



## ANALYST QUICK NOTES

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**Aetna Inc. (NYSE: AET: BUY)**

**Target Price: \$145**

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**2/13/2017**

### Overview

- We expect the Aetna-Humana merger deal will be terminated by February 15, which is the deadline date for the deal. We would view any sell-off in the stock as a buying opportunity.
  - As evidence for the likely termination of the deal we point to these factors:
    - U.S. District Court judge has ruled against the deal on antitrust grounds.
    - Aetna said on its January 31 earnings call that its 2017 guidance calls for resumption of stock buybacks, which it had suspended in 2016 due to the pending merger with Humana.
    - Humana itself will hold a call on February 16 that it will present 2017 guidance as a standalone company.
  - The following are the growth drivers for Aetna's earnings.
    - Reduction in losses as Aetna largely withdraws from participation in ACA-exchange markets in 2017. It expects to reduce its membership in individual ACA-exchange plans to 240,000 by end of 1Q17 from 965,000 at end 2016. It lost more than \$500 million on these individual plans and could reduce losses to less than \$50 million.
    - Organic growth in Medicare Advantage and Medicaid businesses.
    - Smaller M&A deals to acquire additional territories in Medicare Advantage.
  - We think Medicare will continue to be an attractive market for insurers.
    - Demographics of aging population – Baby Boomers are moving to retirement age.
    - Federal government policy is moving to greater privatization of Medicare. House Speaker Paul Ryan has called for Medicare to be increasingly privatized through government-sponsored vouchers to Medicare Advantage programs. This creates growth opportunities for companies that offer the programs, which includes UnitedHealth and Humana, among the stocks we cover, as well as Aetna.
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