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Conference Call Transcript

WLP - Q1 2005 WellPoint, Inc. Earnings Conference Call

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PLEASE NOTE: THIS TRANSCRIPT HAS BEEN EDITED FOR ACCURACY
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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the WellPoint, Incorporated Quarterly Results Conference Call. At this time, all participants are on a listen-only mode. Later, we will conduct a question-and-answer session. Instructions will be given at that time. If you should require assistance during this call, please press star, then 0. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your management team. Please go ahead.

Tami Durle - WellPoint, Inc. - VP, Investor Relations

Good morning, and welcome to WellPoint's First Quarter Earnings Conference Call. I'm Tami Durle, Vice President of Investor Relations, and with me are Larry Glasscock, our President and Chief Executive Officer; Dave Colby, Chief Financial Officer, and Joan Herman, President and CEO of Specialty, Senior, and State-sponsored Businesses.

Larry will begin this morning's call with an overview of our first quarter performance. Joan will then discuss how WellPoint will participate in the expanded Medicare program opportunities, and Dave Colby will conclude with a more detailed review of our first quarter financial performance.

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 other 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 these rules, a reconciliation of those measures to the most comparable GAAP measures is available on our website at www.WellPoint.com.

All per-share amounts presented this morning do not give effect to the stock split, which will be effective May 13, 2005.

I'll now turn the call over to Larry Glasscock.

Larry Glasscock - WellPoint, Inc. - President and CEO

Good morning, and thank you, Tami.

We are very pleased to report an outstanding first quarter of 2005, the first full quarter of our combined company following the merger with WellPoint Health Networks on November 30 of 2004.

In the first quarter, WellPoint reported GAAP net income of \$1.97 per diluted share, exceeding our prior guidance of \$1.82 per share. This is the 14th consecutive quarter, every quarter since our IPO, that we have met or exceeded our guidance.

As noted in our release, these results included 9 cents per share in tax benefits based upon the favorable resolution of a tax matter.

As a reminder, net income in the first quarter of 2004 was \$2.08 per share, which included 32 cents per share in tax benefits associated with a change in Indiana laws governing the state's high-risk health insurance pool and 15 cents per share in net realized investment gains.

Operating revenue reached an all-time high of almost \$11 billion in the quarter, a 145-percent increase year over year and a 9-percent increase on a comparable basis.

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Comparable basis information was calculated by adding the historical information for the former Anthem, Inc. and the former WellPoint Health Networks, Inc. Comparable revenue increases were driven by membership increases and disciplined pricing.

Our enrollment increased by 3 percent from year-end and now exceeds 28.5 million medical members as we added almost 800,000 new members in the first quarter of '05. This includes an industry-leading 635,000 new national accounts members. Our membership has increased by about 1.5 million members, or 5 percent, on a comparable basis, from March 31, 2004. Every region contributed to this growth, with increases ranging from 4 percent in the Central region to almost 8 percent in the West.

From a business mix perspective, approximately 49 percent of our membership was self-funded at March 31, 2005 and 51 percent was fully insured. The trend toward more self-funded business is due primarily to our success in attracting national accounts and other large employers, who generally self-insure their claims exposure. At March 31, 2004, 47 percent of our business was self-funded, on a comparable basis.

In addition to new accounts, we are continuing to see moderate in-group growth, a sign of positive economic growth. We have had excellent membership growth over the last year, and we are continuing to develop new products to keep our membership growing. We saw increases on a comparable basis for each customer type, as groups continue to be attracted by the broad Blue networks, attractive discounts, and the distinctive customer service that we offer.

Our national accounts customer service includes dedicated account teams, excellent client reporting capabilities, state-of-the-art technology, and competitive consumer-directed health plan options to help employers better manage medical trends.

We had over 20 new national accounts effective in the first quarter of 2005 and at least 1 more will be enrolling later this year.

Importantly, large group membership increased by 465,000 members, or almost 4 percent, since the first quarter of 2004 on a comparable basis, and we are continuing to develop and expand new products and more efficient networks for this market. These large group initiatives include AccessRx, which is a pharmacy plan that tiers co-payments based on prices for classes of drugs. This principal, called reference pricing, is popular in Europe. It was pioneered for WellPoint by our Georgia plan and will now be available for large groups in California as well.

Our Bariatric Surgery Center of Excellence is a new sub-network of providers specially selected for their ability to meet quality standards and deliver this surgery for morbidly obese patients in a cost-effective manner. The network is available to our ASO customers and is currently awaiting approval by the DMHC in California for insured business.

Care Advocate II is the working product name for a pilot program recently launched for a large customer. Utilizing the care advocates who telephonically consult with plan members prior to receiving certain health services, members receive higher benefits if they utilize efficient hospitals. These are hospitals that have been selected utilizing sophisticated episodes of treatment groups as having high quality and lower overall cost of care. This is just one example of how we are using our leading-market position and the largest repository of local claims data to reduce medical costs while improving the quality of healthcare services our members receive.

HMO Advantage is a new variable co-pay plan that has been approved for sale to large groups later this year in California. This product ties the members' co-payment to the relative cost of the medical group selected. In addition to cost savings, this plan alternative adds to our product portfolio that allows consumers additional choices.

Individual and small group business units, or ISG, added over 300,000 members, more than 6 percent on a comparable basis over the past 12 months. We are a recognized leader in the ISG market, and we are continually improving the products we offer.

We have a new plan called BeneFits. That's spelled B-E-N-E-capital F-I-T-S. The BeneFits portfolio makes it easier for small businesses to offer coverage to their employees. For this plan, for example, employer contributions are lower, employee participation requirements are reduced to 60 percent, and there are coverage options for part-time employees. We launched this plan in January, and so far, 84 percent of the groups buying BeneFits plans did not offer health insurance options for their employees.

Our innovative Tonik plans that were introduced late last year continue to attract previously uninsured members and have been receiving quite a bit of national publicity. It was recently featured, for example, on CBS Evening News and on The Daily Show With Jon Stewart. That is a very appropriate venue for this plan targeted for young invincibles in the 20- to 29-year-old range. The good news is that approximately 70 percent of Tonik members were previously uninsured, so we're reaching this market in a very meaningful way.

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By providing more attractive and affordable options to individuals and small groups, we can reduce the number of uninsured Americans while continuing our goal of profitable growth.

Membership growth is not a zero-sum game among our competitors. In 2004, we provided new individual policies to 375,000 people who had previously been uninsured. That is a very significant contribution to addressing this issue, and we are continuing our efforts to reach uninsured Americans with affordable coverage.

We have continued our success in administering Medicaid and children's health programs in a number of states as well. Our state-sponsored business increased by about 35,000 members, or 2 percent on a comparable basis over the last year, despite tighter eligibility requirements in most states.

The Medicaid population is one where managed care principles and implementation can both lower costs and improve care. The Medicaid population typically gets very high cost episodic care through hospital emergency rooms and a lack of preventative care. In line with our California Medicaid experience, we can provide better quality care for these members, including much better preventative care, higher immunization levels, and better prenatal care, leading to fewer premature births, thus providing higher quality care at a lower cost.

