Charles Mizrahi's
Alpha Investor Report

Profit Alert: 1 Health Insurer Will Skyrocket Under New Alpha Management

IT'S 1954, and you're driving down Main Street after seeing *On the Waterfront* starring Marlon Brando. "Mr. Sandman" plays on your car radio, and you've got your arm wrapped around your sweetheart.

You've already started talking about marriage, but you need to save up more money. You like your job managing a five-and-dime store near Kansas City, Missouri, but the pay isn't great.

However, you see a future working there. The store's a hit from day one. Customers keep coming back — and sales are booming.

The store owners are two brothers in their mid-30s. They have a knack for business and make you feel like family.

One day, one of the brothers tells you his long-term business plan. He wants to open more stores just like the one you manage … but all across the nation.

There's only one problem: The brothers are a bit short on cash.

But they encourage you and the other managers to share in their growth, and offer you an equity stake in the business for as little as $1,000.

You have the money, but $1,000 is most of your savings. So, what do you do?

Really think about it for a moment. Because the choice you make will change the course of your life … forever.

INSIDE THIS ISSUE

You already know full well how brutal the retail industry is and that there's no guarantee of success. However, you also know these men are going places … and that you have the chance to invest alongside them.

Let's say you go all in and agree to the brothers' offer.

Well, let me be the first to congratulate you. Because from that moment on, your net worth will soar.

The scenario I just described to you was the exact same choice given to the managers of Sam and Bud Walton's variety stores — the founding members of Walmart.

At the time, the Waltons franchised a group of five-and-dime shops called Ben Franklin Variety Stores. They owned 16 stores by 1962, and opened the first Walmart in Rogers, Arkansas, in the summer of that same year.

Today, there are more than 11,000 Walmart stores worldwide, generating over $500 billion in revenue … every single year. So, from a standing start, Sam and his brother Bud built one of the greatest retail businesses *ever.*

But let's not forget about the managers who took the brothers up on their offer. Because had you agreed to their terms, you too would've been part of that growth.

You wouldn't have even needed to know much about retail. Instead, all you had to do was trust the Waltons' management — and ride the tailwinds fueling their business.

For context, Walmart became a public company on October 1, 1970. So, a $1,000 investment at the initial public offering would be worth over $4 million today.

And while I don't know the exact value of a $1,000 investment in 1954 before the company went public, I can guarantee you that it would have returned much more.

The thing is, investing alongside great managers like Sam and Bud aren't one-off events. A few great business leaders rise to the top in every generation. You just need to know where to find them.

For example, investing alongside Warren Buffett in 1965 when he took control of Berkshire Hathaway would've turned your $1,000 investment into $26 million today.

That same $1,000 would now be worth $1.5 million had you invested in Microsoft when Bill Gates took his company public in 1986.

And you'd have $120,000 in your pocket had you given Jeff Bezos $1,000 when Amazon went public in 1997.

It's no exaggeration that enormous fortunes can be made when you have the right manager leading a business with strong tailwinds at its back.

In fact, I've learned that having the right person in charge is the single most important factor when determining long-term business results. Yet most investors have no idea who the CEOs of the stocks that they buy are.

That just doesn't make any sense!

A good CEO will have a clear vision of where their company is headed. And it's their job to develop a strategy that drives business operations in that direction — without breaking the bank in the process.

In the hands of a great CEO, shareholder value multiplies like rabbits and investors end up rich.

However, the opposite is true of CEOs without the right vision. These are the leaders whose executions fall to the wayside. They end up making dumb decisions that send everyone to the poorhouse.

I'll give you an example.

In 1975, Eastman Kodak developed the very first digital camera. The product was a huge hit and paved the way for future innovation.

In fact, Kodak was such a success that in 1990, Bill Gates set up a meeting with Kodak's CEO, Kay Whitmore. He wanted to discuss integrating Kodak into Microsoft's Windows operating system.

