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ANTM.N - Q1 2021 Anthem Inc Earnings Call

EVENT DATE/TIME: APRIL 21, 2021 / 12:30PM GMT

OVERVIEW:

Co. reported 1Q21 operating revenue of $32.1b and GAAP EPS of $6.71. Expects 2021 adjusted EPS to be greater than $25.10.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Anthem's First Quarter Earnings Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded.

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

Stephen Vartan Tanal - *Anthem, Inc. - VP of IR*

Good morning, and welcome to Anthem's First Quarter 2021 Earnings Call. This is Steve Tanal, Vice President of Investor Relations. And with us this morning on the earnings call are Gail Boudreaux, President and CEO; John Gallina, our CFO; Peter Haytaian, President of our Commercial & Specialty Business Division; and Felicia Norwood, President of our Government Business Division. Gail will begin in the call by giving an overview of our first quarter financial results, provide an update on our response to the pandemic and touch on our updated financial guidance before turning the call over to John, who will discuss our financials in greater detail. We will then be available for Q&A.

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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, 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 carefully review the risk factors discussed in today's press release and in our quarterly filings with the SEC.

I will now turn the call over to Gail.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Good morning, and thank you for joining us today for Anthem's First Quarter 2021 Earnings Call. This morning, we reported first quarter GAAP earnings per share of $6.71 and adjusted earnings per share of $7.01, reflecting growing momentum in our business despite the challenges of the environment. When we came together for this call a year ago, we're only just beginning to understand the scope of the COVID-19 pandemic and its implications for health care. Over these last 12 months, I'm incredibly proud of how we've led during a period characterized by uncertainty. From day 1, we partnered with local, state and federal officials to ensure our members were prepared with the resources and support they need to navigate through the pandemic.

In 2020, our associates logged more than 110,000 volunteer hours and more than 17,000 hours so far in 2021, addressing critical issues in their local communities such as food and security and social isolation. Our efforts have recently shifted from a focus on treatment and testing to vaccinations. We recognize that we play a critical role in the fight against the pandemic and in ensuring safe and equitable access to vaccines in our communities.

Through our multichannel approach, we've been able to reach nearly 2/3 of our members with information regarding where, when and how they can access COVID-19 vaccines in their own communities, including coordinating in-home vaccinations for our homebound members, while covering vaccine administration costs for our commercial members with no out-of-pocket cost sharing. In addition, clinicians at our CareMore and HealthSun clinics have helped thousands of our most vulnerable seniors get vaccinated. I'm incredibly grateful to our associates who have adapted seamlessly and worked diligently through the pandemic to support our consumers.

Our focus on health starts with our own associates, and we're committed to empowering them to live a healthy lifestyle. For those who received the vaccine, we're offering a choice of a onetime credit towards their own health care premiums or a donation on their behalf to the Anthem Cares Fund, which provides financial support to Anthem associates in need.

As a company that has been grounded in our local communities for more than 75 years, we have an unwavering commitment to positively influence not only the health of our consumers but the health of the communities in which we live and work.

Membership growth in the first quarter clearly reflects the balance and resilience of our core business, with strong growth in our Government Business led by Medicaid. With eligibility reverifications on hold across the country, our organic growth remains robust. Medicare Advantage membership also tracked in line with our expectations, growing 15% year-over-year through the first quarter. We're honored to have been selected to serve Medicaid beneficiaries in Ohio, a state where Anthem currently holds the leading Commercial and Medicare Advantage market share positions. With the launch of this contract, Anthem will serve consumers across all products in the state of Ohio, further underscoring our ability to be a lifetime trusted health partner.

Commercial enrollment grew sequentially to start the year, outperforming expectations, with growth led by our risk-based business. As expected, Commercial membership decreased slightly year-over-year driven by in-group attrition in our group fee-based business. In spite of many national account prospects electing to delay decisions until 2022, we had one of our strongest selling seasons in the past 5 years. Sales exceeded lapses in our large group fully insured business for the sixth consecutive quarter and for 10 of the past 11. Our success speaks to the strength of our sales team, the value of our innovative solutions and our commitment to being a valued partner to our customers.

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Given our solid overall performance in the first quarter, we are increasing our 2021 adjusted earnings per share guidance to greater than $25.10 from greater than $24.50, putting us on track to achieve our long-term 12% to 15% annual adjusted EPS growth target, even as we continue to dedicate resources to combating the pandemic.

Looking ahead, our digital solutions will continue to drive growth. And we are fundamentally changing how we leverage technology to deliver the exceptional experiences that consumers expect from us and to help address health disparities and improve outcomes by sharing insight with care providers. We now have close to 10 million people engaged on our digital channels, with access to a wide array of virtual care specialties and resources to help them lead healthy lives.

One of our digital solutions, Anthem's Concierge Care program, aims to solve distinct problems for our customers. Our suite of programs universally offer seamless experience for members facing chronic or complex conditions, connecting them with their entire care team on a single centralized platform and allowing them to seek support in real time when it's right for them.

Today, our Concierge Care programs are available to just under 1 million members, with line of sight into tripling enrollment over the next few years. This program integrates remote patient monitoring that shares real-time data with care providers at all times.

We have also partnered with connected device manufacturers to leverage their capabilities to expand remote care options that allow patients and their clinicians to conduct virtual office visits, culminating personalized experiences for our members, better outcomes and improved affordability. Our deep roots in our communities and our partnership with local care providers enable us to scale these initiatives in real time, with a focus on collaborating across the continuum of care, while ensuring our care provider partners have access to best-in-class digital tools and capabilities to help them deliver better outcomes.

