

Date: _____10/24/12_____

Analyst Name: _____Jace Hochwalt

CIF Stock Recommendation Report (Fall 2012)

Company Name and Ticker: _____WellPoint Inc.(WLP)_____

Section (A) Summary

| | | | |
|--|---|---|---|
| Recommendation Buy: Yes No | | Target Price: \$77 | Stop-Loss Price: \$51 |
| Sector: Health Care | Industry: Health Care Plans | Market Cap (in Billions): 19.6 | # of Shrs. O/S (in Millions): 325.19 |
| Current Price: 61.58 | 52 WK Hi: 74.73 | 52 WK Low: 52.51 | EBO Valuation: 103.12 |
| Morningstar (MS) Fair Value Est.: 91.00 | MS FV Uncertainty: Medium | MS Consider Buying: 63.70 | MS Consider Selling: 122.85 |
| EPS (TTM): 7.39 | EPS (FY1): 7.33 | EPS (FY2): 7.98 | MS Star Rating: 5 Stars |
| Next Fiscal Yr. End "Year": 2012 "Month": Dec. | Last Fiscal Qtr. End: September Less Than 8 WK: Y N | If Less Than 8 WK, next Earnings Ann. Date: Nov. 7th | Analyst Consensus Recommendation: Outperform |
| Forward P/E: 7.2 | Mean LT Growth: 10.1 | PEG: .85 | Beta: .91 |
| % Inst. Ownership: 85.37% | Inst. Ownership- Net Buy: Y N | Short Interest Ratio: 2.36 | Short as % of Float: 3.7% |
| <u>Ratio Analysis</u> | <u>Company</u> | <u>Industry</u> | <u>Sector</u> |
| P/E (TTM) | 8.45 | 13.1 | 15.3 |
| P/S (TTM) | .3 | .5 | 1.3 |
| P/B (MRQ) | .8 | 1.6 | 2.2 |
| P/CF (TTM) | 6.6 | 6.7 | 9.3 |
| Dividend Yield | 1.8% | .8% | 2.1% |
| Total Debt/Equity (MRQ) | 47.16 | 55.43 | 175.63 |
| Net Profit Margin (TTM) | 4.09 | 5.91 | 17.1 |
| ROA (TTM) | 4.78 | 6.24 | 7.47 |
| ROE (TTM) | 10.53 | 4.58 | 6.27 |

| | |
|--|--|
| <p><u>Investment Thesis</u></p> <p>My recommendation for the stock WellPoint (WLP) is to buy. Morningstar considers this stock to be undervalued. Although WLP has slightly below average P/E, P/S, and P/B ratios, this doesn't make the company bad. The debt to Equity ratio is low in comparison to the sector and the industry, and the Return on equity is above the sector and industry average.</p> <p>There are some factors that do come into play with this stock though. The upcoming election is probably the largest factor. WellPoint recently bought out Amerigroup, which is a large Medicaid provider. The Patient Protection and Affordable Care Act, also known as "Obamacare", calls for potentially 17 million more recipients of Medicaid, which would benefit WellPoint. However, if Romney wins the election, some Medicaid expansion could potentially be cut (Roy,2012).</p> <p>After looking at the financial statements of WellPoint, I have noticed that their total net income has dropped slightly in the last year, and compared to 2009, is down quite a bit as well.</p> | <p><u>Summary</u></p> <p><u>Company Profile:</u> WellPoint, Inc. is a health benefits company. The company offers a spectrum of network-based managed care plans to the large and small employer, individual, Medicaid and senior markets (CNN Money).</p> <p><u>Fundamental Valuation:</u> WellPoint does have below average P/E, P/S, and P/B ratios in comparison with the industry and sector. They do however a high implied price in comparison with their current price. I chose a 7 year growth estimate because of factors like the elections in the future and the average beta.</p> <p><u>Relative Valuation:</u> I believe WLP is fairly valued. I chose to compare WLP with close competitors, and noticed that WellPoint does have higher earnings estimates, but they do have lower P/S and P/B ratios.</p> <p><u>Revenue and Earnings Estimates:</u> Revenue and earnings estimates are expected to grow in the next few years. Earnings are expected to be higher than any of the competitors I compared WLP with.</p> <p><u>Analyst Recommendations:</u> Analysts give a mean rating of 2.0 to WellPoint, which suggests that they will outperform.</p> <p><u>Institutional Ownership:</u> Nearly 86 percent of shares are institutionally held. There is no single institution that holds more than 5%.</p> <p><u>Short Interest:</u> WellPoint has a short interest ratio of 2.36 which is very similar with Express Scripts and slightly higher than UnitedHealth.</p> <p><u>Stock Price Chart:</u> In the last 5 years, 3 years, and 6 months, WellPoint has been underperforming slightly compared to the S&P 500.</p> |
|--|--|

Section (B) Company Profile

Company Summary

WellPoint is a healthcare company that has recently made plans of expansion, possibly trying to take advantage of the new Patient Protection and Affordable Care Act. “WellPoint, Inc. is a health benefits company. The company offers a spectrum of network-based managed care plans to the large and small employer, individual, Medicaid and senior markets. Its managed care plans include: preferred provider organizations, health maintenance organizations, point-of-service plans, traditional indemnity plans and other hybrid plans, including consumer-driven health plans, and hospital only and limited benefit products. The company operates through three reportable segments: Commercial, Consumer and Other. The Commercial segment includes local group, national accounts and certain other ancillary business operations. Business units in the Commercial segment offer fully-insured products and provide a broad array of managed care services to self-funded customers, including claims processing, underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, disease management, wellness programs and other administrative services. The Consumer segment includes senior, state-sponsored and individual businesses. WellPoint was founded on November 30, 2004 and is headquartered in Indianapolis, IN. (CNN Money).”