But Whitmore didn't have a clear vision for Kodak. In fact, he didn't believe in his own company's technology and failed to see that the world was going digital.

And after Whitmore fell asleep at his meeting with Gates … Kodak went on to lose 99% of its value.

So, you see, it's not enough for a company to have a hit product, or even strong revenue. In order for any business to survive and prosper — and to experience lasting growth — it still needs a great CEO to guide it.

That's why I'm so excited to tell you about this month's selection. Right now, we have the chance to get in on the ground floor of a business run by rock-star leadership.

Before hiring its new CEO in November 2017, this company was on a fast track to nowhere. The former CEO tried to make several acquisitions to grow the business. But each deal ended up a bust, and lawsuits soon followed.

However, this company's new CEO has already turned the business around. Not only has she provided rock-solid leadership, but revenue is up by 16% and earnings per share have jumped 61%.

So, you can rest assured that when it comes to partnering with an outstanding CEO, we've got the cream of the crop.

Buy Into the $3.5 Trillion Health Care Industry

This month, I recommend buying into a company that participates in the ever-growing health care industry.

To say that health care represents a huge market would be an understatement. Just in the U.S., 18% of gross domestic product (GDP) goes toward health care. That totaled a whopping $3.5 trillion in 2017.

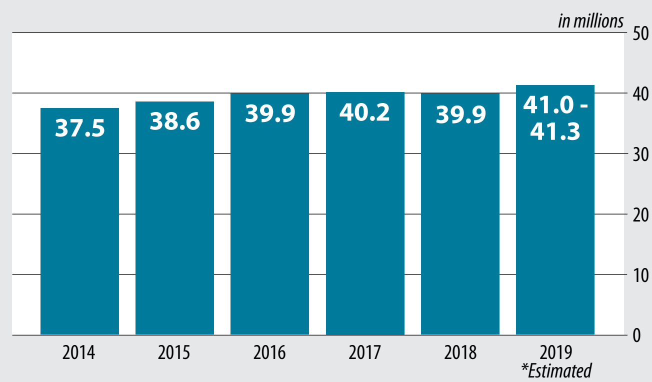
But this spending is projected to grow to almost $6 trillion by 2027, according to the Centers for Medicare and Medicaid Services. Should that happen, that means nearly 20% of our nation's GDP will go to health care alone.

And these numbers aren't going to shrink anytime soon. In fact, health care spending will only increase as we deal with larger demographics needing care as people age.

For this reason, I suggest that you buy **Anthem Inc. (NYSE: ANTM)**, one of the largest health insurers in the country.

Anthem serves more than 78 million people, including 40 million members in its family of health insurance plans. The company has two different business segments that it operates in: Commercial and Specialty, and Government.

Anthem Will Have Over 40 Million Medical Members in 2019



SOURCE: Anthem Inc.

Combined, both segments brought in $91.3 billion in total revenue in 2018.

Anthem's Commercial and Specialty segment serves businesses that provide their employees with health insurance, as well as individual people. It has close to 30 million members and generated $36 billion in revenue at the end of 2018.

This is a highly profitable business for Anthem and brought in operating profits — earnings before interest and taxes — of $3.6 billion.

Anthem's Government segment includes Medicare, Medicaid and its Federal Employment Program. This portion of its business serves over 10 million members and generated $56 billion, with operating profits of $1.9 billion at the end of 2018.

Anthem's business has high growth potential because of its Medicare and Medicaid offerings, which each target growing audiences.

Anthem offers both Medicare and supplemental Medicare to eligible members. Both are generally available to people age 65 and older. This segment grew by 18% in 2018 and should continue to soar higher as the U.S. population gets older.

As you can see in the chart below, more than 60 million people are already eligible to receive Medicare in 2019. But that number is projected to grow to 67 million people in 2023, with Medicare spending also expected to rise from $800 billion to nearly $1.1 trillion over the next four years.

Medicaid, on the other hand, is funded by the government and provides health insurance to lower-income people.