Predictive AI and real-time access to data, coupled with a growing focus on value-based arrangements with care providers, is enabling us to improve access to high-quality, affordable health care and facilitate better consumer and physician decision-making. The integration of these capabilities is what will enable us to deliver on our commitment to drive commercial medical cost trend down towards CPI by 2025, a goal we shared with you at our Investor Day last month.

Earlier this year, we launched the nation's largest high-performance network in partnership with the Blue Cross and Blue Shield Association. The Blue High Performance Network is guiding members towards providers who are aligned with our goal of driving greater affordability and improved outcomes. The benefits are compelling with average savings of 11% and up to 20% in certain markets. Through AI and machine learning, we're also providing members with access to personalized health information to help them make informed health care decisions. When searching for providers, most digital tools automatically default to recommending providers based solely on location. Anthem's smart provider finder on our Sydney Health app gives consumers greater control of their care by taking into account the factors that matter most such as condition-specific needs, affordability and quality. We're intensely focused on enhancing our capabilities aimed at addressing the needs of people with chronic and complex conditions.

Our pending acquisition of myNEXUS combines the power of digital and advanced analytics to expertly manage and coordinate home-based health care. Anthem has been a customer of myNEXUS since 2017, with more than 830,000 of our individual and group retiree Medicare Advantage members currently managed by myNEXUS. We have seen firsthand the positive contributions myNEXUS has had on our members' quality of life, and we look forward to expanding this impact across even more of our members. Equally important, this acquisition provides Anthem with another pathway to managing a greater portion of the overall health care dollar, a key strategic pillar of our Diversified Business Group that will allow us to create end-to-end seamless experiences from post-acute care to home health with pathways to services like AIM, Aspire and Beacon.

As we continue to focus on addressing the social drivers of health, Anthem is introducing new programs and partnerships to positively impact community health. Beginning this year, Beacon is launching an innovative program designed to address the basic needs of an employer's workforce through on-site resource coordinators focused on things like housing, food, transportation and other core resources. Through this program, Beacon will help employers identify and remove obstacles to creating a safer and more productive work environment for their employees. The need for this type of solution will only increase as employers transition their workforce back into the workplace. And we look forward to scaling this offering across our markets in the future after going live with a major national retailer in the second quarter.

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As we look ahead to the balance of the year, we stand ready to adapt and carry forward our momentum. Anthem's benefit business is among the most balanced and resilient in the sector, and we have ample opportunity to unlock our full potential by scaling best-in-class health care services businesses to serve Anthem's members as well as other health care plans externally. Should the pandemic come to an end sooner and the economy recover faster, our Commercial business will be well positioned to accelerate its growth. Should the pandemic persist, our Medicaid business will likely continue to grow at an accelerated pace. Regardless of the outcome, we are confident in our ability to deliver on our commitments to our consumers, care partners and shareholders.

I'll now turn the floor over to John to discuss our financial performance in more detail. John?

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

Thank you, Gail, and good morning to everyone on the line. As Gail mentioned earlier, we reported strong first quarter results, including GAAP earnings per share of $6.71 and adjusted earnings per share of $7.01, growth of over 8% year-over-year. Our first quarter results reflect the execution of our enterprise strategy while continuing to navigate through the pandemic. We ended the quarter with medical membership totaling 43.5 million members, an increase of 1.4 million lives or 3.3% year-over-year despite a challenging macroeconomic environment. Our risk-based membership grew by 1.8 million members over the prior year quarter, driven primarily by organic growth in Medicaid, aided by the suspension of reverifications.

In addition, our Medicare Advantage membership grew by 197,000 lives or 15% year-over-year, in line with our expectations and on track to achieve low double-digit growth for the full year. This growth was partially offset by negative in-group change within our Commercial fee-based business, which was to be expected given the economic challenges presented by the pandemic.

From a membership reporting perspective, please note that we have changed our presentation to delineate Commercial risk-based and fee-based membership and included a table looking back to the first quarter of 2020 in our press release for modeling purposes. Our overall growth in membership, despite the challenging economic backdrop, reflects the resilience and value of our core benefits businesses as our significant presence in both Commercial and Medicaid continue to complement one another well.

First quarter operating revenue of $32.1 billion increased 9% over the prior year quarter or approximately 11% when excluding the impact of the permanent repeal of the health insurer fee. Growth was driven by higher premium revenue in Medicaid and Medicare and growth in our pharmacy product revenue.

The medical loss ratio for the first quarter was 85.6%, an increase of 140 basis points over the first quarter of 2020, driven by costs associated with COVID-19, including testing and vaccine administration costs and, to a lesser extent, the permanent repeal of the HIF. Adjusted for the HIF, our first quarter MLR would have decreased by 10 basis points.

Relative to our expectations, the cost of COVID-related care developed favorably, driven by an earlier and sharper decline in COVID hospitalizations than we had anticipated. This was partially offset by a faster recovery in non-COVID cost, in part due to the accelerated rollout of the vaccine as well as the impact of an extra calendar day in the first quarter of 2020. Medical claims payable for 2020 dates of service or prior year reserve development also developed better than our expectations, but were entirely offset by reserve reestablishment.

Our first quarter SG&A expense ratio came in at 12.2%, a decrease of 60 basis points relative to the first quarter of 2020. Excluding the effects of the HIF, our SG&A ratio would have increased by 60 basis points, driven by increased spending to support growth, including our ongoing efforts to become a digital-first enterprise, partially offset by the leverage against the growth in our operating revenue.