We expect a number of states to expand or adopt Medicaid managed-care programs over the next few years to help alleviate budget concerns.

Georgia and Texas are currently exploring Medicaid managed-care options.

California Governor Schwarzenegger is proposing to expand Medi-Cal-managed care into 13 additional counties. The Governor is also proposing mandatory aged, blind, and disabled enrollment into Medi-Cal managed care.

We expect additional states, such as Ohio, Indiana, South Carolina, Colorado, and Florida to also consider their Medicaid managed-care options.

In addition to Medicaid, we also view the Medicare market as an attractive growth opportunity in the coming years. With the aging of the baby boomer generation, this market segment is going to continue to grow. Joan Herman will provide an update on our senior strategy and our participation in the new product opportunities presented by Medicare Modernization Act later on this call.

We have also introduced new products and we have some significant new customers in our specialty businesses.

SmileNet, the new WellPoint discount dental program for individuals and small groups, was launched in March. This program offers discounts through our PPO network of dental providers for a flat annual fee for individuals or a monthly fee for small groups. This offering represents an excellent lower-priced alternative to individuals or small groups who do not have dental coverage.

Our combined PBMs are growing not only in membership but also in marketplace visibility. We added several new full-service PBM clients, including Trustmark Insurance Company, with 300,000 members; Blue Cross Blue Shield of Rhode Island, with over 550,000 members; and BMW Corporation in collaboration with Unicare.

Sixty percent of our new national accounts in the first quarter of 2005 also chose the WellPoint PBM. These customers were attracted to our state-of-the-art PBM that includes excellent drug discounts and market-leading tools to assist our clients in predicting and managing pharmacy trend.

In addition to harnessing the power of information to reduce medical cost trend, we're also using our data to transform care. We compile medical data across the entire system, including hospitals, doctors' offices, pharmacies, and labs, and we translate that data into meaningful information for consumers and healthcare professionals.

For example, as a result of our emerging concerns about COX-2 class of drugs, we reviewed our healthcare and prescription claims databases to identify potential issues within our own member population. Our data indicated that for our members aged 40 and older, the use of COX-2 drugs showed an increased risk of a heart attack or stroke.

We shared this information with the Food and Drug Administration and also sent letters with this information to members and physicians. This study demonstrates how we can use clinical information from our claims databases to improve the health of our members and the quality of healthcare.

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Last month, for example, we received national recognition for our leadership role in improving the quality and affordability of healthcare in our nation. The Blue Cross and Blue Shield Association and Harvard Medical School announced the BlueWorks Award winners for the first quarter of 2005. The BlueWorks program recognizes Blue Plan initiatives that effectively improve access to quality affordable healthcare. Two (2) of the 3 winners this quarter represent WellPoint innovation. Blue Cross of California has received a BlueWorks Award for its customer-focused program, Creative Solutions to Asthma Management, which addresses the needs of minority and underserved populations in our state-sponsored business.

Anthem Blue Cross and Blue Shield, in partnership with Anthem Prescription Management, has received a BlueWorks Award for the innovative pharmacy program Identification of Questionable Narcotic Drug Patterns. This program helps to protect members from potential abuse or overmedication with narcotic prescriptions.

In another innovative program, we are also improving the health of our members while assisting our providers with their continuing medical education requirements. DynamicCME.com, pioneered by WellPoint Pharmacy Management, lets physicians identify and evaluate treatment opportunities by using their own practice data and then provides feedback to physicians using medical and pharmacy claims to help improve patient health outcomes.

WellPoint Pharmacy Management is the first PBM to provide this type of unique and real-time interactive Web-based continuing medical education portal for client physicians nationwide. We have the ability to help improve drug utilization and compliance patterns through a non-intrusive educational platform. This approach helps physicians bridge the gap between clinical guidelines and actual clinical practice to help improve patient outcomes. In 2005, WellPoint Pharmacy Management has the potential to reach more than 20,000 practicing clinicians.

We also began a similar program for participating pharmacists. RxFrontier provides tools and training that clinical pharmacists can use to help reinforce health management of patients through monitoring the appropriate use of prescribed medication and follow up on medication compliance in between patient physician visits. RxFrontier's innovative and unique programs help participating pharmacists bridge the healthcare gap that can often exist between physician office visits. This is an essential time where pharmacists can continue to monitor and encourage patients to help in managing their disease state.

In addition to programs to improve the health of our members, we are continuing programs to reduce selling and administrative expenses as a percentage of revenue. The size and scale of our new company presents us with significant advantages to spread administrative costs over a much larger membership base.

Our SG&A ratio was 15.8 percent in the first quarter of '05, 130 basis points lower than in the first quarter of '04.

Further, on a comparable basis in absolute dollar terms, our general and administrative expenses were actually lower by \$25 million in the first quarter of '05 than in the first quarter of '04. This, we believe, is an impressive accomplishment, as we serviced almost 1.5 million more members in the first quarter of '05 than we did in the first quarter of 2004.

We have additional opportunities to reduce our administrative costs by executing on our merger integration plans. The integration is proceeding according to plan and is right on schedule. We achieved our synergy goal of 25 million net of the costs required to achieve the synergies in the first quarter of '05 and expect synergies to continue to accelerate, totaling at least \$150 million net in 2005. We continue to expect net savings of at least 250 million in realized annual synergies when we are fully integrated in 2006.

Our success provides us with an excellent platform from which to reach new heights in 2005. Our confidence in WellPoint's future is reflected in our announcement earlier today to increase 2005 earnings guidance and initiate a stock split.

All shareholders of record on May 13, 2005 will receive 1 additional share of WellPoint common stock for each share held on that date. The additional shares of common stock will be distributed to shareholders of record in the form of a stock dividend on May 31, 2005 by the Company's transfer agent, EquiServe Trust Company.

Now, I will turn the call over to Joan Herman, who will talk about our senior strategy and what we are doing to capitalize on the business opportunities that have been created by the Medicare Modernization Act. Joan?

Joan Herman - Specialty Senior and State-Sponsored Businesses - President and CEO

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Thank you, Larry.

Good morning. First, let me start out by giving you a profile of WellPoint senior business today.

As of March 31, 2005, WellPoint had over 1 million senior members. Approximately, 86 percent of those members have Medicare supplement plans, with the rest having Medicare Advantage plans, predominantly HMO, but increasingly, also, private fee for service and local PPO coverages.

We currently offer senior products in 24 states and approximately 55 percent of all Medicare-eligibles live in those states. We've been expanding the number of states in which we offer senior products during the last several years, and we have become adept at rolling out senior products in new states and building strong distribution channels in those states.

Our senior product mix has been changing and will continue to change. We believe that seniors want choice, just as other customer segments do, and we want to offer them choices. We believe that offering seniors a broad portfolio of products and services will help us meet their diverse needs and also help us mitigate risk and better serve our shareholders.

Our strategy for the senior market is also built around having a superior understanding of the impact of aging in the broadest sense. By understanding the social, economic, behavioral, as well as medical factors associated with aging, we can develop products, services, and care programs that enhance seniors' lives and succeed in the marketplace.