Just like its Medicare segment, Medicaid spending should also rise nearly 30% in 2023 to $801 billion. While Anthem already has 7 million members in its Medicaid plans in 2019, this number will greatly increase.

Medicaid was expanded under the Affordable Care Act in 2010, making it available to more people. In fact, as many as 87 million members could be enrolled in Medicaid by 2023.

So, Anthem's revenue should greatly increase from each of its Government segments — and do so in a very short amount of time. We'll want to profit from this tidal wave of growth, which is just one of the reasons to add Anthem to your portfolio today.

Large Barriers to Entry Give Anthem a Competitive Advantage

One thing I really like about Anthem's business is that it participates in an industry with huge barriers to entry.

The health insurance industry is highly regulated at both the local and federal level. And each state sets its own rules for insurance providers within that state.

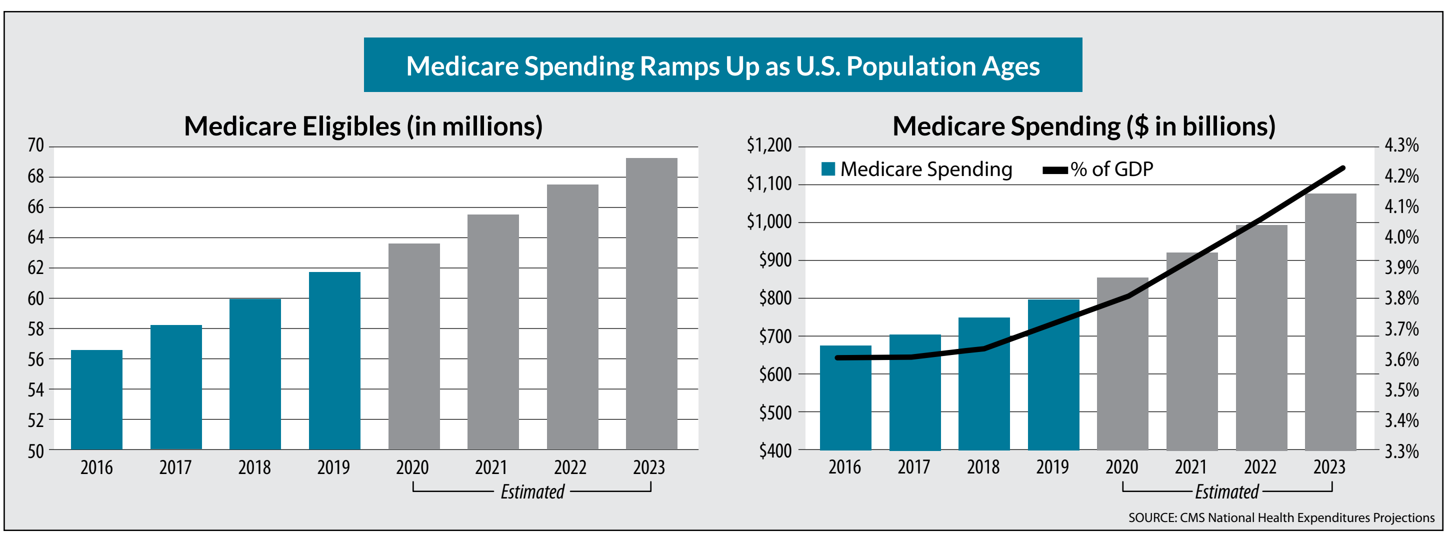
Insurers focus on serving local markets and negotiate with local doctors to offer patients the lowest possible rates. And while each insurer may have a low market share nationwide, only a few providers dominate the market within each state.

Additionally, health insurance is a stable business. Members almost always do their best to pay their monthly premiums, which is true even during steep recessions.

Then there's the fact that the health insurance industry is a huge cash generator.

Remember, Anthem brought in $3.8 billion in operating cash flow in 2018. And its cash flow over the last decade has been so great that the company's bought back $23 billion worth of its own stock, reducing shares outstanding by 48%.

