

Insurer Aetna to buy Coventry in \$5.7 billion deal (Update)

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In a Feb. 9, 2006 file photo a sign for Aetna insurance is seen in Hartford, Conn. The Hartford, Conn., company said Monday Aug. 20, 2012 that it would buy Coventry Health Care for \$5.7 billion. (AP Photo/Douglas Healey, file)

Aetna, one of the biggest U.S. health insurers, claimed a bigger stake in the burgeoning market for government-funded coverage Monday when it announced plans to buy a leading provider of Medicaid and Medicare coverage for \$5.7 billion.

The Hartford, Connecticut, company's proposed acquisition of insurer Coventry Health Care will bolster its Medicaid business a few months before millions of people are expected to become eligible for the state- and federally-funded program for the needy and disabled under President Barack Obama's massive health care overhaul.

It also will boost the company's portion of business from the federally-

funded Medicare program, which covers seniors over age 65 and those who are disabled, at a time when interest in these plans is growing in part because the baby boomers are aging.

The deal underscores the major changes taking place in the health care industry as a result of the landmark overhaul. It marks the second time since the Supreme Court upheld the law in June that a big insurer has snapped up a smaller company focused on government coverage. Last month, WellPoint Inc., which offers Blue Cross-Blue Shield plans in 14 states, announced a \$4.46 billion deal to buy Amerigroup Corp., and more acquisitions are likely.

Aetna is the nation's third-largest health insurer based on enrollment, trailing only UnitedHealth Group Inc. and WellPoint. Coventry, a smaller insurer, is one of the leading providers of both Medicaid and Medicare-based coverage.

States hire insurers like Coventry to offer Medicaid coverage to their residents. Coventry said last month that its Medicaid enrollment had doubled to about 932,000 people. It also provides Medicare prescription drug coverage to about 1.5 million people.

Aetna officials said Monday the acquisition of Coventry will help it grab new business in a number of ways after the overhaul's coverage expansions start in 2014, about six months after the deal is expected to close.

That's the year when more people will become eligible for Medicaid and the government also will start providing income-based subsidies to help people buy private insurance. Customers will be able to buy private coverage or sign up for Medicaid by visiting online marketplaces that act like souped-up versions of travel websites for booking vacations.

"You need to be in all of those businesses with the ability to track your members through their life stages so that you can keep them in an Aetna product," Aetna Chief Financial Officer Joe Zubretsky said. "We don't think the market fully appreciates that, but we're very focused on that."

Aside from the overhaul expansion, insurers also see growth opportunities in Medicaid due to patients who are eligible for both that program and Medicare. States are starting to move these so-called "dual eligible" residents, who generally have expensive medical conditions, into managed care programs that coordinate care and cut wasteful spending.

The deal also ramps up Aetna Inc.'s Medicare Advantage and Medicare prescription drug businesses. Medicare Advantage plans are privately run, subsidized versions of Medicare that frequently offer extras such as dental or vision coverage. OK?

These plans are expected to grow because more baby boomers are aging and become eligible for the Medicare. Medicaid and Medicare Advantage currently represent small slices of Aetna's enrollment. But the company expects the deal to raise the revenue it draws from government business to 30 percent, from 23 percent.

Zubretsky said the broad portfolio of businesses Aetna will acquire from Coventry makes the acquisition a "fabulous deal" regardless of how November's presidential elections turn out and whether the overhaul survives political opposition into 2014.

"We believe this acquisition positions us very well for all possible scenarios," he said.

Aetna will pay \$42.08 for each share of Coventry stock. That includes \$27.30 in cash and a portion of its stock. The price represents a 20

percent premium on Coventry's Friday closing price of \$34.94.

Fitch Ratings also said the deal will benefit Aetna, but the ratings service placed the insurer's debt on a negative ratings watch. Fitch noted in a statement that the acquisition is bigger and more complex than other deals the insurer has done, and it will be financed mostly by debt.

Aetna expects its latest deal with Coventry to modestly help earnings next year, not counting transaction costs. Aetna forecasts a gain of about 45 cents per share to its annual earnings in 2014 and 90 cents per share in 2015 from the deal.

Shares of Coventry climbed more than 19 percent, or \$6.65, to \$41.59 Monday afternoon, while Aetna shares rose 4.2 percent, or \$1.61, to \$39.65. Broader trading indexes fell slightly.

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