dive into more of the core health benefit operations after that.

So welcome, guys. Obviously, you had your Analyst Day last week where you provided a lot of color on the 12% to 15% growth outlook that is now expected to continue through 2025. That's certainly helpful. Before we dive into the outlook of all that by business segment, the company did spend a lot of time talking about how the digital platform is going to be a big driver of this growth going forward.

Maybe you could just recap that part of the message from last week since it was just such a heavy focus throughout that session. And then we'll -- more from there.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes, sure. Thank you, Steve, and good afternoon, everyone. Happy to be speaking to all of you today. All right.

So last Wednesday, at our Investor Day, we did take a little bit of the time and really focused on many of the advancements we've made in the digital space. We've invested quite a bit of money into that area over the last few years. And we really do believe that digital will position us to really accelerate our growth trajectory.

We really want to embed the digital thought process into every aspect of the company, every aspect of the business, and we think the upside potential is significant. For instance, we can utilize digital to help enhance the revenue streams, whether it's through more innovative product designs, digital-first products, other various aspects that can help provide choice, flexibility and affordability of products is very important. We believe digital will help in the cost of care arena, specifically utilizing artificial intelligence, machine learning. We actually provided an example on one of the videos of all the different ways of disease they can be reviewed and evaluated, and how we can use artificial intelligence to really hone on what an appropriate solution and conclusion should be for course of treatment and provide that information back to the patient and the doctor so that a lot of the guess work is taken out of it, many, many applications from artificial intelligence associated with cost of care.

And then we also believe digital will be really meaningful in helping us continue to drive down our administrative expense burden. And to lower that, I mean, we've already taken out about 160 basis points of SG&A expense from the ratio over the last few years, aided by the digital platform and some of the digital work, and we think there's a lot more opportunities.

One of the comments that was made was that a phone call cost $8 to $10 for us to answer and respond to where digital interaction approaches a cost of 0. And if we can put more and more of the interaction through the digital channel, then the cost savings are obvious from that perspective. As well as at the end of the day, we're providing better, faster, more efficient service and then more accurate services, no human error or any other number of things. So it's really -- it's a win-win-win all the way around. So we're really excited about the digital aspect and where it's taking us. And as I said, we're going to embed it into all areas of the business and think that it will really help with our growth trajectory.

QUESTIONS AND ANSWERS

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Yes. Okay. All right. Great. So let's talk about the PBM for a few minutes here. And you guys gave some color last week around the external wins that you've racked up so far. As we think about the preliminary 2022 selling season, curious to hear more about just really the main value proposition that IngenioRx can really talk about to drive greater external wins outside of the existing Anthem employer footprint.

Jeffrey Donald Alter - *Anthem, Inc. - EVP of IngenioRx & Anthem Health Solutions*

Sure. Thanks. Let me just reinforce our #1 market for growth is inside that commercial ASO block of business. So that's a really huge focus for us. It's continued that penetration from somewhere around 20% up to 30% over the next 3 to 5 years. And that's really key for us in our messaging outside of that the value of an integrated pharmacy service organization compared to a stand-alone PBM is really about the whole person and total cost of care reduction and not just the focus on medical or behavioral pharmacy, but it's totally integrated.

And then our next growth focus is on serving other Blues and Blues partners like -- we were fortunate enough to win in our first year, already 1 Blues partner. We are in discussion with others. We feel like there is a huge opportunity in that space to take like-minded Blues and be able to white label a different pharmacy offering for them and improve their value propositions as they go to market also.

