Elevance Health Inc. (ELV)

Updated July 20th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$458	**5 Year CAGR Estimate:**	8.7%	**Market Cap:**	$120 billion
Fair Value Price:	$431	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	6/8/2022
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Dividend Payment Date:**	9/23/2022
Dividend Yield:	1.1%	**5 Year Price Target**	$662	**Years Of Dividend Growth:**	12
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Elevance Health Inc., formerly Anthem, Inc., is a healthcare benefits company has nearly 43 million members through its plans. The company provides managed plans to a wide variety of markets, including individual, commercial, Medicare and Medicaid. Its two largest customer groups are government (~60% of annual sales) and commercial business (~30% of sales). Elevance has annual sales of nearly $154 billion and a market capitalization of $120 billion.

On January 26th, 2022, Elevance increased its dividend 13.3% for the March 25th, 2022 payment, marking the company's 12th consecutive year of dividend growth.

On June 28th, 2022, Anthem began trading as Elevance Health under the ticker symbol "ELV" on the New York Stock Exchange.

On July 20th, 2022, Elevance reported second quarter earnings results for the period ending June 30th, 2022. Revenue grew 15.6% to $38.5 billion, beating estimates by $430 million. Adjusted earnings-per-share of $8.04 compared favorably to adjusted earnings-per-share of $7.03 in the prior year and was $0.30 better than expected.

Revenue growth once again benefited from higher membership totals and gains in the Medicare Advantage business. Premiums increased 15.9% to $33.1 billion and product revenue was higher by 17.3% to $3.6 billion. Government Business, IngenioRx, and Commercial & Specialty revenues increased 18.8%, 13.7%, and 10.6%, respectively. Total medical membership increased 6.1% to 47.1 million year-over-year. For reportable segments, membership for Commercial & Specialty Business was up 3.8% while Government Business grew 11%. The company repurchased 1.3 million shares at an average price of $489.07 during the quarter. Elevance has $3 billion, or 2.7% of its market capitalization, remaining on its current share repurchase authorization.

Elevance provided updated guidance for 2022 as well. The company now expects adjusted earnings-per-share of at least $28.70, up from $28.40 and $26.75 previously. If achieved, this would represent a 10.5% improvement from the prior year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$8.18	$8.20	$8.98	$9.38	$9.21	$10.21	$15.89	$19.44	$22.48	$25.98	***$28.70***	***$44.16***
DPS	$1.15	$1.50	$1.75	$2.50	$2.60	$2.70	$3.00	$3.20	$3.80	$4.52	***$5.12***	***$7.88***
Shares[1]	305	282	267	261	264	256	257	253	245	247	***243***	***240***

Elevance has increased earnings-per-share at a rate of nearly 14% annually over the last decade. The company has achieved this high rate of growth through improvements in business and aggressive share repurchases. Elevance's share count has been reduced by 3.1% per year over the last decade. Even with share repurchases, profits have improved 9% annually over this period of time. We believe an earnings growth rate of 9% is appropriate given the size of the company and the guidance for the year. Share repurchases will also remain part of bottom-line growth.

[1] Share count in millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	7.8	9.6	12.1	15.7	14.5	18.1	15.7	14.3	12.4	17.8	***16.0***	***15.0***
Avg. Yld.	1.8%	1.9%	1.6%	1.7%	2.0%	1.5%	1.2%	1.1%	1.4%	1.0%	***1.1%***	***1.2%***

Shares of the company are lower by $73, or 13.8%, since our April 20th, 2022 update. Using company guidance for 2022, Elevance trades with a price-to-earnings ratio of 16.0. Shares have averaged a price-to-earnings ratio of 13 over the last decade. However, we feel a target valuation of 15 times earnings is appropriate. Price-to-earnings ratios were lower in the early portions of the decade due to concerns about how health care plans would perform. Those fears are largely gone now. Valuation could be a 1.2% annual headwind to results over the next five years.

Elevance had never been a high yielding name, with the current yield at the low end of the 10-year range. On the plus side, the dividend has a compound annual growth rate in the mid-teens since 2011, showing that Elevance has aggressively raised its dividend since initiation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	14%	18%	19%	27%	28%	26%	19%	16%	17%	17%	***18%***	***18%***