Additionally, our Blue brand is a very important asset in the senior marketplace. Seniors want to buy from a carrier they trust, and in many cases, they will perceive the security of the Blue Cross and Blue Shield brand as a premium brand.

Our approach to Medicare Advantage and its predecessors has been and will continue to be disciplined and measured as we balance the needs of our customers and our shareholders with the uncertainty of government budgets and varying political whims. We have and will participate in markets where we can bring value both to our customers and to our shareholders.

In keeping with that philosophy and recognizing opportunities we see in the Medicare Modernization Act, we have been expanding our Medicare Advantage offerings.

At the start of 2003, our only Medicare Advantage products were HMOs. During 2003, we introduced private fee-for-service plans in 357 counties spread over 7 states.

In 2004, we expanded our private fee-for-service offerings into an additional 128 counties and 4 new states.

And in 2005, we will add 170 counties in another 4 states. This year, we are also introducing local PPOs in 78 counties in 4 states, as well as adding new states and counties for our HMO offerings, another 50 counties and 4 states.

During this same period of time, we have continued to expand our Medicare supplement offerings, both in terms of the geographies where we market them and in terms of the products we offer.

Due to regulation, Medicare supplement offerings are more standardized than most other healthcare products. But innovation is still possible, and we have introduced new products that better meet the needs of some segments of the senior market than do the traditional Medicare supplement plans.

Our SmartChoice, PrimeChoice, and SmartChoice Preferred Medicare supplement products are examples of this. These are higher-deductible products, which include additional features, such as a generic drug benefit and some limited sub-acute and homecare benefits. These products currently comprise a significant portion of our new sales in states where they are offered. By introducing these products into our expanded number of Blue states, there is merger-related revenue synergy potential. We also think these lower Medicare supplement products will be good companion products to Part D in 2006 and beyond.

In some of our states, we also offer senior products, such as dental insurance, vision coverage, life insurance, and caregiver products. Again, introducing these products in the rest of our states is an opportunity afforded by the merger to bring more value to seniors and our shareholders.

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Obviously, when it comes to new products for seniors, 2006 is a landmark year with the introduction of the Part D drug benefit. We think Part D will be a viable product. We have filed to offer Part D nationwide. We expect to offer it both on a standalone basis and as part of our Medicare Advantage offerings. In addition, we expect to have a variety of options to meet the needs of employer groups.

We're also exploring regional PPO products in some regions. We have filed in selected markets where we think we can offer a competitive product to bring further choice to seniors.

Additionally, given our expertise in both Medicaid managed care and the senior customer segment, we have filed to offer special needs plans in selected locations.

WellPoint expects to continue to be a strong competitor in the senior market segment. By offering seniors a broad portfolio of innovative products and services, by deeply understanding seniors and all aspects of aging, by offering high-touch and high-value service, by designing care management and other programs specifically tailored to the unique needs of this segment, and by being disciplined in our approach to all the basics, we can bring value to seniors, to the federal government, and to our shareholders.

I will now turn the call over to David Colby to discuss our first quarter financial results. Dave?

David Colby - WellPoint, Inc. - CFO

Thank you, Joan, and good morning.

With regard to our first quarter 2005 results, we are obviously very pleased with our earnings per diluted share of \$1.97. These results include a 9-cent-per-share tax benefit due to a favorable ruling we received regarding deductibility of certain losses on the sale of some subsidiaries in the mid to late 1990s. This is 15 cents per share higher than our previous guidance due to the tax benefit, higher membership levels, lower amortization of intangible assets, lower interest expense, and favorable investment income.

In the first quarter of 2004, WellPoint reported diluted earnings per share of \$2.08, which included 32 cents per share in favorable tax benefits due to a change in Indiana law covering the state's high-risk insurance health insurance pool, and 15 cents per share in net realized investment gains.

Excluding the tax benefits and realizing investment gains or losses in each quarter, first quarter diluted earnings per share actually increased 17 percent between 2004 and 2005. The most significant driver of first quarter year-over-year changes obviously relates to inclusion of legacy WellPoint Health Networks' operations following the merger.

As promised during our last earnings call, my financial commentary this morning will compare current results to 3 full months of legacy Anthem and 3 full months of legacy WellPoint on a combined basis for the first quarter of 2004 where appropriate. I will refer to this as comparable-basis information. Reconciliations of this comparable basis information to the historical GAAP information of the legacy companies are available at www.WellPoint.com.

Premium revenue was \$10.2 billion in the first quarter of 2005, an increase of \$817 million, or 9 percent, over the first quarter of last year, due primarily to organic membership growth and disciplined pricing. On a comparable basis, fully insured membership increased by more than 450,000 members over the past 12 months, or 3 percent, led by our individual/small group businesses that increased 6 percent. This year-over-year growth in fully insured membership was after considering the sale of Unity Health Plans in Wisconsin, which had 75,000 insured members.

Our administrative services fees were \$664 million in the first quarter of 2005, an increase of \$49 million, or 8 percent, over the first quarter of last year, due primarily to national accounts' membership growth. On a comparable basis, self-funded membership increased by over 1 million members, or 8 percent.

Our benefit expense ratio in the first quarter of 2005 was 81.3 percent, which was consistent with our expectations as medical trends in 2005 appear to be about 100 basis points lower than last year.

Our rolling 12-month medical cost trend at March 31, 2005 was just slightly less than 9 percent, as expected. Premium yield slightly exceeded cost -- total cost trend, where total cost trend included medical benefit costs and administrative costs.

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We plan to continue to price our businesses to achieve a targeted level of profitability. Premium increase percentages will continue to at least equal our cost trend percentages in 2005. We remain very disciplined in our approach, and we do not chase business that we believe is priced below our profitability targets.

Our gross margin, that is premium minus benefit expense, increased on a per-member-per-month basis, on a comparable basis, both year over year and sequentially. Also, we continue to see improvements in our operating margins. We are continuing to see generally rational pricing in this very competitive marketplace.

Medical trends continue to be driven primarily by outpatient costs and prescription drugs. Outpatient expenses are the only component of medical expense trend in double digits, with emergency room, ambulatory surgery, clinical laboratory, and imaging services being areas that we are concentrating on.

We are seeing success, for example, in our radiology management program. Where we have implemented this program, our radiology trend has decreased. We're going to continue to roll out this highly successful program to each of our regions.

To address other areas of outpatient trend, we are recontracting with our providers and are adjusting our benefit plan designs to encourage more appropriate utilization.

Pharmacy cost trend was primarily driven by price increases on existing brand drugs. Price increases on existing brand drugs have been seen particularly in those therapeutic classes of drugs designed to reduce cholesterol and antidepressants, our 2 largest categories of drugs based on overall expenses.

Our generic drug utilization continues to increase and is now more than 52 percent of our total script volume. We are continuing our benefit plan changes to encourage generic utilization as well as member incentives for generic sampling pilot programs. We anticipate generic utilization to increase in 2006 as some high-volume drug patents expire.

