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## BUSINESS

# UnitedHealth, Anthem Seek to Buy Smaller Rivals

UnitedHealth approaches Aetna; Anthem and Cigna in discussions as insurers coping with health-care overhaul look to cut costs



Anthem has made two takeover bids for Cigna within the past 10 days. PHOTO: GETTY IMAGES

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The two biggest U.S. health insurers by revenue, UnitedHealth Group Inc. and Anthem

Inc., are seeking to buy smaller rivals in a merger scramble aimed at cutting costs as the companies cope with the federal health-care overhaul.

UnitedHealth made a preliminary takeover approach to Aetna Inc. in the last few days, people familiar with the matter said. Given Aetna's market value of about \$42 billion, any deal for the company would likely be valued at least that high. UnitedHealth has a market value of more than \$110 billion. Aetna has been eyeing Humana Inc., which is exploring a sale.

Meanwhile, Anthem and Cigna Corp. have been in discussions about a deal for months, though Cigna has rebuffed Anthem's advances, according to people familiar with the matter. Based on the per-share price Anthem offered, a deal would be valued at some \$45 billion.

The jockeying comes as health insurers are facing intense pressure to strike tie-ups as an ever-larger share of their business is tied to growing government programs and exchanges tied to the Affordable Care Act, where individuals can get subsidies to buy their own plans. Traditional employer insurance, meantime, isn't a growth business, so the need for companies to lower their expenses as they battle for market share is acute.

Getting bigger also can give insurers increased leverage in negotiating rates with hospitals, many of which have themselves gained clout through mergers—among each other and with doctor practices. The number of hospital merger-and-acquisition deals hit 100 last year, up from 50 in 2009, the year before the health law was passed, according to research firm Irving Levin Associates.

Insurers, for their part, are trying to forge complex contracts with health-care providers that involve new forms of payment—arrangements that hospital systems aren't likely to entertain unless an insurer covers a lot of their patients.

Within the past 10 days, Anthem has made two takeover bids for Cigna, the latest at about \$175 a share,

# Health Check

A merger of Anthem and Cigna would unite two of the biggest U.S. health insurers, by 2014 revenue

## UnitedHealth

**\$130.5 billion**

## Anthem

**73.9**

## Aetna

**58.0**

## Humana

**48.5**

## Cigna

**34.9**

Note: Includes revenue from businesses other than insurance

Sources: S&P Capital IQ

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according to people familiar with the matter.

Cigna, based in Bloomfield, Conn., traded at \$137.50 Monday morning before surging when The Wall Street Journal reported on the talks. Anthem, which is based in Indianapolis and until last year was known as WellPoint, had a market value of about \$43 billion.

A combination would create a big player in the commercial health-insurance business, with strong positions among individual, small-business and big-employer clients. It would vault Anthem, the nation's second-largest health insurer, closer to UnitedHealth in size. Cigna's revenue last year totaled \$34.9 billion, while Anthem's was \$73.9 billion. UnitedHealth had revenue of \$130.5 billion, including its health-services arm, Optum, while Aetna's was \$58 billion.

Anthem is a huge player in the individual and small-group markets in the 14 states where it holds the rights to be the Blue Cross and Blue Shield insurer. It also has a strong role among national employers. Cigna, meantime, focuses closely on self-insured commercial business and has a significant and growing position overseas.

A merged company would have a bigger presence in the fast-growing Medicare Advantage market, an area where both companies have lagged behind competitors.

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Together, Anthem and Cigna would have more than a million Medicare members. Anthem also has a major presence in Medicaid.

Chris Rigg, an analyst at Susquehanna Financial Group, said Cigna would bring Anthem to many more states where it doesn't now have a presence and boost its position among large, self-insured employers. "By putting these two companies together, you end up in some states with the best of both worlds," he said.

Shares of Cigna rose 12% on the news to close at \$153.50 on the New York Stock Exchange, while Anthem's stock rose 2.3% to \$164.44 on the NYSE.

An attempt to seal an Anthem-Cigna merger could be complicated by Anthem's role as a Blue Cross and Blue Shield insurer, however.

