

Thomson StreetEventsSM



Conference Call Transcript

WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Event Date/Time: Jan. 25. 2006 / 8:30AM ET

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This transcript contains certain forward-looking information about WellPoint, Inc. ("WellPoint") that are intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical facts. Words such as "expect(s)", "feel(s)", "believe(s)", "will", "may", "anticipate(s)" and similar expressions are intended to identify forward-looking statements. These statements include, but are not limited to, financial projections and estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to future operations, products and services; and statements regarding future performance. Such statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of WellPoint that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include: those discussed and identified in public filings with the U.S. Securities and Exchange Commission ("SEC") made by WellPoint (formerly Anthem, Inc.), WellPoint Health Networks Inc. ("WellPoint Health"), and WellChoice, Inc. ("WellChoice"); trends in health care costs and utilization rates; our ability to secure sufficient premium rate increases; competitor pricing below market trends of increasing costs; increased government regulation of health benefits and managed care; significant acquisitions or divestitures by major competitors; introduction and utilization of new prescription drugs and technology; a downgrade in our financial strength ratings; litigation targeted at health benefits companies; our ability to contract with providers consistent with past practice; other potential uses of cash in the future that present attractive alternatives to share repurchases; our ability to achieve expected synergies and operating efficiencies in the WellPoint Health merger within the expected time-frames or at all and to successfully integrate our operations; such integration may be more difficult, time-consuming or costly than expected; revenues following the transaction may be lower than expected; operating costs, customer loss and business disruption, including, without limitation, difficulties in maintaining relationships with employees, customers, clients or suppliers, may be greater than expected following the transaction; our ability to achieve expected synergies and operating efficiencies in the WellChoice merger within the expected time-frames or at all, to meet expectations regarding repurchases of shares of our common stock and to successfully integrate our operations; such integration may be more difficult, time-consuming or costly than expected; revenues following the transaction may be lower than expected; operating costs, customer loss and business disruption, including, without limitation, difficulties in maintaining relationships with employees, customers, clients or suppliers, may be greater than expected following the transaction; our ability to meet expectations regarding the accounting and tax treatments of the transaction and the value of the transaction consideration; future bio-terrorist activity or other potential public health epidemics; and general economic downturns. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof. WellPoint does not undertake any obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures in WellPoint's and WellChoice's various SEC reports, including but not limited to Annual Reports on Form 10-K for the year ended December 31, 2004, and Quarterly Reports on Form 10-Q for the reporting periods of 2005.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

PLEASE NOTE: THIS TRANSCRIPT HAS BEEN EDITED FOR ACCURACY

CORPORATE PARTICIPANTS

Tami Durle

WellPoint - IR

Larry Glasscock

WellPoint - Chairman, CEO

Dave Colby

WellPoint - CFO

Joan Herman

WellPoint - Pres./CEO-Spec. Senior & State-Spon. Bus.

CONFERENCE CALL PARTICIPANTS

John Rex

Bear Stearns - Analyst

Joshua Raskin

Lehman Brothers - Analyst

Patrick Hojlo

Credit Suisse - Analyst

Ellen Wilson

Sanford Bernstein - Analyst

Matthew Borsch

Goldman Sachs - Analyst

Charles Boorady

Citigroup - Analyst

Scott Fidel

JPMorgan - Analyst

Carl McDonald

CIBC - Analyst

Ed Kroll

SG Cowen - Analyst

Christine Arnold

Morgan Stanley - Analyst

Michael Baker

Raymond James - Analyst

Lee Cooperman

Omega Advisors - Analyst

Doug Simpson

Merrill Lynch - Analyst

Justin Lake

UBS - Analyst

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

PRESENTATION

Operator

Welcome to the WellPoint conference call. At this time all lines are in a listen-only mode. Later there will be a question-and-answer session; instructions will be given at that time. (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded. I would now like to turn the conference over to the Company's management. Please go ahead.

Tami Durle - WellPoint - IR

Good morning and welcome to WellPoint's fourth-quarter earnings conference call. I'm Tami Durle, Vice President of Investor Relations, and with me are Larry Glasscock, our Chairman, President and Chief Executive Officer, and Dave Colby, Chief Financial Officer. Larry will begin this morning's call with an overview of our fourth-quarter and full-year performance as well as other recent developments, then Dave will review our financials in detail and discuss our financial outlook and updated guidance for 2006 including WellChoice.

I would also like to note that Joan Herman, our President and CEO of Specialty Senior and State-Sponsored Businesses, will be available to respond to questions you might have regarding our activities in Medicare.

Please note that the WellChoice merger closed on December 28, 2005. The December 31, 2005 balance sheet and membership information include WellChoice. For accounting purposes, however, the effective date of the merger is deemed to be December 31, 2005. Therefore the income statement and operating cash flow do not reflect any activity for WellChoice in 2005. Comparable based income statement metrics throughout our discussions today have been calculated by adding the historical information from the former Anthem Inc. and the former WellPoint Health Network Inc. and do not include WellChoice operations.

We will be making some forward-looking statements on this call. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of WellPoint. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to review the risk factors discussed in our press release this morning and in periodic filings we make with the SEC.

In addition, our discussion will include non-GAAP financial measures such as comparable basis information as defined under the SEC rules. As required by the rules, a reconciliation of those measures to the most comparable GAAP measure is available on our website at www.WellPoint.com. I will now turn the call over to Larry Glasscock.

Larry Glasscock - WellPoint - Chairman, CEO

Good morning, everyone, and thank you, Tami. 2005 was a very successful and eventful year and we are pleased to report outstanding results for the fourth quarter and the full year. Earnings per share were \$1.04 in the quarter and this included \$0.01 per share in net realized investment losses. This represents a 126% growth over the \$0.46 earnings per share in the prior year period. The fourth quarter of 2004 included a \$0.24 per share loss due to the repurchase of high coupon surplus notes and expenses of \$0.15 per share for merger related undertakings in California and in Georgia.

Excluding the items noted in each period, adjusted earnings per share increased 24% in the fourth quarter of 2005 over the prior year quarter. This performance marks the 17th consecutive quarter, every quarter since our initial public offering, that we have met or exceeded our earnings guidance. Our operating revenue was almost \$11.3 billion and that represents a 68% increase year-over-year and a 6% increase on a comparable basis. Comparable revenue increases were driven by disciplined pricing and membership growth and reflected changes in business mix towards more self-insured business.

With the addition of WellChoice our enrollment is 33.9 million members. The WellChoice merger added approximately 4.8 million members and organic growth was 81,000 members in the fourth quarter. That was led by state-sponsored business and national accounts. State-sponsored business increased by about 45,000 members sequentially due primarily to the county medical services program in California where we introduced managed care to cover medically indigent adults in 34 counties.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Our medical membership has increased by over 6.1 million members since December of 2004 and that represents a 22% increase. Year-to-date organic growth was almost 1.2 million members or 4.3%. With the WellChoice merger, as we had previously announced, we have reorganized now into three regions -- East, Central and West. WellChoice did not previously disclose Blue Card host members that access our networks from other Blue plans. Our practice is to eliminate overlapping Blue Card host membership where we are also the home plan. And this resulted in a net reduction of approximately 93,000 members from the mathematical addition of WellChoice and WellPoint. Regionally, then the Central and West regions lost 243,000 host members while the East region then gained about 150,000 members.