Business Model, Competition, Environment and Strategy

WellPoint, Inc has a very competitive environment. They have a market cap of right around 20 billion, which is smaller than some other companies in the industry, but larger than most. The merger between WellPoint and Amerigroup will be very beneficial for WellPoint because it WellPoint deeper into the Medicaid market, which they did not have a lock on before. Their strategy, as explained on their website states: “Our strategy is driven by our focus on achieving the following objectives:

1. Create the best health care value in our industry.
2. Excel at day-to-day execution.
3. Capitalize on new opportunities to drive growth.

Our business strategy establishes a framework that yields tangible value for all of our constituents - members, employers, health care professionals, associates, and shareholders (wellpoint.com).”

Revenue and Earnings History

| Revenue (In Millions USD) | | | |
|----------------------------------|---------------|-----------------|-----------------|
| Periods | 2010 | 2011 | 2012 |
| March | 15,099 | 14,894 | 15,415.2 |
| June | 14,457 | 15,100.7 | 15,407.3 |
| September | 14,598 | 15,398 | |
| December | 14,648 | 15,317.7 | |
| Total | 58,802 | 60,710.4 | 30,822.5 |

| Earnings | | | |
|-----------------|-------------|-------------|-------------|
| Periods | 2010 | 2011 | 2012 |
| March | 1.99 | 2.48 | 2.56 |
| June | 1.73 | 1.92 | 1.96 |
| September | 1.86 | 1.92 | |
| December | 1.41 | .97 | |
| Total | 6.99 | 7.29 | 4.52 |

Revenue doesn’t seem to be very seasonal. As you can see, the revenue is about the same each quarter. There are slight differences, but nothing that is noticeable or stands out. Earnings on the other hand, seem to be slightly seasonal. The March quarter seems to be where earnings are highest. The December quarter is where earnings tend to be the lowest. This may be a concern if we purchase WellPoint’s stock in the next few months.

Section (C) Fundamental Valuation (EBO)

Include the following here:

Copy/paste completed Fundamental Valuation (EBO) Spreadsheet

| VLP | PARAMETERS | FY1 | FY2 | Ltg | | | | | | | | | | |
|------------------------|----------------------------------|--------|--------|--------|--------|--------|---------|---------|--------|--------|--------|--------|--------|--|
| | EPS Forecasts | 7.37 | 7.98 | 10.10% | | | | | | | | | | |
| | Book value/share (last f | 68.62 | | | | | | | | | | | | |
| | Discount Rate | 7.60% | | | | | | | | | | | | |
| | Dividend Payout Ratio (P | 14.00% | | | | | | | | | | | | |
| | Next Fsc Year end | 2012 | | | | | | | | | | | | |
| | Current Fsc Mth (1 to 12) | 10 | | | | | | | | | | | | |
| | Target ROE (industry avg | 4.72% | | | | | | | | | | | | |
| | | | | | | | | | | | | | | |
| | Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | |
| | Long-term EPS Growth Rate (Ltg) | | | 0.1010 | 0.1010 | 0.1010 | 0.1010 | 0.1010 | | | | | | |
| | Forecasted EPS | 7.37 | 7.98 | 8.79 | 9.67 | 10.65 | 11.73 | 12.91 | | | | | | |
| | Beg. of year BV/Shr | 68.620 | 74.958 | 81.821 | 89.377 | 97.696 | 106.855 | 116.940 | | | | | | |
| | Implied ROE | | 0.106 | 0.107 | 0.108 | 0.109 | 0.110 | 0.110 | | | | | | |
| ROE | (Beg. ROE, from EPS forecast | 0.107 | 0.106 | 0.107 | 0.108 | 0.109 | 0.110 | 0.110 | 0.098 | 0.085 | 0.072 | 0.060 | 0.047 | |
| Abnormal ROE | (ROE-k) | 0.031 | 0.030 | 0.031 | 0.032 | 0.033 | 0.034 | 0.034 | 0.022 | 0.009 | -0.004 | -0.016 | -0.029 | |
| growth rate for B | (1-POR)*(ROEt-1) | 0.000 | 0.092 | 0.092 | 0.092 | 0.093 | 0.094 | 0.094 | 0.095 | 0.084 | 0.073 | 0.062 | 0.051 | |
| Compounded growth | | 1.000 | 1.092 | 1.192 | 1.302 | 1.424 | 1.557 | 1.704 | 1.866 | 2.023 | 2.171 | 2.306 | 2.425 | |
| growth*AROE | | 0.031 | 0.033 | 0.037 | 0.042 | 0.047 | 0.053 | 0.059 | 0.041 | 0.018 | -0.008 | -0.037 | -0.070 | |
| required rate (k) | 0.076 | 0.076 | 0.076 | 0.076 | 0.076 | 0.076 | 0.076 | 0.076 | 0.076 | 0.076 | 0.076 | 0.076 | 0.076 | |
| Compound discount rate | | 1.076 | 1.158 | 1.246 | 1.340 | 1.442 | 1.552 | 1.670 | 1.797 | 1.933 | 2.080 | 2.238 | 2.409 | |
| div. payout rate (k) | 0.140 | | | | | | | | | | | | | |
| Add to P/B | PV(growth*AROE) | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 | 0.04 | 0.02 | 0.01 | 0.00 | -0.02 | -0.03 | |
| Cum P/B | | 1.03 | 1.06 | 1.09 | 1.12 | 1.15 | 1.19 | 1.22 | 1.24 | 1.25 | 1.25 | 1.23 | 1.20 | |
| Add: Perpetuity | | | | | | | | | | | | | | |
| beyond current yr | (Assume this yr's AROE forev | 0.38 | 0.38 | 0.40 | 0.41 | 0.43 | 0.45 | 0.46 | 0.30 | 0.13 | -0.05 | -0.22 | -0.38 | |
| Total P/B | (P/B if we stop est. this period | 1.41 | 1.44 | 1.48 | 1.53 | 1.58 | 1.63 | 1.68 | 1.54 | 1.38 | 1.20 | 1.01 | 0.82 | |
| Implied price | | 103.12 | 104.78 | 108.22 | 111.74 | 115.34 | 119.02 | 122.79 | 112.43 | 100.59 | 87.63 | 73.96 | 59.99 | |
| Check: | | | | | | | | | | | | | | |
| Beg. BV/Shr | | 68.62 | 74.96 | 81.82 | 89.38 | 97.70 | 106.86 | 116.94 | 128.04 | 138.81 | 148.97 | 158.26 | 166.40 | |
| Implied EPS | | 7.37 | 7.98 | 8.79 | 9.67 | 10.65 | 11.73 | 12.91 | 12.52 | 11.82 | 10.80 | 9.47 | 7.85 | |
| Implied EPS growth | | | 0.083 | 0.101 | 0.101 | 0.101 | 0.101 | 0.101 | -0.030 | -0.056 | -0.086 | -0.123 | -0.171 | |

