

Healthcare Services - Managed Care

April 20, 2015

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A Look at How the Data Breach Impacted Consumer Opinion and Willingness to Pay Across the General, Exchange, and Medicare Markets

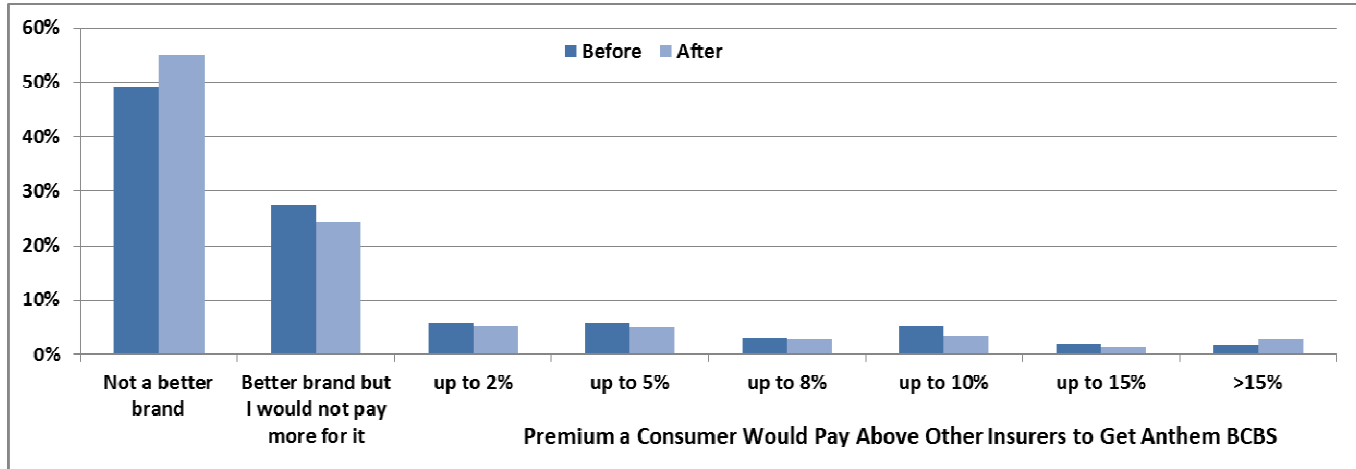
- **We surveyed 1K consumers to see how the Anthem data breach changed their opinion of the company and buying habits.** The survey breaks down the impact across the population matching US demographics, the exchange population, and the Medicare population and looks specifically at the opinion of Anthem Blue Cross Blue Shield (BCBS) compared to other larger national brands such as United, Aetna, and CIGNA.
- **We believe the consumer opinion is more important than ever in the ability to sell and gain share.** The insurance market is changing to the consumer as the purchaser from predominantly an organization such as an employer being the purchaser, this was the primary message given by all the commercial insurers at their 2014/2015 investor days. Aetna estimates the consumer choice market, which includes exchanges and Medicare, will make up 50% of the market by 2020 up from 34% today primarily by taking share from the employer directed market.
- **Growth in the consumer sectors is a key tenant of Anthem's strategy, in our opinion.** In 2014, Anthem emerged as the largest insurer on the newly formed public exchanges with 707K members or 9% of the then 8M market. We believe Anthem will continue to grow their public exchange book in 2015 and beyond. The company also has exposure to consumer decision makers in across their book of 690K Medicare Advantage, 1.2M Part D (some of which are auto-assigned), 714K Medicare Supplement, 1.8M individual commercial (which includes many of the public exchange lives), 1.5M FEHBP, and private exchange members. All in we estimate the consumer choice book makes up 13% of Anthem's enrollment excluding Part D or 15% including Part D.
- **The breach had a modest negative impact on the brand perception of Anthem and the consumer's willingness to pay a premium for the brand.** Following the breach, 6% fewer respondents think Anthem BCBS is a better brand. This is the 8% who lowered their opinion net of 2% that were so impressed by the company's handling of the breach that they now believe it's a better brand. Comparing each individual's opinion and willingness to pay a premium before and after the breach, we found 11% lowered the premium they would pay after the breach by an average 5%.
- **However, there is still 45% of respondents who view Anthem BCBS as a better brand than other large insurers and 21% that would pay more to have this brand.** We believe this brand awareness and preference will be key as Anthem continues to grow in the consumer sector of public and private exchanges as well as Medicare.
- **Medicare Market:** Seniors were more aware of the breach than the general population but seem to also be more brand loyal with the breach having a smaller relative impact than in the overall population. In the senior population, 80% were aware of the breach vs. 64% in the overall population but there was only a 4% drop in the percent that see it as a better brand (vs. 6% in overall population) and 3% that lowered their willingness to pay a premium (in-line with the overall population).
- **Public Exchange Market:** The Exchange population started off having a more favorable opinion of Anthem prior to the breach but also saw steeper declines after the breach; however more of them were willing to pay a premium for Anthem after seeing how the company handled the breach. We believe this younger, slightly more tech savvy segment was more aware of the breach at Anthem (74% vs. general population 64%) as well as breaches in other industries and looked less to criticizing there was a breach and more to how Anthem handled the breach. Opinions started off high with 59% of exchange members believing Anthem was a better brand (vs. 51% general population) and this dropped 7% (6% general) after the breach but 23% were willing to pay a higher premium for the brand after the breach, 2% higher than before the breach and 2% higher than the general population.