At December 31, 2005, after the WellChoice merger, our business was about 52% fully insured and 48% self-funded. At 12-31-2004 approximately 47% of our business was self-funded. Sequentially our proportion of self-funded business declined from 50% at 9-30-2005 as the WellChoice membership was 38% self-funded.

For the full year 2005 earnings per share were \$3.94 and that represents a 29% increase over 2004. This included \$0.10 per share for expenses related to the multi-district litigation settlement agreement, \$0.01 per share for realized investment losses and a \$0.04 per share tax benefit due to the favorable resolution of a tax matter relating to the sale of certain subsidiaries in the mid 1990s. The prior year earnings per share of \$3.05 included a \$0.30 per share loss due to the repurchase of high coupon surplus notes; expenses of \$0.20 per share for merger related undertakings in California and in Georgia; a tax benefit of \$0.14 per share and net realized investment gains \$0.09 per share.

In addition to our excellent financial results, in 2005 we achieved several very significant milestones that will help ensure our Company remains well positioned for growth in the years to come. We intensely focused on successfully integrating two large national organizations and achieving synergies while maintaining high of quality service. Since the effort in integrating Anthem and WellPoint Health Networks was proceeding so well in 2005, we were also able to acquire WellChoice knowing that two experienced management teams would be able to effectively integrate WellChoice.

On December 28, 2005 we completed the merger with WellChoice only 92 days following our announcement. The merger will strengthen our leadership in providing health benefits to national accounts. As you know, New York City is the headquarters of more Fortune 500 companies than any other U.S. city, and the merger gives us a strategic presence in this very important market. With Blue plans now in 14 states the combined company can offer large national employers leading local presence in more markets than any other health benefits company.

We see many other benefits from this combination -- the merger provides a seamless product offering in the Northeast and permits coordinated product development across bordering states as well as the opportunity for consolidated cross-border tiered networks. There are significant growth opportunities in every business segment including further penetrating specialty products. And of course there are the operational and cost savings to be realized.

WellChoice integration activities are, as you would expect, well underway with Dr. Mike Stocker already having appointed his senior leadership team for the East region. We continue to expect 25 million in 2006 synergies from the WellChoice merger with an additional 25 million each year, reaching 125 million then in 2010.

In addition to WellChoice we also completed two smaller acquisitions during 2005 (and two very important ones). In June, for example, we acquired Lumenos, a pioneer in the consumer directed health care arena. We continue to hear from our customers that they are looking for more innovative approaches to their health and health care and the approach Lumenos has taken in engaging customers strongly builds upon our efforts to expand consumerism that started with our Anthem by Design and Power Health Fund product portfolios. Our focus now is to introduce Lumenos products and services to our members and to further build an industry-leading consumer driven portfolio. At year-end we had about 507,000 consumer directed health plan members. In September we acquired Atrium Health Plan, a small regional health plan serving Western Wisconsin.

Very importantly, we also strengthened our physician relationships in 2005. In July we announced an agreement with representatives of more than 700,000 physicians nationwide resolving several class-action lawsuits filed in federal court. On January 4th of this year the judge issued a final order approving the settlement. The agreement, we believe, is an important step to further accelerate the Company's current efforts to work collaboratively with physicians to support the delivery of high-quality, affordable health care coverage.

During 2005 we also finalized our strategic plan that takes us, we think, very forcefully towards 2010. Our vision statement describes our aspirations for the future of our Company, what we want to do and what we want to be. Our vision for the future is that WellPoint will transform health care and become the most valued company in our industry. This statement is inspirational in that it recognizes the need for changes in health care and calls for WellPoint to play a leadership role in defining and driving this transformation.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

The vision is also aspirational, laying out an ambitious yet achievable goal of being the most valued company to all of our constituents -- shareholders, consumers, employers, providers as well as regulators, legislators and associates. We intend to clearly position our Company as the most trusted choice for consumers as well as the leader in affordable quality care.

Also during 2005 we launched our Centers of Business Excellence, or as known in our company as CBEs, to help us leverage the deep knowledge we have of our customers and markets in each of our geographic areas and to identify best practices and new opportunities to apply those practices across geographic markets. In their first year of operation the CBEs have implemented 17 quick win initiatives across the segments.

Here are just a few examples of our early CBE quick wins. One is high dollar production for groups. In the major/special CBE which covers employers with 100 to essentially 5,000 lives, we identified a more efficient, customer focused way to meet our employer groups' needs for financial protection. Because our self-funded employer groups assume greater financial responsibilities for their members' claims, they are exposed to a significant financial risk when faced with either unexpectedly high dollar claims per member or aggregated high claims utilization for their groups.

To mitigate our customers' financial risk WellPoint provides reinsurance offerings to these customers, helping them to secure additional financial protection in the case of higher-than-expected claims cost. Several WellPoint plants currently outsource these types of reinsurance offerings to external reinsurers. The CBE is leveraging the Virginia plan's in-house model for providing reinsurance in a more cost-effective and efficient manner to our customers. Focusing initially on the Georgia plan's reinsurance we renegotiated an early termination on the Georgia contract with their external reinsurer, enabling us to provide this in-house service in a more customer centric way.

We are providing our customers with efficient access to the protection they need and realizing a positive bottom-line impact for the Company as a result of this initiative. Similar results are expected as the CBE further extends this effort into other WellPoint states.

In another initiative, Connecticut for example, recently expanded its dental clinic network for Medicaid recipients into new areas around Hartford, further supporting our efforts to ensure our members have access to the care and services they need. Thanks to the State Sponsored CBE, we have been able to reach out to thousands of uninsured and underinsured individuals in the state of Connecticut and help them get the care they need. It was a great win both for WellPoint and for our members in Connecticut.

Now turning to address the issue of affordability and the uninsured, the Individual CBE quickly discovered a best practice in our California plan. Our Tonik plan, which we have talked about often, is a product specifically targeting uninsured people in their 20s. We have developed an online application process for Tonik that guides them through the process in language that resonates with this demographic group. Almost 60% of the applicants are auto underwritten and receive an instant decision on their application. The Individual CBE has launched the Tonik plan in Colorado, Texas and Illinois and is planning further rollouts this year. In the fourth quarter record individual sales were recorded in all three West region states of California, Colorado and Nevada.

We are continuing our efforts to reach uninsured Americans with affordable innovative health care coverage like our Tonik product where 69% of the applicants were previously uninsured. In 2005 we provided new individual policies to 378,000 people who had previously been uninsured. We view the uninsured population as a significant growth opportunity which we've talked about in the past.

While I'm on the topic of membership growth, let me just touch briefly on our first-quarter 2006 enrollment in a couple of areas of interest. Results to date in our national accounts business are better than we anticipated. We plan to add approximately 600,000 total national account members in the first quarter of 2006. This includes about 250,000 Blue Card members.

As part of our efforts to provide clear distinction for our products and services to large multi-state employers throughout the United States, last month we announced that all national account business will now be offered under the Anthem Blue Cross Blue Shield brand as Anthem National Accounts in the Company's Blue states. We chose this name because of the strong reputation that Anthem has earned in the marketplace for delivering quality affordable health benefits as a trusted choice for consumers. This unifying brand identity will help us create even further distinction in the marketplace for existing and potential national customers.