Inputs (provide below input values used in your analysis)

EPS forecasts (FY1 & FY2): _____ 7.37 for FY1. &.98 for FY2 _____

Long-term growth rate: _____ 10.1% _____

Book value /share (along with book value and number of shares outstanding):

Book value: _____ 22314.54 Million _____

of shares outstanding: _____ 325.19 Million _____

Book value / share: _____ 68.62 _____

Dividend payout ratio: _____ 14% _____
Next fiscal year end: _____ December 30th, 2012 _____
Current fiscal month: _____ 10 _____
Target ROE: _____ 4.72% _____

Output

Above normal growth period chosen: _____ 7 years (2018) _____
EBO valuation (Implied price from the spreadsheet): _____ \$122.79 _____

Sensitivity Analysis

EBO valuation would be (you can include more than one scenario in each of the following):

_____ \$111.74 _____ if changing above normal growth period to _____ 4 Years _____
_____ \$133.37 _____ if changing growth rate from mean (consensus) to the highest
estimate _____ 12 _____ (Over my 7 year chosen period)
_____ \$114.92 _____ if changing growth rate from mean (consensus) to the lowest
estimate _____ 8.6 _____ (Over 7 year period)
_____ \$105.94 _____ if changing discount rate to _____ 8.5% _____
_____ \$122.79 _____ if changing target ROE to _____ 8% _____

Section (D) Relative Valuation

| Cougar Investment Fund Relative Valuation Template | | | | | | | | | | | | | |
|--|--------------------|---------------------|---------------|---|----------------|------------------------|---------|--------------|-----------------|----------------|------------|-------------|--|
| WLP | | | | | | | | | | | | | |
| Mean FY2 | | | | | | | | | | | | | |
| Ticker | Name | Mkt Cap in Billions | Current Price | Earnings Estimate (next fiscal year) | Forward P/E | Mean LT Growth Rate | PEG | P/B (MRQ) | ROE 5 yr ave | Value Ratio | P/S TTM | P/CF TTM | |
| 1 ESRX | Express Scripts | \$ 50.46 | \$ 62.24 | \$ 4.49 | 13.86 | 17.98% | 0.77 | 2.28 | 43.64% | 0.05 | 0.79 | 25.75 | |
| 2 AET | Aetna | \$ 14.80 | \$ 44.10 | \$ 5.53 | 7.97 | 10.29% | 0.77 | 1.35 | 17.45% | 0.08 | 0.42 | 6.62 | |
| 3 UNH | UnitedHealth Group | \$ 57.60 | \$ 55.78 | \$ 5.60 | 9.96 | 11.20% | 0.89 | 1.91 | 18.49% | 0.10 | 0.53 | 8.51 | |
| 4 HUM | Humana Inc. | \$ 12.00 | \$ 74.47 | \$ 7.87 | 9.46 | 10.29% | 0.92 | 1.12 | 18.84% | 0.06 | 0.31 | 7.8 | |
| WLP | Wellpoint Inc. | \$ 19.60 | \$ 61.29 | \$ 7.98 | 7.68 | 10.10% | 0.76 | 0.80 | 9.05% | 0.09 | 0.30 | 13.77 | |
| Implied Price based on: | | | | | | | | | | | | | |
| | | | | | P/E | | PEG | P/B | | Value | P/S | P/CF | |
| 1 ESRX | Express Scripts | | | | \$110.62 | | \$62.14 | \$174.68 | | \$36.22 | \$161.40 | \$114.61 | |
| 2 AET | Aetna | | | | \$63.64 | | \$62.46 | \$103.43 | | \$53.64 | \$85.81 | \$29.47 | |
| 3 UNH | UnitedHealth Group | | | | \$79.49 | | \$71.68 | \$146.33 | | \$71.62 | \$108.28 | \$37.88 | |
| 4 HUM | Humana Inc. | | | | \$75.51 | | \$74.12 | \$85.81 | | \$41.22 | \$63.33 | \$34.72 | |
| | High | | | | \$110.62 | | \$74.12 | \$174.68 | | \$71.62 | \$161.40 | \$114.61 | |
| | Low | | | | \$63.64 | | \$62.14 | \$85.81 | | \$36.22 | \$63.33 | \$29.47 | |
| | Median | | | | \$77.50 | | \$67.07 | \$124.88 | | \$47.43 | \$97.04 | \$36.30 | |

From the top panel

Discuss whether your stock and its competitors have very different multiples. Point out if any of the five stocks have multiple that is far off from the others. Make an attempt to explain why (you would want to read analyst research report in **Morningstar Direct**; you should also look for comments from other financial sites). **The discussions should address all of the following valuation metrics: forward P/E, PEG, P/B (MRQ), P/S (TTM), and P/CF (TTM).**

Compare the implied prices derived from various valuation metrics. Also compare those implied price to the stock's current price, and 52-week high and low.