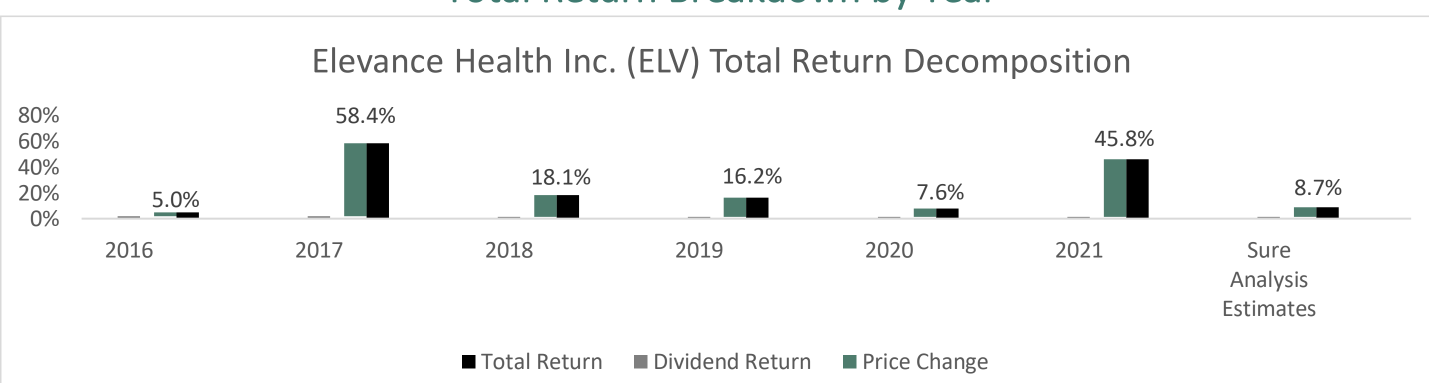
Elevance was not immune to the last recession as earnings-per-share declined from $5.57 to $4.95 for the 2007 to 2009 period. However, the company returned to growth the very next year. The company has had just one year where EPS declined from the previous period (2016). Elevance ended the second quarter of 2022 with assets of $100.9 billion, investments of $27.3 billion, and cash and equivalents of $6.5 billion against liabilities of $65 billion, including total debt of $23.4 billion.

Elevance has several factors working in its favor. First and foremost, the company has a large membership pool. This allows Elevance to keep premium prices low. The Medicare and Medicaid businesses are fairly reliable as well, though potential future cuts in payments could impair results.

Final Thoughts & Recommendation

Elevance is expected to produce total returns of 8.7% through 2027, up from our prior estimate of 5.4%. Our projected return stems from a 9% earnings growth rate and a starting yield of 1.1% that are offset by a low single-digit headwind from multiple reversion. The company continues to see strong membership growth rates, which has driven revenue and earnings results. We have raised our 2027 price target by $7 to $662, but maintain our hold rating on Elevance due to projected returns.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	61497	71024	73874	79157	84863	90040	92105	104213	121867	138639
SG&A Exp.	8681	9953	11748	12535	12559	12650	14020	13364	17450	15914
D&A Exp.	741	909	851	908	912	891	1132	1133	1154	1302
Net Profit	2656	2490	2570	2560	2470	3843	3750	4807	4572	6104
Net Margin	4.3%	3.5%	3.5%	3.2%	2.9%	4.3%	4.1%	4.6%	3.8%	4.4%
Free Cash Flow	2200	2406	2655	3574	2686	3394	2619	4984	9667	7277
Income Tax	1207	1206	1808	2071	2085	121	1318	1178	1666	1830

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	58955	59575	61676	61718	65083	70540	71571	77453	86615	9,460
Cash & Equivalents	2475	1582	2152	2114	4075	3609	3934	4937	5741	4880
Accounts Receivable	3687	3969	4826	4603	5861	6185	6743	7584	8128	9691
Goodwill & Int. Ass.	25555	25358	25040	25720	25526	27599	29511	29174	31096	34843
Total Liabilities	35153	34809	37425	38674	39983	44037	43030	45725	53416	61332
Accounts Payable	9273	9554	10513	10889	11908	13016	12413	13040	16852	18488
Long-Term Debt	14978	14492	15044	15865	15727	19932	19211	20085	20035	23031
Shareholder's Equity	23803	24765	24251	23044	25100	26503	28541	31728	33199	36060
LTD/E Ratio	0.6	0.6	0.6	0.7	0.6	0.8	0.7	0.6	0.6	0.64

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.8%	4.2%	4.2%	4.1%	3.9%	5.7%	5.3%	6.5%	5.6%	6.6%
Return on Equity	11.3%	10.3%	10.5%	10.8%	10.3%	14.9%	13.6%	16.0%	14.1%	17.6%
ROIC	7.4%	6.4%	6.5%	6.5%	6.2%	8.8%	8.0%	9.7%	8.7%	10.9%
Shares Out.	305	282	267	261	264	256	257	253	245	247
Revenue/Share	189.34	233.78	258.39	290.06	316.53	336.22	362.19	394.45	468.18	561.75
FCF/Share	6.77	7.92	9.29	13.10	10.02	12.67	10.30	18.86	37.14	29.49

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.