And keep in mind that starting a health insurance business isn't something you can do out of your garage or college dorm room, because the barrier to entry is so



enormous. So, what worked for Google, Facebook and Amazon won't cut it in this industry.

You see, in order to compete in this market, a company needs to have millions of members in its network. And once a company has built up its market share, it's very difficult for it to lose it.

That's because having a large membership gives Anthem two big competitive advantages. Simply put, the more members Anthem has, the more profitable it becomes and the more its members benefit.

In economic terms, these are known as cost advantages and network effects. Let's take a look at each one to see how they further build Anthem's market share.

- **COST ADVANTAGE**

Profitable health insurers need to have a large membership base. The more members they have, the greater they can control their fixed costs.

Many of Anthem's costs are already fixed, such as the software it uses to offer clients its services.

Serving one additional member is highly profitable for the company because it doesn't require a lot of incremental costs. So, assuming the first million members cover all the company's fixed overhead — such as office space, staff and computers — the next million members will bring more profit to the company's bottom line.

In other words, the incremental costs for the next million members are much lower. And Anthem's fixed costs are then able to be spread over a larger number of members.

Additionally, a large and growing membership base allows Anthem to have negotiating leverage with providers. And negotiating leverage allows for lower medical costs per member, which filters down to lower premiums.

- **NETWORK EFFECTS**

Network effects happen when the value of your services increase along with your membership base. A great example of this can be seen with social media powerhouse Facebook.

When Mark Zuckerberg built Facebook's website in his Harvard dorm room, its user base was limited to a very small group of Harvard students. But once Facebook opened to the general public, anyone over the age of 13 could sign up.

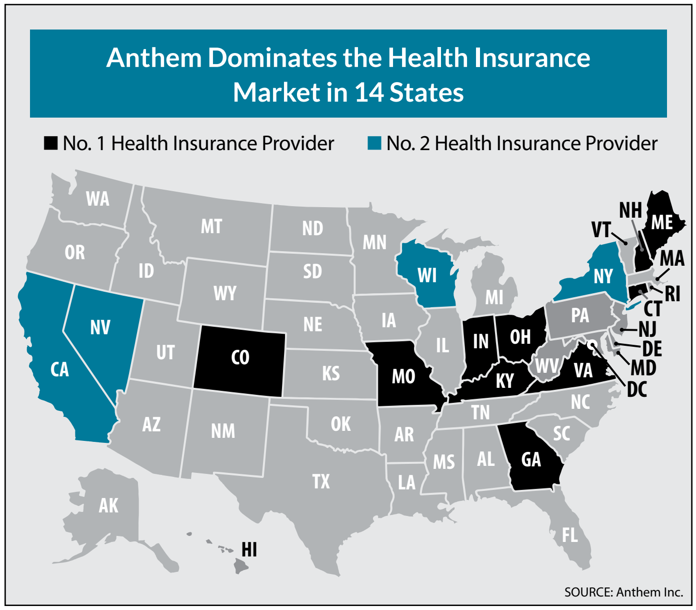
Once that happened, its number of active users soared. Facebook now has 2.5 billion monthly active members and is worth more than $570 billion.

The more members it has, the more attractive it becomes for others to join and use because everyone they know is already on Facebook. And most people want to be able to connect and stay in touch with their friends and family.

In other words, the network becomes more useful as the number of users goes up.

Anthem works very similarly. Having 40 million members on its roster allows the company to charge lower premiums and offer more benefits.

Of the 14 states Anthem operates in, it's the No. 1 provider in 10 of those states and the No. 2 provider in the other four. In fact, the company's market share across all markets totals roughly 33%.



So, 1 in every 3 patients across its 14 markets is an Anthem customer. And this scale gives health care providers such as hospitals and physicians greater access to patients.

Think about it this way: Why would you want to join a health insurer with a very limited number of providers accepting your insurance? On the flip side, why would health care providers want to partner with an insurer that has a very small membership base and limited group of patients?