As you can see from the chart above, there are some noticeable differences between WellPoint and its competitors. WellPoint actually has the highest earnings estimate for the next financial year. The earnings estimate is 7.98 for WellPoint, whereas it is 7.87 for Humana, about 5.6 for both Aetna and UnitedHealth, and a low 4.49 for Express Scripts. This is a very good sign

for WellPoint. Although only an estimate, it does show that WellPoint does have potential to generate higher earnings than all other competitors.

WellPoint does have the lowest Forward P/E ratio of all its competitors at 7.68. The highest of all competitors is Express Scripts which is at a forward P/E of 13.86. UnitedHealth is at 9.96, followed by Humana at 9.46. Aetna also has a lower forward rate like WellPoint, at 7.97. The average Mean Long Term growth rate is about 10.5 percent for WellPoint and the competitors I chose. However, that is excluding 1 outlier. Express Scripts has a mean long term growth rate of nearly 18%.

WellPoint has the lowest PEG, P/B, 5 year ROE, and P/S ratios. This may raise so red flags to people simply looking at the numbers, but I don't think that this is anything to worry about. The low P/B, P/S, and PEG ratios for WellPoint could signal that the stock is actually undervalued. Although lower than the competition in these specific ratios, this actually means that WellPoint is likely to outperform and is undervalued in comparison to the competition.

From the bottom panel

*Discuss the various implied prices of your stock derived from competitors' ("comparables") multiples. How different are the prices derived from the various valuation metrics? Note any valuation metrics that seem to yield outlier prices and explain why (**HINT**: is that because that particular valuation metrics is not very relevant for the industry? Do you best to provide convincing arguments).*

For each valuation metrics, Compare the current price and 52-week high /low of your stock to the High-low range derived from multiples of its competitors.

*Among the valuation metrics analyzed, **which ones do you think are most relevant as a valuation tool for your stock?***

As you can see from the relative valuation chart above, the stocks implied prices seem to vary depending on how they are measured. The implied prices of WellPoint and its competitors are measured by their forward P/E ratio, PEG ratio, P/B ratio, value ratio, P/S ratio, and P/CF ratio. The PEG ratio measures all the implied prices of WellPoint's competitors at between 62 and 75 dollars, which is reasonable to their actual prices. The P/B ratio is a bad way to measure the implied prices in my opinion. A high P/B ratio can sometimes be deceitful, whereas a low ratio could mean that the stock is potentially undervalued. Also, the P/S, value,

and P/CF ratios are bad measures in my opinion. I believe this because there are too big of gaps between the implied prices and the actual stock prices.

The Forward P/E ratio is the best measure of implied prices in my opinion. Express Scripts has an implied price of 110.62 dollars, which some may call an outlier. With that said though, I believe Express Scripts is a very good company that does have much growing potential. UnitedHealth has an implied price of 79.49 dollars which isn't too far off compared to its actual price of 55.78 dollars. Aetna also has a slightly higher implied price than actual price. The implied price is 63.64 dollars, whereas the actual price is 44.10 dollars. Humana has an implied price of 75.51 dollars, and its actual price is 74.47. I believe that the Forward P/E ratio is the best calculator of implied price for this case because it makes the most sense. There are not any real outliers. I think all the companies have implied prices higher than the actual prices because they all have room for growth, some more so than others.

Section (E) Revenue and Earnings Estimates

Copy/Paste the "Historical Surprises" Table from Reuters.com, "Analysts" tab (include both revenue and earnings; make note that revenues might be in "millions")

*Review recent trends in company's reported revenue and earnings, and discuss whether (1) the company has a pattern of "surprising" the market with numbers different from analysts' estimates; (2) Were they positive(actual greater than estimate) or negative (actual less than estimate) surprises? (3) Were surprises more notable for revenue or earnings? (4) Look up the stock chart to see how the stock price reacted to the "surprises. **NOTE:** Reuters does not put the sign on the surprise. **You need to put a "negative" sign when it is a negative surprise.***

Historical Surprises

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

| Estimates vs Actual | Estimate | Actual | Difference | Surprise % |
|-----------------------------|-----------|-----------|------------|------------|
| SALES (in millions) | | | | |
| Quarter Ending Jun-12 | 15,273.50 | 15,173.30 | -100.20 | -0.66 |
| Quarter Ending Mar-12 | 15,272.60 | 15,150.20 | -122.43 | -0.80 |
| Quarter Ending Dec-11 | 15,408.10 | 15,175.50 | -232.64 | -1.51 |
| Quarter Ending Sep-11 | 15,118.20 | 15,398.00 | 279.77 | 1.85 |
| Quarter Ending Jun-11 | 14,681.90 | 14,879.80 | -197.92 | -1.35 |
| Earnings (per share) | | | | |
| Quarter Ending Jun-12 | 2.08 | 2.04 | -0.04 | -1.85 |
| Quarter Ending Mar-12 | 2.27 | 2.34 | 0.07 | 2.97 |
| Quarter Ending Dec-11 | 1.12 | 0.99 | -0.13 | -11.65 |
| Quarter Ending Sep-11 | 1.68 | 1.77 | 0.09 | 5.61 |
| Quarter Ending Jun-11 | 1.80 | 1.83 | 0.03 | 1.72 |

As you can see from the table above, most sales estimates were higher than the actual sales, only in September of 2011 were the estimates actually lower than the actual sales. When the sales revenue estimates were off from the actual sales revenue, there wasn't a lot of market surprise. The largest surprise was in September of 2011 when there was a 1.85% surprise. Earnings per share are a different story however. Earnings had both negative and positive differences when comparing actual earning to estimated earnings. There were no trends, but when estimates were different than actual earnings, the surprise change was always fairly large. In December of 2011, estimates were overestimated by 13 cents, which caused a 11.65 percent change negatively.