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In aggregate, the breach had a modest negative impact on consumer perception of the Anthem brand and their willingness to pay a premium

Following the breach, 6% fewer respondents see the Anthem BCBS brand as superior to other large insurers and the amount of respondents in each bucket of premium consumers were willing to pay for the brand dropped by 1-2%.

Figure 1: Consumer Opinion and Willingness to Pay before vs After

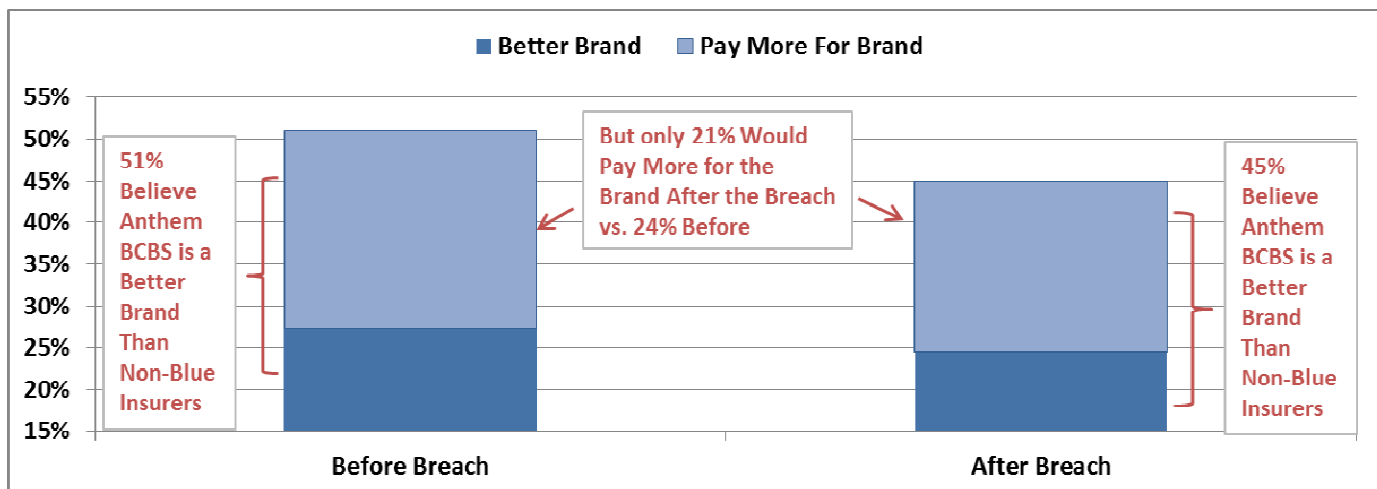


Source: Wedbush surveys

But we are still struck by the 45% of the market that views the BCBS brand as better than other large insurers and 21% that are willing to pay a higher premium for the brand

When Anthem set out to create a presence on the public exchanges, the company used survey data of public opinion on their brand name to indicate the potential market share and patient traffic they could bring to providers. Management spoke to the willingness of consumers to pay a 5-10% premium, the first time we had seen estimations of the blues brand’s inherent value. Our survey supports the theory that some customers are willing to pay this premium or more and that while the data breach had a net negative impact, there is still a core group willing to pay more for the brand. This brand awareness and preference will be key, in our opinion, as Anthem continues to grow in the consumer sector of public and private exchanges as well as Medicare.

