

Elevance Health Inc

Relatively clean Q4 vs low expectations, 2024 guide in-line

Reiterate Rating: BUY | PO: 580.00 USD | Price: 472.16 USD

Modest Q4 beat with MLR better

Q4 delivered a modest beat of 3c vs consensus on better medical loss ratio (MLR), investment income, and taxes, partially offset by higher SG&A. ELV's Q4 MLR came in 20bps lower vs consensus and the company guided to 2024 MLR being flat y/y, which should help sentiment for the group (at least ex-MA). 2024 EPS is expected to grow 12% y/y, at the low end of the 12-15% LT EPS growth range, but is slightly above prior commentary. Reiterate Buy.

2024 MLR to be flat y/y, EPS up 12% y/y

ELV issued initial 2024 guidance, with adj. EPS of \$37.10 (0.2% above the Street) set to grow 12% y/y. Meanwhile, MLR guidance of 87.0% at the midpoint was 10bps better than consensus and flat y/y, compared to large increases at more Medicare Advantage (MA) exposed names, indicating that trend is not an issue ex-MA. SG&A of 11.1% was in line with consensus and down 20bps y/y. Investment income (+0.7%) and taxes (-190bps) were better than consensus, partially offset by higher int exp. Fee based membership is expected to grow 1.5% y/y, in line with consensus. Meanwhile, fully insured membership is set to decline 6% y/y and was 5% below consensus (likely driven by redeterminations and repricing). Revenues are expected to be flat to up low single digits y/y or about 1% below consensus. Caelon Services expected to see high teens to low twenties revenue growth y/y with flattish margins; CaelonRx set to grow revenue low single digits (below target), but expected to expand margins by 50bps.

Beat on MLR, SG&A missed vs consensus

MLR of 89.2% was 20bps better than consensus and 60bps better than our est. Given trend concerns, ELV's MLR beat should add confidence in the group. However, DCPs decreased -1.3 q/q and -0.2 y/y, pointing to modest reserve weakening. SG&A came in 30bps worse vs consensus due to higher investments in growth.

Health plan margins below, Caelon Services better

Health Benefits earnings were 27% worse vs consensus on lower margins (80bps below consensus) as revs were roughly in line. ELV noted investments in the quarter to support LT growth. CaelonRx margins of 5.6% were -80bps below our est and -20bps below consensus. Meanwhile, Caelon Services earnings came in 64% above consensus on better margins (170bps above our est/110bps above consensus) and 3% higher revs vs consensus. Consolidated margins were -70bps below consensus.

Q4 membership below on most products

ELV's commercial risk membership was -4.4% below our est/-0.6% below consensus and commercial ASO membership was -1.7% below our est/-0.2% below consensus. Meanwhile, Medicaid membership was -2.0% below our est/-2.3% below consensus. Medicare membership was -1.8% below our ests/-1.1% below consensus.

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Equity

Kevin Fischbeck, CFA
Research Analyst
BofAS
+1 646 855 5948
kevin.fischbeck@bofa.com

Joanna Gajuk
Research Analyst
BofAS
+1 646 855 3961
joanna.gajuk@bofa.com

Adam Ron
Research Analyst
BofAS
+1 646 743 2020
adam.ron@bofa.com

Nabil Gutierrez
Research Analyst
BofAS
+1 646 556 2974
nabil.gutierrez@bofa.com

Stock Data

Price	472.16 USD
Price Objective	580.00 USD
Date Established	13-Dec-2023
Investment Opinion	B-1-7
52-Week Range	412.00 USD - 508.78 USD
Mkt Val (mn) / Shares Out (mn)	111,666 USD / 236.5
Free Float	99.7%
Average Daily Value (mn)	542.07 USD
BofA Ticker / Exchange	ELV / NYS
Bloomberg / Reuters	ELV US / ELV.N
ROE (2023E)	20.7%
Net Dbt to Eqty (Dec-2022A)	46.0%
ESGMeter™	High

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ELV = Elevance Health

UNH = UnitedHealth Group

DCP = Days Claims Payable

MLR = Medical Loss Ratio

ASO = Administrative Services Only

Price objective basis & risk

Elevance Health Inc (ELV)

Our \$580 PO is based on 15.7x our 2024E EPS, above the 5YR average of 14.3x, reflecting more diversified business mix, multiple levers to grow (commercial margins, growing services business) and favorable backdrop broadly for MCOs.

Risks to the downside are a quicker than expected rebound in utilization, a more competitive pricing environment, Medicaid redetermination impact on revenue/MLR and government rate pressure.

Risks to the upside are better-than-expected enrollment growth, upside from capital deployment, lower than expected utilization and faster than expected growth in the services businesses.

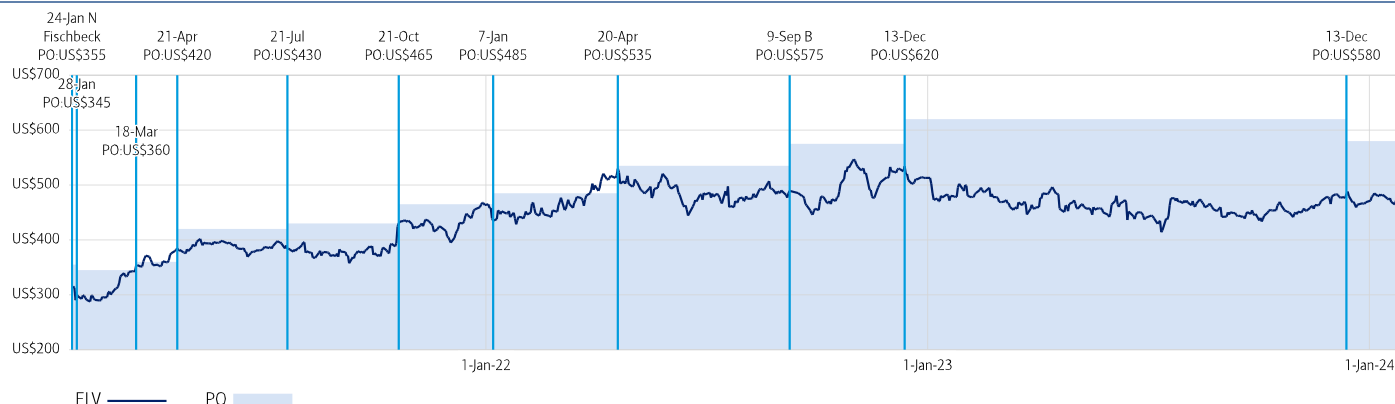
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Elevance Health Inc (ELV) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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