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Anthem to Buy Wellpoint, Creating Big HMO

Mon October 27, 2003 03:32 PM ET

By Kim Dixon

CHICAGO (Reuters) - Anthem Inc. (ATH.N: [Quote](#), [Profile](#), [Research](#)) on Monday said it would acquire WellPoint Health Networks Inc. (WLP.N: [Quote](#), [Profile](#), [Research](#)) for roughly \$14.2 billion, creating a mammoth U.S. health insurer that could hold vast negotiating leverage with hospitals, drugmakers and employers.

The stock and cash deal comes on the same day as current No. 1 health plan, UnitedHealth Group Inc., announced a bid to acquire Mid Atlantic Medical Services Inc. (MME.N: [Quote](#), [Profile](#), [Research](#)) for roughly \$3 billion. WellPoint last month closed a deal to buy smaller rival Cobalt.

HMOs have posted record profits in recent quarters, aided by cutting members who are less profitable. But with the massive layoffs in corporate America, experts say the pool of insured customers is diminishing, forcing consolidation.

"I'm sure almost every single company has talked to each other in a preliminary way about some kind of merger," said James Morris, analyst at Utendahl Capital Partners. "Industry consolidation has been going on and I think we'll see more in the future."

The deal was originally valued at \$16.4 billion, including debt. The cash and stock value of that was \$15.2 billion, but slipped to about \$14.2 billion after Anthem's shares sagged about 9 percent on Monday, after the deal was announced.

With only one publicly traded Blue Cross plan left, WellChoice Inc. (WC.N: [Quote](#), [Profile](#), [Research](#)), the next question will be how soon a merged Anthem-WellPoint will make an offer for New York-based WellChoice, Morris said.

Traditionally nonprofit Blue Cross Blue Shield plans first started selling shares to the public in the mid 1990s, and have been consolidating ever since.

Under the terms of the Anthem deal, shareholders of Thousand Oaks, California-based WellPoint will receive \$23.80 in cash and one share of Anthem common stock for each WellPoint share.

The combined offer values WellPoint at \$101.06 per share. WellPoint shares rose about 8 percent, to \$90.60, suggesting investors may harbor doubts about the deal's prospects or timing.

The proposed merger, which must be approved by state and federal regulators as well as shareholders and the Blue Cross Blue Shield Association, would create a company that would insure 26 million people.

SQUEEZED ON ALL SIDES

With health premiums climbing by almost 14 percent and employers laying off workers to keep profitable, HMOs are likely to be scrounging soon for new members, analysts said.

That, in turn, is squeezing margins for the managed care companies, said Richard Cohen, of the Walden Group, forcing HMOs to find other ways to beef up revenue.

"It's hard to grow by sales and marketing and efficient to grow by acquisitions," Cohen said.

UnitedHealth Group (UNH.N: [Quote](#), [Profile](#), [Research](#)) is currently the largest health insurer, with more than 18 million commercial and government customers.

The WellPoint acquisition would bring together Anthem's nine Blue Cross-Blue Shield plans and WellPoint's four, including

California.

Larry Glasscock, currently chairman, president and chief executive officer of Indianapolis-based Anthem, will serve as president and CEO of the combined company, while Leonard Schaeffer, currently chairman and chief executive officer of WellPoint, will be the chairman of the combined company.

Both companies also reported higher third-quarter earnings on Monday.

The newly merged company will be called WellPoint Inc. and will be headquartered in Indianapolis.

WellPoint shares were up about 8.5 percent at \$91.05 on the New York Stock Exchange on Monday afternoon, while Anthem shares were down 8.4 percent at \$70.77.

(Additional reporting by Jed Seltzer, Bill Berkrot, Ransdell Pierson and Bill Borden in New York)

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