The investments we are making today will be key to achieving greater operating efficiency over the long term and will enable us to achieve our 11% to 12% SG&A ratio target by 2025.

Turning to our balance sheet. We ended the quarter with a debt-to-capital ratio of 41.6%, up from 38.7% at year-end 2020. The increase was due to debt raised in the quarter to fund our pending acquisitions and refinance an upcoming maturity. We continue to expect a debt-to-cap ratio to

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be slightly below 40% by the end of the year. During the quarter, we repurchased 1.4 million shares of our common stock at a weighted average price of $316.06 for approximately $447 million, representing slightly more than 25% of our full year guidance. At this point, we continue to believe that our initial guidance of $1.6 billion in share repurchase remains appropriate for the full year.

We maintained a prudent posture with respect to reserves in light of the pandemic and its associated uncertainties. And as a result, days in claims payable increased by 3.5 days sequentially, ending the first quarter at 46.9 days, which is up 5 days year-over-year. Medical claims payable increased nearly 25% year-over-year compared with premium growth of approximately 9%.

Finally, our operating cash flow during the first quarter was $2.5 billion or 1.5x net income, better than expected and yet another indication of our strong quality of earnings. Note that operating cash flow as a percentage of net income will drop later in the year as we make payments on the multi-district litigation settlement and satisfy certain MLR collar payments.

Overall, we are pleased with our first quarter performance. And as a result, we have raised our full year outlook for adjusted earnings per share by $0.60, from greater than $24.50 to greater than $25.10. The raise in our guidance reflects both the upside from strong core performance in the first quarter and the approximate $0.30 benefit associated with the extension of the sequestration holiday through the end of the year, partially offset by higher vaccine administration costs and the ongoing uncertainty around the pandemic.

Our full year outlook continues to embed net costs associated with COVID in the order of $600 million. Despite this headwind, we are pleased to be on track to deliver growth in adjusted earnings per share inside our long-term annual target range of 12% to 15%. While our core businesses performed well during the quarter, we remain cognizant of the risks and uncertainties associated with the pandemic, notably the potential for a prolonged fourth wave, new COVID variants, pent-up demand for health care services and the potential for higher acuity episodes of care associated with the deferral of procedures throughout the pandemic.

Our updated guidance contemplates all of these factors, and we are pleased to pass through much of the upside in the first quarter despite a cautious but prudent approach to forecasting the balance of this year. With much of our guidance raise reflecting the first quarter outperformance, we now expect between 52% and 54% of our full year adjusted earnings per share guidance to occur in the first half of the year. Given a faster rollout of the vaccine, we expect non-COVID utilization to rebound sooner, and we now expect to absorb higher COVID vaccination administration costs during the second quarter. As a result, we are currently modeling our second quarter MLR to be near the midpoint of our full year outlook of 88%, plus or minus 50 basis points.

And with that, operator, please open up the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will go to the line of Justin Lake from Wolfe Research.

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

So a couple of quick numbers questions here. First, PYD reserves in the quarter. You had gross PYD of $1.5 billion, significantly above typical, but reserves actually grew despite that. So I was hoping you can give us some color on how that impacted the quarter. And then the Biden administration has been making a lot -- significant changes to the exchanges in Medicaid that would seem to drive membership growth. I was hoping you might be able to give us some color on how you think the benefit might be here and the potential offset against the future restart of redeterminations in Medicaid by the states at some point.

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

Yes. Thank you for the questions, Justin. This is John. So I'll start out with the reserve question and then the prior period development. Yes, the $1.5 billion number looks like a big number, but please note that the presentation is on a gross basis. And that number in a vacuum can be somewhat misleading. A large percentage of that release will never hit the income statement. I'm sure you know that as reserves are released, some of the items impact MLR rebates and collars, risk corridor calculations and the funding mechanisms with some of our contractual provisions. But most importantly, we believe that we have reestablished the reserves due to the uncertainty associated with COVID.

And consistent with maybe your question, I will affirm that we believe that there is no net benefit to the first quarter associated with the PYD that was going through the statements this quarter. With that...

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Justin, this is Gail. Thanks for that question. In terms of the exchanges, we are pleased about the extended open enrollment and feel that while we're in the midst of it now, we feel that there will be some solid membership growth in the individual exchanges.

In addition though to your second part of the question, how does that affect reverification? I think at this stage, it's very hard for us to see our assumption as that reverification remains on hold through all of 2021. We do have a balanced portfolio. We've shared that a number of times, and the mix serves as a natural hedge for us. But as we look at the growth inside of our Medicaid business, we've not really seen a significant amount of individuals coming from the commercial market into Medicaid at this stage. Some of that just may still be the timing and people are still on their employer plans, et cetera. But at this stage, we haven't seen a significant growth in Medicaid. It's been predominantly through reverifications.

The other thing I just want to note is that we don't really see a cliff event in 2022 as we work with our states even as reverification will go away in 2022. We see that as much more of a gradual approach as our states think about continuing to keep people on the Medicaid rules. So thanks very much for the question.

Operator

Next, we'll go to the line of Matt Borsch from BMO Capital Markets.

Matthew Richard Borsch - *BMO Capital Markets Equity Research - Research Analyst*

I just wanted to ask a question on your utilization management program. Specifically what I'm referring to were, we're hearing what seems to be some apparently sort of intense pushback from the hospital providers regarding what they're describing as your push to drive outpatient services off the hospital campus to less expensive freestanding locations. I'm not really familiar with what you're doing here. But I know -- I think I understand [you're not long] and other plans are doing -- taking similar actions. I'm just curious about how you're handling the blowback from hospitals, its full financial and what they claim is related to quality of care.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thanks for the question, Matt. I think that there's a lot in there and not just specifically to your question on hospitals. First and foremost, our focus is on really implementing value-based care and ensuring that our care providers really are in the driver's seat of right place, appropriate place of service, et cetera.