And then the last place is, I'll call it, other like-minded health plans, and we were fortunate to win a lower care for this year. There are others out there. So our primary or almost entire focus is really on partnership with other health plans. That value proposition is truly taking away the misaligned incentives that exist today inside the way that particularly commercial clients purchase their health care benefits with a vendor for medical, a vendor for pharmacy, a vendor for behavioral. And what we feel they're missing is this harmonization of medical policy and focus only on the total cost of care outcome and then improved outcomes from people. So our mission is to prove that, first and foremost, through our Anthem block of business, but then with Blues partners and with our like-minded health plans.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. Maybe just to peel back the onion a little bit further on that. Yes, so that value proposition, sort of that holistic approach, working in partnership with Anthem's medical and behavioral assets for the total cost of care, yes, I guess, part of the challenge there is that now every large PBM is sort of tied in with a larger managed care company. Obviously, I don't need to name them all, but I think it's all pretty self-evident. So just curious if there's sort of an even playing field as far as that capability and marketing messages, can Anthem really go the extra mile on that marketing pitch and still win business and potentially take share?

Jeffrey Donald Alter - *Anthem, Inc. - EVP of IngenioRx & Anthem Health Solutions*

Yes. One of the reasons I'm very excited to be here is after 15 years in the commercial space, I saw all that dysfunction and how that played out. So the key, as I talked about, are 3 areas of growth focus. We are not looking to be a stand-alone PBM and work directly with employers without the sponsorship of their existing health plans. And there's an inherent bias that to be a stand-alone PBM, you do certain things that could disadvantage our health plan partners. And where we eliminate that friction, and we eliminate that conflict in focusing on just delivering to clients through the health plans that we do business with, obviously, most importantly, Anthem, but also the Blues and other like-minded health plans.

And I think when my competition talks about integration, they really talk about data. And they talk about exchange of data that is a couple of year -- a couple of days or hours old. When we talk about integration, we talk about one set of medical policies. We talk about one onboarding experience, one set of prior process where if there's pharmacy involved in that prior authorization for medical or behavioral, it's done with one.

It's the feeling of a single vendor to our clients so that they -- their own administration of their health benefits costs are reduced because they don't have to deal with 3 or 4 different vendors that wind up dropping things in between. So that -- our value of integration goes much, much beyond just sort of transferring data back and forth, and really getting into everything that we do, whether it's our digital platform, whether it's any encounter that we have with our members through phone, chat or digital platform, all being integrated into one experience with one thing in mind, and that's how we get that person through that health care journey with the best outcome at the lowest cost, regardless of what services are required, whether it's medical pharmacy or behavior.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. Got it. Okay. That's certainly helpful. So maybe now let's circle back to the health benefits business. Maybe some questions, probably targeted more for John.

Yes. I guess first, at the Investor Day last week, you did suggest that the cost of care may have come down faster than expected in February given what's happening with COVID vaccinations, et cetera, and just cases coming down. Can you give us an update on just the current environment? Where is utilization trending relative to your prior expectations? And what does that mean for the first quarter in particular?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Sure. Thank you, Steve. Maybe I'll go through how we see utilization patterns for the full year, and then tie back to the first quarter, in particular.

So as we entered 2021, in the midst of the third wave of COVID, as we look at and we look at non-COVID utilization plus COVID utilization combined, we knew that the first quarter would be well above baseline. As a matter of fact, we expect that January to be the worst month of the quarter, and February be better than January and March to be better than February. However, all of those, in each and every month individually, we expect it to be above baseline for the -- and then obviously, the entire first quarter.

January played out relatively close to what we had intended. So in the second quarter, we expect that the total cost structure will be relatively very close to baseline. And that's really with the drop in COVID claims, as the vaccine rollout was proceeding, we now have a third vaccine that only takes 1 dose versus those that take 2. So that literally takes 3 weeks off of somebody's vaccine timetable and obviously provides a lot more supply into the system.

And then, in the third quarter, we anticipated that the total cost structure would be above 1.0 or above baseline. And that's due to the fact that a lot of the pent-up demand and other things, there's a concern that the acuity of some of the folks reentering the health care system could be a bit worse than it would have been had they gotten care on a more timely basis. And there's a lot of puts and takes. We do believe that ER utilization will probably not get back to the same level it used to be. But pluses and minuses, it was going to be above baseline.