We also had a number of questions, as you would expect, about our Part D membership. In addition to more than 600,000 auto assigned enrollees, our Part D sales have been strong with 1.2 million total sales for January 1st. We continue to expect between 1.5 and 2 million Part D members in 2006. Beginning in the first quarter of 2006 Medicare Part D members will be reported on a new line item in the specialty metric section of our medical membership and specialty metric summary so that you will be able to track our progress.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Not only are we pleased with the sales volume we've had so far with Part D, but we are very proud of the public recognition we've received for our administration of the program. WellPoint is being viewed as part of the solution as reflected by the positive public comments from individuals at CMS and other key policymakers in Washington. WellPoint's proactive problem solving approach as well as our role as the facilitated enrollment vendor has positioned us as a company that's willing to help at a time when there is confusion in the marketplace.

In addition to growing our business, we are also focusing on our administrative expenses. The fourth-quarter 2005 SG&A ratio was 16.5%, 50 basis points lower than the fourth quarter of 2004. We achieved our goal of recognizing at least 50 million in synergies related to the Anthem WellPoint Health Networks merger during the fourth quarter and we expect synergies to continue to grow, totaling at least \$250 million in 2006.

We will continue to work to improve our ratio and administrative costs as a percentage of revenue while at the same time improving service to our customers. Initiatives like our one touch service program in Virginia and Georgia have increased customer loyalty, satisfaction and value while reducing cost and calls as a result.

We are also improving service and lowering cost through innovative tools like our award-winning Anthem.com Internet site. In November, for example, Anthem.com was recognized by eHealthcare leadership awards for having the best overall Internet site in the consumer healthcare category. WellPoint received a platinum award which is the organization's highest recognition. The program attracted nearly 1,200 entries, so this is an important recognition and it underscores the Company's leadership role as an innovator in the healthcare industry and our commitment to empowering customers through technology.

Our websites have also received recognition from Consumer Reports. Consumer Reports has included WellPoint on its trustworthy list of companies. Web Watch, which is published by Consumer Reports, has developed guidelines for improving website credibility, providing clear, concise and accurate information on our website is another way to demonstrate integrity and put the customer first.

Before I turn this call over to my colleague, Dave Colby, I want to acknowledge two people: Ben Lytle and Leonard Schaeffer, who have recently resigned from our Board of Directors. Ben, who retired as Chief Executive Officer of the Company in 1999, is leaving the Board in order to devote full time to his role as Chief Executive Officer of AXIA Health Management. Ben's career has been filled with many milestones that have created the strong foundation on which we continue to build.

Leonard resigned as Chairman of WellPoint's Board and as a Board member a year after the merger of Anthem Inc. and WellPoint Health Networks Inc. As our Board Chairman, Leonard Schaeffer helped guide the new WellPoint through this very important first year. I'm incredibly grateful to both of these men for their friendship, for their vision and for their leadership and I wish them well in their future endeavors.

By deciding not to fill these vacated positions the WellPoint Board has been reduced now to 16 members. It remains our goal to continue to reduce our Board's size over time, consistent with good governance principles. Let me now turn the call over to Dave Colby. Dave?

Dave Colby - WellPoint - CFO

Thank you, Larry. Talking about our fourth-quarter results, I am very pleased with our fourth-quarter 2005 earnings per diluted share of \$1.04, or \$1.05 if you exclude the realized investment losses. This is higher than our previous guidance of \$1.03 due to lower than expected medical costs resulting from a moderating trend and effective medical cost optimization programs.

The most significant driver of fourth-quarter year-over-year changes relates to the inclusion of legacy WellPoint Health Network operations following the November 2004 merger. As in our 2005 quarterly earnings call, my financial commentary this morning will compare current results to three full months of legacy Anthem and three full months of legacy WellPoint on a combined basis for the fourth quarter 2004 where appropriate. I will refer to this historical data as comparable basis information as more fully described in our press release.

Reconciliations of comparable basis information to the historical GAAP information of the legacy companies are available at our website -- WellPoint.com. As Tami noted earlier, comparable basis numbers exclude WellChoice.

With regard to premium revenue, it was 10.4 billion in the fourth quarter of 2005, an increase of 538 million or 5.4% on a comparable basis over the fourth quarter of last year due primarily to disciplined pricing. Membership gains in the individual/small group and senior business also contributed to the increase. Fully insured membership, excluding WellChoice, declined by 56,000 members or 0.4% from December 31, 2004 primarily due to the previously disclosed 140,000 member Georgia State Employee HMO conversion from fully insured to self-funded and the

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

sale of the 75,000-life Unity Health Plans. The marketplace continues to be competitive but generally rational. As always, we continue to remain very disciplined in our underwriting and pricing.

Administrative fees were 707 million in the fourth quarter 2005, an increase of 77 million or 12.2% on a comparable basis over the fourth quarter of 2004 due primarily to large group and national account membership growth including the State of Georgia HMO employees. Self-funded membership excluding WellChoice increased by 1.4 million members or 10.7%.

The benefit expense ratio was 80.1% in the fourth quarter of 2005, 110 basis points favorable to the fourth quarter of 2004 on a comparable basis. During the fourth quarter medical trends continued to moderate and medical trend in 2005 was just less than 8.5%. For the full year 2005 the benefit expense ratio declined by 50 basis points demonstrating our disciplined pricing philosophy.

The primary driver of medical trend was outpatient expenses. Our contracting and medical management programs continue to be successful and some of the synergies related to the merger have reduced medical costs. With regard to outpatient services, the trend is approximately 85% cost related and 15% utilization related. Outpatient utilization trend is slowing due in part to the numerous initiatives we have, including our radiology management program that continues to be very successful. We are now expanding this program in California.

The inpatient medical trend is unit cost driven with admissions per thousand members flat and days of care per thousand members down slightly. In addition to effective unit cost contracting, we are using nationally recognized programs to reward quality outcomes. In the fourth quarter Anthem Blue Cross and Blue Shield in Indiana, Kentucky and Ohio received a national award from researchers at Harvard Medical School and the Blue Cross Blue Shield Association. The Blue works program is showcasing Anthem's hospital quality program as a top program among Blue Cross and Blue Shield plans throughout the country that effectively keeps quality healthcare affordable.

The pharmacy cost trend continues to moderate and is about 45% cost related and 55% utilization related. We have generic use of approximately 53% and generic use should continue to grow with the soon-to-be available generic Zoloft for depression in April 2006 and generic Zocor for cholesterol management in June 2006. Both are world-class drugs and are in classes that together represent 18% of our prescription drug spend. For generic Zocor, our second set of member announcement letters were mailed this quarter announcing the waving of copayments for four to six months when a generic is available. Generic Zoloft letters are in development.

The physician trend is evenly split between cost and utilization and remains relatively stable. The selling, general and administrative expense ratio in the fourth quarter of 2005 was 16.5%, 20 basis points higher than the fourth quarter of 2004. This increase reflects more than 29 million of Part D marketing expenses, some higher incentive compensation accruals due to financial results achieving expectations, and the growth in our self-funded membership which runs a higher SG&A ratio. Collectively these items offset increased efficiencies in our administrative cost structure including realization of merger synergies. Sequentially the SG&A ratio declined by 10 basis points and SG&A expenses were actually lower sequentially on a per member, per month basis.