The Blue Cross and Blue Shield plans hold geographic rights to use the Blue brand only in a particular area, and they also agree to certain limits on their non-Blue business. It is unclear how Anthem would manage the legacy Cigna business in states where another insurer is the local Blue.

The big health insurers have long been expected by analysts to turn to mergers that will give them the scale to better compete. When the Journal first reported last month that Humana is exploring a sale of itself, it became clear a consolidation effort in the industry was finally under way in earnest. In industries like health insurance where there are only a limited number of combinations regulators will allow, mergers are often like a game of musical chairs, with companies rushing to strike deals that will keep them from being left behind rivals.

The welter of takeover activity in the industry stands out even by the standards of what has become one of the hottest mergers-and-acquisitions markets in years.

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**MARKET TALK**

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**Larry Robbins Health Insurance Bonanza Continues With Cigna, Anthem Gains** Larry Robbins's bet on Obamacare shaking up health insurers continues to pay handsomely. Today Cigna is popping as WSJ reports Anthem has approached it with a \$175/share offer. Robbins' Glenview Capital owns a 0.7% stake in CI, a stake that has added about \$25M in value today. And the hedge fund owns 1.9% of Anthem, a position that's up about \$15M. Glenview is also a big holder in Humana which is up 20% the past month amid reports it's exploring options. Glenview has already had some of the best recent years of all hedge funds and this year is looking no different. (david.benoit@wsj.com; @DaveCBenoit)

**Health Insurance M&A Free For All** Humana's process to sell itself has kicked off a wave of potential mergers and acquisitions in the health insurance space, which until now had been dormant during a broader M&A boom. Anthem has made a takeover approach to Cigna for around \$175 a share, The Wall Street Journal reported on Monday. While health-care M&A has been on a tear, insurers had been relatively untouched by the consolidation. But, last month Humana entered takeover talks with rivals including Cigna and Aetna which has created a frenzy in the insurance space as major players identify possible tie-ups. (Dana.Mattioli@wsj.com/@DanaMattioli)

**Humana Deflates As M&A Picture Jumbled** Humana shares are falling again Tuesday as a tangled web of potential health-insurance mergers threatens to leave it out in the cold. Shares jumped 20% June 1 when WSJ reported Humana was working with Goldman Sachs to field takeover interest, but have lost 5% since then on WSJ reports that its potential bidders might be otherwise occupied. Anthem has bid for Cigna and Aetna, viewed as the likeliest buyer of HUM, has received takeover interest from No. 1 UnitedHealth. Such pairings could leave Humana, smallest of the big 5 insurers by market cap, without a partner. Humana slides 1.5% to \$203.51.

*Market Talk is a stream of real-time news and market analysis that is available on Dow Jones Newswires*

The Anthem talks for Cigna also show that the next deal in the industry won't necessarily be a sale of Humana, as many industry watchers expected. Indeed, if Anthem and Cigna, and UnitedHealth and Aetna, were to get together, that could leave Humana without a merger partner.

Humana had held sale talks with companies including Cigna and Aetna, people familiar with the matter have said. Humana, based in Louisville, Ky., gets the bulk of its revenue from its business administering the private version of the federal Medicare program.

The company is seen as a prize because of its powerful Medicare franchise, which is growing rapidly as baby boomers age into eligibility and opt for these plans, known as Medicare Advantage.

Aetna has been viewed by some industry analysts as the most likely acquirer of Humana, and executives at Aetna have spoken publicly about their interest in acquisitions.

Anthem also has been linked to Humana, though some industry experts believe such a tie-up could face regulatory challenges over Humana's commercial business, which overlaps with Anthem's in markets such as Kentucky.

Meanwhile, UnitedHealth is also eyeing Cigna, according to people familiar with the matter. A UnitedHealth deal for Humana has been seen as less likely because of the potential size of the two companies' combined Medicare businesses, which could draw antitrust pushback.

—*Jonathan D. Rockoff, Christopher Weaver and Liz Hoffman contributed to this article.*

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