Professional trends have remained relatively stable, and we did not see in-patient utilization increases in the first quarter of 2005. Actually, the trend for in-patient utilization is down as days of care per 1,000 members annually are actually slightly lower in the first quarter of 2005. In fact, in-patient utilization has remained consistently low for the past couple of years.

The selling, general, administrative expense ratio in the first quarter of '05 was 15.8 percent, 130-basis-point improvement when compared to the first quarter of 2004. These results included expenses of approximately \$28 million for merger-related activities. This improvement in our G&A expenses are due to leveraging our expenses over a larger membership base, controlling our spending, increasing the use of technology to improve productivity, and realizing the expected synergies identified due to the merger.

As Larry noted, our G&A expenses actually declined by \$25 million on an absolute dollar-comparable basis in the first quarter of 2005 when compared to the first quarter of last year. That is despite our serving 1.5 million more members this quarter. This reflects our continuing managerial focus on holding down G&A expenses and increases in productivity of our associates, facilitated by our investments in technology.

Our net investment income was higher than we expected and resulted from our moving aggressively to include the best practices of each legacy company as we reduced investment manager fees -- sorry about that -- raised the allocation to high-yield bonds, made more efficient use of cash as a single company, and generated significant cash flow. This favorable run rate may decline somewhat as we accelerate our stock buyback program given our stock's current valuation.

Amortization was a little lower than we anticipated, as third-party valuations of certain intangible assets were refined. This lower run rate should continue throughout 2005.

I would like to point out, since we do not talk about cash EPS in our industry, in our earnings guidance is an after-tax, non-cash expense of 50 cents per share due to the amortization of identifiable intangible assets.

Interest expense was favorable due to lower short-term debt balances than planned and a swap of some of our fixed-rate debt to a variable rate.

Looking at our healthcare segment, which consists of our 4 health insurance geographic regions plus National Accounts, as well as our Senior and State-Sponsored Program businesses, in first quarter of 2005, operating revenue in that segment was almost \$10.5 billion, an increase of \$858 million, or 9 percent, when compared to the first quarter of 2004, led by individual small group and large group businesses.

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Our operating gain in that segment was \$861 million, an increase of \$136 million, or 19 percent, over the first quarter of 2004. This was due to higher membership, disciplined pricing, and excellent SG&A expense control. The operating margin in our healthcare segment improved by 70 basis points to 8.2 percent from 7.5 percent due to a reduction in the SG&A expense ratio.

The specialty segment includes our pharmacy, dental, vision, life, disability, behavioral health, and worker's compensation businesses. In the first quarter of 2005, operating revenue in that segment was \$695 million, an increase of \$74 million, or 12 percent, when compared to the first quarter of last year, while the operating gain was \$92 million, an increase of \$26 million, or 39 percent, over the first quarter of 2004, primarily due to our PBM. The operating margin improved by 260 basis points to 13.2 percent from 10.6 percent as our specialty businesses continued to benefit from the merger.

In the first quarter of 2005, specialty products represented 9.6 percent of healthcare and specialty operating gain combined, combined to 5.0 percent in the first quarter of 2004, or 8.3 percent on a comparable basis.

The other segment is comprised of our Medicare processing business, Arcus enterprises, inter-segment revenues and expense eliminations, and corporate expenses not allocated to our healthcare or specialty segments.

On a comparable basis, the operating loss increased \$19 million, or 62 percent, primarily due to increased incentive compensations, as well as increased restricted stock expense.

Now moving to our balance sheet.

Cash and current investments were almost \$15.8 billion at March 31, an increase of \$723 million from year-end 2004.

Total assets were almost \$40.5 billion at March 31, up about \$750 million from year-end.

Our medical claims payable were \$4.3 billion at the end of the first quarter, an increase of almost \$148 million from year-end 2004.

Our days claims payable fell by 0.8 days in the quarter to 47.4 days at March 31, 2005. The decrease was primarily attributable to a reduction in the length of time between service date and pay date; in other words, a speeding up of our claims cycle times by 0.6 days, the timing of certain settlement payments of a tenth of a day, and then there were various other miscellaneous items that brought down days in claims payable by one-tenth of a day.

Long-term debt of \$4.3 billion at March 31, 2005 declined slightly from year-end. Our debt-to-capital ratio was 18.1 percent at March 31 compared to 18.5 percent reported at year-end 2004.

As has been the practice of both legacy companies in the first quarter, we have not included a roll-forward schedule of medical claims payable reserves in our press release because claims have not developed enough in 90 days to be much more precise. We continue to establish reserves in a consistent and conservative manner, and when we do disclose such a schedule in our second quarter release, we would expect to see positive reserve development consistent with prior levels for the 2 legacy companies together.

Operating cash flow was \$711 million in the first quarter of 2005, 1.2 times our net income, indicating strong quality of earnings, while operating cash flow in the quarter was reduced by approximately \$50 million of merger-related payments that went out for the California undertakings that were required by the regulator.

During the quarter, we used \$89 million of cash to repurchase approximately 723,000 common shares. Our current share buyback authorization is approximately \$612 million. At our current stock price, we expect our stock buybacks to accelerate in future quarters.

In terms of our guidance for the rest of 2005, we now expect full-year 2005 earnings per share to be around \$7.94, excluding the impact of the just-announced 2-for-1 stock split, an increase of 19 cents over our previous guidance. The quarterly earnings-per-share breakdown is \$1.92 in the second quarter, \$1.99 in the third quarter, rising to \$2.06 in the fourth quarter.

The increasing guidance results from favorable performance in the first quarter, including the favorable tax ruling, lower amortization expense, and a favorable business environment.

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While we continue to expect cash flow from operations to exceed \$3 billion for 2005, cash flow for the second quarter is expected to follow the historical pattern of being lower than that in the first quarter due to the seasonality of two estimated tax payments made in the second quarter.

The effective date for Statement of Financial Accounting Standards 123-R related to the expensing stock options has been postponed to 2006 and will now not impact the second half of 2005. We will, of course, comply with FAS 123(R) when it becomes effective, and we'll incorporate the impact of this accounting standard into our guidance when we provide specific 2006 guidance. Given the Company's current incentive compensation program, we believe the additional expense that will be recorded as a result of FAS 123(R) will reduce diluted earnings per share by approximately 4 percent.

As a final point, since we have today announced a 2-for-1 stock split, our first quarter Form 10-Q, which we file in the next week or so, will adjust these first quarter financial results for the effect of the stock split. So don't get concerned when you see a 10-Q filed with diluted earnings per share that is one-half the \$1.97 we reported today.

I will now turn the call back over to Larry to answer any questions you may have.

Larry Glasscock - WellPoint, Inc. - President and CEO

Dave, thank you very much. And I think let's go ahead and open the call up for questions, and then I'll have some closing comments when we complete those. So I'll turn it back to the AT&T operator.

QUESTION AND ANSWER

Operator

Thank you. [OPERATOR INSTRUCTIONS].

John Rex, Bear Stearns.

John Rex - Bear Stearns - Analyst

Just a couple of questions on top line. Looked like the revenue guidance was edged down just a very little bit from your prior outlook.