As I think about your specific question, however, we are looking to work with our hospital providers as well as our outpatient facilities to ensure that patients are in the right place of care with what's happened in the pandemic. Clearly, our patients were more concerned about being in the hospital setting. That allowed us to enable that we supported outpatient care and outpatient settings more specifically. And so we have implemented

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those policies. We had them in place before. So this isn't new, but I think it's accelerated with the pandemic as patients have become much more comfortable in those settings as well as the access has been greater for individuals.

So in terms of the overall model, our focus again is on affordability, trying to drive affordability, make sure that it's appropriate care at the right place and right setting that's been specific, and it ties very much to our value-based model where we work closely with our local physicians. So it's not just Anthem doing this through UM programs. It's really part of -- embedded in our value-based programs with physicians. So thank you very much for the question.

Operator

Next, we'll go to the line of A.J. Rice from Credit Suisse.

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

I might just ask, it sounds like working with the other Blues, this launch of the high-performance network you're talking about and the savings you're generating. I guess I'm interested in how much of a change do you have to get in the way people -- the patterns that people are using for care with doctors, hospitals, post-acute providers to realize those savings? Are you changing significant amounts of their typical patterns of utilization to get that? Or is that sort of around the edges? And to the extent that you're doing this with the other Blues, I guess I brought it out and I'd also ask you about any updates on your thought about Blues collaboration and some of the initiatives around there.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thanks for the question, A.J. It's a great question. As I shared in my opening remarks, we launched the high-performance network in conjunction with other Blues. And just to give a little bit of background on how it works. It really launched just beginning in January of 2021. So it's a fairly new offering across the system. And it's available right now in 55 MSAs. So most of those, about half of those, roughly half are in Anthem service areas right now. But we comprise about 56% of the U.S. population. And it's something we're going to continue to grow every year. So I think that's important.

The cost savings are significant. I gave you a range of savings anywhere from around 11% to up to 20%. Our goal in this, I guess, strategy, network strategy is focused on leveraging already deep provider relationships and to scale and simplify it and also focus on the high-performing providers that we know based on our deep data across the country. So what we're seeing, in our first offering, we had a number of customers select us. Over 350,000, I think, total members had access to it. And our first entry, again, is about 10% to 15% of those who have access to it are picking the high-performance network. We expect that to grow.

Again, this is a new offering in January. But it's flexible enough to allow our local markets in partnership with other Blues to continue to build and develop that. So again, this is based off of our deep knowledge and deep information that we have around networks and our partnership with other Blues. So thank you very much for the question.

Operator

Next, we'll go to the line of Lance Wilkes from Bernstein.

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

Could you just give an update on capital deployment priorities? And what I was specifically interested in is if you could talk a little bit about your focus on what you're doing with respect to kind of value-based care delivery initiatives, including stakes in companies and things like that. And

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maybe contrasting that with your discussion on digital first and specialty businesses to cross-sell and complementary care delivery capabilities. In particular, I'm focused on where you're acquiring or partnering with companies as opposed to your organic build.

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

Thank you, Lance. I appreciate the question. So first of all, I think our approach to the capital deployment is remaining consistent, where we're looking to take out approximately 50% of our free cash flow and utilize it for reinvestment in the business as well as M&A and other deployment activities, close to 30% for share buyback and 20% as dividends directly returned back to the shareholders. And we obviously want to be very opportunistic and advantageous associated with that.

But so with that, I think Gail wanted to make a couple of comments on your more specific questions.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. Thanks, Lance. There was a lot in there, so I'll try to capture each of them. I want to start with your sort of underlying question, which is investments in the care delivery system. As you know, our strategy, first and foremost, is to partner with primary care physicians in our local markets, and I've shared that on a number of times in these calls.

Part of that, again, is 1 in 8 patients already carrying an Anthem idea. We feel that, that model really enables us to work closely with them and that we can drive differentiated managed care performance by using the data, and we've been investing in AI and virtual care to ensure that we can make -- help them make better decisions.

With that said though, I think what's under, I think, valued and under-understood, not understood well in terms of our investments that we are participating in the value created through our value-based relationships, so where we can keep our members healthier. And I think specific examples of where we participate in that value creation and invest is our examples of CareMore and HealthSun and recently, our announced acquisition of MMM.

And another area that where we've deployed capital which I shared, areas that enable and create new payment models, and those are the ones that can address the more complex conditions. And again, examples there would be myNEXUS, Aspire and Beacon, where we're leveraging that, first and foremost, across our Anthem membership to create value, both for DBG as well as Anthem in driving down overall cost of care, but also to sell externally. So it's a bit of a double strategy there, and I think helps support how we're using our capital to drive better returns, both for our customers as well as Anthem internally.

And then we shared at Investor Day a number of investments that we're making in digital to create the health care platform. Some of those are around consumer tools. Sydney, we've continued to advance where we are with Sydney Care. We're also investing in our HealthOS model. All of that's wrapped around artificial intelligence to really drive much better decision-making.