Turning to our segments, in the fourth quarter of 2005 operating revenue in our healthcare segment was almost 10.8 billion, an increase of 636 million or 6.3% on a comparable basis over the fourth quarter of 2004 led by individual/small group and large group. Our operating gain was 896 million in that segment, an increase of 112 million or 14.2% on a comparable basis. The operating gain improvement was driven by our large group and individual/small group businesses reflecting disciplined pricing and successful cost optimization activities. The healthcare segment operating margin improved to 8.3%, a 60 basis point increase when compared to the fourth quarter of 2004.

In our specialty segment, fourth-quarter 2005 operating revenues was 749 million, an increase of 58 million or 8.4% on a comparable basis over the fourth quarter of 2004 due primarily to growth in our specialty drug pharmacy. Operating gain in Specialty was 150 million, an increase of 18 million or 18.5% on a comparable basis over the fourth quarter 2004 due primarily to our PBM and behavioral health businesses. Our largest specialty business is our PBM and our PBM prescription volume increased to 91.8 million scripts in the fourth quarter of 2005, 3.2 million higher than the fourth quarter of last year and an increase of 7.1 million prescriptions sequentially.

The behavioral health business increased by 1.9 million members or 13.5% sequentially due primarily to the transition of Blue Cross Blue Shield of Georgia members from an outside vendor. The savings from this move have exceeded our initial estimates. Our specialty businesses generally have higher margins than our health businesses and we expect continued growth in these businesses.

Now moving to the balance sheet. Cash and current investments were 19.5 billion at December 31, 2005, an increase of 4.5 billion from year-end 2004 primarily due to the addition of WellChoice, strong cash flow and effective investment portfolio management. At year-end 2005 we had about \$2.5 billion of cash at the corporate parent level. Goodwill and other intangible assets increased by 4.9 billion during the year primarily due to the acquisition of WellChoice. Our total assets were 51.4 billion at December 31, 2005, up 11.7 billion from year-end 2004.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Medical claims payable were 4.9 billion at December 31, 2005, a \$721 million increase from year-end 2004, again due primarily to the addition of WellChoice. Our days in claims payable, excluding WellChoice, were 45.7 days at December 31, 2005, a decline of one day when compared with September 30, 2005. Days in claims payable declined one half day due to reduced claim cycle times, about two tenths of a day due to the timing of our PBM claim payments and miscellaneous other items accounted for the remaining 0.3 day decline.

We have included in our press release a reconciliation and roll-forward of our medical claims payable reserves from the past three years. It continues to demonstrate the adequacy and consistency of our reserving practices. I do want to highlight that on a comparable basis, 2005's prior year redundancies in the current period as a percent of prior year net incurred medical claims are 2.1% and that is very consistent with prior years.

The schedule also demonstrates that we are paying claims at a faster rate. The amount of claims paid in the current year resulting from claims incurred in the current year has increased from 87.3% in 2004 to 88.2% on a comparable basis in 2005. The increase is primarily attributable to our systems auto-adjudication capabilities and improved electronic connectivity with our provider networks. The result is our ability to pay claims quicker and have more current data for actuarial analysis.

A long-term debt of 6.3 billion at year-end increased by 2 billion from 2004 year-end due primarily to financing of the WellChoice merger. Our debt to capital ratio at the end of 2005 was 21.4% compared to about 18.5% at the end of 2004. Our operating cash flow was \$1 billion in the fourth quarter of 2005, 1.5 times our net income during the quarter and indicates the strong quality of earnings. For 2005 operating cash flow totaled 3.3 billion.

During the quarter we did not repurchase shares due to trading restrictions during the process of closing the WellChoice merger. We now have \$2 billion in share repurchase authority and will resume our share buyback program shortly.

Let me turn now to 2006 guidance now that the WellChoice transaction has closed. Please note that we are continuing to adjust some line items to assure consistency, so there may be some movement from one line item to another, but this should have no bottom-line impact. We expect 2006 earnings per share to be around \$4.54 on a GAAP basis. This includes \$0.20 per share in stock option expense as we implement FAS 123(R) and assumes \$2 billion of share repurchases in 2006. This compares to full-year 2005 GAAP earnings of \$3.94 that included \$0.10 per share for the multidistrict litigation settlement expenses and \$0.01 per share for net realized investment losses, and a \$0.04 per share tax benefit due to the favorable resolution of a tax matter. Our long-term earnings per share target continues to be at least 15% growth annually.

We anticipate growth of approximately 1 million members in 2006 or about 3%. This is consistent with our long-term model that expects annual growth to continue at a pace of 3 to 5%, but is a little lower than 2005 due to the loss of the State of Georgia PPO account. Fully insured membership is expected to grow to about 18.1 million members and self-funded membership is expected to reach approximately 16.7 million members. We expect 2006 premium revenues of \$53 billion. This growth is due to the higher membership and our disciplined pricing. We expect administrative fee revenues of about 3.5 billion and other revenue is expected to reach 800 million.

Our net investment income is expected to be around 790 million in 2006. Our benefit expense ratio should be around 81.5%, reflecting the addition of WellChoice which has a slightly higher medical care ratio than the former WellPoint, with first quarter 2006 through the third quarter in the 81.3 to 81.5% range, increasing to 82.1% in the fourth quarter reflecting seasonality in meeting deductibles and more rate increases scheduled early in the year.

In terms of our cost of care trend, we continue to believe that it should decline by approximately 50 basis points and be just under 8% driven by new benefit designs, business mix and further success in our care management programs. Our SG&A ratio should continue its meaningful decline, falling 60 basis points from 16.3% in 2005 to the 15.7% range in 2006 with the first quarter at 15.9% declining to 15.1% by the fourth quarter of 2006. Selling expenses will comprise about 2.9% of operating revenues.

As we have previously mentioned, an additional 100 million in synergies from our Anthem-WellPoint Health Network merger has been assumed in 2006 as well as 25 million in WellChoice merger synergies. Cost of drugs sold should reach about \$330 million in 2006. Amortization of intangible assets is projected to be around 320 million in 2006 and we anticipate interest expense to be about 400 million, higher than last year primarily due to WellChoice merger financing costs. Our effective tax rate for 2006 is anticipated to be 37.6% and our first-quarter earnings per share our expected to remain at \$1.07.

We expect cash flow from operations to exceed net income and be over \$4 billion. Our priorities for cash flow remain unchanged. We will invest in our existing operations to further support growth, make opportunistic acquisitions, repay some debt and have cash available for share repurchases.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Let me now just make some concluding remarks because 2005 was a great year for WellPoint. Some of the accomplishments I am most proud of include our 2005 adjusted earnings per share of \$4.01 (when you exclude the \$0.10 multidistrict litigation settlement, the \$0.04 per share favorable tax ruling and the net realized investment losses of \$0.01) exceeded our original 2005 guidance of \$3.88. During 2005, WellPoint stock price increase by 39%, while our forward PE increased from 14.9 times to 17.4 times, below the average for the managed care industry, which gives us room for more stock price appreciation.

We successfully integrated two large companies and completed additional acquisitions such as WellChoice and Lumenos that should enhance shareholder value. Also, in a very competitive market, we achieved our 3 to 5% membership growth while achieving significant synergies and maintaining our service levels. With 2005 operating cash flow of 3.3 billion and almost 2.5 billion in cash at the parent holding company level, we are well-positioned to complete our proposed share repurchases and still have the financial flexibility to take advantage of new opportunities.