And, also, in computing the premium yield, I come up with just under 5 percent. Just wanted to kind of get a little detail in terms of the factors that could be impacting premium yield.

David Colby - WellPoint, Inc. - CFO

John, this is Dave. It is true we are guiding down the top line revenue slightly. Actually a big component of that is we do a lot of FEP business, where it's basically a cost-reimbursed, almost an experience-rated type of policy. We have seen better trend in that new business, and that just reduces our revenues. And that was a \$100 million type of impact to the revenue side in terms of what we think the impact will be in 2005.

We've also seen much stronger growth than what we had anticipated in the ASO side, and while we're exceeding our membership growth, more of it is coming in that side than on the fully insured side.

We also had things like the sale of Unity, which impacted the Wisconsin marketplace. Revenues per member per month in Wisconsin are quite a bit higher than the national average, and that brings the average down.

We've also seen some mix changes with a lot of the insured membership growth coming more in the small side of the market than the larger side of the market, so it really is hard to compare year-over-year with those types of mix changes. If we actually did look at within respective business units, you would find medical trend and pricing being, as I said in my prepared remarks, just less than 9 percent.

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We also have another factor. In the State of Connecticut account, where we are a major insurer, we are not going to be providing drug services for the second half of the year. That was also a couple-hundred-million-dollar impact. Obviously, it was not that profitable a business as we're still increasing guidance despite that, but that's another factor in the revenue side. So it's a little bit of noise, but [indiscernible].

John Rex - Bear Stearns - Analyst

Okay. Can you help me understand, also, how much of your March hospital utilization data you've actually seen in terms of actual claims? And how should we think about that in terms of what's actually in-house versus kind of how you estimate and look at the trend and kind of conclude, as you mentioned, the average length of stay was edging down a bit.

David Colby - WellPoint, Inc. - CFO

I think we obviously track in-patient utilization because, one, it's a relatively easy thing to track, certainly a lot easier than sometimes tracking some of the outpatient utilization, which are smaller dollar amounts.

One, hospitals generally bill electronically, so we do get their claims relatively quickly.

While many of our plans, we have over time eliminated pre-admission certification, which used to be a source, we still track authorizations because most hospitals, before they admit somebody, will check authorization and check benefits. And so we actually do track that to look at admissions.

As I said on the call or said earlier, it's something that we look at constantly in terms of our admissions-per-thousand members. We've seen that relatively flat in March. Actually, you know, given some of the announcements by some of the publicly traded hospital companies, we did a more deeper dive on that metric, and when we actually looked at it, it does look like admissions are relatively flat. Days are actually slightly down. So maybe the length of stay is coming down a little bit.

John Rex - Bear Stearns - Analyst

So I mean do you have a metric in terms of actual -- what you think in terms of actual claims you've actually received at this point for March versus last year, or some way of kind of putting a number to that?

David Colby - WellPoint, Inc. - CFO

You know, again, I don't have immediately in front of me the lag triangle of a hospital claim, but they do come in relatively quickly because most of them are electronic in nature. But, again, we track other things, like authorizations, which in virtually every case before, one of our patients get admitted, the hospital does call to check eligibility.

John Rex - Bear Stearns - Analyst

Okay, great. Thank you.

Operator

[OPERATOR INSTRUCTIONS].

Charles Boorady, Smith Barney.

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Charles Boorady - Smith Barney - Analyst

First, on Medicare, thanks for all the additional discussion on that. And I'm wondering if you could quantify, though, how material to the bottom line you think some of these Medicare initiatives can be, and also perhaps give us the breakdown of the Medigap versus the Medicare HMO and PPO enrollments and the changes in the first quarter?

Joan Herman - Specialty Senior and State-Sponsored Businesses - President and CEO

Okay. In terms of Part D, it's a little hard to predict with certainty right now what the buying patterns of seniors are going to be in terms of what percent. So these are at this stage, obviously, estimates. But I guess we think that for us, this does represent probably \$1 billion-plus opportunity in terms of revenue.

In terms of the mix that you were asking for, in terms of Medicare supplements versus Medicare Advantage, as I said, about 86 percent of our business is Medicare supp., the remaining Medicare Advantage. I wouldn't say it's changed materially, although sales of our private fee-for-service product are very strong, and so probably that certainly is picking up a higher percentage than it had been, say, a year ago of our mix. So that's probably the single fastest-growing piece right now.

Charles Boorady - Smith Barney - Analyst

And what do you expect the impact from these changes in '06 to be on your current book of Med supp. and also on your Part A and B processing business?

Joan Herman - Specialty Senior and State-Sponsored Businesses - President and CEO

Well, in terms of next year, we think, number one, 25 percent of our Medicare supplement business does have drug coverage. We expect a number of those people will just stay with what they have and continue it that way. A percent, we do expect, would look for Part D. We think a high percentage of those people we would expect would buy it from us. And then we do expect that Medicare supplement will continue to be a desired product by senior in the marketplace. And we think with our broad spectrum of Medicare supplement offerings, including some of the lower-cost products that are pretty unique to us that we offer, that we really can give them nice choices to couple with Part D at very affordable price points. And so we expect we'll continue to have strong sales in that area.

Charles Boorady - Smith Barney - Analyst

My last follow-up's on the uninsured. It sounded like a really big number of new enrollees that were previously uninsured, and I guess there's about 44 million of them out there. But I'm wondering how that compared to prior periods and what you'd attribute the success to, which products or geographies you've been successful in convincing the uninsured to start buying health insurance?

Larry Glasscock - WellPoint, Inc. - President and CEO

Well, Charles, I think -- you know, I don't have the information in front of me compared to prior quarters, but I would say I think it's very good performance. And the reason it's such good performance, as we've talked about in the past, is we've done a lot to work on increasing the price spread differential from our least expensive to most expensive product, and we've done that by working aggressively on products, as I said, like Tonik, like BeneFits. And, you know, these are still relatively new, but they're designed specifically to get at that third of the uninsured population that have household incomes of \$50,000 or greater, who can really afford coverage but, frankly, didn't buy it for a variety of reasons.

So we think we've worked well in designing products that will allow us to continue to improve our performance by getting more people from the uninsured ranks into the insured roles.

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David Colby - WellPoint, Inc. - CFO

And we've targeted it well by segment of that insured. For the young invincibles, the Tonik plan, which really is primarily sold over our Internet, had over something like 60 percent of the applications came in electronically and got, in essence, auto underwritten. And it's a case where something like 80 percent are under age 34 that have bought that product. So I think we are making good inroads into that segment.

Larry Glasscock - WellPoint, Inc. - President and CEO

And I think just one last comment. The other thing we're doing, obviously, is focusing another third of that uninsured where the people are eligible for existing federal or state programs and they're simply not enrolled. And one of the initiatives that we have in California is reaching out in a very major way to help those people get on the rolls.

Operator

Josh Raskin, Lehman Brothers.