Figure 2: Percent of Consumers Who View ANTM as a Better Brand of Insurance vs Peers & Would Pay a Brand Premium

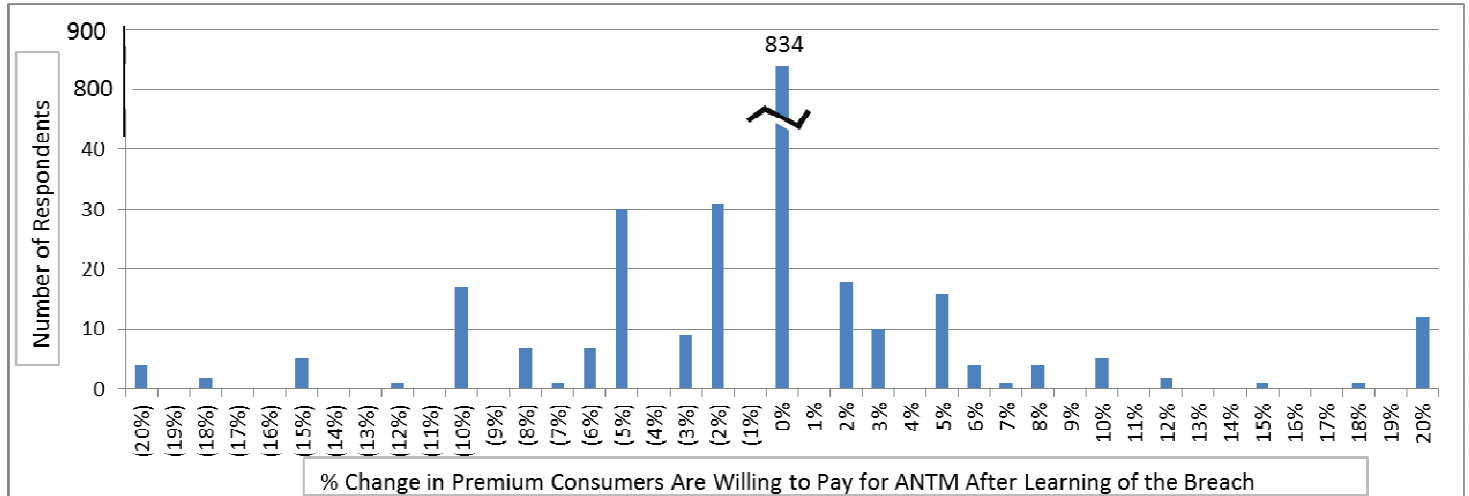


Source: Wedbush surveys

We also compared each individual's view of the Anthem brand and willingness to pay a premium to have this brand of insurance to their view prior to the data breach

- For the overwhelming majority (82%) the breach had no impact on what they were willing to pay for the brand
- For a small portion, 11%, the breach lowered the premium they were willing to pay for the brand with most decreasing the premium by 5% or less
- 8% of respondents no longer believe Anthem BCBS is a better brand than non-blue insurers after the breach that did believe it was a better brand before the breach

Figure 3: Number of Consumers by % Change in Premium a Consumer Would Pay for ANTM After Learning of the Breach vs What They Would Have Paid Prior to the Breach



Source: Wedbush surveys

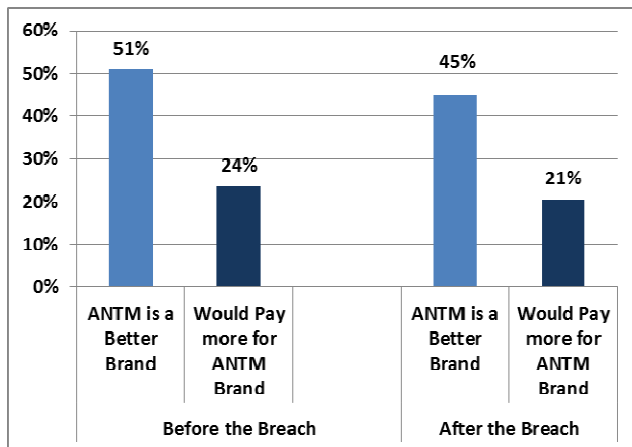
A small percentage of respondents were so impressed by Anthem's handling of the breach that their impression of the company and willingness to pay up for the brand increased

