

BN Aetna's 1st-Quarter Profit Rises 16% on New Customers (Update6)
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(Adds closing share price in 6th paragraph.)

By Kristin Reed

April 28 (Bloomberg) -- Aetna Inc., the third-largest U.S. health-insurance provider, said quarterly profit increased 16 percent, boosted by premium revenue from new customers. The company raised its 2005 profit forecast.

First-quarter net income rose to \$424 million, or \$1.39 a share, from \$365.8 million, or \$1.14, a year earlier, the Hartford, Connecticut-based insurer said today in a statement. Revenue climbed 13 percent to \$5.43 billion.

Enrollment in Aetna's medical plans rose 5.2 percent to 14.4 million from the fourth quarter as the company attracted customers with services such as dental and vision coverage. Chief Executive John Rowe, who spent four years cutting costs and unprofitable accounts to bolster profit, said in January that Aetna's customer base would grow 8 percent this year.

"Aetna is the company that clearly is trying to catch up to UnitedHealth and WellPoint -- it seems they are doing a good job," said Michael Obuchowski, who helps manage \$35 million at Altanes Investments LLC in New York, including shares of health insurers, in an interview today. "It was a good quarter."

Forecast

Aetna raised its forecast for full-year profit to a range of \$4.52 to \$4.57 from an earlier estimate of \$4.38 to \$4.45, citing customer additions. That's an increase of as much as 26 percent from last year, the company said. Aetna also forecast membership growth of 1 million to 1.08 million this year, compared with a previous forecast of 950,000 to 1.05 million.

Shares of Aetna fell \$1.13, or 1.6 percent, to \$71.32 at 4:01 p.m. in New York Stock Exchange composite trading. The shares rose 4.7 percent yesterday.

"The market is not so great today, and that's part of it," said Patrick Hojlo, an analyst at Credit Suisse First Boston, who rates the shares "outperform." "The group was up a lot yesterday, because WellPoint's numbers were particularly surprising."

WellPoint Inc., the Indianapolis-based company created by Anthem Inc.'s November purchase of WellPoint Health Networks Inc., is the No. 1 U.S. provider of health insurance. UnitedHealth Group Inc., based in Minnetonka, Minnesota, is the second largest. WellPoint yesterday said first-quarter profit more than doubled as the company added members and cut costs.

Excluding the reversal of unused reserves set aside for

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medical claims in past quarters, Aetna had profit of \$1.10. On that basis, the company beat the \$1.07 average estimate of 16 analysts surveyed by Thomson Financial.

Time to Grow

Aetna's medical membership grew by 719,000 members in the first quarter, and the company also had strong growth in its dental plan and pharmacy-benefit businesses, Rowe said.

``Rather than having one carrier for medical insurance and one for pharmacies and one for group insurance, there seems to be a trend through the market for one-stop-shopping,'' Rowe said in an interview. ``More new customers are buying more than one product.''

Selling expenses at Aetna rose 24 percent to \$203 million from \$163.6 million a year earlier. The company is marketing its health plans through television and magazine advertising, and paying sales commissions for new accounts.

In addition to selling more services to each customer, the company said it is seeing demand for health plans designed for small employers and for so-called consumer-directed plans.

About half of the requests for bids that the company has received for 2006 ask for the bid to include a consumer option, Aetna said. These plans, which are designed to make patients more responsible for health-care spending, are one of Aetna's fastest-growing areas, Rowe said.

Coverage Options

Aetna's ``Aecxel'' program, which requires consumers to choose from networks of doctors and specialists proven to be cost effective, more than tripled membership from 79,000 at the start of the quarter to 294,000 on March 31.

The company also offers health savings accounts, funds with tax advantages that employers pay into and workers use for health care throughout the year, or to roll-over into the future. The funds appear to help keep cost increases in check without undermining medical care, Rowe said.

``There has been some concern that these products will lead to the reduction of utilization by some individuals,'' Rowe said, particularly for diseases with few symptoms such as high blood pressure. ``We do not see significant reductions in the use of those medications and we are encouraged by that.''

Medical Spending

The cost of paying medical claims rose slightly in the

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quarter, consuming 77.9 percent of premium revenue compared with 77.6 percent a year earlier. Claims from Aetna's Medicare patients were costlier, accounting for 87.4 percent of premiums, up from 86.6 percent a year ago.

Growth in medical spending has slowed as employers shift more responsibility for medical costs to workers. That has helped insurers.

UnitedHealth said April 14 that it expects 2005 medical costs to increase at the low end of the company's estimated range of 8 percent and 9 percent. WellPoint said yesterday that medical costs rose less than 9 percent over the past 12 months, down from 11 percent the year before.

Growth in medical costs at Aetna had been about 8.5 percent in previous quarters. The increase has slowed to a range of 8 percent to 8.5 percent and is expected to stay that low for the rest of the year, the company said.

``They raised earnings guidance and unit enrollment growth outlooks,'' said Edmund Kroll, an analyst at SG Cowen & Co. in New York, in a telephone interview today. His firm doesn't rate stocks and he doesn't own the shares. ``It looks like '05 is going to be a very, very strong year for Aetna, and it will set them up for a repeat performance in 2006.''

(To hear a replay of Aetna's conference call today, see {AET US <Equity> CNAV <GO>} or go to <http://www.aetna.com>.)

A replay of Aetna's conference call with investors and analysts is available at {AET <Equity> CNAV <GO>} or at (1) 800-818-5264. A replay will be available at <http://www.aetna.com>.)

--With reporting by Juliann Walsh in Princeton. Editor: Schauder, Gienger

Story illustration: For an automated tour of Bloomberg functions related to Aetna, see {AET US <Equity> CNP00094090108 <GO>}. To compare the company's earnings with estimates, see {AET US <Equity> SURP <GO>}.

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