Any doctor worth their salt will want to add patients to their practice. So, it's an absolute necessity for them to accept Anthem's plans. Otherwise, they'll struggle to survive.

This reminds me of when my wife was expecting our third child. The obstetrician group she'd used for our first two kids decided that it would no longer accept any insurance. And the group wasn't willing to be reimbursed at a lower rate from insurance companies.

Instead, it demanded payment upfront from its patients, which totaled more than $10,000 at the time.

My wife and I left the practice to find a medical group covered under our insurance plan. And we weren't the only ones. Just a few months after it implemented its no-insurance policy, I heard this group had lost more than 70% of its practice.

A short time later, it was forced to start accepting insurance again or close up shop.

So, you can see why doctors are willing to charge lower rates to Anthem for access to its members. The larger Anthem gets, the more leverage it has over service providers and the better deals it can get its members.

In turn, the more members Anthem has, the greater its cost advantage … and the more powerful its network effect becomes.

Anthem's Network Spans 95% of All Health Care Providers

If everything that I told you about Anthem hasn't sold you on the company up to this point, then what I'm about to reveal next surely will.

You see, Anthem has one more competitive advantage up its sleeve: the company's licensed brand, Blue Cross Blue Shield (BCBS).

BCBS is the most experienced provider of health coverage in America. Its network covers over 100 million people nationwide, and it has contracts with over 95% of physicians and hospital groups across the country.

No other health insurer in America has the sheer volume of members or the same kind of network reach.

Additionally, BCBS is the No. 1 brand in health insurance. It allows its BlueCard members access to providers on any BCBS plan, regardless of the members' home plan. This provides users with a unique network and gives members flexibility, which in turn strengthens its network effect.

To date, BCBS licenses its brand to insurance providers in all 50 states. And those licensees operate as the No. 1 insurance provider in 34 of those states.

This works in our favor because Anthem is a licensee for BCBS, meaning it has one of the most recognizable national health care brands on its product list.

And even though Anthem is only a BCBS licensee in 14 states, its members have access to 95% of physicians and hospitals across the country. That's another major advantage that BCBS offers its members: the use of providers across state lines.

Putting it all together, Anthem's license with BCBS gives it access to a huge network and provides great flexibility for its members. And the more members Anthem is able to add to its business, the lower its incremental costs for each additional member.

In turn, the lower its costs, the more business it will attract. So, as these events play out, we can expect Anthem's revenue to increase with a high degree of certainty.

And yet, even with each of Anthem's competitive advantages working in its favor, this would still mean very little without a strong leader at the company's helm. Lucky for us, Anthem's new CEO is as strong as they come…

Revenue and EPS Rise Under CEO Boudreaux

Back in 2013, Anthem's board of directors decided to hire Joseph Swedish as the new CEO.

Prior to joining Anthem, Swedish worked as a hospital executive and had zero experience running a health insurer. From the beginning, it looked like an accident waiting to happen.

Swedish tried to transform Anthem through

ALPHA INVESTOR REPORT

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acquisitions, thinking that the way to expand Anthem's network was to absorb rival health insurers.

He first tried to merge with Cigna Corp. back in June 2015, for a deal worth $48 billion. However, the U.S. Justice Department filed an antitrust suit and blocked the deal.

A short time later, Cigna called the whole thing off. Then, in 2017, Cigna and Anthem sued each other over the failed merger … and the case is still in court today.

Later that year, in October 2017, Anthem announced its plan to cut ties with Express Scripts, which acted as Anthem's pharmacy-benefit manager (PBM). PBMs act as middlemen between drug companies and patients, and negotiate on behalf of patients for lower drug prices.

Anthem claimed that Express Scripts had overcharged the company to the tune of $3 billion a year. Now, Anthem and Express are also locked in a lawsuit.

Less than one year after the Cigna-Anthem deal imploded, Anthem's board of directors finally fired Swedish and hired the company's current CEO, Gail Boudreaux.