- 2% of respondents were so impressed with Anthem's response to the breach that they now believe it is a better brand than other insurers when they did not believe so prior to the breach
- 7% of respondents would be willing to pay a larger premium for Anthem above other brands after seeing how the company handled the breach then they would have been willing to pay before the breach

Impact on the Medicare Market

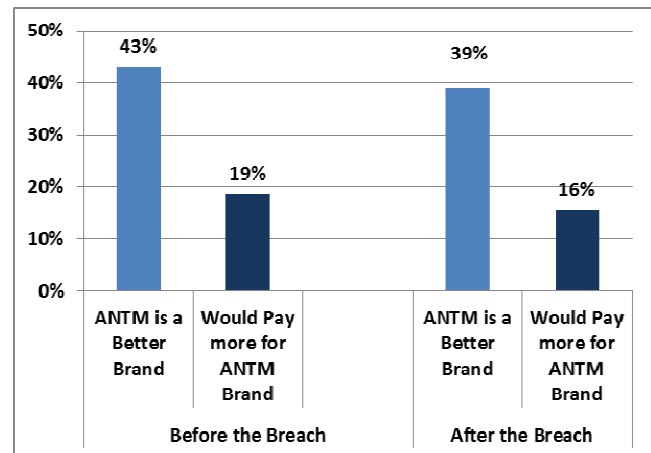
- **Surveyed seniors were more aware of the breach than the general population.** 80% of seniors had heard of the data breach compared to 64% of the overall survey population.
- **But the breach changed the opinion of the brand name for fewer seniors than the overall population.** The percent of respondents who believe Anthem BCBS is a better brand than other non-blue peers (Aetna, CIGNA, United, etc.) dropped by 6% in the overall population compared to 4% in the senior population.
- **And the impact on willingness to pay in the senior population was in-line with the overall population.** The percent of seniors willing to pay a premium for the Anthem BCBS brand decreased 3% after they learned of the breach, in-line with the overall population.
- **The brand loyal group in the senior population is smaller but stickier in our opinion.** The starting point of the percent of the population who believes Anthem is a better brand than non-blue peers is surprisingly lower in the senior population, but when a negative event (the data breach) occurred it had less of an impact on senior's buying choice and willingness to pay a premium than it did on the general population.

