

BN Cigna's Profit Jumps 43% on Tax Gain; Stock Rises (Update5)  
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(Adds analyst comment in seventh paragraph, updates shares in fifth paragraph.)

By Kristen Hallam

Aug. 3 (Bloomberg) -- Cigna Corp., the fourth-largest U.S. health-insurance provider, said second-quarter earnings rose 43 percent because of tax benefits. The stock had the biggest jump this year after the company added customers.

Gains of \$430 million after a tax audit boosted net income to \$720 million, or \$5.48 a share, from \$504 million, or \$3.59, a year earlier, the Philadelphia-based company said in a statement today. Revenue fell 11 percent to \$4.1 billion.

Cigna began rebuilding its customer base this year after declines totaling 4 million since 2002. The number of people covered by Cigna medical policies rose by 8,000 in the second quarter from the end of the first. It was the first quarter-to-quarter membership increase in three years, according to CIBC World Markets analyst Carl McDonald.

``The key to the stock in the next six months is enrollment stabilization,'' New York-based McDonald wrote in a note to clients today. He rates the stock ``sector outperform.''

Shares of Cigna jumped \$7.65, or 7.1 percent, to \$116.05 at 3:41 p.m. in New York Stock Exchange composite trading. They gained 20 percent in the second quarter.

Second-quarter revenue fell after a 10 percent drop in medical-plan enrollment from a year earlier, Cigna said.

#### Enrollment Beats Estimate

Medical enrollment was ``significantly better than our estimate the company would lose 57,000 lives,'' wrote Banc of America Securities LLC analyst Joseph France in a note to clients today. ``Management itself had been looking for enrollment to be flat, at best, in the second quarter.''

Excluding certain items, Cigna said profit would have been \$1.98 a share, 28 percent more than the \$1.55 average of 16 estimates in a Thomson Financial survey. In the past five quarters, Cigna earnings beat analysts' estimates by an average of 36 percent, based on data compiled by Bloomberg.

The company said it had an \$81 million after-tax benefit in connection with a federal audit, which also added \$349 million to income from discontinued operations. In addition, Cigna said it had a \$29 million after-tax gain from selling a retirement benefits business.

Cigna raised its 2005 forecast for profit excluding some items to \$920 million to \$980 million, or \$7 to \$7.40 a share,

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compared with an earlier projection of \$845 million to \$915 million, or \$6.50 to \$6.90 a share. Net income in 2004 was \$1.44 billion, or \$10.43 a share.

#### Questions Remaining

The forecast ``is still below last year's numbers,'' said Michael Obuchowski, a principal at Altanes Investments LLC in New York who helps manage \$35 million, including health insurance companies, in an e-mailed statement today. ``They've made good progress, though there are many questions remaining about the future.''

The company also made a third-quarter forecast for the first time, saying profit excluding some items probably would be \$185 million to \$215 million, or \$1.40 to \$1.60 a share. Net income in the quarter a year ago was \$312 million, or \$2.29 a share.

Cigna is the last of the four biggest U.S. health insurance companies to report earnings. WellPoint Inc., the largest, said profit more than doubled in the second quarter after it added customers and medical cost increases slowed. The same trend helped UnitedHealth Group Inc., the second-largest insurer, and No. 3 Aetna beat or match analysts' estimates.

#### Top Priority

Enrollment in Cigna's health plans totaled 13 million at the end of 2002, before claims-processing errors and rising rates drove businesses and individual customers away. By the end of 2004, the company had 9.7 million customers. Second-quarter membership was 9,014,000, up from 9,006,000 at the end of the first three months this year, Cigna said. WellPoint said July 27 that it provides medical insurance for 28.8 million Americans.

``For 2005, our top priority is to stabilize our medical membership,'' Cigna Chief Executive Ed Hanway said on a conference call with investors today. ``Membership been stable since January, and we expect it to remain so for rest of the year.''

Medical expenses are rising less rapidly nationwide as employers ask workers to pay higher deductibles and co-payments. UnitedHealth, the first of the major health-insurance companies to report earnings, said July 14 that it expected medical costs to rise 8 percent or less this year. WellPoint said July 27 that medical costs will probably rise less than 9 percent this year.

Cigna's medical costs may rise by 7.5 percent to 8.5 percent this year, Chief Executive Officer Michael Bell said today on a conference call with investors. Spending for health

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costs rose 8 percent last year, Cigna said.

#### Prescription Drug Benefit

The company also plans to invest \$40 million this year to prepare for its role in administering the prescription drug benefit that the U.S. Medicare health plan for the elderly and disabled will start offering in 2006, Bell said.

Cigna last week announced a program to encourage patients to use cheaper generic drugs by offering first-time users of generics a discount of \$5 to \$20 on a prescription. The program targets medicines for depression, high cholesterol and arthritis pain and may save as much as \$236 million in the first year, Cigna said.

The company repurchased about 3.5 million of its shares for \$350 million during the second quarter and about 590,000 shares for \$64 million last month, the company said. On July 27, Cigna's board increased the company's stock repurchase authority by \$500 million. Cigna has \$727 million of stock repurchase authority available.

(For a replay of Cigna's conference call today, see {CI US <Equity> CNAV <GO>} or go to <http://www.cigna.com/>)

--Editor: Gale, Gienger, Elser, Gale, Gienger, Simison, Gale.

Story illustration: For a chart of Cigna's earnings by quarter, see {CI US <Equity> CH2 Q <GO>}. To see the best and worst performing stocks in the Morgan Stanley Health Care Payer Index, see {HMO <Index> MRR <GO>}.

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