And the last area that I just want to share is we recently announced a collaboration that's part of our broader innovation collaboration that allows us to partner with stakeholders across the health system called Hydrogen. Our goal there is to really support virtual care, driving down costs and trend towards CPI, which we've shared, giving consumers access to basic health care needs. And this is again another -- a virtual care opportunity, whether it's via video phone, text or chat, looking for efficiency and quality. The partnerships with K Health, it enables us to provide access to virtual care. So that's an example of innovation where we're investing as part of the overall health care ecosystem.

So again, a lot of examples there, trying to give you a sense of both from how we're investing in the health care delivery system and participating in the value that we create there as well as in our virtual tools. So thanks very much for that question. Hopefully, we got to all the components of it.

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Operator

Next, we'll go to the line of David Windley from Jefferies.

David Howard Windley - *Jefferies LLC, Research Division - MD & Equity Analyst*

I wanted to drill into kind of claims and your visibility into pent-up demand and utilization. It seems that patient hesitancy has perhaps been a little bit higher in the senior population. I think that's logical, but it also seems to be borne out in the data. And so I'm wondering if you could speak to the relative levels of deferred care between the books of business. And how much visibility do you feel like you have into what is scheduled? How much might come back? How much might not come back? And whether the reserves that you are keeping on the balance sheet at this point are a conservative position against the unknown or more of a known position against what you're kind of able to assess in the system capacity.

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

Thank you, David, for that one lengthy question. I'll see if I can respond to all of the items that you've focused on. In terms of the claims versus the visibility, we obviously track that very, very closely. We're evaluating precert, pre-authorization information on a daily basis. Certainly understand that we're looking at the types of care that are deferred versus those that are not deferred and trying to assess that associated with the core underlying businesses.

It's still a bit too early to have a noticeable shift in non-COVID utilization. As I said, we continue to closely monitor our markets as vaccination rates increase.

And in terms of geographic, there's probably not a big disparity at this point associated with lines of business. The senior population has been vaccinated sooner. And so we are seeing a significant decline in COVID inpatient associated with seniors, which means that the non-COVID can rebound a bit faster. We believe that we've totally factored that in.

People were still able to largely get care in 2020 after the stay-at-home mandates were eased. So the giant backlog, we don't think is quite there the same way. And there are natural systems capacities as well.

And maybe just to focus on your reserves question at the end, we believe our reserves are very prudently stated and that they are associated with a lot of the unknowns and uncertainties associated with COVID as opposed to the other part of your question. So thank you for that. And hopefully, that addresses all of your questions.

Operator

Next, we'll go to the line of Steve Valiquette from Barclays.

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

Yes, John, on the last quarterly conference call, you made some positive comments that with the $0.50 to $0.70 COVID headwind built into the initial '21 guidance of $24.50, that you still view the $25.10 as a proper jump-off point in '21. When thinking about EPS growth in '22, that could still track within the long-term range. I guess just given the updated guidance for '21 today with the increase as the moving parts that you alluded to, I just wanted to confirm what you believe is the updated jump-off points this year when thinking about potential normalized 12% to 15% EPS growth for '22.

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

Thanks for the question, Steve. As we discussed last quarter, $25.10 was the level of earnings that we felt best represented our normalized earnings power for 2021. And we remain confident in our ability to deliver on the 12% to 15% growth target off that level beginning in 2022. It's really too premature to get any more specific associated with 2022 at this point in time. But we do feel very good about the $25.10 representing our core earnings or our normalized earnings power as a jump-off point. So thank you for the question.

Operator

Next, we'll go to the line of Scott Fidel from Stephens.

Scott J. Fidel - *Stephens Inc., Research Division - MD & Analyst*

Just had a question just on the Medicaid business, and interested if you could just give us an update on what the impact was from Medicaid from the risk corridors and experience-rated rebates in the first quarter? And how that trended relative to your expectations? And then just how you're thinking about the tempo of government margin over the course of the year. First quarter was a bit below the long-term target, but obviously you had the impact from the Medicaid rebates, I'm assuming. So just thinking about how that -- you think that's going to trend over the course of the year.

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

Sure. No, thank you for the question. Medicaid -- starting on Medicaid, it's performing well. We do believe that we have received appropriate and actuarially sound rates from our state partners, and we very much expect to end 2021 within our target margin ranges. I feel very, very good about Medicaid.

On Medicare, maybe just to be very forthright about the Medicare business, finished the first quarter slightly below our target margin ranges, but largely for all the reasons that we've already identified. The elevated COVID cost, mostly in January, impacted the senior population. The reduction of the risk revenue did suppress 2020 utilization, which we've talked about in the last call is certainly impacting. And as you know, we have the continued payment of the 20% DRG bump and the 3.75% Medicare fee schedule increases impacting that line of business. But those COVID factors are all transient. And we have great membership growth trajectory in Medicare, really improving that block of business, and we think that the future earnings potential for Medicare is significant. We feel very, very good about the long-term aspect associated with Medicare.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Can I ask Felicia maybe to comment a little bit just about the Medicaid business?

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

So thank you. Our Medicaid business is continuing to perform well. We are very respectful that our states are going through a very challenging time in light of the pandemic. But we've been working very closely with them to make sure that the rates that we're receiving are actuarially sound and taking a view with respect to the long term.

As you know, we are at a point now where roughly 50% of our states have already renewed. And our states that renew in the second half of the year with respect to rates, we're engaged in conversations with them right now.

This is really an iterative process. We work very closely with our state partners to make sure that we achieve actuarially sound rates, but have been very mindful of the consequences of the pandemic and the recovery that needs to follow. So as we think about 2022, we are very optimistic about

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being able to deliver performance within our target margin range of 2% to 4%, and we'll continue to work closely with our state partners during this time. Thank you.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thanks, Felicia. And as you heard, I think we feel very constructive about those businesses. And as John shared with you, a lot of the things that are really transient related to COVID-19, but overall, feel very good about our core businesses.

