

COMPANY PROFILE

Aetna Inc

TABLE OF CONTENTS

Company Overview	3
Key Facts	3
SWOT Analysis	4

COMPANY OVERVIEW

Aetna Inc (Aetna) is a health care benefits company. It offers a range of traditional, voluntary and consumer-directed health insurance products and related services. The company provides insurance products for medical, dental, pharmacy, behavioral health, long term care, medical stop loss, group life, and disability. It also offers Medicaid health care management services, Medicare Advantage and Medicare supplement plans, health information technology, and workers' compensation administrative services. It primarily serves employer groups, labor groups, college students, health care providers, part-time and hourly workers, individuals, health plans, government-sponsored plans, governmental units, and expatriates. Aetna is headquartered in Hartford, Connecticut, the US.

The company reported revenues of (US Dollars) US\$60,543 million for the fiscal year ended December 2017 (FY2017), a decrease of 4.1% over FY2016. In FY2017, the company's operating margin was 5.7%, compared to an operating margin of 7.3% in FY2016. In FY2017, the company recorded a net margin of 3.1%, compared to a net margin of 3.6% in FY2016.

The company reported revenues of US\$15,348.0 million for the first quarter ended March 2018, an increase of 3.3% over the previous quarter.

KEY FACTS

Head Office	Aetna Inc 151 Farmington Ave Hartford Connecticut Hartford Connecticut USA
Phone	1 860 2730123
Fax	
Web Address	www.aetna.com
Revenue / turnover (USD Mn)	60,543.0
Financial Year End	December
Employees	47,950
New York Stock Exchange Ticker	AET

SWOT ANALYSIS

Aetna Inc (Aetna) is a health care benefits company, offering a range of traditional, voluntary and consumer-directed health insurance products and related services. Premium Earning of Government business, net investment income, and Medicare membership are the major strengths of the company, even as its financial performance remains an area of concern. In future, fluctuations in interest rates, competition and government regulations may impact the company's performance. However, strategic agreements, positive outlook for Health Insurance category in the US, and short term economic outlook of the US will provide growth opportunities to the company.

<p>Strength</p> <p>Net Investment Income Premium Earning: Government Medicare Membership</p>	<p>Weakness</p> <p>Financial Performance</p>
<p>Opportunity</p> <p>Short Term Economic Outlook: US Strategic Agreement Positive Outlook for Health Insurance Category in the US</p>	<p>Threat</p> <p>Competition Fluctuations in Interest Rates Government Regulations</p>

Strength

Net Investment Income

Increase in net investment income may have positive impact on its ability to meet policy claims. The company's net investment income increased by 4.4% to US\$950 million in FY2017 from US\$910 million in FY2015. The increase in net investment income was due to increase in other investments to US\$185 million in FY2017 from US\$82 million in FY2016.

Premium Earning: Government

The company reported strong growth in premium earning from Government business which includes combined Medicare and Medicaid products. The premium from government business increased by 4.9% to US\$27,424 million in FY2017 from US\$26,200 million in FY2016. The growth in premium was primarily due to higher premium yields and membership growth in its Medicare products.

Medicare Membership

The company reported strong growth in Medicare membership during FY2017. The Medicare membership grew by 8% in FY2017. The growth was primarily driven by increase in membership of

individual Medicare Advantage products by 16% in FY2017. Furthermore, the membership of Medicare Advantage and Medicare Supplement of commercial healthcare business grew by 8.1% and 8% in FY2017, respectively.

Weakness

Financial Performance

The company reported weak financial performance in FY2017, which is an area of concern. Its revenue declined by 4.1% to US\$60,543 million in FY2017 from US\$63,155 million in FY2016. Decrease in revenue was primarily due to lesser premiums from Health Care segment, comprising decline in membership in ACA compliant individual and small group products and the temporary suspension of the health insurer fee in 2017. The company's operating income decreased by 25.3% to US\$3,434 million in FY2017 from US\$4,595 million in FY2016. The net income of the company grew by 16.2% to US\$1,904 million in FY2017 from US\$2,271 million in FY2016. Decline in income level was a result of costs associated with the termination of the Humana Merger Agreement in FY2017. It was also due to increase in general and administrative expenses and amortization of other acquired intangible assets by 0.6% and 10.1% in FY2017, respectively. Its operating and net margins decreased from 7.3% and 3.6% in FY2016, to 5.7% and 3.1% in FY2017, respectively. Furthermore, its return on equity and return on assets decreased from 12.7% and 3.3% in FY2016, to 12.2% and 3.5% in FY2017, respectively.