And then the fourth quarter, we thought it would be above baseline by even a greater amount as the variance from other countries come in and the vaccines, maybe or not, is totally as effective against those as they are against the strains that they were designed to prevent against. And so all in, the full year was well above baseline. That was all baked into our guidance, baked into the rest of expectations.

So the really good news, though, with all that, is that as we look in February, the decline from January was steeper than we had anticipated. And so February results were positive through its expectations. Now we do know that there are some weather-related issues, with storms and various other things that occurred in certain parts of the country. And historically, whenever there's a significant weather event, there is a dampening effect on utilization in total, and we saw that.

But the really good news, though, is as we look at all of our geographies and all of our lines of business, we could see a decline, just that the decline was maybe a little bit more significant in those weather impacted areas. And now as we get into March, that has continued. We monitor things such as the pre-ops and pre-certs and have a lot of real-time data that we utilize to review and assess these things. And it appears that while the first quarter will still be above baseline, it's playing out to have a better quarter than maybe we had anticipated when we first gave our guidance at the end of January. So we'll watch that and monitor that very closely and see how that plays out into the rest of the year, but early indications are positive.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. That's certainly helpful. Yes. So if the COVID case count coming down here in the first quarter helps in the very short term, it sounds like potentially for the first quarter, but then does that potentially conversely accelerate the return of the normal utilization faster than expected? So is there any way that this turns out to be somewhat net negative for the year when you kind of put it all together? Or is it -- does it tend to be neutralized? Or is this still going to be maybe net positive for the year overall, the way that we should think about it?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Steve, as you know, there's a significant amount of uncertainty associated with COVID in general, but just the fact that the vaccine rollout is going faster than anticipated, this is kind -- it's in that positive. And it's also the fact that Anthem has the most balanced and resilient membership. And so if you think about what all the ramifications are for a positive vaccine rollout, the ramification should include that the economy gets better and a little faster. That means that our -- we are very well positioned within our commercial group area as well as the individual ACA area to capture that membership as the economy improves.

If the variance from the other countries actually are worse than expected, we still have the #1 -- well, this number in commercial. But one of the leading -- the #2 Medicaid market share in America, and we're literally in half of the states in America. And so we're positioned to maintain those if the economy does not improve. So yes, we're viewing this as a net positive for Anthem regardless of the situation that we are very well positioned under any macroeconomic conditions. And we're very well positioned for this.

Now the one thing that I will say as a potential is, it certainly could impact the quarterly flow of earnings. And so the seasonality factors could be different in terms of all this -- of how this all shakes out. But on a net-net basis, I think Anthem is extremely well positioned.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. All right. That's certainly helpful. And yes, that extra variable on the better commercial enrollment certainly is a key factor as well. And actually speaking to that, as we kind of just shift to a conversation around that, last week, you did talk about getting more growth from professional employer organizations, or PEOs, within the overall commercial group. You didn't spend as much time talking about why there was less penetration in that area historically. So I'm curious to hear more about that. Maybe just remind us again what is changing now to really improve that penetration of PEOs going forward.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes, sure. So the -- I guess, maybe the easiest example to use is in the student business. So you take all the colleges and universities that exist within 9 and some 14 states and look at the -- who insures the faculty and staff, the administration of those. Well, Anthem actually has the #1 market share within those 14 states. But then you take a step back and say, "Well, who insures the student populations?" Well, Anthem does not have the #1 share. And we believe that we can -- that that's an underpenetrated area within our book of business where we can actually improve our market share and as part of our commercial membership growth.

So if you think about, well, what do you need to be successful in order to get the student populations? So obviously, these are much of -- for the most part, 18 to 22 year olds, who are very tech savvy, you certainly need this very strong digital platform. You need an app that's friendly that they can do things on, which we have that now, with our introduction of Sydney app 1 year or 2 ago, and we certainly feel very well positioned for that.

