Aetna to buy Coventry, expand Medicare/Medicaid business

By Debra Sherman

CHICAGO | Mon Aug 20, 2012 11:54am EDT

(Reuters) - Health insurer Aetna Inc said on Monday that it would buy rival Coventry Health Care Inc for $5.6 billion to increase its share of the fast-growing, U.S. government-backed Medicare and Medicaid programs.

The purchase, which will add more than 5 million members to Aetna's ranks, comes just weeks after rival WellPoint Inc struck a deal to buy Amerigroup Corp in a major expansion of its Medicaid business, administering the government's health plan for the poor.

Bankers and investors see the wave of health insurer consolidation accelerating further as the United States moves to implement President Barack Obama's healthcare overhaul.

The U.S. health reform law aims to provide coverage for 16 million more Americans through privately run insurance exchanges in each state and will expand Medicaid eligibility for an additional 16 million people by raising limits on household income.

"The transaction boosts Aetna's footprint in government programs, and adds scale to its commercial operations, which we view as strategically important ahead of the expected implementation of exchanges and health reform starting in 2014," Barclays analysts said in a note to clients.

Under the deal, Aetna will pay $42.08 per share - $27.30 in cash and 0.3885 of its common shares. That is a 20.4 percent premium over Coventry's closing stock price of $34.94 on Friday.

Aetna Chief Executive Officer Mark Bertolini estimated the combined
company's 2012 revenue at $50 billion. The deal, expected to close in mid-2013, will double Aetna's Medicaid membership, he told analysts on a conference call.

The acquisition will help Aetna add nearly 4 million medical members and 1.5 million Medicare Part D members. Medicare Part D is a federal program that reduces prescription drug costs for beneficiaries of the government plan for the elderly.

In all, Aetna's government business will account for more than 30 percent of revenue after the deal, up from 23 percent currently.

Shares of Aetna rose 2.9 percent to $39.14 on Monday, while Coventry gained 18.2 percent to $41.29.

**APPETITE FOR SMALLER DEALS**

Including the assumption of Coventry debt, the sale is valued at $7.3 billion, the companies said. Aetna plans to issue $2.5 billion in new debt and commercial paper to help finance the deal, but does not expect any impact on its credit ratings, Chief Financial Officer Joseph Zubretsky said.

Zubretsky said the company would still have the cash flow to do "small discrete transactions."

"We're not completely out of the game, but highest priority is to close and integrate this deal," he said.

Zubretsky also affirmed Aetna's financial forecasts for the year, but said they also reflected the fact that the deal would reduce the company's ability to buy back shares for the rest of 2012.

Aetna said it expected the deal to add modestly to operating earnings per share in 2013, 45 cents per share in 2014 and 90 cents in 2015.

In July, WellPoint said it would buy rival Amerigroup for $4.46 billion, nearly doubling its Medicaid business.

Last October, Cigna Corp agreed to buy HealthSpring Inc for $3.8 billion to strengthen its Medicare business.

(Additional reporting by Adithya Venkatesan and Anil D'Silva in Bangalore; Editing by Rodney Joyce, Michele Gershberg and Lisa Von Ahn)

**Related Quotes and News**

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>PRICE</th>
<th>RELATED NEWS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aetna Inc</td>
<td>$39.79</td>
<td>Aetna to buy Coventry, expand Medicare/Medicaid business</td>
</tr>
<tr>
<td>AET.N</td>
<td>▲+1.75</td>
<td>TEXT-S&amp;P revises Coventry Health Care outlook to positive</td>
</tr>
<tr>
<td></td>
<td>▲+4.60%</td>
<td>More AET.N News »</td>
</tr>
<tr>
<td>Amerigroup Corp</td>
<td>$90.01</td>
<td>Goldman &quot;conflicted&quot; in Amerigroup/WellPoint deal: lawsuit</td>
</tr>
<tr>
<td>AGP.N</td>
<td>▲+0.04</td>
<td>UPDATE 1-Goldman 'conflicted' in Amerigroup/WellPoint deal -lawsuit</td>
</tr>
<tr>
<td></td>
<td>▲+0.04%</td>
<td>More AGP.N News »</td>
</tr>
<tr>
<td>Cigna Corp</td>
<td>$44.26</td>
<td>U.S. hedge fund managers looked to banks in 2nd</td>
</tr>
</tbody>
</table>