

Elevance Health Inc

Quick takes from the call – expects accelerating growth in 2025

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

Bullish comments on accelerating growth in 2025

ELV indicated that it expects to accelerate growth in 2025. The health benefits business should continue to grow in 2025 after a reset year in 2024 (MA and Medicaid headwinds). Carelon growth should improve with that accelerating health plan growth as well as scale externally. The company has also made a number of adjustments to the cost structure. It expects slightly more than 55% of 2024 EPS in 1H and slightly more than half of that in Q1 (~1% below Q1 consensus/2% below Q2 consensus). Guide does not include pending deals (Paragon, BCBS LA). We maintain our Buy rating.

Priced appropriately for MA – no growth but better margin

Focusing on markets where it can win (it exited counties with 84k members and repriced PR, losing 90k members). Excluding PR and planned exits, it would be growing high single digits, but given exits, it expects membership to be flat. Pockets of the MA market are hyper-competitive despite rate pressure. It believe that it is priced appropriately for 2024 and expects earnings to improve (still below target margin). Costs are coming in as expected in MA (pockets of high utilization in orthopedics but largely expected). There has been a seasonal uptick in flu, COVID, and RSV but in line with what it has planned. ELV is confident that it is priced appropriately and believes that its bids in 2024 position it well for 2025. Regarding stars, ELV has a number of levers for Group MA that it can pull to mitigate the headwind. It sees stars improvement as a multi-year process. It is investing in value-based care, customer service, and health equity.

2/3 of the way through Medicaid redeterminations

Over 70% of people that lost coverage during redeterminations were unenrolled for administrative reasons. 30% of unenrolled before September 30 have reenrolled. There are many barriers to reenroll, so ELV reached out to 3m people to help them reenroll. Medicaid is performing well – rates remain actuarially sound. ELV now expects to keep only 30% of COVID growth (versus 40-45% on the Q3 call). It is seeing an elongation in the time from when people lose coverage and then sign up for ACA plans. Redeterminations should continue through the year, and ELV now expects less pickup of coverage through employers with more membership coming through ACA signups.

Membership down in 2024, commercial offset by Medicaid

Guidance assumes that it will lose 750k memberships. ELV expects to end the year with 8.8-9.2m Medicaid lives (including 930k lives lost from 2 joint venture losses). It is winning 75% of national accounts that switch. Commercial membership should be up 750k, with 300k risk (mostly individual) and 400k fee based. MA should be stable. Medicare supplemental and federal should be stable.

Carelon seeing good momentum

ELV is rolling out new programs in 2024, including oncology, Medicaid behavioral health. The pipeline for 2024 has been strong with some wins with the Blues. Paragon (infusible and injectable therapies) complements the growing specialty business and home delivery.

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Equity

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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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ACA = Affordable Care Act
BCBS LA = Blue Cross Blue Shield Louisiana
ELV = Elevance Health
k = thousand
MA = Medicare Advantage
MLR = medical loss ratio
PR = Puerto Rico
RSV = respiratory syncytial virus

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.

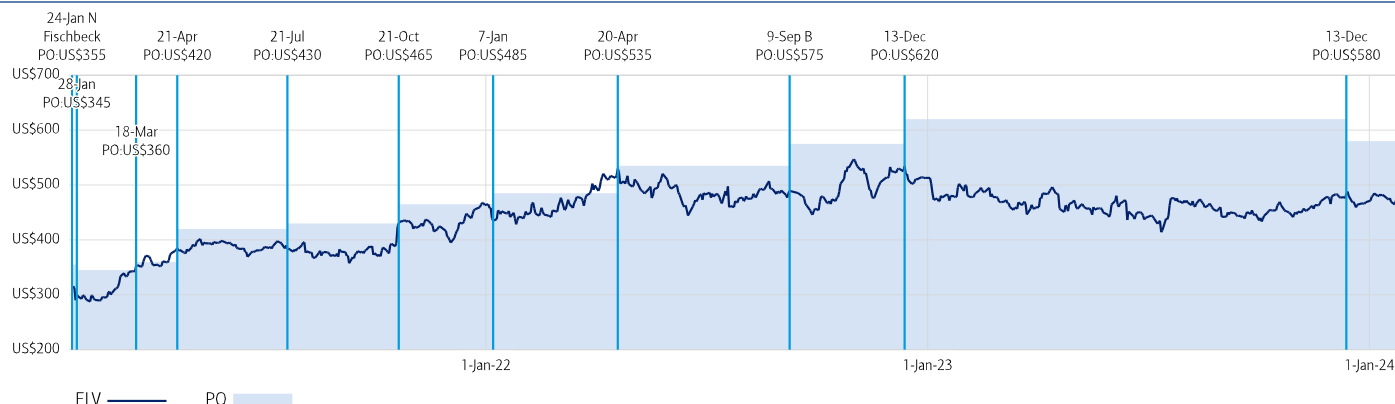
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Elevance Health Inc (ELV) Price Chart



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
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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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