Boudreaux has more than 25 years of experience working in the health insurance industry.

She previously worked at Aetna, and Blue Cross Blue Shield of Illinois. Most recently, she had the title of CEO at UnitedHealth Group's insurance business. For context, UnitedHealth is the No. 1 health insurer in the country, just ahead of Anthem.

While at UnitedHealth, Boudreaux managed 60,000 employees, and the company made $120 billion under her watch. She also increased UnitedHealth's membership by 8 million people, going from 36 million in 2008 to 44 million in 2014.

Since becoming Anthem's CEO, Boudreaux has made her presence felt. So far, revenue has increased by 16% and earnings per share have jumped 61%. Not bad for only two years' worth of work.

In addition to her experience and her accomplishments at Anthem, I like Boudreaux's compensation incentives — 80% of which are tied to operating profit.

In other words, if Boudreaux doesn't increase Anthem's bottom line, her compensation bonus won't be that big. She also has incentives in place based on income and revenue growth, which puts her interests alongside shareholders'.

When I called around and asked my colleagues who cover health insurers about Boudreaux, the word that kept coming up was "superstar."

In addition to hearing how great a job she's doing at Anthem, I was also told that Boudreaux not only knows how to win — but has been winning all her life.

You see, at 6 feet, 2 inches tall, Boudreaux had a very successful high school and college basketball career.

She played center for the Chicopee Comprehensive girls' basketball team, averaging 23 points and 20 rebounds a game as a senior in high school. She also became Dartmouth's all-time leading scorer and rebounder, and was named Ivy League Player of the Year for three straight seasons.

So, considering Boudreaux's accomplishments both on and off the basketball court — in combination with her 25 years of industry experience — you can see how we're partnering with a rock star.

Shareholder Value Keeps Climbing Higher

Since taking up the mantel as Anthem's CEO, Boudreaux has already begun to increase shareholder value.

In fact, I've identified four different ways that Boudreaux has shifted the company's focus for the better:

1. **A greater membership base.** Boudreaux is laser-focused on leveraging Anthem's relationships within the Blue Cross Blue Shield ecosystem. Her objective is to grow Anthem's membership base at a faster rate over the next several years.
2. **Lower drug costs.** After parting ways with Express Scripts, Anthem created its own pharmacy benefit manager called IngenioRX, in partnership with CVS. Anthem projects that this new partnership can save its members $4 billion a year from lower drug pricing. This should translate to considerable savings for members and become a profit center for Anthem. The company projects more than $800 million saved, or $2 per share in earnings, for 2020.
3. **Wise investment choices.** Prior management focused on returning close to 70% of profits to shareholders through dividends and share buybacks. In fact, over the past 10 years, Anthem has reduced share count by 48%. Under Boudreaux, Anthem will spend a greater portion of its free cash flow strengthening its business. Only 50% of free cash flow will be returned to shareholders each year, and the other 50% will be earmarked for "flexible deployment" to increase shareholder value. And we're already seeing this play out with Anthem's latest acquisition.

   In June 2019, Anthem acquired Beacon Health Options, the nation's largest independently owned behavioral health association. Beacon currently serves over 36 million Americans, and this influx of new members should increase Anthem's earnings in 2020.

4. **Machine learning initiatives.** Boudreaux is allocating more of Anthem's capital to digital and artificial intelligence (AI) technology. One of Anthem's digital investments is in its service LiveHealth Online, where patients can carry out doctor appointments online through a video call.

   Anthem also uses AI to find members in need of complex case management up to six months sooner. These complex cases involve illnesses such as cancer, which patients typically require more help for from their insurers.