Finally, we have great growth opportunities for 2006 in a number of areas and not just in one customer segment. Our senior business will see growth with the addition of Medicare Part D and expansion of Medicare Advantage. Our national account business will grow because of the value we can deliver to these customers in terms of service, networks, and innovative products like our Lumenos consumer-driven health plans. Our state-sponsored product business will grow as states continue to move toward managed care alternatives to deal with rising Medicaid budgets. Our individual businesses will grow as we continue to roll out new products like Tonik that target the uninsured population. In each of the last two years, we have enrolled almost 400,000 individuals per year who were previously uninsured. Our small group business will grow as we introduce more cost-effective plan options targeted at the 46% of small employers who do not offer health benefits to their employees.

Although 2006 will be a tough year to top, I feel very good about the momentum that we have going into 2006. I am very proud of the leadership team we have put together at WellPoint, and especially the hard work of all of our associates who made 2005 a great success. With that, I will now turn the call back over to Larry.

Larry Glasscock - WellPoint - Chairman, CEO

Dave, thank you very much. Before we begin our question-and-answer session, I need to unfortunately announce that Tami Durlé has decided to leave WellPoint to pursue other opportunities. I do, however, want to thank Tami for her efforts in building our first-class Investor Relations function from scratch. When Tami joined us, as many of you know, we were still a mutual company getting ready to do our IPO, and we really brought Tami on-board to help us make that happen. And she was absolutely instrumental in the success of the IPO and then our transition, obviously, from a mutual to a shareholder-owned company.

Tami has been just an incredible contributor, and I want to express my appreciation to her. She will be leaving early in February and, obviously, we will miss her and we wish her well. Effective with Tami's departure, Wayne DeVeydt, who many of you will get to meet -- he is currently our Senior Vice President and Chief Accounting Officer and will continue in that role, but he will also add the oversight role of the Investor Relations function to his current responsibilities.

Again, I would be happy now to open the call up for questions.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). John Rex, Bear Stearns.

John Rex - Bear Stearns - Analyst

Larry, I was wondering if you could just roll us forward a little bit on your updated January '06 enrollment. If our recall correctly, at the December investor day you were talking to 240,000 and you're talking 600,000 now. Does the 240,000 include the Blue Card assumptions and maybe how much is WellChoice? Is there just a way you can roll us forward on that what the change was?

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Larry Glasscock - WellPoint - Chairman, CEO

Sure, the number in total that we're talking about, as I mentioned, John, is 600,000. Those are total national account members. And what that includes then is for WellPoint 250,000 members in the first quarter; obviously now we've added WellChoice, that's about an additional 100,000 members; and then Blue Card, which may be the number you're remembering, will also be about 250,000 members. So if my math is correct that gets to about 600,000.

Dave Colby - WellPoint - CFO

I think, John, at our investor day we were just talking about our home membership of the 250,000 or 240,000 that we're going to add, and we're doing slightly better than that.

John Rex - Bear Stearns - Analyst

Okay, great. And just rolling forward the WellChoice membership from the 3Q, am I correct in assuming we need to eliminate the dental membership that WellChoice included there?

Dave Colby - WellPoint - CFO

That is correct. You'll find that I think WellChoice included the 265,000 of dental members that we break out in the press release as medical members. We moved that down below to the specialty metric line.

John Rex - Bear Stearns - Analyst

Okay. So it would look like it would be (multiple speakers)?

Dave Colby - WellPoint - CFO

WellChoice did have growth in the fourth-quarter membership.

John Rex - Bear Stearns - Analyst

Great, thank you.

Operator

Josh Raskin, Lehman Brothers.

Joshua Raskin - Lehman Brothers - Analyst

Good morning. A question on the medical cost trend. You mentioned further moderation, it still sounds like we're in the 8.5% range and I think in the press release this quarter you mentioned outpatient and inpatient whereas last quarter you had just mentioned outpatient. Should we read into that an uptick in the inpatient cost or is that just as the cost trend generally is declining it's now showing up as a bigger driver? And then I have a follow-up.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Dave Colby - WellPoint - CFO

Josh, I think to set it straight, what we had said last quarter was the two drivers were outpatient and inpatient and that was only because pharmacy trends had finally moved down below inpatient and inpatient is a larger percentage of our spend -- or they actually came pretty comparable -- but inpatient being a larger percentage of our medical costs we listed those too.

It's not so much that inpatient is picking up. Inpatient has been pretty stable in the mid to upper single digits, it's just that we've had pharmacy come down. Outpatient continues to be the number one driver and it's the one that we are very focused on and Dr. Nussbaum with the many initiatives from different contracting to things like our radiology management program are things that we're doing to try to bring that down.

Joshua Raskin - Lehman Brothers - Analyst

That's helpful. And then Dave, could you just quantify what your expected impact from repurchases is in the new guidance?

Dave Colby - WellPoint - CFO

Well, as we said, the WellChoice deal in and of itself was going to be relatively neutral to our earnings. With the \$1 billion share buyback, where we're using what was WellChoice's cash the transaction was \$0.03 accretive. So if you go through the mathematics, buying back \$1 billion in shares depending on what happens to the stock price, will get you right around that \$0.03 range.

Joshua Raskin - Lehman Brothers - Analyst

So \$0.03 is what you have basically in your new guidance?

Dave Colby - WellPoint - CFO

In the new guidance -- that includes the WellChoice deal. And again, the WellChoice deal had \$1 billion of cash to use.

Joshua Raskin - Lehman Brothers - Analyst

All right, thanks.

Operator

Patrick Hojlo, Credit Suisse.

Patrick Hojlo - Credit Suisse - Analyst

One question on the guidance. You, during the investor day, talked about \$0.18 of options related to expense. Current guidance talks about \$0.20. Is that simply the impact of WellChoice being rolled into the guidance now?

Dave Colby - WellPoint - CFO

That is exactly right. We have now a higher number and even with the additional shares, so now we're talking about a little over \$200 million of expense and that will translate into \$0.20.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Patrick Hojlo - Credit Suisse - Analyst

Let me follow-on Josh's question. The assumption for share buy back is simply a linear buyback throughout the year or is it in the front half or how do you look at it?

Dave Colby - WellPoint - CFO

Right now we're assuming it comes throughout the year.

Patrick Hojlo - Credit Suisse - Analyst

Okay. And one last question. Any signs yet of a positive impact in your dual eligible enrollment from the fact that you are a default plan for those dual eligibles that "fall through the cracks"? One might conclude from the coverage you've seen in the media and the commentary we've gotten elsewhere that there are more dual eligibles that have "fallen through the cracks" than perhaps expected.

Dave Colby - WellPoint - CFO

I will let Joan answer about some of the things we're doing to help there.

Joan Herman - WellPoint - Pres./CEO-Spec. Senior & State-Spon. Bus.

We do think we will get some. We are seeing activity through the facilitated the enrollment. Exactly how much -- well, let's put it this way, we know we've paid quite a few scripts on these people. We are getting some. In terms of saying how many are actually going to end up our members -- because that has to go through a verification process with CMS and their vendor, we don't have an exact number of how many of those will actually end up additional members, but we definitely will get some.