Opportunity

Short Term Economic Outlook: US

The company could benefit from positive economic outlook, in the US, which is likely to enable favorable market conditions and enhance performance of the banking, financial services and insurance sector in the country. According to the International Monetary Fund, the GDP growth of the US stood at 2.3% in 2017. It is expected to be 2.9% in 2018 and 2.7% in 2019. The growth is expected to be driven by optimistic asset prices, strong business and customer confidence, expansionary fiscal policy, trade protectionism, declining unemployment rate, tax reforms, and increasing wages.

Strategic Agreement

The company is entering into various strategic agreements to drive its business further. For instance, in March 2018, the company and UnityPoint Accountable Care, entered into an accountable care collaboration in Iowa and central and southern Illinois. This collaboration will provide a health care model to employers, which will help reduce health care costs, improve quality of care, and enhance the patient experience. During the same month, the company and Orlando Health collaborated and introduced Aetna Whole Health, a health care product, in Orlando. This product will offer its members with high-level coordinated care from about 3,100 providers, which includes 2,500 specialists, 600 primary care providers, thirteen hospitals and 18 urgent care centers. The new product will be available to self-funded and fully insured employers with more than 100 employees in Lake, Orange, Osceola and Seminole counties effective June 1, 2018. In February 2018, the company partnered with St. Luke's Health Partners

to introduce Aetna Whole Health product in Idaho. The new product will help in enhancing patient outcomes and better manage health care costs for employers.

Positive Outlook for Health Insurance Category in the US

Positive outlook for health insurance will provide ample growth opportunities to the company. According to in-house research, the gross written premium of the US health insurance category is expected to reach US\$936.5 billion in 2020. Large uninsured population, rise in chronic diseases, rising healthcare expenditure, increased number of accidents, and aging population are expected to be growth drivers for the segment in the future.

Threat

Competition

Aetna operates in a highly competitive health care benefits industry in the US, which may adversely affect its market share and profits. The company competes with various health care benefits companies based on the factors such as premiums charged and other terms and conditions offered, products and services provided, financial ratings assigned by independent rating agencies, speed of claims payment, reputation, selling effort, and perceived financial strength. Some of the major competitors of the company include UnitedHealth Group, Anthem Inc, Blue Cross and Blue Shield Association, Kaiser Permanente, and CIGNA Corporation.

Fluctuations in Interest Rates

Fluctuations in interest rates may have an adverse effect on the company's profitability. The company's investment portfolio contains interest rate-sensitive investments such as municipal and corporate bonds. Interest rates are highly sensitive to monetary policies of government, domestic and international economic and political conditions, and other factors beyond the company's control. Such volatile interest rates may impact the company's operating performance as its income and investment returns depend on the level of interest rates.

Government Regulations

The company's business is regulated at international, federal, state and local levels. The laws and rules governing Aetna's business and interpretations of those laws and rules are subject to frequent change. A few of the regulations include Health Insurance Portability and Accountability Act, Health Information Technology for Economic and Clinical Health Act and Gramm-Leach-Bliley Act among others. Existing or future laws and rules could force Aetna to change how it operates business; restrict revenue and enrollment growth; and increase health care, technology and administrative costs including pension costs and capital requirements. In addition, Health Care Reform subjects individual and small group policy rate increases above an identified threshold to review by the US Department of Health and Human Services and requires payment of premium refunds on individual and group medical insurance products if minimum medical loss ratio requirements are not met. Aetna must obtain and maintain regulatory approvals to market its products, and increase prices for its products and future acquisitions. Delay or failure to obtain

or maintain such approvals could reduce the company's revenue or increase its costs.

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