Copy/paste the "Consensus Estimates Analysis" Table from Reuters.com, "Analysts" tab (include both revenue and earnings)

Review the range and the consensus of analysts' estimates. (1) Calculate the % difference of the "high" estimate from the consensus (mean); (2) Calculate the % (negative) difference of the "low" estimate from the consensus; (3) Are the divergent more notable for the current or out-quarter, FY1 or FY2, revenue or earnings? (4) Note the number of analysts providing LT growth

rate estimate. It that roughly the same as the number of analysts providing revenue and earnings estimates?

Consensus Estimates Analysis

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

| | # of Estimates | Mean | High | Low | 1 Year Ago |
|-----------------------------|----------------|-----------|-----------|-----------|------------|
| SALES (in millions) | | | | | |
| Quarter Ending Dec-12 | 12 | 15,353.30 | 15,721.00 | 15,149.00 | 16,105.20 |
| Quarter Ending Mar-13 | 6 | 15,824.30 | 16,357.00 | 15,452.10 | 15,984.60 |
| Year Ending Dec-12 | 14 | 61,115.00 | 61,765.60 | 60,571.00 | 62,439.10 |
| Year Ending Dec-13 | 14 | 66,110.00 | 74,162.10 | 62,321.00 | 66,515.00 |
| Earnings (per share) | | | | | |
| Quarter Ending Dec-12 | 16 | 1.15 | 1.30 | 0.98 | 1.47 |
| Quarter Ending Mar-13 | 12 | 2.37 | 2.58 | 2.14 | 1.92 |
| Year Ending Dec-12 | 19 | 7.37 | 7.70 | 7.20 | 7.72 |
| Year Ending Dec-13 | 22 | 7.98 | 8.58 | 7.50 | 8.62 |
| LT Growth Rate (%) | 6 | 10.10 | 12.00 | 8.60 | 10.21 |

The table above shows the estimates of sales and earnings. In sales, there is not much of a difference between the percent changes between the high and low estimates in quarter ending December 2012, quarter ending March 2013, and year ending in December 2012. However there is a large difference between analysts in the year ending 2013. There is a 12% increase between the mean and the high estimate for the year ending in 2013, and a 6 percent decrease between the mean and the low estimate. This comes to no surprise to me. The election is a huge factor for WellPoint. Also the merger with Amerigroup will finalize at the beginning of 2013, which will also play a huge role in sales and revenue.

Earnings per share estimates do have more significant differences than the sales estimates. It seems that the high estimates are about 15 percent higher than the mean. The low estimates are about 15 percent less than the mean estimate. One thing I did notice was the total estimates for long term growth was 6. Compared to the earnings estimates that had about 17 and sales having about 12, the number of estimates for long term growth is significantly lower.

Copy/paste the “Consensus Estimates Trend” Table from Reuters.com, “Analysts” tab (include both revenue and earnings)

Review recent trend of analysts’ consensus (mean) estimates on revenue and earnings. (1) Are the consensus estimates trending up, down, or stay the same? (2) Is the trend more notable for the near- or out- quarter, FY1 or FY2, revenue or earnings?

Consensus Estimates Trend

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

| | Current | 1 Week Ago | 1 Month Ago | 2 Month Ago | 1 Year Ago |
|-----------------------------|-----------|------------|-------------|-------------|------------|
| SALES (in millions) | | | | | |
| Quarter Ending Dec-12 | 15,353.30 | 15,353.30 | 15,353.30 | 15,353.30 | 16,105.20 |
| Quarter Ending Mar-13 | 15,824.30 | 15,824.30 | 15,824.30 | 15,824.30 | 15,984.60 |
| Year Ending Dec-12 | 61,115.00 | 61,115.00 | 61,070.40 | 61,070.40 | 62,439.10 |
| Year Ending Dec-13 | 66,110.00 | 66,110.00 | 65,276.60 | 64,672.80 | 66,515.00 |
| Earnings (per share) | | | | | |
| Quarter Ending Dec-12 | 1.15 | 1.15 | 1.16 | 1.17 | 1.47 |
| Quarter Ending Mar-13 | 2.37 | 2.37 | 2.38 | 2.39 | 1.92 |
| Quarter Ending Dec-12 | 7.37 | 7.37 | 7.37 | 7.37 | 7.72 |
| Quarter Ending Dec-13 | 7.98 | 7.98 | 8.00 | 8.04 | 8.62 |

The chart above shows the consensus estimate trend for the last year. It seems as though nearly all trends are actually headed down for WellPoint Inc. From a year ago, all sales estimates were higher than they currently are for the years ending in December of 2012 and 2013, as well as, the quarters ending in December 2012 and March of 2013. Now they are decreasing by a significant amount, but they are indeed decreasing slightly. Earnings per share have a similar trend. In the last year, the estimates have decreased for the years ending in December of 2012, and 2013, as well as the quarter ending December 2012. However, the estimates for the quarter ending March 2013 have increased a relatively high amount in the last year.

Copy/paste the “Estimates Revisions Summary” Table from Reuters.com, “Analysts” tab (include both revenue and earnings)

Review the number of analysts revising up or down their estimates (both revenue and earnings) in the last and last four weeks. (1) Note whether there are more up or down revisions; (2) are the revisions predominantly one directional? (3) Any notable difference last week versus last four weeks, revenue versus earnings?

