

## Elevance Health Inc

Meetings with top management strikes  
bullish tone on all fronts

Maintain Rating: BUY | PO: 580.00 USD | Price: 505.31 USD

## Bullish commentary on 2024, ramping 2025

We hosted investors at ELV's HQ, and the tone was bullish as management has good visibility into 2024 guidance and sees a number of areas of momentum into 2025 (large group risk and Medicaid returning to modest growth, 'robust' growth in across other commercial products, MA repositioned in 2024 for better 2025 and Carelon continuing to ramp). Cost trend is a pressure, but appropriately captured in both MA and commercial, while Medicaid rates continue to be strong mitigating redetermination margin pressure. We continue to see ELV as well positioned for 12-15% EPS growth and relatively insulated from near term MA trend concerns. Maintain Buy.

## Carelon a core part of 12-15% LT EPS growth

Management outlined playbook of amassing care enablement capabilities and rapidly scaling across its risk customers. Now manages >25% of risk spend, but can go 'much higher', as well as cross sell into ASO/3<sup>rd</sup> parties. Biggest proof point has been building out core PBM (CarelonRx), while its scaling of acquired assets such as mail order (ZipDrug), specialty (BioPlus), behavioral (Beacon) and post acute (MyNexus), which have plenty of room to run, even as ELV queues up the next leg of growth: home infusion (Paragon), oncology, MSK, maternal, renal, cardio, and home health. Local market density makes such scaling easier to execute on. Once it proves it can save money, it expects strong Blues penetration since it does not compete against the Blues the way other vendors do. Bullish comments on deepening its relationship with Prime PBM.

## Commercial repricing a success, positioning MA growth

The last major piece of commercial repricing was completed Jan 1, driving growth in 2024. Still room for additional margin expansion as mix shift to ASO continues and ELV can cross sell pharmacy, stop loss, behavioral and advocacy offerings. Now that it is at target margins, large group risk should return to modest growth in 2025, while the rest of commercial should show "robust growth." Still sees MA as a growth business in 2025 and beyond as it made necessary market exits/repricing in 2024 creating a sustainable base. Disappointed on stars, but expect to see improvements in 2026/2027. Assumed higher utilization in 2023 is the new baseline, and above average (but deaccelerating) trend into 2024. Expects the industry to reprice to margin over time.

## Strong Medicaid rates/margins, watching acuity

Medicaid disenrollment related to redeterminations has come in higher than expected due to administrative denials. However, despite the fact leavers have lower MLRs than stayers on average (leaving behind a higher acuity risk pool), margins have outperformed due to a strong rate environment, which is already 70% locked in for 2024 (state budgets are sound and no state wants an issue during this transition period). From here, ELV expects more disenrolled members to begin rejoining (with MLR between stayers and leavers), so it is in constant dialogue with states to ensure rates remain appropriate. ELV expects Medicaid to return to growth in 2025 as RFPs start to pick up.

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## Stock Data

Price	505.31 USD
Price Objective	580.00 USD
Date Established	13-Dec-2023
Investment Opinion	B-1-7
52-Week Range	412.00 USD - 513.23 USD
Mkt Val (mn) / Shares Out (mn)	119,152 USD / 235.8
Free Float	99.7%
Average Daily Value (mn)	587.64 USD
BofA Ticker / Exchange	ELV / NYS
Bloomberg / Reuters	ELV US / ELV.N
ROE (2024E)	20.3%
Net Dbt to Eqty (Dec-2023A)	47.2%
ESGMeter™	High

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ASO = Administrative Services Only;  
PBM = Pharmacy Benefits Manager;  
MSK = Musculoskeletal; BCBSA = Blue Cross Blue Shield Association;  
MA = Medicare Advantage; PR = Puerto Rico; MLR = Medical Loss Ratio; RFP = Request for Proposal

## Price objective basis & risk

### **Elevance Health Inc (ELV)**

Our \$580 PO is based on 15.6x 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.

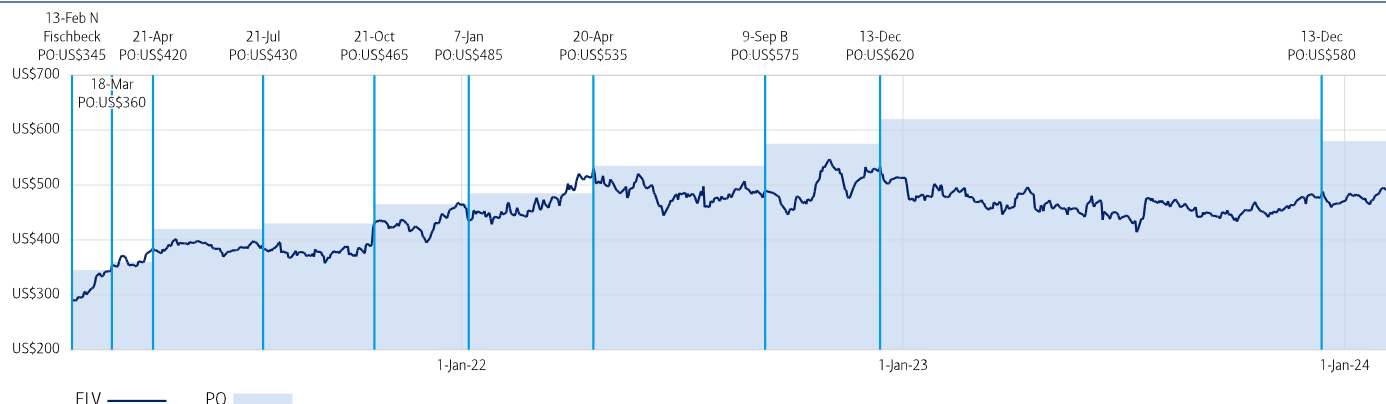
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### Elevance Health Inc (ELV) Price Chart



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 <sup>R1</sup>	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%

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Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
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