Elevance Health Inc. (ELV)

Updated October 18th, 2023 by Nathan Parsh

Key Metrics

Current Price:	$466	**5 Year CAGR Estimate:**	11.4%	**Market Cap:**	$110 billion
Fair Value Price:	$495	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	12/05/2023
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	12/21/2023
Dividend Yield:	1.3%	**5 Year Price Target**	$762	**Years Of Dividend Growth:**	13
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Elevance Health Inc., formerly Anthem, Inc., is a healthcare benefits company has more than 47 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 $167 billion and a market capitalization of $110 billion. The company was formerly known as Anthem.

On January 25, 2023, Elevance increased its quarterly dividend 15.6% to $1.48 for the March 24th, 2023 payment, marking the company's 13th consecutive year of dividend growth.

On October 18th, 2023, Elevance announced earnings results for the third quarter for the period ending September 30th, 2023. For the quarter, revenue grew 7.3% to $42.5 billion, which was $220 million less than expected. Adjusted earnings-per-share of $8.99 compared favorably to adjusted earnings-per-share of $7.53 in the prior year and was $0.53 above estimates.

Much of the gain in quarterly revenue was due to tailwinds from health plans and Medicare Advantage plans. In total, medical membership increased 42,000, or 0.1%, to 47.3 million year-over-year. During the quarter, the company did see Medicaid enrollment decline 664,000 due to the resumption of eligibility requirements in most states following the lapse of a key Covid-19-era provision regarding coverage for the program. The company repurchased 1.1 million shares at an average price of $451.68 during the quarter. As of the end of the quarter, Elevance had a total of $5.1 billion, or 4.6% of its market capitalization, remaining on its share repurchase authorization.

Elevance provided updated guidance for the year as well, with the company now expecting adjusted earnings-per-share of at least $33.00, compared to $32.70 and $32.60 previously. If achieved, this would represent a 13.5% improvement from the prior year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$8.20	$8.98	$9.38	$9.21	$10.21	$15.89	$19.44	$22.48	$25.98	$29.07	***$33.00***	***$50.77***
DPS	$1.50	$1.75	$2.50	$2.60	$2.70	$3.00	$3.20	$3.80	$4.52	$5.12	***$5.92***	***$9.11***
Shares[1]	282	267	261	264	256	257	253	245	247	241	***235***	***230***

Elevance has increased earnings-per-share at a rate of more than 15% 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 1.7% per year over the last decade. Even with share repurchases, profits have improved 13% annually over this period. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	9.6	12.1	15.7	14.5	18.1	15.7	14.3	12.4	17.8	15.9	***14.1***	***15.0***
Avg. Yld.	1.9%	1.6%	1.7%	2.0%	1.5%	1.2%	1.1%	1.4%	1.0%	1.0%	***1.3%***	***1.2%***

Shares of the company have increased by $3, or 0.6%, since our July 19th, 2023 update. Using company guidance for 2023, Elevance trades with a price-to-earnings ratio of 14.1. 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 as price-to-earnings ratios were lower in the early portions of the decade due to concerns over how health care plans would perform. Those fears are largely gone now. Multiple expansion could add 1.2% to annual returns 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	18%	19%	27%	28%	26%	19%	16%	17%	17%	18%	***18%***	***18%***