Estimates Revisions Summary

| Number Of Revisions: | Last Week | | Last 4 Weeks | |
|-----------------------|-----------|------|--------------|------|
| | Up | Down | Up | Down |
| Revenue | | | | |
| Quarter Ending Dec-12 | 0 | 0 | 0 | 0 |
| Quarter Ending Mar-13 | 0 | 0 | 0 | 0 |
| Year Ending Dec-12 | 0 | 0 | 1 | 1 |
| Year Ending Dec-13 | 0 | 0 | 2 | 0 |
| Earnings | | | | |
| Quarter Ending Dec-12 | 0 | 0 | 0 | 1 |
| Quarter Ending Mar-13 | 0 | 0 | 0 | 0 |
| Year Ending Dec-12 | 0 | 0 | 1 | 0 |
| Year Ending Dec-13 | 0 | 0 | 0 | 3 |

The table above shows the total number of revisions for the sales and revenue estimates. As you can see, last week there were no revisions. In the last 4 weeks there have been a total of 4 revisions to the revenue estimates, and 5 revisions to the earnings estimates. For revenue estimates in the year ending in December 2012, there was one revision that went up and one that went down. For revenue in the year ending December 2013, there were two revisions that went up. Earnings are somewhat different. There was one revision down for the quarter ending in December 2012, and one revision up for the year ending in December of 2012. However the large change is for the estimates of the year ending in December of 2013. There were 3 revisions that decreased in the last four weeks for the year ending in 2013.

*You will need to incorporate what you see here with Morningstar's analyst research report (you can access **Morningstar Direct at the Financial Markets Lab.**) and other readings/analysis you found from various on-line financial sites. Discuss whether you think the company has a good chance of making or beating analyst consensus estimate, and why. Based on how the stock has been trading lately, do you think market has already anticipated strong or lackluster financial outlook from the company?*

After the Amerigroup purchase back in the summer of 2012, I really do think that WellPoint will beat analysts' estimates. Also, WellPoint is less geographically diverse than some peers. Because of this, they may face fewer local regulatory hurdles as future opportunities for industry consolidation arise. High regional market share also enhances bargaining power with providers (Morningstar.com).

WellPoint's stock has been trading very strangely in the last few months, primarily due to the purchase of Amerigroup, new management, and the upcoming election. Morningstar states: "WellPoint enjoys a meaningful cost advantage from its unmatched combination of regional and national scale. We believe recent share prices well below our fair value estimate offer investors a reasonable margin of safety. (Morningstar.com)" Of course there are risks involved in the stock. The management has been bad lately, which caused the resignation of CEO Angela Braly. There is also the election, which will play a big part in the number of Medicaid recipients. However, I believe that the benefits outweigh the risks and question marks of the company. "WellPoint has one of the largest medical memberships among health insurers, giving it significant bargaining power with health care providers and leveraging its largely fixed cost structure (Morningstar.com)."

Section (F) Analysts' Recommendations

Copy/paste the “Analyst Recommendations and Revisions” Table from Reuters.com, “Analysts” tab. NOTE: Make sure you copy the entire table including the “Mean Rating” at the bottom of the table.

Review the trend of analyst recommendations over the last three months. Is there a notable change of analyst opinions, turning more bullish or bearish? How many different ratings out of the five possible ones did the company receive currently, one, two, and three months ago? Is there a notable trend of opinion convergence or divergence? Is what you see here consistent to comments in Morningstar analyst’s research report as well as various online financial sites you had researched on?

NOTE: On a Five-point scale, Reuters assigns “1” to “Buy”, the most bullish recommendation, and “5” to “Sell”, the most bearish recommendation. **Some other online sites have opposite scale**, with their “1” being the most bearish and “5” being the most bullish recommendations.

Analyst Recommendations and Revisions

| 1-5 Linear Scale | Current | 1 Month Ago | 2 Month Ago | 3 Month Ago |
|------------------|---------|-------------|-------------|-------------|
| (1) BUY | 9 | 9 | 8 | 9 |
| (2) OUTPERFORM | 2 | 2 | 2 | 3 |
| (3) HOLD | 9 | 9 | 10 | 8 |
| (4) UNDERPERFORM | 0 | 0 | 0 | 0 |
| (5) SELL | 0 | 0 | 0 | 0 |
| No Opinion | 0 | 0 | 0 | 0 |
| Mean Rating | 2.00 | 2.00 | 2.10 | 1.95 |

The table above shows analyst recommendations and revisions over the last 3 months. As you can see, there isn’t too much difference in analysts’ opinions. Three months ago, 9 analysts said to buy, 3 said the stock would outperform, and 8 said to hold the stock. At that point, the mean rating was 1.95, which gives the stock and outperform/buy rating. As of now, 9 analysts say to buy WellPoint’s stock, 2 say it will outperform, and 9 say to hold. The current mean rating for the analysts is 2.0, which still gives the stock an outperform/buy rating. So as you can see, there isn’t a big difference from now and three months ago.

Section (G) Institutional Ownership

Copy/paste the completed "CIF Institutional Ownership" spreadsheet here.

Combine information provided in all three sections to discuss whether (1) institutions, on net basis, have been increasing or decreasing ownership and how significant, (2) the stock has sizable institution interests and support, (3) the extent of the (> 5%) owners, and (4) this could be a bullish or bearish indication of future stock price movement.

| Cougar Investment Fund Institutional Ownership Template | | | | |
|---|---------------|----------------|-------------|----------|
| WLP | | | | |
| Ownership Activity | # of Holders | % Beg. Holders | Shares | % Shares |
| Shares Outstanding | | | 325,175,809 | 100.00% |
| # of Holders/Tot Shares Held | 810 | 94.52% | 282,090,014 | 86.75% |
| # New Positions | 18 | 2.10% | | |
| # Closed Positions | 65 | 7.58% | | |
| # Increased Positions | 23 | 2.68% | | |
| # Decreased Positions | 87 | 10.15% | | |
| Beg. Total Inst. Positions | 857 | 100.00% | 282,642,135 | 86.92% |
| # Net Buyers/3 Mo. Net Chg | -64 | 20.91% | -552,121 | -0.17% |
| Ownership Information | % Outstanding | | | |
| Top 10 Institutions % Ownership | 32.70% | | | |
| Mutual Fund % Ownership | 1.93% | | | |
| Float % | 99.61% | | | |