Yet despite each of these critical bright spots, Wall Street's letting fear over the current health care climate cloud its better judgement. And as a result, Anthem's stock currently trades for a discount…

Alpha-3 Approach

- **Alpha Market:** Anthem participates in a $3 trillion health care market that already makes up 18% of the nation's GDP. But health care spending will continue to grow every year as our population ages. Anthem is a licensee for BCBS, meaning it has one of the most recognizable health care brands on its product list. And even though Anthem is only a BCBS licensee in 14 states, its members have access to 95% of physicians and hospitals across the country.

- **Alpha Management:** Gail Boudreaux became Anthem's CEO back in November 2017. Since she joined the company, Anthem's revenue has already climbed 16%, and earnings per share is up an additional 61%. With over 25 years of experience working in the health care industry, Boudreaux already has a proven track record of increasing membership and shareholder value. And she'll do the same with Anthem.

- **Alpha Money:** The leading Democratic candidates are attacking private health insurance. As a result, Anthem's stock currently trades at a bargain price. However, I see most of the Democrats' threats as political posturing — and believe that Wall Street's fears are overblown. Additionally, Anthem's new PBM will save the company billions in drug costs every year, and its partnership with Blue Cross Blue Shield will bring more revenue to the company's bottom line. As a result, Anthem's share price should grow steadily over time.

Overblown Fears Hand Us a Fantastic Opportunity

Looking at Anthem's current share price, I can tell that Wall Street is mispricing the company because of political fears.

The leading Democratic presidential candidates want to revamp health care in a big way. In fact, candidate Elizabeth Warren wants to bring an end to private health insurance altogether. And these threats are casting a huge cloud over Anthem and other health insurers.

However, I believe these fears are overblown.

I remember back in 1993 when President Bill Clinton and the first lady, Hillary, came out with a plan to revamp the medical system, focusing on drug companies and the high price of medicine.

At the time, pharmaceutical stocks plunged before eventually recovering and soaring higher for the next decade. And investors who took advantage of those bargain prices went on to make huge returns.

I see the same thing playing out with health insurers. And even in the event that a Democrat is elected president, I don't believe they can — or will — end private health care.

Add to this the fact that Boudreaux is setting Anthem up for future membership and revenue growth, and it's only a matter of time before Anthem's stock price reflects these developments.

Additionally, Anthem's new PBM, IngenioRX, will lower drug costs for current members and serve to attract new members. IngenioRX will also drive revenue and income in other ways that aren't being priced in by Wall Street.

In the short term, some of the savings from this new PBM will go to shareholders, boosting earnings per share by $2, or by about 10%.

Meanwhile, Anthem continues to buy back its own company's shares, reducing the number of shares available in the market and increasing investors' earnings per share.

Put it all together, and you've got several huge tailwinds that should push Anthem's stock higher over the next several years.

Now, for the past 12 months, Anthem's adjusted earnings per share was $18. Its stock currently trades at 16 times earnings. So, if the company can grow earnings per share by 15%, total earnings per share will be around $31. At an 18-times multiple, Anthem's stock price — including dividends — should trade for around $580.

Should that happen, and I think it will, we'd make a 100% return or more from Anthem's current share price.

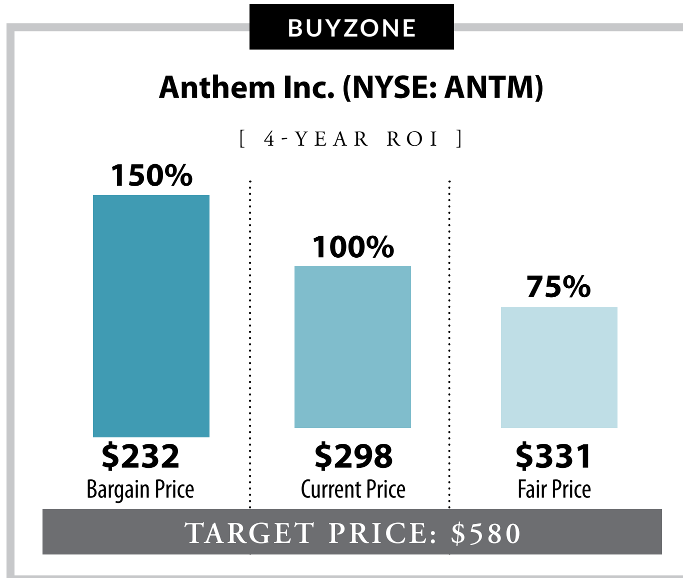
However, if the company accelerates share buybacks and grows membership faster than anticipated, we could see its stock price rise by 150% or more.