Figure 4: Total Survey Population



Source: Wedbush surveys

Figure 5: Senior Population Surveyed

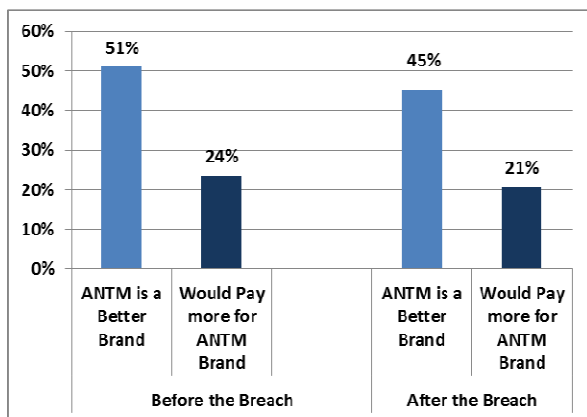


Source: Wedbush surveys

Impact on the Public Exchange Market

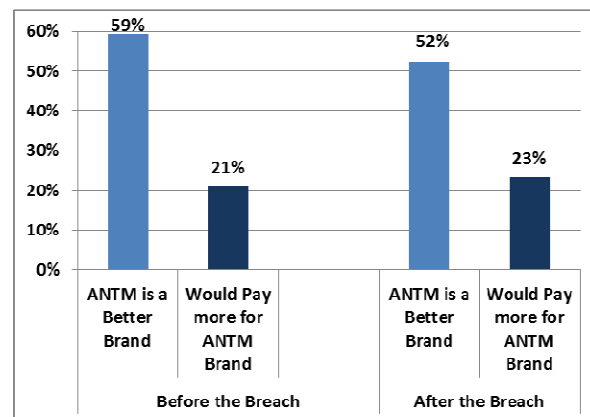
- **Surveyed public exchange members were more aware of the breach than the general population.** 74% of surveyed respondents who buy insurance on the exchange had heard of the data breach compared to 64% of the overall survey population.
- **They started off having a better opinion of the Anthem brand name than the overall population.** This is likely influenced by the heavy exchange marketing by Anthem. Fifty-nine percent of the respondents that are insured through the public exchange believed Anthem was a better brand prior to the breach compared to 51% of the total survey population.
- **The survey suggests the decline in public opinion was greater in the public exchange market but it remains above the general population.** The percent of respondents who believe Anthem BCBS is a better brand than other non-blue peers (Aetna, CIGNA, United, etc.) dropped by 7% in the surveyed exchange population compared to 6% in the overall population.
- **But the willingness to pay for the Anthem brand actually increased after the breach.** We believe this could reflect the awareness of the younger exchange population to the proliferation of data breaches following hacking attacks on many large corporations and the willingness to pay more for a service that addresses the breach quickly and effectively. Anthem has sent out several mailers and emails following the breach offering members free two year access to identity theft protection services. Members were passively enrolled in the basic service and could opt-in to a more extensive coverage, management has not commented on the expense of this offering.

Figure 6: Total Survey Population



Source: Wedbush surveys

Figure 7: Public Exchange Population Surveyed



Source: Wedbush surveys

Covered Public Companies Mentioned (as of close on 4/19/2015)

Company	Ticker	Price	Rating	Price Target
Aetna Inc.	AET	\$107.72	N	\$115
CIGNA Corp.	CI	\$131.13	N	\$140
Unitedhealth Group Inc.	UNH	\$118.71	OP	\$138
Anthem Inc.	ANTM	\$152.48	N	\$166

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Company	Disclosure
Aetna	1
CIGNA	1
Unitedhealth Group	1

Research Disclosure Legend

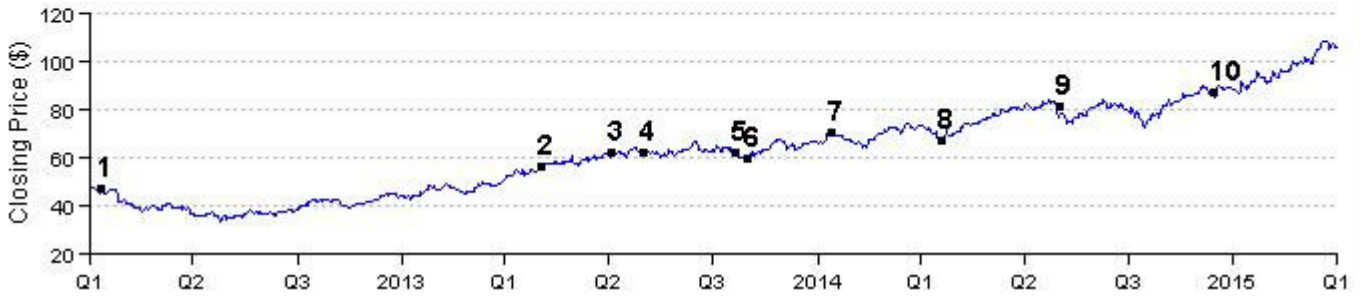
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1) 04/08/12 NEUTRAL \$54	2) 04/30/13 NEUTRAL \$62	3) 07/01/13 NEUTRAL \$66	4) 07/30/13 NEUTRAL \$68	5) 10/18/13 NEUTRAL \$72	6) 10/29/13 NEUTRAL \$70	7) 01/10/14 NEUTRAL \$73	8) 04/17/14 NEUTRAL \$80
9) 07/29/14 NEUTRAL \$88	10) 12/12/14 NEUTRAL \$96						



CI

1) 04/08/12 NEUTRAL \$53	2) 11/01/12 NEUTRAL \$57	3) 04/05/13 NEUTRAL \$69	4) 05/02/13 NEUTRAL \$72	5) 07/01/13 NEUTRAL \$78	6) 10/18/13 NEUTRAL \$91	7) 10/15/14 NEUTRAL \$100	8) 10/30/14 NEUTRAL \$104
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UNH

1) 04/08/12 OUTPERFORM \$66	2) 07/04/12 OUTPERFORM \$70	3) 07/19/13 OUTPERFORM \$79	4) 10/17/13 OUTPERFORM \$85	5) 12/05/13 OUTPERFORM \$89	6) 04/17/14 OUTPERFORM \$92
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