Operator

Next, we'll go to the line of Ralph Giacobbe from Citi.

Ralph Giacobbe - *Citigroup Inc. Exchange Research - Research Analyst*

Gail, you mentioned the delayed decisions until 2022. First, I just wanted to clarify that's the 2021 selling season for '22? Or were you saying '22 for '23? And then just maybe if you can give us a sense of how much of your book is going out this year versus a typical year? And just any insights on how much is up for grabs more broadly and maybe your opportunity to gain share within Commercial.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Sure. Thanks for the question, Ralph. Let me just clarify or answer your specifics, and I'll ask Pete to talk about the Commercial market. Now in my prepared comments, I was really referring to this year's selling season for national accounts, where a lot of individuals deferred from 2021 to 2022. However, we still, as I mentioned, had one of our most successful selling seasons ever, and I really credit Pete and his team for the focus of the products and innovation that they brought to the market, but it was in terms of pipeline individuals waiting. But Pete, why don't you comment a little bit more about the Commercial market?

Peter David Haytaian - *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

Yes. Thanks, Gail, and thanks for the question, Ralph. We are -- we were really pleased with how enrollment landed in the first quarter. We saw a nice sequential growth of 159,000 in the quarter. The same dynamics that I really mentioned in the past are continuing.

First of all, from an execution perspective, as Gail noted, our sales continue to exceed our lapses. And what was really nice to see this year in the quarter, again, is our fully insured growth. Our local group business grew nicely sequentially. If you were to sort of say what was a bit of a headwind, our growth could have been more, if not for the economic impacts again associated with COVID and the in-group change dynamics that really continue and most specifically affect our fee-based business. But like Gail said, I feel very good about our positioning going forward. Our execution is strong. Our portfolio of products, our choice is strong. And as we see the economy improve, we're very confident that we're going to continue to see growth accelerate.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. And Ralph, just a quick comment on your other question about what is the season. It's really early in the national account selling season. So we're -- it's really developing at this stage. We are seeing some expanded opportunities. And certainly, we'll update you as we get to the second quarter call where we'll have a little bit better insight. But overall, we feel really well positioned. I think our offerings have been resonating quite well. Biggest issue for Pete right now is just the in-group attrition that came through in the first quarter.

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Operator

Next, we'll go to the line of George Hill from Deutsche Bank.

George Robert Hill - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

One of the things that you guys highlighted in the press release was the change in timing as it's related to the PBM business, any impact of selling integrated pharmacy and medical on the positivity of results. I guess could you talk a little bit more about what you're seeing in the selling of the integrated medical and pharmacy business and the impact of the out-period adjustment?

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

I'm going to ask Pete to address that. Thank you.

Peter David Haytaian - *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

Yes, thanks for your question. We mentioned this, but last year, because of COVID, we did see a bit of hesitancy in terms of transitioning pharmacy and transition of PBMs, especially on the upper end of the market, as you'd expect. That said, we are beginning to see -- and I'm very, very pleased with the progress. We're beginning to see more activity. And to your point, the team is working very closely on the integrated value proposition. I think downmarket, we are definitely beginning to see good signs. Our win rate is improving on downmarket, and the RFP activity is picking up. And at the upper end of the market, there's still a bit of hesitancy. But as I said, we are seeing RFP activity pick up for 2022. We are in the middle of that selling season right now. We are in a lot of finalist presentations. And we're across several different opportunities. I would say it's just like Gail said, as it relates to the national selling season, it's early as it relates to 2022, still. And I'd say, over the next several weeks and months, we'll have better visibility on our wins on the upper end of the market headed into 2022.

Operator

Next, we'll go to the line of Robert Jones from Goldman Sachs.

Robert Patrick Jones - *Goldman Sachs Group, Inc., Research Division - VP*

I guess maybe just to stick with Ingenio, operating gains in the quarter were relatively strong. I was hoping maybe you could give a little bit more around the drivers there. And I do think in the press release, you did call out an out-of-period adjustment. Just wanted to make sure we understood that as we think about modeling Ingenio for the balance of the year.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thanks very much for the question. Overall, Ingenio has been performing extremely well based on our expectations. And again, it's the growth within Ingenio and sort of the strong work on that we've had.

In terms of the onetime adjustment that was called out, it really is a true-up in our specialty pricing. So on a run rate basis, we still feel very good and bullish about it being in a 6% to 6.5% margin target. That's sustainable. So as you think about that overall, that's -- those are really the key drivers. I think Ingenio has really hit its stride in terms of our business.

One of the things I think that's important to keep in mind that our first quarter 2020 results were somewhat elevated or artificially elevated because we relaxed the refill too soon provision as part of the pandemic. And the pandemic was intensifying here, as everyone knows. So we -- that resulted

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in a pull forward of earnings from the second quarter into the first of '20. So hopefully, that gives you the insight that you're looking for. Thanks for the question.

Operator

Next, we'll go to the line of Josh Raskin from Nephron.

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

Are you seeing any evidence of an increase in utilization, either pent-up demand or higher acuity resulting from deferred care from last year?

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

Thank you, Josh. I think it's still just a bit early to see any noticeable shift in non-COVID utilization or pent-up demand. We are seeing some of our states like Maine and Connecticut have some of the highest vaccination rates, where Arkansas and Texas appear to be a bit lower. And there's really not a big material difference in utilization levels between those markets.