Joshua Raskin - Lehman Brothers - Analyst

Just a question on sort of uses of cash. It looked like you guys generated a little over \$700 million of cash in the quarter. Pretty much saw that just go directly into cash and investments. Was curious why didn't see much of a reduction in the debt. And I think, Dave, you alluded to -- or I guess, specifically stated you'd be more aggressive around the buyback. I'm just curious as to the timing. And then, lastly, any potential roadblocks there from the Department of Insurance in California with regard to the merger settlement?

David Colby - WellPoint, Inc. - CFO

I think in terms of the uses of cash, that remains pretty much what we had historically laid out. Obviously, our number-one use of cash would be reinvesting it back in our business for new programs, new services, new capabilities, or acquisitions that provided a good rate of return.

I think if you look at our first quarter in terms of share buybacks, which to the extent that we can't find those types of investments -- both companies have historically done significant buybacks -- I think we were probably a little bit lighter there than we will be for the rest of the year because we've spent a good deal of time with our Board, which is a relatively new group of individuals to go through our capital plan, and look at what we should be doing with that extra cash. I think we are focused around right now, given the current valuation of the stock, looking toward enhancing more our share buyback program, and that's why I say I think you can expect to see higher buybacks in future quarters.

Joshua Raskin - Lehman Brothers - Analyst

And, Dave, are there restrictions on the amounts of buybacks you can do as -- regarding -- versus, I guess, the payment of debt?

David Colby - WellPoint, Inc. - CFO

No, there are no restrictions in any of the undertakings regarding what we can do with share buybacks. I mean we do have some undertakings that we've agreed to, and as you know, those undertakings in California last for 3 years or until we pay off the acquisition debt. So we are going to make sure that the acquisition debt, which is about \$2 billion, does get paid off within the next 3 years. But we obviously have enough cash flow to comfortably do that.

The undertakings have no limitation on share buybacks. There are some limitations of dividending monies up from the regulated subs, but those regulations are basically do what we have historically done, which is pretty close to what we're permitted to do. In terms of last year's earnings, we dividend up.

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Joshua Raskin - Lehman Brothers - Analyst

Got you. And then just 2 quick housekeeping items. Cash at the parent and prior-period reserves development?

David Colby - WellPoint, Inc. - CFO

Cash at the parent at March 31 was about \$120 million, but there's a lot of excess cash in the subs that we just haven't divided up yet, which we do throughout the year.

What was your second part of your question?

Operator

Doug Simpson, Merrill Lynch.

Doug Simpson - Merrill Lynch - Analyst

I was just wondering if on the 2 cost items you mentioned, the outpatient and drugs, on the outpatient side, you mentioned the managing of imaging costs and rolling that out, and it started with the Anthem book and moving across the legacy WellPoint. Just where do you stand on that? Are you 20, 30, 50 percent of the way there?

And then on the drug side, I thought you mentioned that generics were at 52 percent of script volume. Just how should that trend going forward?

David Colby - WellPoint, Inc. - CFO

Well, let me take the radiology program first. As we've talked about in the past, Doug, we've had outstanding results in our pilot programs, which we did in Colorado and Nevada. We now have that program rolled out in the Northeast. We also have it rolled out in the Central region. It will commence rolling out, as I remember, in the Southeast region here very shortly, and so it's very much on the plan that we had outlined.

On the second question, Doug, would you just restate that for me? I want to make sure I --

Doug Simpson - Merrill Lynch - Analyst

I'm just trying to get at -- some of the PBMs have been talking about a sequential jump in generics during Q1.

David Colby - WellPoint, Inc. - CFO

Yes.

Doug Simpson - Merrill Lynch - Analyst

And was just getting a sense for what you guys saw in the quarter. And you threw out a number earlier --

David Colby - WellPoint, Inc. - CFO

Yes, 52 percent.

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Doug Simpson - Merrill Lynch - Analyst

-- 52 percent of volume, and I'm just trying to put that into some context -- where it is today and where you see that going as we think about drug --

David Colby - WellPoint, Inc. - CFO

Yes, on a combined basis, we're at 52 percent. Joan runs that business, so I'll let her give you a sense of where it's going.

Joan Herman - Specialty Senior and State-Sponsored Businesses - President and CEO

Yes, it continues to -- it has been continuing to trend upwards, so we would expect that to continue to improve.

Doug Simpson - Merrill Lynch - Analyst

Okay. I mean do you see it going to 53, or do you see it going to 60 over the balance of the year?

Joan Herman - Specialty Senior and State-Sponsored Businesses - President and CEO

I guess closer to the 53 than the 60, but I'm saying that without actually -- that's a -- I'd have to go back and check whether we actually have -- what we've forecasted it out to be.

Doug Simpson - Merrill Lynch - Analyst

Okay, okay.

David Colby - WellPoint, Inc. - CFO

But, Doug, I think the big opportunity comes more in 2006 as we have some, at least right now, blockbuster-type drugs coming off of patent.

Doug Simpson - Merrill Lynch - Analyst

Sure, sure. Okay. Thanks a lot.

Operator

[OPERATOR INSTRUCTIONS].

Patrick Hojlo, Credit Suisse First Boston.

Patrick Hojlo - Credit Suisse First Boston - Analyst

My one question is what drove the nice spike sequentially in Medicaid membership? Where and how exactly did you get that given that the independents, these standalone Medicaid players are now are having such a tough time drawing lives?

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Joan Herman - Specialty Senior and State-Sponsored Businesses - President and CEO

This is Joan Herman. We've seen some of the states that way. California is one in particular that had gone through a lot of eligibility tightening and a lot of scrubbing of eligibility rolls last year, and they kind of -- you know, as you work your way through that, then we've begun to get the more normal pattern of pick-up going on. So we've seen some pretty big increases. In California is one of the places it's coming from. And then some of that, also, in some of the other states, as well. But some of it is that kind of thing where after going through and sort of scrubbing the rolls as much as they could last year, you're now back to seeing a more normal pattern, and that's resulted in increases.

Operator

Christine Arnold, Morgan Stanley.

Christine Arnold - Morgan Stanley - Analyst

My question relates to the medical loss ratio. In your press release, you referenced the fact on a pro forma basis the MCR's up a bit year over year on a pro forma basis because of mix. Could you quantify and highlight the various mix factors that caused that to happen? Thanks.

David Colby - WellPoint, Inc. - CFO

There are numerous factors that have impacted that, ranging from, for example, good growth on an insured basis in things like state-sponsored programs, which will run a higher medical care ratio than average.

So I mean I think that it's those types of issues that have done it. I mean change really has not been terribly dramatic, and again, the important thing is that if you look at our pricing and even on a comparable basis, we're seeing significant growth in our operating margins in that business where we're clearly pricing ahead of trend, total cost trend.

Operator

Matthew Borsch, Goldman Sachs.

Matthew Borsch - Goldman Sachs - Analyst

My question is a follow-up on the Medicare outlook. And, Joan, you talked about \$1 billion in incremental revenue. Is that \$1 billion -- you know, I realize it's a ballpark number. Is that \$1 billion of additional revenue you'd expect in 2006? And if you could, could you give us some ballpark idea of how much you'd expect to come from Part D administration and how much from your expansion in Medicare Advantage? Thanks.

