

WellPoint 2Q tops Wall Street expectations

July 30 2014, by Michelle Chapman



This Tuesday, July 17, 2012, file photo shows the corporate headquarters of Wellpoint in Indianapolis. Wellpoint reports quarterly financial results on Wednesday, July 30, 2014. (AP Photo/Michael Conroy, File)

(AP)—WellPoint's second-quarter profit fell 8.6 percent as expenses tied to changes in the nation's health care laws climbed.

It still beat Wall Street expectations, and the nation's second-biggest health insurer raised its profit expectations for the year. Its shares fell in morning trading after initially rising.

For the three months ended June 30, WellPoint's net income declined to

\$731.1 million, or \$2.56 per share, from \$800.1 million, or \$2.64 per share, in the same quarter a year earlier.

Earnings, adjusted for investment gains, came to \$2.44 per share. That easily topped the \$2.28 that analysts were projecting, according to a poll by Zacks Investment Research.

Total expenses increased to \$17.21 billion from \$16.48 billion. The company's selling, general and administrative expense ratio was 15.8 percent, an increase of 190 basis points compared with the same period last year.

While the country's health care overhaul gave insurers more customers through a coverage expansion that started this year, it also heaped additional costs on their balance sheets, including an industry-wide tax that is non-deductible. It also trims funding for Medicare Advantage plans, changes how insurers can write their coverage and adds an industry-wide tax, which is not deductible.

WellPoint said that its second-quarter operating revenue, which excludes investment gains or losses, rose 4.2 percent to \$18.23 billion from \$17.49 billion. That is slightly above the \$18.22 billion Wall Street forecast.

The health insurer cited the same changes to health care laws for driving revenue higher, largely through premium increases. Rising Medicaid enrollment helped push revenue higher as well.

Medical enrollment grew to about 37.3 million members in the quarter, up 4.5 percent from 35.7 million a year ago.

WellPoint made its name nationally as a provider of private Blue Cross Blue Shield coverage, but it is pegging more of its future growth on

government business, which includes the Medicaid and Medicare programs and coverage for government employees.

The government business—which made up 45 percent of the quarter's operating revenue—added 326,000 members in the period, bolstered by strong Medicaid growth. WellPoint added 325,000 Medicaid members in the quarter.

On Wednesday, President and CEO Joseph Swedish said he is optimistic about WellPoint's future growth opportunities in its commercial and government segments. The executive said during a conference call that the Indianapolis company will look to keep pricing affordable so that it can reach the biggest possible customer base.

WellPoint has made a sizeable bet on the success of the health care overhaul, the massive federal law that aims to spread coverage to millions of uninsured people. It is counting on its well-known Blue Cross-Blue Shield brand to help sell coverage on 14 state-based exchanges that started accepting applications for individual insurance coverage last fall. The company added 769,000 individual members to public exchanges through the second quarter, above its previous forecast for at least 600,000 members. The overhaul's exchanges still represent a relatively small slice of WellPoint's customer base though.

WellPoint now anticipates its 2014 adjusted profit will be more than \$8.60 per share. Its prior guidance was for an adjusted profit greater than \$8.40 per share. Before that, it had predicted earnings of more than \$8.20 per share. Analysts polled by FactSet expect \$8.60 per share.

Shares of WellPoint Inc. dropped \$2.81, or 2.5 percent, to \$109.74 in morning trading after rising as high as \$116.50 earlier in the session.

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