

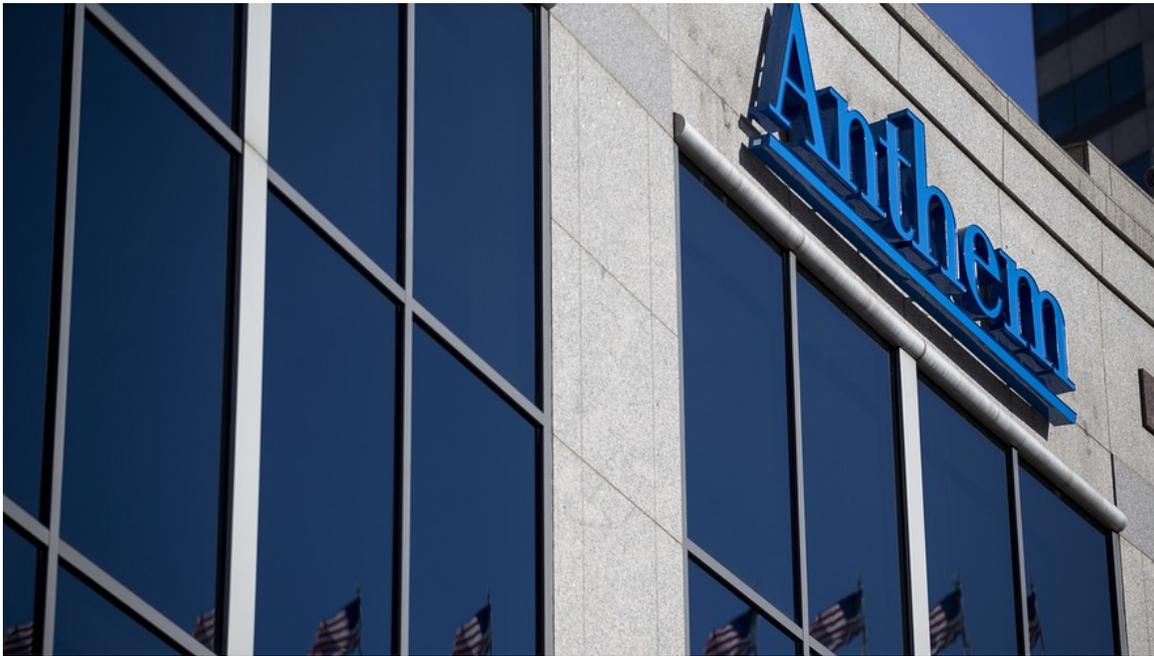
MarketWatch

Anthem dumps Express Scripts in favor of starting its own pharmacy-benefit manager

By [Emma Court](#)

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The new PBM, in partnership with CVS, allows the two parties 'to perform what they do best,' Anthem's CEO said

*Getty Images*

Following a high-profile battle with its current pharmacy-benefit manager, Anthem Inc. now plans to launch its own PBM and partner with CVS Health Corp. to do it.

The new PBM, IngenioRx, will launch in full for Anthem [ANTM, -0.86%](#) health plans in 2020, which is also when the health insurer's contract with Express Scripts Holding Co. [ESRX, -1.01%](#) ends. IngenioRx will also provide services to non-Anthem customers.

CVS Health [CVS, -3.68%](#) will provide services for Anthem under a five-year contract also starting in 2020.

Anthem projects that its new PBM will save it more than \$4 billion a year, more than the \$3 billion that the health insurer [previously claimed](#) Express Scripts owed it. Company executives said the number had been calculated in an "apples-to-apples" way with the previous \$3 billion figure.

Read: [Express Scripts is airing dirty laundry in its nasty, very public Anthem divorce](#)

Anthem stock surged 4.2% in moderate morning trade after the announcement. After falling to a 4½ year low, Express Scripts stock rallied 1.9% in heavy trade, and CVS Health stock rose 0.7%.

Anthem's PBM entry is notable in a highly concentrated industry dominated by just a few large players. A health insurer having its own PBM isn't unprecedented — UnitedHealth Group's [UNH, -0.95%](#) pharmacy-benefit manager unit, Optum, has [driven growth](#) for the company — but Anthem's model allows "the two parties to perform what they do best," said Chief Executive Joseph Swedish.

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Anthem will focus on “overall cost of care” through such things as clinical, formulary and retail network strategy, sales and marketing, management said.

CVS Health, meanwhile, will fill prescriptions, process claims and provide “point-of-sale engagement, such as member messaging and Minute Clinic,” Anthem said. CVS also brings physical assets to the table, since “we don’t think that building a bricks and mortar facility is the proper use of capital at this time,” Swedish said.

See: [Express Scripts stock surges on investor hopes for an Anthem reconciliation](#)

Company executives also said that more savings could likely be achieved through medical management. In addition, the \$4 billion in savings did not include membership growth, which Anthem expects to achieve due to its new PBM, Griffin said.

Anthem will thus be able to “integrate medical and pharmacy services better than what’s done today,” said Executive Vice President Brian Griffin.

Anthem expects to begin migrating its membership to the new PBM in 2020 and have the transition completed by the start of 2021. Management declined to go into specifics of the contract terms. CVS Health said it expects to incur implementation costs, but that those costs will likely be immaterial to 2017 earnings.

Ingenio Rx “alters the PBM competitive landscape dramatically,” said Veda Partners analysts Sumesh Sood and Spencer Perlman. “With potentially favorable pricing, IngenioRx is likely to offer a strong value proposition versus the competition that could create ‘a very competitive and stressed pricing environment’ in a business that is already facing margin headwinds.”

Mizuho analyst Ann Hynes previously estimated that winning the full Anthem contract could add 13 cents to 25 cents to CVS Health’s annual adjusted EPS.

Hynes said she is reviewing the estimate but added that “the contribution for the contract will be at least at the high end given the inclusion of mail and specialty prescription fulfillment and the fact CVS’s physical assets will support Anthem’s new PBM.”

Read: [Is Amazon getting into the pharmacy business? This is what you need to know](#)

For Express Scripts, losing its biggest client should have a negative \$2.61 adjusted EPS impact on an annual basis, according to Hynes. Even though Express Scripts was expected to lose the contract, and said as much this past spring, “we still view the news negatively for the company,” Hynes said.

Notably, Express Scripts announced [earlier this month](#) that it has agreed to buy privately held medical benefit management company eviCore healthcare for \$3.6 billion. The two companies will be “uniquely positioned” to improve health care outcomes, eviCore Chief Executive John Arlotta said then.

PBM stocks have recently been threatened by a [possible entry by online retailer Amazon](#) into the space. Asked about Amazon, Anthem executives said Wednesday that the company could potentially pursue a business relationship with Amazon.

Anthem shares have surged 3% over the last three months, Express Scripts shares have declined 6.8%, CVS Health shares have dropped 6.2% and the S&P 500 [SPX, -2.01%](#) has surged 4.1% and the Dow Jones Industrial Average [DJIA, -2.23%](#) has gained 7.2%..

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