Patrick Hojlo - Credit Suisse - Analyst

Okay.

Dave Colby - WellPoint - CFO

We are certainly paying more claims, it's just that for some of them, we will seek reimbursement from other plans.

Joan Herman - WellPoint - Pres./CEO-Spec. Senior & State-Spon. Bus.

Right.

Patrick Hojlo - Credit Suisse - Analyst

That being said, any increase in expected G&A spending Medicare related this quarter?

Joan Herman - WellPoint - Pres./CEO-Spec. Senior & State-Spon. Bus.

I think that there certainly -- we as everybody else are seeing higher phone volumes and taking action to deal with that and that will have some impact. I don't know that it will be material in the overall scheme of things, but obviously there is much more phone activity.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Patrick Hojlo - Credit Suisse - Analyst

Thanks for the detail.

Operator

Ellen Wilson, Sanford Bernstein.

Ellen Wilson - Sanford Bernstein - Analyst

Thanks. I have a capital structure question which is basically when I model through the \$2 billion in share repurchase that you're now guiding to, it still looks like you're going to be overcapitalized by year-end. I'm coming up with like an 18 to 19% debt to cap again by year-end and the continuation of a really low ROE versus the sector. So I guess kind of related to that, a couple things. What is your target debt to cap at this point and how do I think about the time frame that you're going to get there?

Dave Colby - WellPoint - CFO

Well, I think that if you do go through the math you are correct, our debt to total cap right now is 21.4% and basically even with \$2 billion worth of share buybacks given our earnings we would expect to stay relatively close to that number and actually come down a little bit. Obviously we have a \$2 billion share buyback announced, that's what the Board has authorized, but we have \$2.5 billion of cash at the parent level right now and we certainly will generate cash flow, as we've said, in 2006.

So we're going to have to look at our capital structure. It's something that our Board is very keen on and on top of. And we also have to see what other opportunities come out in a consolidating industry to make sure we have the financial flexibility to pursue that. We are always going to have a slightly, I think, lower return on equity because of the Blue Cross Blue Shield license and the required surplus levels that will tend to be higher than what regulatory capital is because of the promise of the Blue brand of financial security.

Ellen Wilson - Sanford Bernstein - Analyst

Sure, but even with that, is there any reason though that your ROE at around 12% is the lowest in this sector? Does there need to be that much of a gap on a normalized basis between you and peers or is part of that a recapitalization opportunity?

Larry Glasscock - WellPoint - Chairman, CEO

Ellen, I would just add that, remember, we have been out of the market for a huge portion of 2005, so we haven't been able to buy stock in any meaningful way for a very long time. I think what you can take from that is we have the authorization from the Board, the Board will continue to review our capital plan as part of that. They obviously will look at our return on equity performance and balance that against the requirements that we have from the license agreement where we need to have somewhat higher capital levels and also the outlook for potential affiliations in the future.

Ellen Wilson - Sanford Bernstein - Analyst

Okay, thank you.

Operator

Matthew Borsch, Goldman Sachs.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Matthew Borsch - Goldman Sachs - Analyst

My question was on your outlook for enrollment. And it looks like you're talking about the 1 million new members being approximately evenly split between self-insured and fully insured, if I got that right. So I'm wondering if you could give us some sense of how much of the roughly half million in growth in insured lives you expect to come from senior versus state-sponsored versus commercial?

Dave Colby - WellPoint - CFO

We don't go into membership guidance by segment, but we did point out at our investor day that in that 3 to 5% enrollment target certainly we have some segments like senior and state-sponsored programs that may be toward the higher end of that. But we are seeing very good growth in individual too.

Matthew Borsch - Goldman Sachs - Analyst

Okay, let me try it a different way. For the enrollment growth that you expect in the first quarter, you mentioned the 600,000 in national accounts. Can you talk to what the total enrollment expectation is for first quarter and how much of that you think is going to be insured versus self-insured?

Dave Colby - WellPoint - CFO

I think most of the growth that occurs in the first quarter is always self-insured growth. The insured growth comes in more evenly throughout the year, mainly because of national accounts. But we really don't go into quarterly progressions of expectations on membership growth.

Matthew Borsch - Goldman Sachs - Analyst

Okay, let me try this one. Can you give us some sense of what you're expecting for Medicare advantage versus Medicare supplement and where that stands now?

Dave Colby - WellPoint - CFO

I think we are expecting our total Medicare advantage lives to reach about 330,000 I think -- I'm pretty sure that's the right number when you include WellChoice.

Operator

Charles Boorady, Citigroup.

Charles Boorady - Citigroup - Analyst

Good morning. You had a lot of questions on cash this morning because you've got 2.5 billion at year-end, you're going to be generating 4 billion operating cash flow, got excess from the subs, you're below your target debt to cap -- and so it sounds like you want to prudently maintain flexibility. Can you talk about dividend policy? Is there any update since you last commented on that? And will the Board be revisiting the Company's dividend policy at any point in the near future?

Larry Glasscock - WellPoint - Chairman, CEO

Charles, in terms of the Board, we present to them consistently what we call the capital plan. And as part of that they look at the share buyback, they look at the issue of dividend and that will be on the Board's agenda during the course of 2006, just as it was during 2005.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Charles Boorady - Citigroup - Analyst

Is that a quarterly, Larry, conversation that's had with the Board or is there a specific Board meeting where the dividend policy in particular will be discussed?

Larry Glasscock - WellPoint - Chairman, CEO

We're not in the habit of giving our Board agendas for each meeting, but we obviously have a scheduled time at which we review the policy. And then we come back and revisit it from time to time during the course of the year.

Dave Colby - WellPoint - CFO

Our capital plan is a living document. It changes periodically as we do transactions like WellChoice.

Charles Boorady - Citigroup - Analyst

Right. I'll stop complaining about all the cash you have and just ask about Medicare Advantage enrollment. If WellChoice's enrollment was stated on the same basis for the fourth quarter, as Dave stated, in the third quarter, because if so it looks like it grew by 145% sequentially if I'm reading that right. Was there a change in the enrollment counts or did they understate their third quarter? Because they reported 60,000 in the third quarter, you've got 147,000 seniors in their fourth quarter?

Joan Herman - WellPoint - Pres./CEO-Spec. Senior & State-Spon. Bus.

I think that it may be that the 60,000 number may be Med Advantage and the other may be Med Supp and Med Advantage combined for WellChoice.

Charles Boorady - Citigroup - Analyst

Do you have a comparable number to the 147,000 at year-end - what their third quarter would have been just so we could see how that's sequentially trending?

Dave Colby - WellPoint - CFO

I think we'll probably have to get that to you.

Charles Boorady - Citigroup - Analyst

Okay, great. Thanks.

Operator

Scott Fidel, JPMorgan.

Scott Fidel - JPMorgan - Analyst

My question had to do with the specialty business which looked like the operating margins accelerated nicely there in the quarter. And just wondered how much of that is being driven by the movement of the behavioral in-house. And over the next couple of years as you look to move more of that in-house, for example the Midwest division, should that drive margins in the specialty business upwards still?

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Larry Glasscock - WellPoint - Chairman, CEO

Well, let me take a stab at that. First of all, the nice thing about our specialty business is, first of all, they're under Joan's leadership and she's doing just a terrific job there. And the good news is that the operating gain increase, a very substantial sequential gain, is really due not to any single item. It's our results in dental, our PBM and also our life and disability business. And we had, as you saw, increased script volume in our PBM operation, so the good news is it's across a number of dimensions.