I think part of it has to do with the comment that I made earlier in the Q&A session that folks were able to get access to care in 2020 when a lot of the stay-at-home rules were relaxed. So at this point in time, we are taking a very cautious approach, certainly monitoring all of the variables. But we still believe that our original outlook for utilization is appropriate and prudent.

Operator

Next, we'll go to the line of Ricky Goldwasser from Morgan Stanley.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

So my question is on SG&A. I mean clearly, SG&A in the quarter was high, reflecting the investments in enterprise. When we think about these investments, I mean, Gail, you talked about everything that you're doing in digital. Should we think about these sort of front-end loaded versus kind of like rest of the year? And then as we think about specific investments, from your perspective, sort of what makes you most excited about? And how is the relationship with Blackstone and K Health on the digital side relates to the internal investments. If we can just -- would love to hear a little bit more about that.

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

Thank you, Ricky. I'll start out by answering the beginning of your question, then turn it over to Pete to talk a little bit more about K Health and that aspect of your question. But as you noted, we continue to invest in new digital and mobile capabilities to drive greater automation and enhance our customer experience, really a lot of the consumer-facing tools.

We're focused on improving the way we do business with our distribution partners. We have a new broker portal that offers distribution partners a simplified digital platform to enable them to sell seamlessly. And we're standardizing our clinical and well-being solutions and the preset packages, make it easier for our employers to understand and purchase a suite of products most relevant to their needs.

So I give those examples just to show you that our digital capabilities and digital investments are impacting every aspect of the company in every aspect of the business. And that's with also doing all our system consolidation work that we've been focused on here for the last several years.

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In terms of the spending, obviously, we did accelerate some spending here in the first quarter, but we will be spending on this throughout the year. The SG&A ratio will go down a little bit in the latter half of the year as our revenue accelerates, specifically when we go live with North Carolina Medicaid with some of the continued growth that we expect in core Medicaid with the special enrollment for ACA, all businesses that will drive the top line accordingly. But there's still a lot of spending left to be done in order to achieve our goals and expectations.

But with that, I'll turn it over to Pete to talk a little bit more about K Health.

Peter David Haytaian - *Anthem, Inc. - Executive VP and President of Commercial & Specialty Business Division*

Yes, thanks. Thanks a lot, John. And I'll just jump off of what Gail was saying earlier about the acceleration of digital and our product offerings and the importance of partnerships. And our partnership with K and Blackstone is really another example of one of these strong partnerships where we're developing an approach to accelerate the use of digital AI to really help drive more efficient and effective care with a differentiated consumer experience.

Specifically, as it relates to this partnership, it builds upon all this. It's helping us offer direct-to-consumer, direct-to-employer and direct-to-insurer product options that really enable Anthem as the front door to health care. It's really creating this digital-first experience where access to basic care needs can occur via, as Gail said earlier, text, chat and videos with a physician. And if more acute care needs or in-person care is needed, it really helps facilitate or triage care to the right care at the right place at the right time. And so yes, this is just another great example of a partnership that helps bring greater efficiency and a better consumer experience to our members.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Ricky, you asked an important question about which investments and pieces of digital we should -- you should be really excited about. And I guess I wanted to address that directly because I think that this is really our investments, our long-term investments to drive growth in a business model transformation. And quite frankly, I think we're excited about all of them. But fundamentally, what we shared at Investor Day, the digital platform for health, which is going to transform how we work and what we do, both at the consumer level as well as at the level of our care providers with our HealthOS operating platform. Plus, we're also investing heavily in virtual care. So again, that goes back to my earlier comments around us participating in the value creation of that, all surrounded by the use of the data that we've had locked for a long time, so ability to be predicted with AI. So I'm excited about the business transformation that digital drives across all of our businesses, and I think that's really the core.

To put a sort of a final point on how we think about the investments, as John said, our goal is, again, this is to drive growth in our business. And we are committed to the -- this is our way to get to the long-term 11% to 12% administrative expense ratio that, again, we shared at Investor Day.

So thanks again for the question. There's a lot of initiatives embedded inside of that. But I think fundamentally, it's about a business model transformation and a digital platform for health.

Operator

Next, we'll go to the line of Kevin Fischbeck from Bank of America.

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

So trying to understand the moving pieces in the guidance. Because you guys give a beat and then you raised by the beat, but then it seemed like half of the raise was due to sequestration. You didn't change your view on the COVID headwind, so that doesn't seem to be an offset to the numbers. And then you said that the core business was performing better than expected. So just trying to reconcile all of that. I guess maybe could you just elaborate a little bit more. When you say the core business came in better than expected driving the raise, what exactly is coming in better than expected? And if it's coming in better than expected, why isn't that leading to a larger raise through the rest of the year?

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

Thank you for the question, Kevin. And as you pointed out, there are many moving parts associated with the guidance for the year. First quarter results of $7.01 were about $0.60 have a consensus estimates. And as you pointed out, the sequestration extension adds another $0.30 of upside. And then with all that, we also have the fourth wave of COVID has been more prolonged than anticipated. And also just a month or so ago, we found out that we're required to increase the vaccine administration rates from $28 a dose to $48 a dose. All in with the -- with that core performance, we feel very comfortable delivering the upside back to the shareholders and raising guidance up to $25.10.

