

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

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2016

OR

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

For the transition period from _____ to _____

Commission file number: 001-16751

ANTHEM, INC.

(Exact name of registrant as specified in its charter)

INDIANA 35-2145715

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

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

(Address of principal executive offices)

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

Not Applicable

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

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

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

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

Large accelerated filer Accelerated filer

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

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

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

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

Anthem, Inc.
 Quarterly Report on Form 10-Q
 For the Period Ended June 30, 2016
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Anthem, Inc.

Consolidated Balance Sheets

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

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

See accompanying notes.

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Anthem, Inc.
Consolidated Statements of Income
(Unaudited)

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

See accompanying notes.

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

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

See accompanying notes.

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

(In millions)	Six Months Ended	
	June 30 2016	2015
Operating activities		
Net income	\$ 1,483.6	\$ 1,724.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized losses (gains) on financial instruments	112.6	(138.8)
Other-than-temporary impairment losses recognized in income	92.6	35.8
Loss on extinguishment of debt	—	0.5
Loss on disposal of assets	0.6	1.2
Deferred income taxes	99.7	47.5
Amortization, net of accretion	399.4	655.5
Depreciation expense	51.7	50.3
Share-based compensation	82.4	68.6
Excess tax benefits from share-based compensation	(46.0)	(89.0)
Changes in operating assets and liabilities:		
Receivables, net	(332.8)	(318.5)
Other invested assets	(13.2)	(4.0)
Other assets	(284.5)	(388.9)
Policy liabilities	54.1	278.8
Unearned income	(312.7)	(161.1)
Accounts payable and accrued expenses	280.0	231.1
Other liabilities	(17.1)	488.1
Income taxes	338.2	347.9
Other, net	(22.3)	(5.8)
Net cash provided by operating activities	1,966.3	2,823.5
Investing activities		
Purchases of fixed maturity securities	(5,509.3)	(5,530.6)
Proceeds from fixed maturity securities:		
Sales	4,246.3	4,371.6
Maturities, calls and redemptions	590.5	664.9
Purchases of equity securities	(1,032.3)	(1,389.5)
	486.4	1,085.9

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Proceeds from sales of equity securities				
Purchases of other invested assets	(261.1))	(161.1))
Proceeds from sales of other invested assets	219.4		38.3	
Change in collateral and settlements of non-hedging derivatives	14.7		(32.0))
Changes in securities lending collateral	(211.2))	(202.9))
Purchase of subsidiary, net of cash acquired	—		(641.6))
Purchases of property and equipment	(251.2))	(229.7))
Net cash used in investing activities	(1,707.8))	(2,026.7))
Financing activities				
Net (repayments of) proceeds from commercial paper borrowings	(225.2))	697.4	
Proceeds from long-term borrowings	—		1,228.7	
Repayments of long-term borrowings	—		(1,930.0))
Proceeds from short-term borrowings	1,420.0		2,120.0	
Repayments of short-term borrowings	(1,520.0))	(1,980.0))
Changes in securities lending payable	211.1		202.9	
Changes in bank overdrafts	15.2		(233.1))
Premiums paid on equity call options	—		(16.6))
Proceeds from sale of put options	—		16.5	
Repurchase and retirement of common stock	—		(1,410.6))
Change in collateral and settlements of debt-related derivatives	(467.5))	—	
Cash dividends	(341.6))	(330.5))
Proceeds from issuance of common stock under employee stock plans	71.7		155.2	
Excess tax benefits from share-based compensation	46.0		89.0	
Net cash used in financing activities	(790.3))	(1,391.1))
Effect of foreign exchange rates on cash and cash	1.0		(4.4))

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equivalents				
Change in cash and cash equivalents	(530.8)	(598.7)
Cash and cash equivalents at beginning of period	2,113.5		2,151.7	
Cash and cash equivalents at end of period	\$	1,582.7	\$	1,553.0

See accompanying notes.

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Anthem, Inc.
Consolidated Statements of Shareholders' Equity
(Unaudited)

(In millions)	Common Stock Number Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
January 1, 2016	261.2	\$2.6	\$8,555.6	\$14,778.5	\$ (292.6)	\$23,044.1
Net income	—	—	—	1,483.6	—	1,483.6
Other comprehensive loss	—	—	—	—	(72.3)	(72.3)
Dividends and dividend equivalents	—	—	—	(343.7)	—	(343.7)
Issuance of common stock under employee stock plans, net of related tax benefits	2.0	—	121.6	—	—	121.6
Equity Units issuance costs adjustment	—	—	0.3	—	—	0.3
June 30, 2016	263.2	\$2.6	\$8,677.5	\$15,918.4	\$ (364.9)	\$24,233.6
January 1, 2015	268.1	\$2.7	\$10,062.3	\$14,014.4	\$ 171.9	\$24,251.3
Net income	—	—	—	1,724.3	—	1,724.3
Other comprehensive loss	—	—	—	—	(171.5)	(171.5)
Premiums paid on equity options	—	—	(16.6)	—	—	(16.6)
Repurchase and retirement of common stock	(9.7)	(0.1)	(357.7)	(1,052.8)	—	(1,410.6)
Dividends and dividend equivalents	—	—	—	(333.7)	—	(333.7)
Issuance of common stock under employee stock plans, net of related tax benefits	3.2	—	193.9	—	—	193.9
Convertible debenture repurchases and conversions	—	—	(1,043.6)	—	—	(1,043.6)
Equity Units contract payments and issuance costs	—	—	—	—	—	—