Scott Fidel - JPMorgan - Analyst

Okay. And just a quick follow-up around Medicaid in Nevada, if you could just provide us with an update. I know there's been some confusion around the RFP awards out there?

Larry Glasscock - WellPoint - Chairman, CEO

Well, they decided to reissue.

Dave Colby - WellPoint - CFO

They have cancelled the awards and are going to redo the RFP and we'll bid on the new RFP when it comes out.

Scott Fidel - JPMorgan - Analyst

Okay. Do you have any expectations of when the new one will be announced?

Larry Glasscock - WellPoint - Chairman, CEO

I don't. Joan, do you have any sense?

Joan Herman - WellPoint - Pres./CEO-Spec. Senior & State-Spon. Bus.

I don't have an exact date. We'll have to get back to you on that - I don't know if we've been told an exact date. We'll have to get back to you on that.

Scott Fidel - JPMorgan - Analyst

Okay, thanks.

Operator

Carl McDonald, CIBC.

Carl McDonald - CIBC - Analyst

Could you walk through the expected 100 basis point deterioration in the MLR next year, how much of that is related to WellChoice and say the higher MLR New York City, New York State? And then also the contribution of the PDP which I assume also has a higher medical loss ratio?

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Dave Colby - WellPoint - CFO

I think if you remember our conversation at our investor day, we had the medical care ratio for pre WellChoice, WellPoint going up about 20 basis points, that was primarily due to just the mix of a little bit stronger growth in Part D and Medicare Advantage that runs a slightly higher medical care ratio. The remainder of the difference with this guidance is purely the mathematical addition of WellChoice which should have a fairly consistent benefit expense ratio.

So there is nothing other than a slight mix change that causes a little bit, but the vast majority of it is just the mathematical addition of WellChoice's higher ratio. I will also go back and answer a question for Charles Boorady who wanted to know what the senior membership would have been third quarter for WellChoice if you included the Supp, and that's 148,000.

Carl McDonald - CIBC - Analyst

Great. And then could you just clarify whether your first-quarter earnings guidance assumes that the PDP is accounted for on a GAAP basis or on a matching of the revenue and expenses? Do you expect to report a big loss on the PDP first quarter or do you think the earnings will be fairly smooth?

Dave Colby - WellPoint - CFO

It is based on the seasonality that we expect on a GAAP basis. We are used to seasonality, we do a lot of Medicare supplement which has seasonality and that's what we have baked in. The problem with trying to use for even management reporting any sort of annual average basis is that the fact of the matter is if a Medicaid Part D beneficiary signed up in January and unfortunately passed away in May, you only have the January through May experience and we're never going to see revenues for May through December. So I'm not sure why you would average.

Carl McDonald - CIBC - Analyst

Got it. Thank you.

Operator

Ed Kroll, SG Cowen.

Ed Kroll - SG Cowen - Analyst

Good morning. What kind of growth are you anticipating in the consumer directed membership in 2006? I think Larry said you ended '05 at 507,000 members.

Larry Glasscock - WellPoint - Chairman, CEO

I did say that and we are expecting -- we haven't given a specific guidance around any product, but we do expect obviously continued growth here. And part of that has to do with if you go back, and we've discussed this in the past -- if you just look at our RFP performance for consumer directed options, 75% of all of those proposals requested detailed information about consumer directed capabilities.

I've been out making customer calls, as you would expect, and I see a lot of enthusiasm around this productline. And so I think we're going to see ongoing growth. I think it will be across a number of areas. It won't be just HSAs, I think it will be HRAs as well. So we really like our capabilities here. Lumenos is everything we expected it to be and more. We're very pleased that we've been able to, first of all, get that done very timely and then also really keep all of the leadership there. I'm very proud of the work they're doing. I've been out and called with them recently, so I'm very optimistic about our ongoing performance here.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Ed Kroll - SG Cowen - Analyst

And some surveys have suggested that 2006 will be something of an inflection point for the consumer driven movement, if you will. Is that what your people are seeing in the marketplace?

Larry Glasscock - WellPoint - Chairman, CEO

I don't know that I would call it "inflection point". I think employers want to see obviously more and more evidence that this truly makes a difference. And we're able to present more and more of that evidence as we have additional experience. So it's very clear that we have a number of companies now that are offering it on an optional basis. We have more and more thinking about do we want it to be full replacement and they just want to have more experience with it.

Operator

Christine Arnold, Morgan Stanley.

Christine Arnold - Morgan Stanley - Analyst

Could you talk a little bit about your recontracting on the provider side? Where do you stand in eliminating percent-off-charges kinds of contracts? Where does that stand versus a year ago? And how much potential is there to bring down trend with that going into 2006?

Dave Colby - WellPoint - CFO

Right now on the hospital side 88% is based on some sort of fixed fee basis. For the year prior I don't have that number, but I can probably try to get it for you, Christine. But obviously it is increasing and it continues to be our goal of moving that way. I think certainly network contracting continues to be something that we're focused on and it's one of the ways we kept the trend on inpatient cost trends relatively stable over the last couple of years.

Christine Arnold - Morgan Stanley - Analyst

And just a follow-up, I didn't understand the answer to the question on PDP. Will PDP be a loss contributor in the first quarter, and if so how much do we get in first- to fourth-quarter swing?

Dave Colby - WellPoint - CFO

We don't go into, again, profitability of individual products. We had assumed seasonality in there that does show more expense early on. But I don't want to say it goes into a loss position.

Christine Arnold - Morgan Stanley - Analyst

Okay, thank you.

Operator

Michael Baker, Raymond James.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Michael Baker - Raymond James - Analyst

Just wanted an update on your uninsured initiatives. I know you've had success with young invincibles and early retirees. Are there other subsegments which you've identified and are you far enough along to give us a sense of how those are tracking?

Larry Glasscock - WellPoint - Chairman, CEO

Yes, Michael, we've really launched a number of products in the small group segment as well. One in particular is called BeneFits and it's really aimed at going after those very small groups that are currently uninsured. And we have products similar to that in other geographies as well. BeneFits that I referred to was launched in California and in the early days -- I don't have the absolute latest percentage on that -- but about 84% or thereabouts of the companies that we were selling that product to had previously been uninsured. So this is an effort that goes across the enterprise.

As you heard me say earlier, we're very proud of the fact that in the 12 months of '05 we had 378,000 policies that we sold to individuals who had previously been uninsured. We are focused on that segment, really across our entire set of products, not just the young invincibles but small groups, people that are not yet Medicare eligible would be another. So again, a pretty robust effort because we do see, as you look at the total uninsured across the country, about a third of those are in households that have incomes of \$50,000 or more and therefore, we think, they can afford some form of coverage and we're going after them very aggressively.

Michael Baker - Raymond James - Analyst

Thank you.

Operator

Lee Cooperman, Omega Advisors.

Lee Cooperman - Omega Advisors - Analyst

First, thanks for the very fine job you folks are doing in running the Company. You have all the attributes of a growth company except for the ROE, and there have been some questions around that subject, most notably by Ellen. Is the ROE a function of being a Blue, the competitive nature of the business or an overly conservative financial policy? And related to that, you talk about earnings growth targets very clearly. Do you have within the Company an ROE or ROC targeted return and a time frame where you expect to get there?