Joan Herman - Specialty Senior and State-Sponsored Businesses - President and CEO

Well, I think the -- we think Part D in itself could be \$1 billion-plus revenue opportunity over time. Pretty hard to predict right now what '06 is really going to produce just because it's -- the marketing and the information flow and the programs that both CMS is going to do, as well as the ones that obviously those participating are likely to embark on, aren't out there yet. Seniors are still fairly uninformed in a lot of ways when you do market surveys. So it's a little hard to predict how fast people -- the uptake is going to be on the buying pattern. So we'll see, but we think that -- the number I was quoting was really just what we think the kind of revenue opportunity that there probably is in Part D.

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David Colby - WellPoint, Inc. - CFO

And I think we need to see, Matt, after the bids come in.

Joan Herman - Specialty Senior and State-Sponsored Businesses - President and CEO

Right.

David Colby - WellPoint, Inc. - CFO

-- you know, who are we aligned against competitively in each one of our markets. And, certainly, when we sit down and talk about 2006 guidance, we'll get a lot more specific when we know who we're up against and how competitive the market is, but early on, if you just look at the number of Medicare beneficiaries, pick a reasonable penetration percentage, look at our market share in the markets that we serve, and multiply it by a normal -- what you would think the drug benefit costs would be, it's a sizable opportunity. It is a \$1 billion-plus opportunity, and we're going to try to figure out how we can take advantage of it on a profitable basis.

Operator

Ellen Wilson, Sanford Bernstein.

Ellen Wilson - Sanford Bernstein - Analyst

Yes, your medical cost ratio guidance is a little bit lower than it previously had been for the full year. I was wondering if you could just touch on the driver of that and also give me the components that you're assuming -- the component trends that are assumed in your just-below-9-percent full-year medical trend.

David Colby - WellPoint, Inc. - CFO

I think the major reason -- I mean our guidance is pretty consistent. It is slightly lower than what we had said at the -- in our January guidance call. That is mostly due to what I talked about in terms of the FEP business, which is basically almost a cost-reimbursement business and how it runs a very high, medical care ratio. And the fact that that trend is coming in lower, that's less revenues, and that is going to improve that ratio somewhat.

In terms of the cost trend of just less than 9 percent, we are sticking pretty close to what we had said previously in terms of our trends. I think outpatient trend is still sort of coming down. It's been probably the one area that we've seen the improvement in, and that's running in the sort of the low teens.

Pharmacy trend, we think, has broken finally into single digits. It had been running close to 10 percent; now, we think it's running just less than that.

And then we have the physician services, which has been relatively stable in sort of the mid-single-digit area, and in-patient trends running in that same ballpark.

So not much change from what we've said. I mean I think we just continue to grind it out.

Operator

Eric Veiel, Wachovia Securities.

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Eric Veiel - Wachovia - Analyst

I had just a question about the outlook for the PBM business. Just specifically, it looked like on a comparable basis, the volumes dropped down from the fourth quarter to the first quarter. If you could comment on that.

And then just a clarification on that prescription volume number that you're giving. I assume that's a combination of both retail and mail order volume. If you're willing to break that out, that would be great.

Joan Herman - Specialty Senior and State-Sponsored Businesses - President and CEO

First, yes, it is a combination of retail and mail. We'll have to get you the breakdown. We've got it. I just don't have it off the top of my head.

In terms of the quarter to quarter, yes, we did have one large PBM client that termed that is a chunk of that reduction. And that's most of it.

And then, also, when you compare first quarter to fourth quarter, you have fewer days, and so that's the other piece of it.

Operator

Tom Carroll, Legg Mason.

Thomas Carroll - Legg Mason - Analyst

I heard you commenting on the special needs plan distinction of MMA. I wonder if you could comment further on the structure of that that you're considering, mainly the population. Is it dual-eligible if institutionalized, are you're trying to pool for chronic illness? Some more color on that.

Joan Herman - Specialty Senior and State-Sponsored Businesses - President and CEO

Yes, it's -- we'd mainly be looking at dual eligibles. We think, again, with both our Medicaid experience and our Medicare experience, we can do a good job for that population.

Did I miss the second -- was there a second part to that question?

Thomas Carroll - Legg Mason - Analyst

California, or any other states?

Joan Herman - Specialty Senior and State-Sponsored Businesses - President and CEO

I think at this point we're looking at selected areas, and we'll give out more details on that a little later on after the bidding process when we're a little further down the road.

Larry Glasscock - WellPoint, Inc. - President and CEO

And to answer Eric's prior question, in the first quarter, 8.7 percent of our scripts were through the mail order, 91.3 were retail.

Operator

Justin Clifford, Omega Advisors.

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Justin Clifford - Omega Advisors - Analyst

Just a quick question. Can you enlighten me as to what restrictions you have on paying a cash dividend if you decide to do that because you're probably the largest company in America that doesn't pay one right now. I didn't know if you have some arrangements in California that prohibit you from doing that.

David Colby - WellPoint, Inc. - CFO

No, there are no restrictions on us. It is something that our Board has been discussing in the first couple of board meetings that we've had this year. It is certainly on the table right now. You know, the preference given the current stock valuation is to direct probably more of that free cash flow towards stock repurchases than a dividend right now, but that item is still on the table.

Larry Glasscock - WellPoint, Inc. - President and CEO

Yes, that's an issue that our Board will continue to look at. But I think Dave said it very well. Right now, we think the best thing to do is accelerate our buyback.

Operator

Norman Fidel, Alliance Capital.

Norman Fidel - Alliance Capital - Analyst

Oh, I guess I just turned into a female! A lot of companies include the amortization of intangibles and ongoing merger expenses in adjusted earnings, and you're not. You're including them in your earnings guidance and in what you're reporting. Can you review for us again in each of those -- for each of those items, amortization of intangibles and for merger expenses, what the after-tax earnings-per-share impact was for each of them in the first quarter and what you expect for each for the full year?

David Colby - WellPoint, Inc. - CFO

I guess -- I mean I can certainly do it for the full year because I have that at the top of my head. I mean we did mention that the amortization of the intangibles on an after-tax, non-cash basis was about 50 cents per share. And as we said earlier on, we expect a little bit over \$100m of merger-related-type costs, stay bonuses and items that, hopefully, over time will disappear, which would be about 22 cents a share. So you add them together, 50 plus 22 is about 72 cents per share in our guidance now of the really \$7.85 per year without the 9-cent tax benefit that we had in the first quarter would be those items, Norm. And, again, all those are pre-stock-split numbers.

Operator

Scott Fidel, JP Morgan.

Scott Fidel - JP Morgan - Analyst

Just had another follow-up question on the specialty business, where it looks like margins jumped pretty nicely. If you could break out -- I know that legacy Anthem had quite a bit of investments last year in the first quarter. If you could talk about how much those investments were relative to just the jump in underlying margins.

Then, also, if you could talk about what your PBM penetration is currently or relative to the overall opportunity?