The other thing that you need is you really need a strong behavioral health focus, since behavioral health is something that is a very common claims trend within 18 to 22 year olds today. So 1 year ago, we purchased Beacon Health Options. It has really helped enhance our capabilities within the behavioral health area, which is certainly a growth driver. I mean obviously, we already have the #1 brand in the business. We already have the best provider networks and the most fulsome provider networks in the entire sector. And we think with all these things combined, as an example of what we didn't have, married with what we did have to have really a much better product design and benefit design offering and capabilities to go do things like, for instance, to better penetrate the student business.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. All right. Great. And just within the individual exchange marketplace, you guys talked about some new low-cost, value-based network arrangements, allows you to come back into many markets in a sensible manner. You gave some of the numbers around that for '21. We're seeing obviously several large companies, either reenter the ACA exchange market if they completely exited or like, in your case, just getting back closer to where you were as you sort of just pared it down a little bit. But if you can just give us a little more color on the overall competitive landscape and maybe just reiterate any target margins you might have for that product area that came up a little bit of a conversation piece last year. But with these new network arrangements, does that -- how much does that help improve the margins around that overall business?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Sure. So why don't I spend a minute and talk about margins, and then maybe turn it to Jeff to talk a little bit about the strategy and some of the networks and various other aspects within that space.

So we have done actually quite well in the individual ACA marketplace and have earned really significantly strong margins in 2018, '19 and '20, to the point that we're in an MLR rebate position, and which is really -- it's a great thing. So we're earning the high end. Yes, we've never lost money in the ACA business. I think we're the only carrier that can say that we have never had a negative year in total since 2014. Although we did make a decision at the end of '17 to reduce our footprint, we've reduced it fairly substantively given the uncertainty and the unknowns just around the entire line of business and the ever-changing regulations.

Well, yes, it appears that it's stabilized, and we're going to increase our geographic reach within our 14 states now here in the future. The target margins that we've always stated have been 3% to 5%. And we think those are very good. We think at the high end of that range is very sustainable. Although -- as I said, we had a limitation in 2020 for how much we could earn only because of MR rebate rules and various other issues. But we believe the high end of the range is a sustainable thought process here within this line of business.

So maybe I'll let Jeff talk a little bit about the design and some of the various other aspects.

Jeffrey Donald Alter - *Anthem, Inc. - EVP of IngenioRx & Anthem Health Solutions*

Sure. Thanks, John. Yes. The real key to this reentering, and I would say, a different view of the individual exchanges really is the network that we're bringing along into that reentry into those marketplaces. And it's truly a purpose-built network. It's a very carefully crafted network of providers who have the best connections to us and who have worked best with us in the past. And there's a pretty strong connection to the way that we manage our Medicare advantage folks through these networks to the individual exchanges. So those providers who are most willing to connect with us digitally, who are most willing to work with us to improve outcomes, understand risk scores, understand gaps in care and be willing to take incentives to close those gaps in care effectively. And so it's as much now about product. It used to be -- it's as much now a product/network construct to be able to be successful in the individual exchanges.

And this is another area where digital and then new learnings of AI and machine learning have helped us to understand how to construct not only the -- I'll call it, the point-of-care network, but also the most logical referral networks for our best primary care providers. And so that was all put together in this creation of these high-performance networks, and then we'll call it another level of sophistication for the individual exchange launches.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. All right. Great. Still kind of within the commercial business, shifting over to the ASO or fee-based business, so I think you made a lot of progress on that goal of trying to get the profitability from that 5:1 ratio down to 3:1 when comparing it to commercial risk. I guess, I'm just curious, first of all, I mean, did COVID slow that down just because there was just less adoption of some of the additional ancillary offerings and just in 1 year of distraction? Or is there more into it than that? And then -- I should know this, too, I apologize. I mean, you kind of talked about moving that to a double-digit contribution, is that double-digit dollars you're talking about, like the operating profits per member per month? Or is that more the actual margin you're talking about because I would thought it would have already been in double digit margins? I just want to be sure I understand that -- the double-digit comment around that as well.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes, sure. And I guess I probably need to better understand the context of the double-digit comment because I'm not positive. I know exactly the framework. But -- so hopefully, I can answer that question simultaneously.