Action to Take: Buy Anthem Inc. (NYSE: ANTM) up to $331.

As always, I'll keep you updated on Anthem's growth in future issues of *Alpha Investor Report*. If you have any questions or comments in regard to our stocks, drop my team a line at alphainvestor@banyanhill.com. We'd love to hear from you.

Regards,

Charles Mizrahi
Editor, *Alpha Investor Report*



Alpha Investor Report Portfolio

Company (Ticker)	Date Added	Purchase Price	Price On 12/19/2019	Total Return	Buy-Up-To-Price	Below Buy-Up-To-Price?
NEW						
Anthem Inc. (ANTM)	**NEW**				**Buy – Up to $331**	✓
CURRENT PORTFOLIO						
KKR & Co. Inc. (KKR)	11/25/19	$29.54	$29.55	0.30%	Buy – Up to $34	✓
FedEx Corp. (FDX)	9/20/19	$148.78	$148.06	-0.48%	Buy – Up to $170	✓
Intel Corp. (INTC)	8/26/19	$45.56	$57.29	26.43%	Buy – Up to $53	
IQVIA Holdings Inc. (IQV)	7/24/19	$160.61	$147.39	-8.23%	Buy – Up to $176	✓
The Charles Schwab Corporation (SCHW)	6/21/19	$40.63	$48.72	20.89%	Buy – Up to $46	
CarMax Inc. (KMX)	5/21/19	$77.98	$98.03	25.71%	Buy – Up to $86	
Wyndham Hotels & Resorts Inc. (WH)	4/24/19	$54.32	$61.72	14.85%	Buy – Up to $61	
Sensata Technologies Holdings PLC (ST)	3/22/19	$45.70	$53.81	11.58%	Buy – Up to $57	✓
Marvell Technologies Group Ltd. (MRVL)	2/22/19	$19.59	$25.81	32.66%	Buy – Up to $22	
Restaurant Brands International Inc. (QSR)	1/18/19	$57.00	$65.15	16.80%	Buy – Up to $60	
MARIJUANA SPECIAL REPORT RECOMMENDATIONS						
The Brink's Company (BCO)	5/6/19	$80.06	$91.18	14.52%	Buy	
Constellation Brands Inc. (STZ)	5/6/19	$209.65	$184.43	-11.00%	Buy	
PepsiCo Inc. (PEP)	5/6/19	$127.27	$136.32	8.64%	Buy	
Altria Group Inc. (MO)	5/6/19	$53.53	$51.38	-0.55%	Buy	
AI SPECIAL REPORT RECOMMENDATIONS						
Xilinx Inc. (XLNX)	4/2/19	$129.09	$97.43	-23.66%	Buy	
Box Inc. (BOX)	4/2/19	$19.59	$17.22	-12.12%	Buy	
Lumentum Holdings Inc. (LITE)	4/2/19	$57.90	$76.88	32.78%	Buy	
II-VI Incorporated Inc. (IIVI)	4/2/19	$38.83	$33.54	-13.62%	Buy	

NOTES

The *Alpha Investor Report* Portfolio is an equally-weighted strategy and does not include dealing charges to purchase or sell securities, if any. Taxes are not included in total return calculations. "Total return" includes gains from price appreciation, dividend payments, interest payments, and stock splits. The Purchase Price is based on the first closing price after the recommendation's release. Sources for price data: Capital IQ, and websites maintained by securities issuers. Dividend yield is calculated based on trailing 12-month distributions. Past performance is not indicative of future results.