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Larry Glasscock - WellPoint, Inc. - President and CEO

Let me say, first of all, and I'll ask Joan to take part of this, but with regard to our penetration, the fact is I had mentioned earlier that our national account sales, which are extremely important, 60 percent of those new sales for the first quarter, they also bought our PBM services. And that's a number that, compared to historical, is quite good. So we're feeling very good about our penetration rate overall, and we've just been through a process of recalculating that, and so we'll look for that here and see if we can't get that number for you before we finish the call.

With regard to the investments in legacy Anthem, those were really around putting more resources on the service issues and dental and building out our vision network. They weren't huge dollars, but those investments are pretty much behind us now.

The work we have to do going forward is -- remember, we had 2 of everything -- 2 PBMs, 2 life companies, 2 dental companies -- so we're making extremely good progress in getting all of those pulled together, and I'm very pleased with all of them, but with the PBM, in particular.

Operator

Joseph France, Banc of America.

Joe France - Banc of America - Analyst

[No response].

Operator

Carl McDonald, CIBC.

Carl McDonald - CIBC World Markets - Analyst

I wanted to follow up on your comment that much of the individual enrollment is coming from the uninsured. And I suspect that's going to be less of a factor in your other segments. So can you give us more color on where your enrollment growth is coming from overall, perhaps broken out between funding status and some of the other market segments?

Larry Glasscock - WellPoint, Inc. - President and CEO

Well, we've got -- as part of our press release, we have a pretty detailed listing of membership, and the fact is we're seeing membership growth, you know, in virtually every segment.

David Colby - WellPoint, Inc. - CFO

And I can't say there's any one. I mean I think, again, as Larry said in his prepared remarks and what we've said in some investor presentations, is that while the overall pie for health insurance grows by 1 percent or so for the larger companies, this is not a zero-sum gain. The 10 largest insurers are growing and I think will continue to grow because of more and more capabilities that our customers are demanding from technology improvements, to products, like consumer-directed healthcare, which is becoming much more popular -- not great enrollment, but a lot of people are asking for it and it is becoming a critical thing, allowing Web-based access for our members.

So I think you're going to continue to see a lot of growth coming from the 200 to 300 plans that we compete against, not necessarily the ones that you all would follow.

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We obviously have seen bigger growth in our National Accounts area, and a lot of that's because of the increasing acceptance of Blue plans as good national account carriers with the Blue Card program, the value of our networks, the consistent service levels that we can provide. You know, we're doing well in that segment, which historically, you go back 10 years, the Blue plans were not players. So I can't tell you we're taking it from any one, but this is a consolidating industry, and I think we'll continue to consolidate.

Operator

Ed Kroll, SG Cowen.

Ed Kroll - SG Cowen - Analyst

My question's on the National Accounts. Larry mentioned you had some nice success on January 1. I think you said you got 20 new national account customers. And I'm just wondering, did you see any translation of that -- of the prior Anthem success on the Blue Card front in any of the old WellPoint markets in getting those 20 new accounts?

Larry Glasscock - WellPoint, Inc. - President and CEO

Oh, I think -- remember, if you think about the timing of the merger, I mean we closed on, what, November 30. So that really didn't have an impact on 1/01/05. I will tell you when we're out talking to national accounts, and I've been out to a number of them recently, calling with John Watts, who leads this area for us, you know, we're just seeing tremendous interest in our Company because now we can deliver, as you know, the Blue footprint on a very direct basis in 13 states. So it's a pretty powerful story that we have, given our reach, our discounts, our level of service, our commitment to consumer directed health plans. So we're getting good reception.

David Colby - WellPoint, Inc. - CFO

That's why it's hard to sometimes quantify revenue synergies for the fact that -- I mean we could say that the legacy WellPoint, you know, we wound up dramatically expanding our business with one of our more important national accounts, Banc of America, where we went from serving just 5 states to all 50 states. I'm sure part of their rationale for that, besides the excellent service we provided, was the likelihood of the merger and the even better coverage, you know, nationwide.

Larry Glasscock - WellPoint, Inc. - President and CEO

And, again, as a reminder, it's tough to spike the revenue synergies out because you never know what every -- all the things that a customer's thinking.

But in terms of our commitment to the synergies and the \$150 million-- at least \$150 million this year and the \$250 million in '06, we are very focused on making sure that happens. About 90 percent of those synergies are cost-related. So, remember, we haven't built in a lot in those synergies on a revenue basis.

We're hoping, obviously, as we get beyond '06 that we can achieve more than the \$250 million in synergies. But, again, the numbers we're talking about now are net of the investments we're making to achieve them.

While we still have everyone on the line, I wanted to give you a sense -- someone asked earlier the penetration rate on our PBM service, and we're roughly 60 percent.

Operator

Joe France, Banc of America.

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Joe France - Banc of America - Analyst

This time I'll take the phone off mute. There was a \$270 million number on the cash flow statement for income taxes. What is that?

David Colby - WellPoint, Inc. - CFO

I think the major item in income taxes on the cash flow statement would be, if you remember correctly, you don't actually make an estimated tax payment in the first quarter. That got made in April. So that's why you'll see the operating cash flow in the second quarter's only slightly less than the first because you have the timing. It's a quarter that has 2 estimated tax payments.

Operator

Jack Lafferty, U.S. Trust.

Jack Lafferty - U.S. Trust - Analyst

Thanks a lot. My question's been answered.

Operator

Michael Meyers, Trivium Capital.

Michael Meyers - Trivium Capital - Analyst

So, David, you're reducing manager fees at the investment income line. That makes me very unhappy.

David Colby - WellPoint, Inc. - CFO

I know it does, but it's just something we've got to do!

Michael Meyers - Trivium Capital - Analyst

But a serious question. As we shift to Part D in '06, can you just comment on the profitability generally versus the Supp. plans, if we replace some of the Supp. plans with Part D, and how you see that unfolding?

David Colby - WellPoint, Inc. - CFO

We don't really want to comment on expected profitability of product lines. I think that gets into highly competitive and proprietary information.

We would say we do price everything to be profitable, and as Joan said, we think it's a great opportunity for us in 2006. It's a little bit early to try to quantify that until we know how the bids come in and such. But toward the end of the year, when we start giving guidance for 2006, we will be a little bit more specific.

Larry Glasscock - WellPoint, Inc. - President and CEO

I think that was the final question. In closing, let me just note again that we believe we had an excellent first quarter, and our performance continues to receive national recognition.

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We were named to BusinessWeek's 50 -- that's the magazine's annual list of the 50 top-performing companies in the S&P 500. We ranked 35th on that list in '05, which appeared on April 4.

And we were also recently named by Fortune Magazine as one of America's most admired healthcare companies.

So we appreciate that external recognition, and we're off, really, to, I think, a great start in '05, and we remain very, very excited about our future.

I want to thank you for your interest this morning and all the questions, and I hope you have a great day.

Operator

Ladies and gentlemen, this conference will be available for replay after 1:45 PM today until May 11 at midnight. You may access the AT&T Executive Playback Service at any time by dialing 1-800-475-6701 and entering the access code of 774582. International participants may dial 1-320-365-3844 and entering the access code of 774582.

That does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

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