The graph above shows institutional ownership within WellPoint, Inc. There does seem to be a trend going on that isn't a great sign for WellPoint. There does seem to be less net buyers in the last three months. According to Yahoo Finance, in the prior quarter to the latest quarter, there have been just over 28 million shares sold, which has contributed to a decrease of 11 percent of institutional shares held (finance.yahoo.com). This could be because of the CEO and management change at WellPoint, Inc. There are no institutions that own over 5

percent of the outstanding shares. However there are several institutions that own around 3 to 4 percent.

Section (H) Short Interest

From <http://www.nasdaq.com/> (NASDAQ's website)

Copy/paste or enter the data in the following table. You also need to copy/paste the chart to the right.

Copy/paste or type the information from "short interest" table. You will start from the most recent release date, and go back for a year (some stocks may not have data go back for a year)

Copy/paste the chart to the right of the "short interest" table, immediately follow the table below

NOTE: You are encouraged to look at the short interest information for two of the companies' closest competitors. This will help gauge whether the sentiment indicated in the short interest statistics is company specific or industry-wide.

| Settlement Date | Short Interest | Average Daily Shares Volume | # of Days to cover |
|-----------------|----------------|--------------------------------|-----------------------|
|-----------------|----------------|--------------------------------|-----------------------|

| | | | |
|------------|------------|-----------|----------|
| 10/15/2012 | 11,981,334 | 5,067,162 | 2.364506 |
| 9/28/2012 | 7,135,945 | 2,326,016 | 3.067883 |
| 9/14/2012 | 6,321,085 | 3,176,907 | 1.989698 |
| 8/31/2012 | 5,985,365 | 3,061,194 | 1.955239 |
| 8/15/2012 | 5,280,274 | 3,334,814 | 1.583379 |
| 7/31/2012 | 5,312,631 | 4,756,242 | 1.116981 |
| 7/13/2012 | 4,922,342 | 4,617,934 | 1.065919 |
| 6/29/2012 | 5,822,680 | 5,648,950 | 1.030754 |
| 6/15/2012 | 7,010,658 | 2,862,356 | 2.449261 |
| 5/31/2012 | 6,780,120 | 2,515,481 | 2.695357 |
| 5/15/2012 | 6,855,424 | 2,103,283 | 3.259392 |
| 4/30/2012 | 6,471,867 | 2,620,962 | 2.469272 |
| 4/13/2012 | 6,767,300 | 2,945,765 | 2.297298 |
| 3/30/2012 | 9,041,883 | 4,368,098 | 2.069982 |
| 3/15/2012 | 10,026,397 | 2,872,353 | 3.490656 |
| 2/29/2012 | 7,624,001 | 2,395,504 | 3.182629 |
| 2/15/2012 | 7,605,472 | 3,199,818 | 2.376845 |
| 1/31/2012 | 4,832,501 | 4,601,420 | 1.050219 |
| 1/13/2012 | 6,288,034 | 2,082,032 | 3.020143 |
| 12/30/2011 | 5,241,187 | 2,098,744 | 2.497297 |
| 12/15/2011 | 5,778,191 | 2,960,400 | 1.951828 |
| 11/30/2011 | 6,965,495 | 2,675,114 | 2.603812 |
| 11/15/2011 | 5,802,657 | 2,105,062 | 2.756525 |
| 10/31/2011 | 6,082,651 | 3,176,012 | 1.915185 |
| 10/14/2011 | 8,250,071 | 2,932,070 | 2.813736 |



From <http://finance.yahoo.com/>

Complete the following table with information from the “*share statistics*” table.

| Avg Vol (3 month) | Avg Vol (10 day) | Shares Outstanding | Float |
|------------------------------------|-----------------------------------|--|---------------------------------|
| 3,291,950 | 2,098,680 | 325.19 Million | 323.54 Million |
| Shares Short (Most recent date) | Short Ratio (Most recent date) | Short % of Float (Most recent date) | Shares Short (2 weeks prior) |
| 11.98 Million | 3.2 | 3.6% | 7.14 Million |

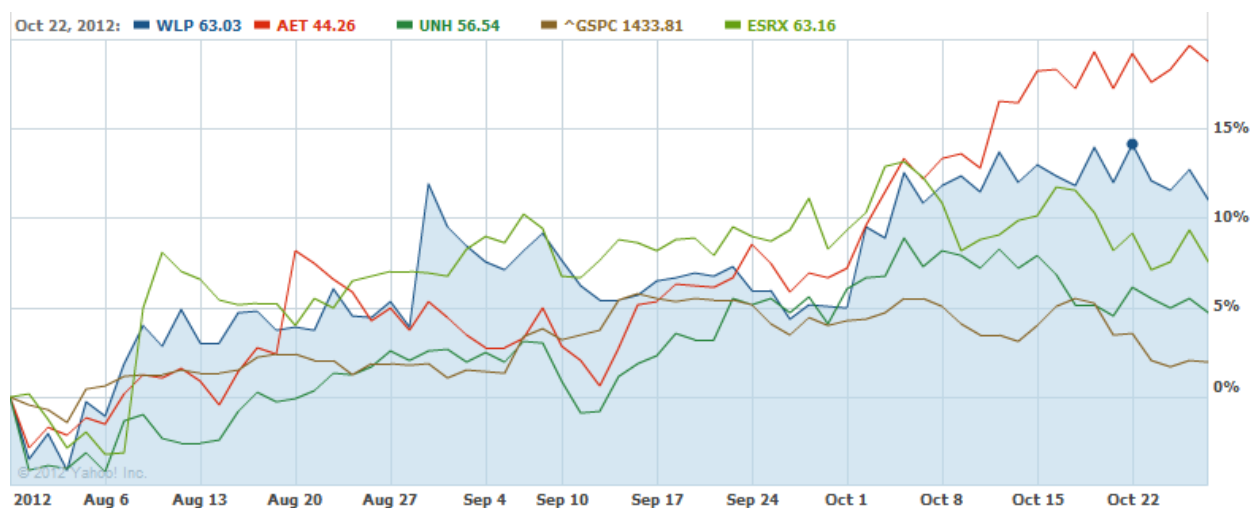
Based on the short interest statistics and its recent trend, how is the market sentiment on the stock? Has the sentiment turned more bullish or bearish over the last year? How about in more recent month and why?