Dave Colby - WellPoint - CFO

Lee, that is a good question. There is some of the lower ROE that is based on surplus requirements by the Blue Cross Blue Shield Association, but it's not nearly as much as it is. I think Larry stated it correctly when he said that for the vast amount of time since October of 2003 when we first announced the Anthem-WellPoint transaction we've had very limited times when the windows have been open for us to buy back the magnitude of stock that we could. And you're going to see that accelerate now in 2006. That will certainly improve our return on equity which is a measure we look at. We certainly have targets for returns on any invested capital that we use for investing in our business or our acquisitions and we'd like to see our return on equity increase which I think it will over time.

Lee Cooperman - Omega Advisors - Analyst

Do you have a target?

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Dave Colby - WellPoint - CFO

I think that we ought to be able to get from the 12%, I'm not sure we'll get up to the 20% range, but somewhere in the 15 to 20% range ought to be a realistic number for us. But it will take some time to do. Right now, again as we said, our Board looks at dividends and share buybacks, but with the stock trading where it is and with over \$4 billion in operating cash flow, they believe that the best way to enhance shareholder value is through share buybacks.

Lee Cooperman - Omega Advisors - Analyst

I'll only tease you on this one, but the number has got to be about 4 or 5 or 6 billion. But you can't get to 6 billion until you get to 2 billion. So we'll just have to wait and watch. Good luck.

Larry Glasscock - WellPoint - Chairman, CEO

Thank you, Lee.

Operator

Doug Simpson, Merrill Lynch.

Doug Simpson - Merrill Lynch - Analyst

I was wondering if you could just talk about recent trends in the specialty drug area and your expectations looking out over the next 18 months in both your own book and the specialty business a little bit more broadly.

Dave Colby - WellPoint - CFO

I think the specialty products, when Larry addressed Scott Fidel's question on specialty, certainly our implementation of Specialty Pharma distribution has been one of our big growth opportunities and we think that there are tremendous opportunities in that business going forward. It is an area of trend that is growing at double-digit rates and it allows us to get more control over the actual utilization of Specialty Pharma along with capturing some of the profits on it. I don't know, Joan, who is responsible for our PBM -- I don't know if you want to make any comments on future growth opportunities there?

Joan Herman - WellPoint - Pres./CEO-Spec. Senior & State-Spon. Bus.

Obviously it is a very rapidly growing segment of the pharmaceutical industry, as you know. And of course we really just started up the second half of this year. So for us we expect a very significant increase in the business we're going to do through our own specialty pharmacy in '06 and expect that to be a very fast growth area for a while. Partly because, again, the overall industry is growing and then we're still in our startup mode and so we expect a lot of growth in that area. Then we think it will help the Company also in terms of the cost of care overall in that area as we do more of that in-house.

Doug Simpson - Merrill Lynch - Analyst

Great, thank you.

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Operator

Justin Lake, UBS.

Justin Lake - UBS - Analyst

First, just a quick numbers question. Can you update us on what you're expected year end '06 share count is from the assumed guidance?

Dave Colby - WellPoint - CFO

Yes, I can. Our fourth-quarter share count diluted is expected to be about 662 million.

Justin Lake - UBS - Analyst

Okay, what was your 12-31-05 share count?

Dave Colby - WellPoint - CFO

675 million.

Justin Lake - UBS - Analyst

Okay. And with the revised guidance, can you tell us what your expected year-end '06 share count is going to be as far as what you're embedding for your full-year share count?

Dave Colby - WellPoint - CFO

Full-year share count for '06 should be around 667 million.

Justin Lake - UBS - Analyst

Okay. And just a follow-on to the specialty drug question. I notice your cost of drugs declined in the quarter while your scripts were up pretty significantly. Can you talk about the current PBM trends you're seeing in regards to mail-order and generic utilization?

Dave Colby - WellPoint - CFO

Joan, do you want to talk about that?

Joan Herman - WellPoint - Pres./CEO-Spec. Senior & State-Spon. Bus.

We had good increases in mail utilization in the fourth quarter and our generic percent usage continues to improve. So both those things obviously contribute positively to the pharmacy trend. And obviously as the generic usage moves up, that's a very significant impact on trend if we're switching from brand to generic. So yes, that continues to help us and we expect, as Dave said earlier, with some of the drugs that are going to go generic next year, for that to continue into '06.

Justin Lake - UBS - Analyst

Okay. What's your generic utilization of the PBM now?

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

Dave Colby - WellPoint - CFO

About 53%

Justin Lake - UBS - Analyst

And just as a follow-up, can you discuss the current appetite from employers in regards to moving to mandatory mail in the future? Are you seeing that at all?

Joan Herman - WellPoint - Pres./CEO-Spec. Senior & State-Spon. Bus.

There's some. It's kind of mixed. There are people in the marketplace who are advocates of that, in terms of the consulting community. There are others who are less strongly in favor of it, so it's sort of a mixed bag. So we continue to see some movement in that direction but not a landslide. It's kind of a, as I said, mixed viewpoint among the consulting community as to whether they're advocating that or not. So we're seeing some but not a big shift.

Justin Lake - UBS - Analyst

Okay. And just finally from a financial perspective, when I look at your guidance I see your other revenues, which I normally think to be mostly PBM revenues, increasing almost \$200 million year-over-year from '05 to '06. And I see your cost of drugs increasing somewhere in the neighborhood of 40 to 50 million. I'm just wondering if you can give us some color on what the moving parts are there, why the tremendous sequential increase in what I would think would be PBM revenues?

Dave Colby - WellPoint - CFO

I think most of that has to do with the mix between our PBM and mail-order and the specialty distribution. I'll have to get back to you on the exact mechanism.

Justin Lake - UBS - Analyst

Okay, great. Thank you very much.

Larry Glasscock - WellPoint - Chairman, CEO

Thank you very much for the questions. In closing I just would say that we believe we're uniquely positioned to further capitalize on the potential that we see in our industry and obviously in our own company. We are the nation's largest health benefits company based on membership and we're very pleased with the geographic reach that we have that spans literally the nation from Maine, as you know, where we own the Blue Cross and Blue Shield company there, all the way to Blue Cross of California that's part of WellPoint.

And very importantly, we have the leading market share in 13 of our 14 Blue states. And we believe very strongly that this size and scale presents us with opportunities to really purchase good and services at a lower cost than many of our competitors. And it also allows us to spread administrative costs over a much, much larger membership base. So bottom line is we're very pleased with our performance to date. We're optimistic about our future. And again, we thank you for your interest this morning and we, as always, hope you have a great day.

Operator

Ladies and gentlemen, this conference is available for replay. It begins today at 1:45 PM Eastern Time through midnight, February 9th. You may access the AT&T executive replay service by dialing 1-800-475-6701 and entering the access code 810-505. International participants may call

Jan. 25. 2006 / 8:30AM, WLP - Q4 2005 WellPoint, Inc. Earnings Conference Call

area code 320-365-3944 and again enter the access code 810-505. This concludes your conference for today. We thank you for your participation and using AT&T Executive Teleconference. You may now disconnect.

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2005, Thomson StreetEvents All Rights Reserved.