We kicked off -- in our 2019 Investor Day, we talked about 5:1 to 3:1 strategy based on our 2018 baseline. We made some substantial progress in 2019 and started out with 2020 really on a very good trajectory for that. But as you said, it did slow down due to COVID. Well, why did it slow down? When you think about all the different things that are part of the 5:1 to 3:1, there is increasing penetration of our Ingenio business into our ASO. There is gain-sharing programs on Program Integrity and PI-type work. There is cross selling of vision in dental and life and various other specialty companies, our specialty product lines. There's integrated health care management and the pull-through of that. There's a sales stop-loss.

All those things combined really give their way to allowing us to get from the 5:1 to 3:1. Until you look at what COVID -- COVID caused many of the ASO customers to delay in terms of RFPs and bidding. Most ASO customers have 3-year contracts. And so you've been with another carrier for 3 years, or even with Anthem for 3 years, and then it's time to go up. Well, now we cannot try to cross-sell. We can try to get new business. We can try to cross-sell our existing business, and the RFP season was less than normal. So that was one of the reasons for the impact.

The PI work was actually impacted a bit because of the deferred utilization and the significant decline in utilization primarily in the second quarter, but even into the third and fourth quarters, where the non-COVID costs were consistently below baseline, did impact the ability to garner the same amount of gain share from the PI work that you would had otherwise.

So those are the types of things. We still feel very good about our trajectory. We still believe that by the end of 2023, we can get down to the 3:1. And then the expectation is once we get down to 3:1, let's try to improve on that and do that. And certainly, the cross-selling of Ingenio will be a very, very key element of that because that's where there's a very underpenetrated block of business we have in terms of our ability to sell the pharmacy services to our own ASO customers.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. If we can just skip that double-digit portion and maybe follow up off-line on that later.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Once I understand what context it is, I don't want to quote something that's incorrect.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Yes.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Because you are correct that we do already earn double-digit operating margins within the ASO business.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Yes. Okay. I have maybe one final question here. We're kind of running a long time here. So just one question on Medicare Advantage. Obviously, it's a big part of the growth outlook for the company. You guys made that comment that for every 1% share increase in MA and the 14 Blue states is worth $1.5 billion of additional revenue. Yes, I just want to confirm or reiterate. I mean, is that the core focus of growth or the primary focus of growth within MA? Or how much of the growth might come from within the core Blue space versus outside of these states as we think about MA growth over the next 5 years?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

We certainly have growth in both. Our 14 Blue states are very important. Of the 14 Blue states, we only have the 1 of the top 3 market positions in 4 of those. We only have the #1 market position of 1 of those, where as you look at the commercial side, we've got the #1 market position in 13 of them. So we do have a lot of upside opportunity. The business grows 6% to 9% a year on an organic basis based on who's aging in.

So clearly, as long as we're growing faster in 6% to 9%, we're adding market share. We've been growing in the mid-double digits for the last few years, and we expect to do that for the foreseeable future. The baby boomers continue to age in through 2030, so we think there's a great opportunity for that.

But I don't want to discount the business that's outside of our 14 Blues. And we just entered into a deal with another Blue in Pennsylvania to an MA joint venture. Yes, we are going to be closing on the MMM Healthcare here hopefully in the next several months so that we will instantaneously have the only 4.5-star plan in the territory of Puerto Rico and be the #1 MA carrier in Puerto Rico. We have a top 3 position in Florida already with the various acquisitions we've made over the past few years.

So there are certainly opportunities for us to grow MA outside of our 14 states. And we will take those, and we'll -- but however, if you only look at the 14 states, that was a $1.5 billion [for a percent] of market share, just to show just how much opportunity there is within our Blue Cross and Blue Shield territories. Hope that helps.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Yes. That's excellent. Maybe we'll end it right there. I think we're a couple of minutes over here. So just want to thank all you guys for your time today and all the insights, and enjoy the rest of the conference.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Thank you, and thanks, everyone, for your interest in Anthem. Have a good day.