The tables and chart above shows the short interest ratio for the last year for WellPoint, Inc. After comparing these numbers to some competitors, I did notice some differences. I noticed that Express Scripts (ESRX) had a much higher ratio sometimes even being around 20 in the beginning of 2012. Then in about June of 2012 ESRX short interest ratio started to decline to what WellPoint's short interest is currently at. I also looked at Humana Inc. Humana had a very similar short interest ratio to WellPoint. Humana had a short interest ratio ranging between 1 and 2.1 in the last 12 months (Nasdaq.com).

There does seem to be an increasing trend in the short interest ratio between the end of June Of 2012 and now. The increase is not too severe though. The short interest ratio is still low, which means that the number of days to cover is also low. Sentiment over the year has been bullish die to the low short interest rate and days to cover. Over the last month I would say that there is starting to become a more bearish sentiment though. The short interest and days to cover did increase somewhat in the last month. I wouldn't worry too much about this though because in the past, short interest goes up and down in cycles, as you can see in the graph above.

Section (I) Stock Charts

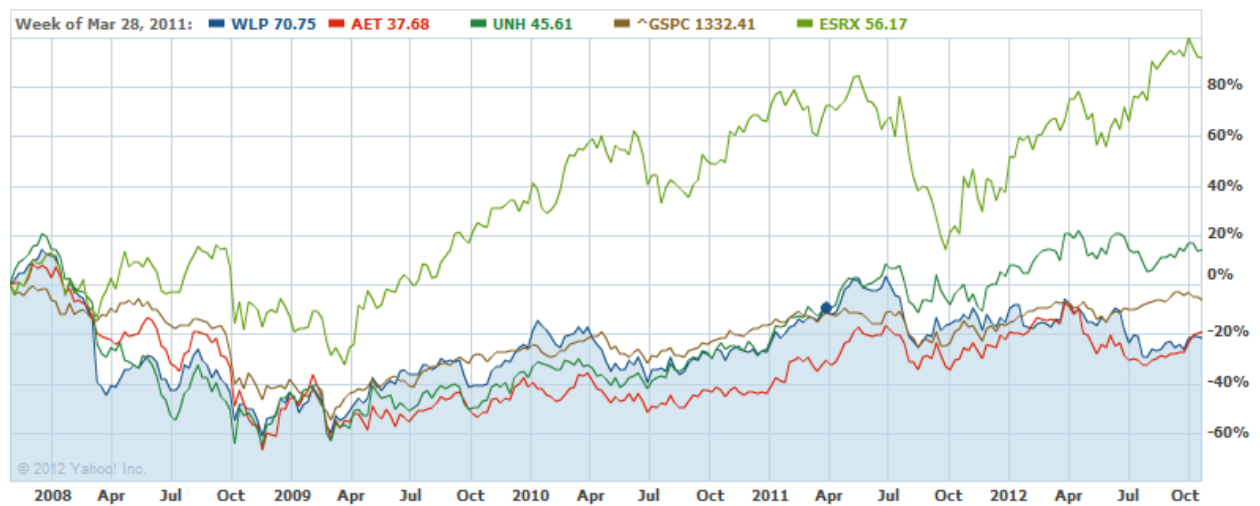
A three months price chart



A one year price chart



A five year price chart



Charts from: (Finance.Yahoo.com)

2 Year graph: XLV sector vs. WLP



Discuss what you observe from the stock charts. This should include comparing your stock to competitors, sector, and SP500 over the three different time horizons.

It is very clear that there are many differences between WellPoint, Inc, now and 5 years ago. The Three month graph shows that WellPoint is actually ahead of most of its competitors, as well as ahead of the S&P 500. There have been some ups and downs in the last few months for WellPoint's stock price, which are due to management changes, some more Amerigroup merger information, and the pricing of its offering of \$1.35 billion principal amount of senior convertible debentures.

In the 1 year graph, there is a much different trend for WellPoint, Inc. If you take a look at the one year chart above, WellPoint is actually below each of its competitors, as well as, the S&P 500. This may raise red flags to some investors; however, I don't think that this is a bad sign. I think the Amerigroup merger will really help WellPoint. I also think the change of management was a good choice and the new management will help bring more value to the company.

The 5 year graph is very similar to the 1 year chart. WellPoint stays steady with its competitors (with the exception of Express Scripts), until about mid 2011, where WellPoint does stay steady, but competitors start to move ahead of WellPoint.

The last graph I have compares WellPoint, Inc, with XLV, which is also known as the healthcare sector. WellPoint Outperform the healthcare sector until about July of 2012 where the XLV start to increase more as WLP decreases.

People may look at these graphs and be afraid to buy WellPoint's stock. I think the best graph to look at however is the 3 month graph. So many events have occurred in the last few months for WellPoint, and they are actually beating most of their competitors and the market.

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