In terms of core performance, core performance is a lot of things. It's a growth. We've seen great core performance and better than expected in Commercial, in Medicaid, in Ingenio, in Diversified Business Group all doing very, very well. And we've seen growth in all those areas. The medical cost, as we look at the costs that have been incurred plus the expectation of pent-up demand, we feel good about that in the SG&A efficiencies on a run rate basis after we pull out some of the investment spending. So we're really very bullish about how well positioned we are and what the future holds. So we've raised guidance accordingly. But thank you for the question.

Operator

Our next question will go to the line of Charles Rhyee from Cowen.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Maybe, Gail, I wanted -- I want to go back, you were talking earlier about the work you're doing, particularly for social drivers of health and a lot of new programs and partnership that you were talking about and particularly with Beacon. And you kind of made a comment about Beacon, like it's trying to -- is that talking about transitioning it from an on-site kind of service to be delivered through a retail kind of model? Because you talked about going live with a major national retailer. Maybe can you talk a little bit more about how that actually works? What the economics are for Anthem? And like who's paying for the service? Is it still employers? Any kind of commentary there would be helpful.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. Thanks for the question, Charles. Let me clarify a little bit about what the innovative model that we're building. One of the things that we've learned, both with our own employees, quite frankly, and the work that we've done in the community, is that the social drivers obviously have a huge impact on people's health. And that has always been embedded in the core of Anthem strategy. The specific program that Beacon is working on is with a large national employer basically who is a retailer to help support all of those efforts within their own employee population. That's, I think, an innovative product offering. I would think of it that way as a way to connect all of these issues that affect employees. We've had them at Anthem.

We actually built into our own employee benefit program this year with something we call a health essentials program to help support people. And what we learned during the pandemic is that the needs, particularly the behavioral health needs; the needs of social services, access with caregivers, all of those things really weigh heavily on employers and impact their productivity and their ability to, quite frankly, come to work and be their full self, especially in an environment like this. So we saw that need, built this innovative product. It does include on-site resource coordinators to help with housing, food and transportation.

This is a product we think, again, very innovative. No one else has it in the market that we believe will resonate very much with our -- particularly our large national accounts. It's something we've done in our government programs. I think what's not well understood for a lot of individuals is that the issues that affect that we put in -- the programs that we put into place in our government programs affect individuals consumers in our commercial markets as well. And so we're taking what we've learned from those markets and hope to scale it across all of our markets.

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So again, a great question. We think it's a really innovative approach. And we think it's a great opportunity to offer a different solution for employers as they bring their employees back into the physical workplace. So thanks very much for the question.

Operator

For the last question, we'll go to the line of Rob Cottrell from Cleveland Research.

Rob Cottrell

Thanks for the color on myNEXUS. It sounds like that's primarily focused on the Medicare population today. Curious if there's opportunity to expand that to Medicaid and Commercial members? And then also any Blue partnership opportunities that may come from the increased exposure to home-based care.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Well, thanks for the question. I'll start, and then I'll ask Felicia to provide a little bit of color because she has worked closely with myNEXUS. As you know, myNEXUS will be part of our Diversified Business Group. I think myNEXUS is really a great example of a fit within Anthem and our strategy that we shared with you at Investor Day around managing integrated and multi-care services. And again, our strategy has always been around whole person care providing that expertise. And this one, myNEXUS, in particular, offers an extensive network of home providers, including 9 of the 10 top national providers and high quality. So again, those are really important components of it. As we look at the in-home visitation authorization and time to care all those things, what was great about myNEXUS is that we had worked with them extensively, and we saw the value. So this is a great example of driving value inside of our own population.

Today, it is predominantly Medicare Advantage members. But we do see opportunities to obviously offer this to other health plans because we think it's a highly valued service. And I'll ask Felicia maybe to comment on the opportunities that are across our broader book of business because, again, we do think that the model works quite well, and we've seen nice returns. So Felicia?

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

Yes. Thank you for that question, Rob. And I will say Gail hit it well. We found this to be a very valuable asset for us from a Medicare Advantage perspective. But we certainly see the opportunity to take a look at the ability to scale this across other parts of government business as well. As you know, our duals are a key platform for us when we take a look at the opportunity for growth in our government business. Duals in our D-SNP population will be continued areas of focus for us as we go forward. So this is an example of an opportunity for us to leverage this internally, but also across the Blue partnerships that we have in government business, in Medicare as well as Medicaid. So thank you very much for that question.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. And thanks, Felicia. One other thing that I would note is that myNEXUS, you shouldn't think of it as just a standalone because we actually see the opportunity for really integrated solutions combining home health, post-acute palliative and behavioral. So as you think about what we do in some of our other businesses like Aspire, again, our ability to be deeper in the home, this provides, again, an integrative opportunity. Thank you for the question.

Operator

And that was our final question.

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Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thank you very much. I guess we are done with our questions. So I appreciate all of the questions that we had today. And I want to thank all of you for joining us for the call this morning. As you heard and can see, Anthem has shown solid growth throughout this pandemic while continuing to provide critical support and resources to our communities as we combat this pandemic together. Our performance in the first quarter gives us confidence in our ability to capitalize on future growth prospects and deliver on our commitment to all of our stakeholders. Our success would not be possible without the hard work and dedication of our more than 85,000 associates who exemplify our mission, vision and values. And I want to thank each and every one of them for all that they do each and every day. Thank you for your interest in Anthem, and I look forward to speaking with you in the future.

Operator

Ladies and gentlemen, a recording of this conference will be available for replay after 11:00 a.m. today through May 20, 2021. You may access the replay system at any time by dialing 866-430-8786 and international participants can dial 203-369-0937. This concludes our conference for today. Thank you for your participation and for using Verizon Conferencing. You may now disconnect.

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