WellPoint's 3Q profit falls 7.5 pct; outlook rises

TOM MURPHY - AP Business Writer - Associated Press

WellPoint Inc.'s third-quarter earnings fell more than 7 percent compared to last year, but the health insurer's shares climbed Wednesday after it raised its 2011 net income forecast and said it expects growth in 2012.

The largest health insurer based on enrollment said positives like growth in its Medicare Advantage business and a push to become more efficient will outweigh negatives in 2012, which include a tough economy that is expected to hurt employer-sponsored insurance enrollment.

Wedbush analyst Sarah James said investors were excited that WellPoint, which is based in Indianapolis, would forecast growth even though it faces formidable obstacles. The insurer also said it expects inpatient hospital care — which can lead to big medical bills — to pick up next year, and it predicted that tight state budgets will squeeze its Medicaid business.

"The fact that WellPoint said it would be positive growth was viewed favorably by investors," she said.

The company didn't offer specifics on next year's earnings. It will announce its 2012 forecast in February.

WellPoint competitor UnitedHealth Group Inc. reported better-than-expected third-quarter results earlier this month. But the Minnetonka, Minn., insurer's stock price slipped after it said high unemployment rates, growing care use and the health care overhaul will pressure its performance in 2012.

On Wednesday, WellPoint shares rose $2.58, or 3.9 percent, to close at $69.58 Wednesday. The Dow Jones industrial average was up 1.4 percent.

WellPoint operates Blue Cross Blue Shield plans in 14 states, including California, New York and Ohio.

For the three months that ended Sept. 30, it reported net income of $683.2 million, or $1.90 per share. That's down from $739.1 million, or $1.84 per share, a year earlier, when the company had more shares outstanding.

Adjusted net income, which excludes investment gains, was $1.77 per share. That beat analyst expectations for earnings of $1.68 per share, according to a survey by FactSet.

Total revenue rose 5.7 percent to about $15.4 billion. Operating revenue, which also excludes investment gains, climbed almost 6 percent to $15.2 billion. Analysts expected revenue of $15.22 billion.

Goldman Sachs analyst Matthew Borsch said in a research note that WellPoint turned in "the type of solid quarter we think investors were expecting."

Earnings fell in this year's third quarter compared to 2010 mainly because last year's results included a benefit of $110 million. Claims left over from previous quarters came in lower than WellPoint expected that quarter, and the company released the money from its reserves into operating cash flow, spokeswoman Kristin Binns said. That affects earnings and the comparison to this year's quarter.

The insurer said it was still seeing lower than expected growth in care utilization. This trend has helped WellPoint and other insurers turn in strong performances in recent quarters, as consumers have pulled back on their health care spending in a sluggish economy.

WellPoint also spent about $898 million in the quarter buying back its stock, which helps the insurer's earnings per share.

The insurer's enrollment rose more than 2 percent to 34.4 million members compared to last year's quarter. Enrollment in its senior business grew nearly 15 percent to 1.4 million people, helped by WellPoint's acquisition of Medicare Advantage plan provider CareMore Health Group.

WellPoint now expects 2011 earnings to range between $6.90 and $7 per share, not counting investment gains. That's up from previous guidance of $6.75 to $6.95 per share, and Chief Financial Officer Wayne DeVeydt said in a statement the insurer anticipates that it can grow earnings in 2012 from that new guidance.

Analysts surveyed by FactSet expect, on average, earnings of $7.06 per share in 2011.

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