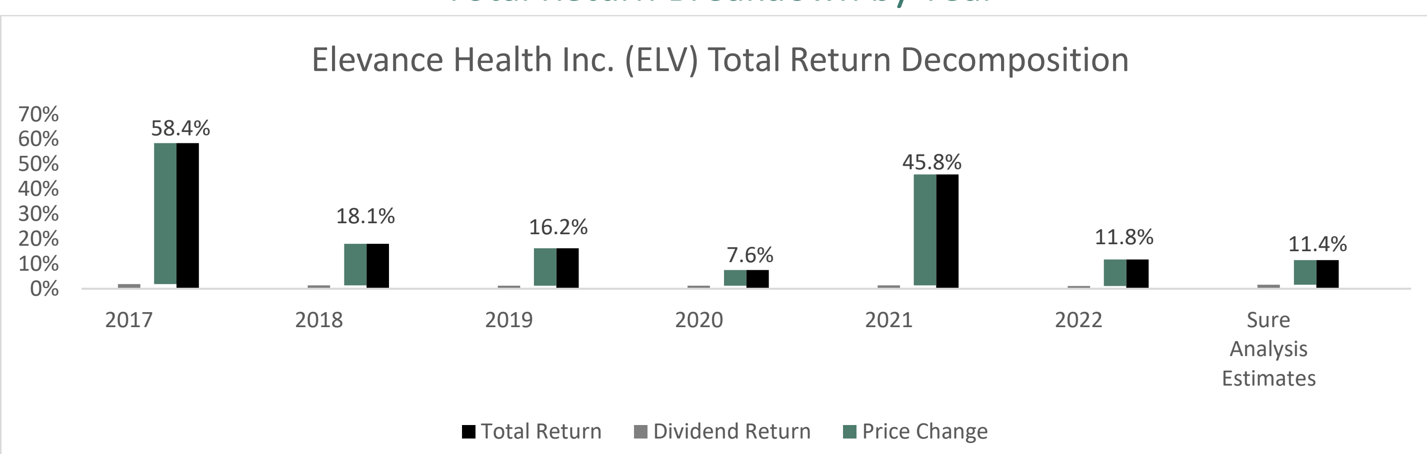
Elevance was not immune to the last recession as earnings-per-share declined from $5.57 to $4.95 for the 2007 to 2009 period. However, the company returned to growth the very next year. The company has had just one year where EPS declined from the previous period (2016).

Elevance 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 reliable as well, though potential future cuts in payments could impair results.

Final Thoughts & Recommendation

Elevance is expected to produce total returns of 11.4% through 2028, matching our prior estimate. Our projected return stems from a 9% earnings growth rate, a starting yield of 1.2%, and a small tailwind from multiple expansion. The company continues to see strong membership growth rates, which has driven revenue and earnings results. We have raised our 2028 price target $7 to $762 due to revised guidance and continue to rate shares of Elevance as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	71024	73874	79157	84863	90040	92105	104213	121867	138639	156595
SG&A Exp.	9953	11748	12535	12559	12650	14020	13364	17450	15914	17686
D&A Exp.	909	851	908	912	891	1132	1133	1154	1302	1675
Net Profit	2490	2570	2560	2470	3843	3750	4807	4572	6104	6025
Net Margin	3.5%	3.5%	3.2%	2.9%	4.3%	4.1%	4.6%	3.8%	4.4%	3.8%
Free Cash Flow	2406	2655	3574	2686	3394	2619	4984	9667	7277	7247
Income Tax	1206	1808	2071	2085	121	1318	1178	1666	1830	1750

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	59575	61676	61718	65083	70540	71571	77453	86615	97460	102772
Cash & Equivalents	1582	2152	2114	4075	3609	3934	4937	5741	4880	7387
Accounts Receivable	3969	4826	4603	5861	6185	6743	7584	8128	9691	11746
Goodwill & Int. Ass.	25358	25040	25720	25526	27599	29511	29174	31096	34843	34698
Total Liabilities	34809	37425	38674	39983	44037	43030	45725	53416	61332	66378
Accounts Payable	9554	10513	10889	11908	13016	12413	13040	16852	18488	20631
Long-Term Debt	14492	15044	15865	15727	19932	19211	20085	20035	23031	24114
Shareholder's Equity	24765	24251	23044	25100	26503	28541	31728	33199	36060	36307
LTD/E Ratio	0.6	0.6	0.7	0.6	0.8	0.7	0.6	0.6	0.64	0.66

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.2%	4.2%	4.1%	3.9%	5.7%	5.3%	6.5%	5.6%	6.6%	6.0%
Return on Equity	10.3%	10.5%	10.8%	10.3%	14.9%	13.6%	16.0%	14.1%	17.6%	16.7%
ROIC	6.4%	6.5%	6.5%	6.2%	8.8%	8.0%	9.7%	8.7%	10.9%	10.1%
Shares Out.	282	267	261	264	256	257	253	245	247	241
Revenue/Share	233.78	258.39	290.06	316.53	336.22	362.19	394.45	468.18	561.75	644.95
FCF/Share	7.92	9.29	13.10	10.02	12.67	10.30	18.86	37.14	29.49	29.85

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