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BUSINESS

Aetna to Buy Humana for \$37 Billion

Deal would vault Aetna toward top of Medicare business



Humana, based in Louisville, Ky., has a market value of \$28.9 billion. *PHOTO: GETTY IMAGES*

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Aetna Inc. on Friday said it would buy Humana Inc. for \$37 billion, following

weeks of frenzied merger talks among the largest health insurers.

In a statement, Aetna said it would pay about \$230 a share for Humana. The price represents a premium of 23% from July 2's close, and 29% from the company's share price before The Wall Street Journal in late May first reported Humana was exploring a sale.

A takeover approach for Humana earlier this year thrust the biggest health-insurance companies into a five-way merger frenzy. Cigna Corp. and Aetna were vying to buy Humana, while fielding takeover approaches of their own. Cigna and Anthem Inc. have rekindled talks after Cigna earlier rejected a public \$184-a-share takeover bid from Anthem, its larger rival, and UnitedHealth Group Inc. earlier approached Aetna.

Meantime, smaller, Medicaid-focused Centene Corp. on July 2 said it agreed to buy Health Net Inc., in a deal worth about \$6.3 billion.

The consolidation momentum in the health-insurance industry is being fed by a desire to diversify and cut costs, amid a landscape changed by the Affordable Care Act. Insurers are eager to reduce expenses and build scale that will help them face off against health-care providers that are bulking up. The providers themselves are growing partly with an eye toward new forms of payment encouraged by the health law.

The deal to buy Humana would, if completed, vault Hartford, Conn.-based Aetna toward the top of the burgeoning Medicare business and give it scale to thrive as the industry consolidates.

But expected scrutiny from antitrust regulators, along with signs of some emerging operational challenges at Humana, will put pressure on Aetna and its chief executive, Mark Bertolini, to demonstrate that the huge bet will pay off. Following the deal's closing, Mr. Bertolini will serve as the chairman and chief executive of the combined company.

In picking up Humana, Aetna would get a powerful asset—a company with a rapidly growing Medicare enrollment that totals 3.2 million, which, combined with Aetna's Medicare membership of 1.26 million, would give the merged company the biggest market share in the program, ahead of current leader UnitedHealth Group, they said. The Medicare business is seen as a growth engine for the industry, as baby boomers age into eligibility and choose the private-insurer version of the government program, known as Medicare Advantage plans.

Humana performs strongly in a key measure of Medicare quality known as star ratings, which are tied to government payments. The Louisville, Ky., insurer has been moving rapidly to forge close ties with doctors and other providers in efforts to boost performance and rein in costs. Humana is also a leading provider of Medicare drug benefits, known as Part D plans, with 18% of that market, according to a tally by Wells Fargo Securities.

A deal would be particularly high-stakes for the federal government because of Humana's key role in Medicare and its significant footprint in the health law's insurance exchanges.

A Wall Street Journal analysis found that an Aetna-Humana tie-up would increase by about 180 the number of U.S. counties where at least 75% of customers for Medicare Advantage plans are in the hands of a single insurer. In

eight states, an Aetna-Humana merger would remove a competitor from the exchanges where individuals can buy coverage under the Affordable Care Act, though insurers may not offer plans in every region of a state.

Goldman Sachs health-insurance analysts, looking at potential market-concentration issues, estimated that around 13% of the combined Aetna-Humana's Medicare Advantage enrollment could be at risk of divestiture if the two companies sought to merge. The analysts estimated the figure at around 18% of the combined individual-insurance business and 16% of small-group plan enrollment, though some states were excluded from those tallies.

In recent months, Humana has shown signs of operational snags.

Humana has missed analysts' earnings projections for the last three quarters. It has warned of a possible uptick in hospital utilization among its Medicare members, and it has disclosed a Justice Department probe into how Medicare Advantage insurers score the health risks of their members, which impacts their payments.

Humana has also struggled with its business on the health law's marketplaces. Recently, when the Obama administration released calculations of health-insurer payments for 2014 under Affordable Care Act programs designed to help insurers that enrolled a lot of sicker, costlier consumers, Humana's allotment appeared to come in significantly short of its projections. The amounts made public so far aren't complete yet, however.

A deal would be a capstone for Mr. Bertolini, as it likely ensures that Aetna will endure in an industry that many experts think could shrink soon to just three major players at the top. Aetna's revenue last year totaled \$58 billion, while Humana's was \$48.5 billion. The current No. 2 insurer by revenue, Anthem, had

\$73.9 billion, while UnitedHealth Group's was \$130.5 billion, including its health-services arm, Optum.

A tie-up would turn eyes toward Cigna, which would end up considerably smaller than its peers with revenue of \$34.9 billion and business largely focused on self-insured employers, along with a significant overseas presence.

During the last major round of insurance-industry deal-making, Mr. Bertolini picked up Coventry Health Care Inc., closing that acquisition in 2013. That left Aetna with a bigger individual-insurance business, as well as increased Medicare and Medicaid, but it didn't reshape Aetna the way the Humana acquisition would, tipping a company long known for its employer business far deeper into the government space.

A deal would also mark the end of Humana as a stand-alone company, where it has long been a prominent name in the health industry and a key presence in its hometown, Louisville. Humana was once a major health-care provider, but it spun off its hospital unit in 1993. Longtime former Humana CEO Michael B. McCallister, who took over the company when it was struggling in 2000, is credited with steering it deeply and successfully into the Medicare business, which has remained at the center of the company.

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